

Tonga: Selected Issues and Statistical Appendix

This Selected Issues paper and Statistical Appendix for Tonga was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 22, 2007. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Tonga or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623 7430 • Telefax: (202) 623 7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

TONGA

Selected Issues and Statistical Appendix

Prepared by Ayako Fujita and Sutapa Amornvivat

Approved by the Asia and Pacific Department

June 22, 2007

Contents	Page
I. Challenges to Sustainable Fiscal Management in Tonga	3
A. Background	3
B. September 2005: Public Sector Wage Settlement.....	3
C. June 2006: Public Sector Downsizing.....	6
D. November 2006: Civil Unrest	8
E. Challenges Ahead.....	10
II. Rising Household Indebtedness in Tonga.....	12
A. Introduction.....	12
B. Growth in Household Credit and Balance Sheet Effects	13
C. Understanding the Causes of Household Debt Increase	15
D. Implications for Financial System Stability.....	18
Boxes	
1. Proposed Salary Reform Package.....	5
2. Experiences of Wage Increases in the Pacific Island Countries.....	6
Tables	
1. Real Gross Domestic Product by Sector of Origin, 1999/00–2005/06.....	20
2. Agricultural Products Marketed in Tonga, 1999/00–2005/06	21
3. Indicators of Economic Activity, 1999/00–2005/06.....	22
4. Tourism Statistics, 1999/00–2005/06	23
5. Consumer Price Index, 1999/00–2005/06.....	24
6. Population and Labor Market, 1999–2006	25
7. Central Government Revenue, 1999/00–2005/06.....	26
8. Central Government Current Expenditure by Economic Classification, 1999/00–2005/06	27
9. National Debt Outstanding, 1999/00–2005/06	28
10. Tonga Trust Fund, 1999/00–2005/06	29

	Contents	Page
11.	Public Sector Enterprises	30
12.	Monetary Survey, 1999/00–2005/06	31
13.	Accounts of the National Reserve Bank of Tonga, 1999/00–2005/06	32
14.	Consolidated Accounts of Deposit Money Banks, 1999/00–2005/06	33
15.	Bank Credit by Sector, 1999/00–2005/06.....	34
16.	Accounts of the Tonga Development Bank, 1999/00–2005/06.....	35
17.	Interest Rate Structure, 1999/00–2005/06	36
18.	Exports by Major Commodity, 1999/00–2005/06	37
19.	Imports by Commodity, Category, and Sector, 1999/00–2005/06	38
20.	Direction of Trade, 1999/00–2005/06.....	39
21.	Disbursements of Official External Loans and Grants, 1999/00–2005/06	40
22.	External Debt and Debt Service, 1999/00–2005/06	41

I. CHALLENGES TO SUSTAINABLE FISCAL MANAGEMENT IN TONGA¹

A. Background

1. **Tonga has faced a number of fiscal shocks over the past two years.** Following a lengthy civil service strike in September 2005, which lasted for six weeks, the government agreed to a wage increase of 60-80 percent for all public employees. This wage award posed serious difficulties for fiscal management, and the government subsequently downsized the civil service by 18 percent in 2006 as a mitigating measure. To avoid social unrest, the retrenchment program was carried out on voluntary basis.

2. **Political uncertainty has also increased the country's vulnerability to shocks.** The civil service strike became directed against the government, and was joined by various segments of society expressing their dissatisfaction with the political regime and calling for greater democracy. In response, the government committee considering the political reform process proposed the introduction of parliamentary democracy, but the government's decision to defer the desired constitutional changes sparked riots in November 2006.² This disturbance caused serious damage to the central business district in Nuku'alofa, with grave risks for economic stability.

3. **This chapter assesses the fiscal risk impact of these events and describes the challenges implied for fiscal management.** The Tongan government has made various efforts to limit the budgetary implications of the recent economic and political shocks, including pursuing revenue administration efforts, cutting other expenditures, and seeking donor assistance. With these efforts, the near-term risks have been contained thus far, with the fiscal deficit kept within manageable levels. However, medium-term challenges persist including reforming the budget process and other measures to place the fiscal accounts on a more solid footing.

B. September 2005: Public Sector Wage Settlement

4. **The public sector wage settlement imposed a serious fiscal burden on the government.** As a result of the wage settlement, Tonga's already large civil service wage bill was raised well above levels elsewhere in the region. The agreed wage increase of 60-80 percent reversed the government's efforts in 2003/04 and 2004/05 to bring the wage bill down to comparable levels with regional peers, causing additional wage expenditure of an estimated 2¾ percent of GDP in 2005/06. The full wage increase, as well as deferred payment from 2005/06, was implemented in 2006/07, hiking the wage bill to above

¹ Prepared by Ayako Fujita (Ext. 3-7368).

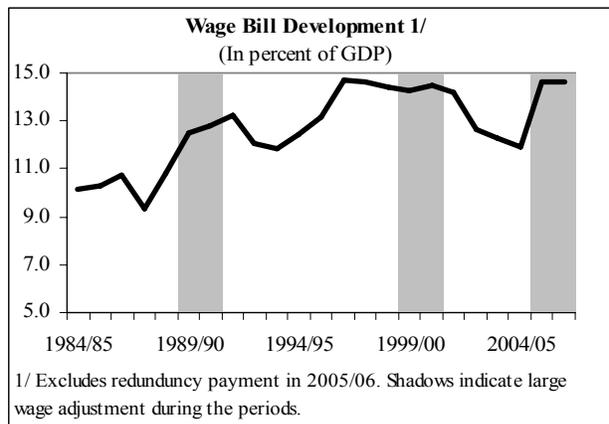
² Responding to the public call for greater democracy, the government established the National Committee of Political Reform in 2005.

18 percent of GDP.³ For 2007/08, despite the elimination of all one-off payments related to the settlement, the wage bill is projected to remain over 15 percent of GDP, substantially higher than the regional average of 10½ percent. The number of public employees also remains high in Tonga, even after the retrenchment program, accounting for 3.6 percent of the total population, compared to an average 2.6 percent in middle-income countries.

Developments in the Size of Public Services		
	Wage bill (In percent of GDP)	Public Employees (In percent of population)
Tonga		
2004/05	11.9	4.1
2005/06 1/	14.7	4.4
2006/07 2/	18.1	3.6
2007/08 2/	15.3	...
Average for PICs 3/	10.6	...
Average for middle-income countries	...	2.8

1/ Excludes redundancy payment.
2/ Staff projections.
3/ Data for 2002-04.

5. **Historical experience suggests the lack of proper planning of the public service with an orderly wage-setting structure has resulted in the rising real wage bill over time as well as excessive variability.** The number of full-time civil servants went up by 60 percent between 1981 to 1995, bringing the size of Tonga’s public sector work force up to 5 percent of the total population. Reflecting this expansion, the wage bill continued to increase until the mid-1990s and reached about 15 percent of GDP by 1995/96. Moreover, civil service wages were reviewed on a five-yearly basis, and a major review of public compensation in 1989/90 that awarded a 50 percent wage increase over two years, accelerated the rising trend of the wage bill. Another review in 1999/2000 also resulted in similar outcome, a 20 percent increase for cost of living allowances. As a result, the wage bill continued to increase through early-2000, risking fiscal sustainability.



6. **Similar to other small island countries, retaining qualified staff in the public sector has been the government’s key challenge.** Due to a relatively flat wage scale, recruiting and retaining qualified staff has been a serious concern in Tonga, raising the need for comprehensive reform of the public sector wage structure. Supported by the Asian Development Bank, the government launched the Economic and Public Sector Reform Program (EPSRP) in 2003 with the aim of “rightsizing” the public services. Under the program, wage and salary increases were suspended, and recruitment to the public service

³ In 2005/06, civil servants received 60 percent of the total wage increase for the year, and the payment of the rest was deferred to 2006/07. As a result, in 2006/07, they received the full 60-80 percent salary increase as well as the deferred payment from the previous year.

was tightly restricted to priority positions. The EPSRP also included plans for giving differential salary increases based on performance and levels, as well as adopting a more conventional wage-setting approach.⁴ Reflecting these plans, the salary reform package approved by the government in 2005 proposed a significant salary increase for high level officials, while allocating relatively small increases for other public employees (Box 1). However, this proposal had not been widely discussed with public service unions, resulting in widespread dissatisfaction among civil servants especially among lower levels, and caused the civil service strike in July 2005. As a result of the wage settlement following the strike, the wage levels in the public sector are currently higher than those in the private sector, especially for workers in lower levels.⁵

Box 1. Proposed Salary Reform Package

Based on recommendations made by the Higher Salaries Review Committee and a review conducted by the AusAID, the PSC proposed a comprehensive reform of civil service salary structure in 2005. The package included the following key recommendations.

- Grant an increase in aggregate salary costs of about 13 percent, but with the increase applying to an individual depending on a full assessment of the work value;
- Assess work value of positions against objective criteria;
- Introduce an examination process of claimed anomalies in the system by the head of each department and agency; and
- Reduce the number of salary classifications and the number of increments within grades, and eliminate salary overlaps.

7. **The September 2005 wage settlement yet again highlighted the urgent need for an orderly wage-setting structure.** While large wage increases are not uncommon in the Pacific Island Countries, the uncertainty over the size of the award as well as the risk of civil service strikes stemming from a five-yearly wage review continues to complicate fiscal management (Box 2). As further increases in the wage bill are clearly not affordable to the government, adopting an orderly wage-setting structure, including through more frequent review and design of appropriate benchmarks to guide wage awards, should be considered. A performance-based salary structure also remains critical to enhance the efficiency of the public sector through motivating and retaining qualified staff. In introducing such a system, moreover, care should be taken in designing the government's communication policy to keep civil servants fully informed, thereby perhaps increasing their receptiveness to reforms.

⁴ Under the EPSRP, in 2003, the government set up the Public Service Commission as a public service appointment and promotion body. The Higher Salaries Review Committee was also set up in 2003 to review public sector wage levels (Asian Development Bank, 2005).

⁵ Asian Development Bank (2006).

Box 2. Experiences of Wage Increases in the Pacific Island Countries

Orderly wage setting has been a common challenge for a number of Pacific Island Countries (PICs). Due to large one-off wage settlements, often following extended periods of wage freeze, a number of PICs have experienced substantial increases in wage and salaries as a percent of GDP, as well as large variability in the real wage bill. Recent public sector wage increases in the PICs include the following:

- **Fiji:** After months of negotiations over pay rise as well as the wage setting structure in 2004 and 2005, the dispute between the Public Service Commission and civil service unions went to arbitration, and the arbitrator reached a decision at end-2005. Civil servants were granted a wage increase about 10 percent in 2006, and, in addition, received one-off payments for retroactive pay adjustment. As a result, the wage bill rose by 15½ percent (y/y) in 2006, reaching 12 percent of GDP. More recently, however, the interim government has cut wages back by 5 percent in a revised budget adopted in March 2007.
- **Kiribati:** In the 2005 salary review, public employees were granted a wage increase of an average 8.3 percent after a five year pay freeze, while the number of public employees was also increased by 1.3 percent. As a result, the total wage bill rose by 9.6 percent (y/y) in 2006, bringing the wage bill ratio to 43.8 percent of GDP.
- **Marshall Island:** Wage and salaries spending has continued to rise since FY2001, due to increases in the number of civil servants and the harmonization of wage levels in the Ministry of Education. The wage bill increased by 58 percent from FY2001 to FY2005, reaching about 30 percent of GDP.
- **Samoa:** In the 2005 salary review, after consecutive years of a wage freeze, the government decided to increase public sector wages by 42 percent over three years, starting from July 2005. With the second pay rise, the wage bill is now budgeted about 8.5 percent of GDP for FY2006/07, compared to 7.2 percent in FY 2004/05.
- **Vanuatu:** After a 10 year wage freeze, the government agreed to increase public service wages by 20-25 percent, starting from July 2006. With this wage increase, the wage bill is expected to reach over 14 percent of GDP in 2007, compared to 10½ percent in 2005.

C. June 2006: Public Sector Downsizing

8. **To mitigate the budgetary implication of the wage settlement, the government embarked on a public sector downsizing in March 2006.** With the urgent need to contain wage spending, the government announced plans to reduce the size of the public service by about 20 percent within a three month period. To avoid further strikes, this downsizing program was required to be conducted on a voluntary basis, while making careful efforts to avoid potential disruption of service delivery. The government also intended this program to be a targeted redundancy based on skills and age, avoiding adverse selection problems. Helped by the relatively generous redundancy package including bonus payments, which were raised in late-May to increase the attractiveness of the package, the government

succeeded in cutting 18 percent of the civil service by end-June 2006, reducing the overall size of public service to 3,600. The redundancy package cost TOP 24.5 million (5.4 percent of GDP) and was mainly financed by the government running down its domestic cash balances, depleting its fiscal cushion against future unexpected expenses. Currently, the government is imposing a strict limit on new hiring, keeping the number of workers at the current levels.

Tonga: Public sector retrenchment program	
Type of program:	Voluntary redundancies
Time period:	March 31, 2006—June 30, 2006
The number of staff reduced:	816
Severance package:	<ul style="list-style-type: none"> • Severance benefit of two week's pay per year of service, up to maximum of fifty-two week's pay. • Cash incentive of TOP 5,000 for employees with less than ten years of service, TOP10,000 for those with more than ten years of services. • Early application bonus of TOP 1,500. 1/
1/ Initial TOP 1,000 was increased to TOP 1,500 to attract more applicants.	

9. **The scale of Tonga's downsizing was unusually large.** A comparison with cross-country experiences of public service downsizing suggests that Tonga has undertaken a large cut in the size of public service in a remarkably short time period, substantially reducing the wage bill, albeit at the expense of a generous redundancy package. In fact, Tonga achieved a reduction in the number of public workers equal to 0.8 percent of its total population in three months, while other countries which have undertaken relatively large downsizing carried out their retrenchment programs over many years, averaging a period of five years. Although the total cost of severance payments also stands out in Tonga, at five times the cross-country average, the wage bill was reduced by over 3 percent of GDP, which is substantially higher than in other countries. By these measures, the downsizing program in Tonga was a significant achievement. Nevertheless the relative success of retrenchment programs cannot be simply evaluated by cost savings alone.

Country Experiences of Civil Service Downsizing							
	Time period	Employment reduction		Financial cost		Net wage bill savings 1/	
		Number of staff reduced	In percent of population	In millions of U.S. dollar	In percent of GDP	In millions of U.S. dollar	In percent of GDP
Tonga 2/	2005/06	819	0.81	12	5.4	7	3.1
Benin	1991-94	10,061	0.18	21	1.0	0	0.0
Cameroon	1989-94	6,500	0.05	7	0.1	...	...
Central African Republic	1987-90	1,100	0.04	...	...	8	0.6
Congo	1995	8,000	0.02	...	...	...	...
Ghana	1987-92	73,810	0.46	42	0.7	24	0.4
Kenya	1994-97	30,800	0.11	20	0.2	6	0.1
Senegal	1989-91	4,357	0.05	80	1.4	30	0.5
Sierra Leone	1992-97	27,452	0.66	2	0.2	1	0.1
Uganda	1992-94	91,339	0.47	16	0.4	17	0.4
Cambodia	1995/96	50,000	0.43	50	1.4	-126	-3.6
Lao, PDR	1989-93	21,600	0.50	10	0.9	9	0.8
Sri Lanka	1991-92	49,000	0.27	71	0.8	-157	-1.7
Ecuador	1992-94	40,000	0.36	200	1.3	...	...
Peru	1991-93	100,595	0.45	530	1.5	222	0.6

Source: Tongan authorities; and Haltiwanger and Singh (1999).

1/ Wage bill savings from separations minus cost for rehires and new hires.

2/ Wage bill savings exclude potential cost for rehires and new hires.

10. **Such a substantial downsizing within a short time period raises concerns about potential private and social costs.** Although many of the relevant private and social costs are difficult to quantify, cross-county experience suggests that programs with a targeted multidimensional approach tend to be partly paid off by productivity gains and lower adjustment costs, even if they are initially expensive. Governments are less likely to resort to rehiring if retrenchment programs are appropriately targeted, and combined with assistance for workers reallocation.⁶ Although the retrenchment program in Tonga was intended to be a targeted redundancy, there appear to be significant risks of rehiring over time, as several public workers with valued skills accepted the redundancy package, and this has started to disrupt public service delivery.⁷ Moreover, given the short-time period over which the program was carried out, the government could not have provided sufficient assistance, such as necessary training to retrenched workers. The preliminary results of a follow-up survey conducted by the government almost a year after the event indicated that there were many retrenched workers still seeking employment, and that the majority of them needed assistance, such as job advisory services, training, and contact lists.⁸

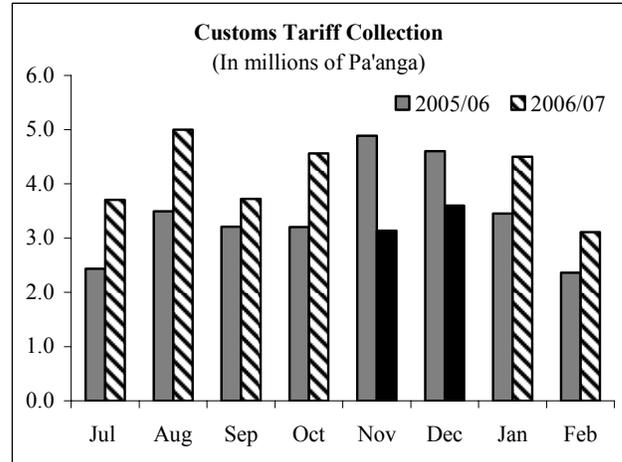
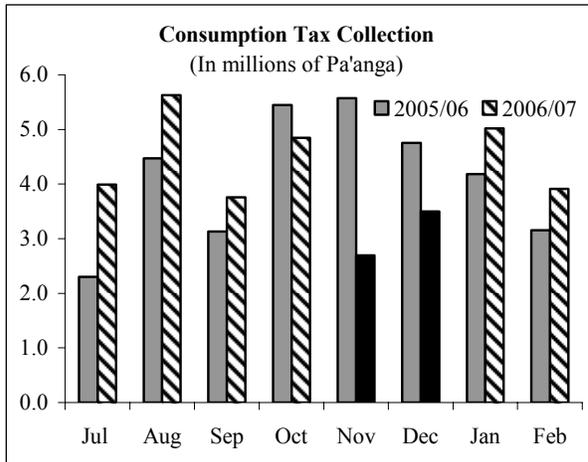
D. November 2006: Civil Unrest

11. **Government revenue collection appears to be affected by the unrest.** Although estimating the revenue impact of the riots is difficult, monthly data for revenue collection clearly indicate an immediate revenue shortfall in the following months. Collection of consumption taxes and the customs tariff, the major revenue sources in Tonga, declined by 35 percent in November and December 2006, compared with the same period in 2005. Although part of these losses seem to have been offset by improved revenue collection in subsequent months, the fiscal room for exceptional spending on reconstruction and business support is limited: with the serious fiscal challenges the government faced in past years, the fiscal cushion has already been almost fully depleted after the redundancy payment, while the wage increase is still imposing an additional fiscal burden on the government.

⁶ Haltiwanger and Singh (1999).

⁷ Under the program, a number of teachers took redundancy, which caused a serious problem in several schools. As a result, strong demand for rehiring or new hiring teachers has started to emerge in recent months.

⁸ The final outcome of the redundancy support services survey is scheduled to be presented to the Cabinet in 2007.



12. **Substantial business losses caused by the unrest have led to demands for restitution from the government.** During the riots, buildings in the central business district in Nuku'alofa were burned, and small shops looted. Such direct losses from the unrest have been estimated at TOP 123.5 million (26.7 percent of GDP) by the government. Job losses were also substantial, accounting for 2.0 percent of economy-wide employment. Calls for government support for reconstruction and business recovery have become strong, especially given the political nature of the unrest. Nevertheless, the majority of affected businesses showed remarkable resilience to the disturbance and resumed their business operations after just a few weeks of disruption, relocating to remaining buildings, or to their warehouses.

Estimated Business-related Losses 1/ (In millions of Pa'anga; unless otherwise indicated)	
Total business losses	123.5
(In percent of GDP)	26.7
<i>Of which:</i> Stock on shelf	23.2
Buildings	38.2
Inventories	26.7
Estimated trading losses	17.7
Others	17.7
Job losses (person)	697
(In percent of employment as of 2003)	2.0

Source: Tongan authorities.
1/ Estimation is based on reported damages as of December 2006.

13. **The government announced a business assistance scheme in March 2007.** The scheme announced is mainly for assisting private sector recovery through short-term interest rate subsidies as well as business advisory services. It also covers businesses which were indirectly affected, providing a small amount of cash grants as compensation for the loss of business opportunities. Financing for those schemes is expected to be

November 2006 Riots: Business Recovery Scheme	
Business Recovery Facility	
Total amount:	TOP 4,000,000
Coverage:	Directly affected 157 businesses
Scheme:	<ul style="list-style-type: none"> • Interest rate subsidy for two years (8 % for the first year, and 4% for the second year), with the maximum amount of TOP 300,000 per business. • Credit guarantee for loans up to 50 percent of them or TOP 20,000, whichever lower. • Business advisory service up to TOP 1,000.
Business Hardship Fund	
Total amount:	TOP 150,000
Coverage:	Indirectly affected businesses
Scheme:	Cash grants of maximum of TOP 3,000.

provided by donors, and no additional fiscal expense is expected. However, some members of the business community regard the assistance scheme as insufficient for full business recovery, due to the strict application requirements, as well as the limited magnitude of the financial assistance on offer.

14. **To accelerate progress with reconstruction, the government is seeking access to large-scale financing from a donor.** The expected reconstruction activities have yet to fully materialize, and the government has recently started to consider the possibility of financing reconstruction through external borrowings of about 20 percent of GDP. The rebuilt properties would be leased to private businesses. However, the loan under the negotiation is likely to entail most material input and labor being procured from the donor country, which would bring limited benefit to the domestic economy, while such a large loan itself involves substantial risks of future debt burden to the government. Demand for those new properties is also uncertain, as many of these affected businesses have already relocated to areas outside of the central business district.

E. Challenges Ahead

15. **Keeping the fiscal accounts on a sustainable track is the key priority.** Tonga has managed recent fiscal shocks with some success, but significant challenges still remain over the medium-term. Although political uncertainty continues to make fiscal management difficult, restoring fiscal sustainability is key to avoid further economic deterioration. Key policy recommendations to achieve this objective include:

- **Moving to more orderly wage-setting system.** More orderly wage setting, including performance-based salary structure, should be adopted to avoid further wage shocks, while providing incentives to qualified staff.
- **Ensuring the quality of public service delivery.** The quality of public service delivery after the retrenchment program should be carefully monitored. Resisting pressures of rehiring or new hiring is also critical, which may also require provision of nonfinancial assistance to retrenched workers to find job.
- **Improved public communication.** Given the political sensitivity of the public sector reform, wider communication and consensus-gathering effort with public groups could possibly help avoid future social disturbance.
- **Providing the environment for the private to play a more active role in reconstruction.** Given concerns about fiscal sustainability, more efforts should be made to involve the private sector in reconstruction of the central business district.

References

Asian Development Bank, 2005, “Economic and Public Sector Reform Program (Loan 1904-TON[SF]) in Tonga”, Program Completion Report

Asian Development Bank, 2006, Tonga “Social and Economic Update and Pro-poor Policy Formulation”

Haltiwanger, John and Singh, Manisha, 1999, “Cross-country Evidence of Public Sector Retrenchment” The World Bank Economic Review, Vol.13, No.1 23-66

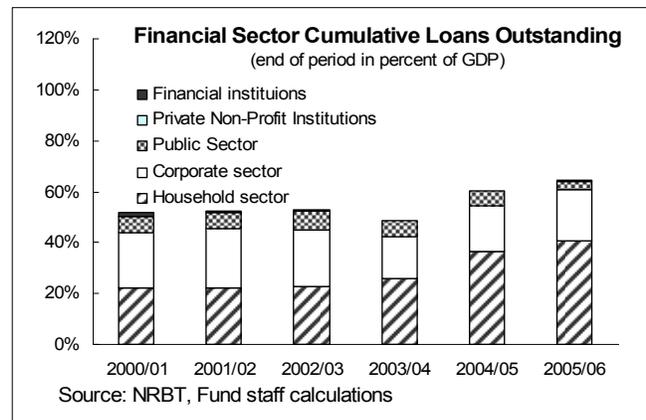
Kingdom of Tonga, Higher Salaries Review Committee, 2004, “Report to the Prime Minister on the Remuneration of Holders of Judicial Office, Senior Civil Servants, Senior Officers of the Armed Forces and the Police Force and the Pay, Pensions and Allowances of Ministers and Nobles’ Allowances”

II. RISING HOUSEHOLD INDEBTEDNESS IN TONGA⁹

A. Introduction

16. **Tonga household debt has grown rapidly in recent years.** Credit to the household sector has doubled over the last five years. The increase has been a widespread phenomenon; debt has risen across and permeated all income groups in Tonga. As a result, Tonga's level of household debt—expressed as a share of GDP and in percentage of total private sector credit—became substantially higher than those of other small open economies. As the household sector holds two thirds of total financial sector credit, a central economic debate of the day is whether the rising and unprecedented level of debt borne by the household sector should be a cause for concern.

17. **While rising household indebtedness is not necessarily a problem in itself if it simply reflects intertemporal tradeoffs by households to smooth their consumption over time, risk are present.** Most macro-prudential indicators for the household sector do not point to an alarming level of debt or deterioration of household credit quality¹⁰. However, higher leverage makes household consumption and ability to service debt become more sensitive to adverse income and interest rate shocks. As such, the issue has important and wide-ranging implications on five tiers: household financial health, financial sector stability, the macro-economy, the integrity of the social fabric, and the appropriate responses of policy makers.



18. **This paper poses the following four key questions.** First, how leveraged are households in Tonga? Second, what are the causes of rising household debt? Third, what are the implications for financial sector stability and macroeconomic performance? And finally, what actions must policy-makers take to maintain stability and growth in the face of rising household debt.

19. **The lack of microeconomic-level data severely limits household vulnerability analysis.** Identifying the attendant risk of debt to households requires data at the household

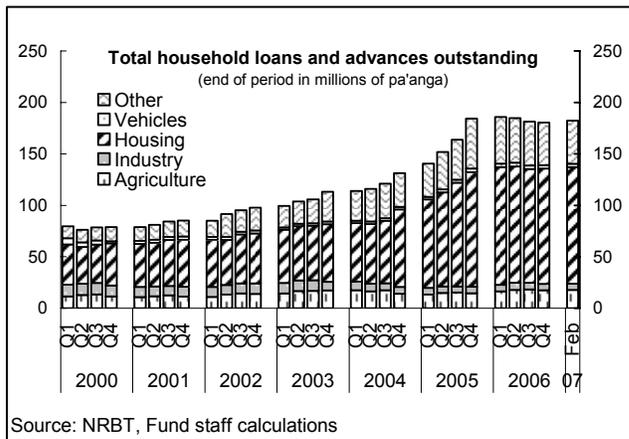
⁹ Prepared by Sutapa Amornvivat (Ext. 3-8774).

¹⁰ Refer to Table 7 in the Staff Report for the 2007 Article IV Consultation.

or individual levels which are not available. Admittedly, analyzing the policy implications would require extensive studies, including stress testing and simulation of the macroeconomic model with a financial sector module, which are beyond the scope of this paper.

B. Growth in Household Credit and Balance Sheet Effects

20. **Credit to the household sector has hit a record high over the last five years, triggering strong monetary tightening¹¹.** Household credit has gathered pace since 2001 and reached its full speed at 30-40 percent annual growth in 2005. The strong surge in mortgage loans fueled activity in the real estate sector, which was further supported by



improved consumer confidence.¹² In January 2006, the National Reserve Bank of Tonga (NRBT) imposed credit ceilings on individual banks against the backdrop of a strong fiscal expansion and a downward pressure on foreign reserves, effectively putting a stop to an unsustainable credit growth. In the wake of the civil unrest in November 2006, the ceilings were shortly lifted in February 2007 to support reconstruction activities.

21. **By international comparison, Tonga's household debt appears to be relatively large.¹³** Tonga's household credit in relation to GDP has risen rapidly and peaked at 40½ percent in 2005, substantially higher than that of most developing economies.¹⁴ The credit growth rates in Tonga have been particularly high from an already high level of 22.4 percent of GDP in 2001; the annual growth rate of household debt further escalated to 27.2 percent in 2004-05. Unlike Latin America and Emerging Europe which also experienced

¹¹ In this paper, credit to the household sector includes personal loans and mortgage loans from all financial institutions; plus farm and non-farm loans for small household enterprises which borrow from Tonga Development Bank.

¹² Unlike in most emerging economies in Asia, there does not appear to be a housing bubble in Tonga due in parts to the lack of secondary markets for housing and rigid land tenure system.

¹³ Following the convention of corporate balance sheet analysis, two types of measures to gauge the strength of household balance sheets are solvency and liquidity ratios. Due to the lack of a national database on disposable income or assets, solvency is measured by the ratio of outstanding household debt to GDP.

¹⁴ Interestingly, mature market economies have the highest debt to GDP ratio on average, suggesting a higher degree of financial liberalization and higher income levels. This is not the case for Tonga.

recent credit surge, the high levels of household credit to GDP in Tonga reflect a substantial share of private sector credit allocated to households. In addition, housing loans accounted for a large share of total household credit, suggesting that households may have diminished flexibility in coping with unanticipated shocks.

	Household credit	Share of Household credit in total private sector credit	Share of Housing Loans in Total Household Credit	Average Annual Growth of Real Household Credit, 2000-05	Average Annual Growth of Real Household Credit, 2004-05
As of end-2005	(in percent of GDP)	(in percent of total private sector credit)	(in percent)	(in percent)	(in percent)
Tonga	40.5	68.9	60.4	13.5	27.2
Emerging Asia	27.5	31.4	54.2	22.6	13.8
Latin America	9.2	35.7	37.5	8.9	34.5
Emerging Europe	12.1	38.9	27.9	47.7	46.6
Mature markets	58.0	41.5	77.5	8.9	10.2
Average all countries	29.2	37.5	52.9	21.0	24.8

Source: Global Financial Stability Report, September 2006

22. **The majority of Tongan households borrow from commercial bank while reliance on non-monetary financial institutions has substantially declined.** In 2000/01, credit from non-monetary financial institutions accounted for slightly above 40 percent of total household outstanding loans; the figure has since dropped by half in 2005/06 due largely to increased financial access. However, it is worth noting that the growing reliance on commercial bank credit does not preclude the possibility that there may yet be a significant share of households without financial access to either banks or non-banks channels. It seems likely that there remains a significant portion of households which has not benefited from greater access to formal credit, particularly those without steady income; and that some groups of households are more dependent on non-bank credit sources than others.¹⁵

23. **More than three quarters of total credit to households is used for asset accumulation or business loans.** Mortgage loans, accounted for the biggest share, jumped from an already high level of 51 percent in 2000-01 to 61 percent in 2005-06. Farm and small non-farm businesses have lost their shares accordingly by 15 percent combined over the last five years. Nonetheless, the share of asset accumulation and business loans has shrunk over time, reflecting an increase in consumer loans from 17 percent over 2000-01 to 24 percent over 2005-06.

	Agriculture	Industry	Housing	Vehicles	Consumer Loans	Household total
Average 00-01	15%	13%	51%	4%	17%	100%
Average 05-06	9%	4%	61%	2%	24%	100%

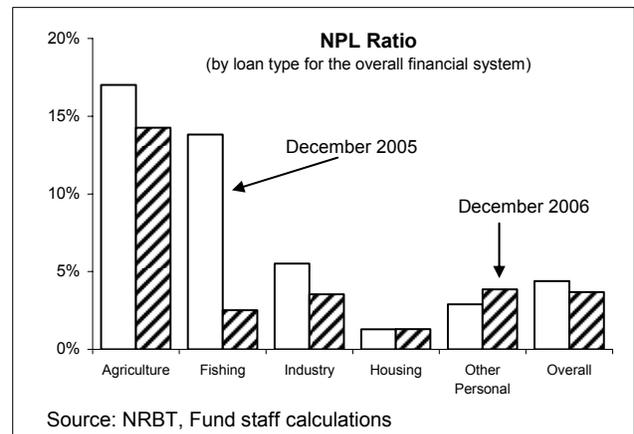
Source: NRBT Quarterly Bulletins; and Fund staff calculations

¹⁵ Non-bank credit sources include credit unions, community cooperatives, micro-financial institutions, credit card companies, non-institutionalized moneylenders, relatives, and friends.

24. **The fall in household business borrowing does not necessarily paint a worrisome picture.** Some households with high business potential which in the past could borrow only from Tonga Development Bank can now access financing from commercial banks. Hence, credit to these household business is now counted as corporate borrowing whereas they were categorized as household borrowing.

25. **The household sector at present shows no sign of deteriorating ability to service debt.** Overall credit quality continued to improve for its record low at 10 percent of total loan in 2003. The figure depicts recent development of the ratio of non-performing loans (NPLs), defined as loans with at least 3 months of non-payment, over outstanding household loans extended by commercial banks and the development bank. The NPL rates for housing and personal loans compare well against other loan type and with international standard. On the other hand, high rates for business loans which consist of both corporate and household borrowing indicate poor credit quality. Because mortgage loans accounted for a sizeable share of total credit, the overall NPL rates remain at low levels. Looking at these numbers, one is inclined to conclude that the household credit quality is currently of no concern.

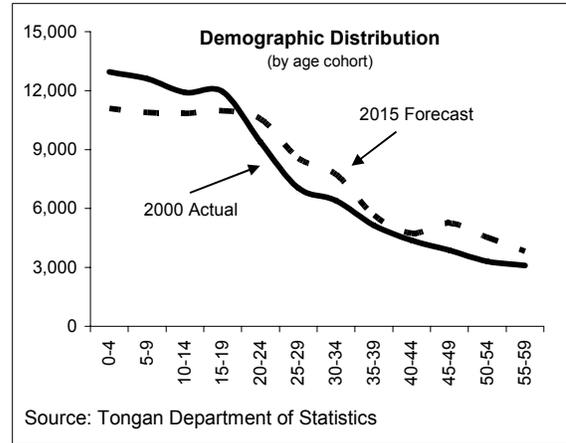
26. **Nevertheless, there are problems with relying too much on the nonperforming loans or delinquency rates as warning signs for problems in household's credit quality.** First, the recent decline in NPL ratios could be attributed to the rapid growth of household credit in recent years as much as to the reduction in the amount of NPLs themselves. Second, given the recent surge in household credit, the nonpayment should not increase significantly after only one or two years of borrowing especially during current period of relatively favorable macroeconomic conditions and credit access. In any case, NPLs will probably not start to show significant increases until a few years after the initial borrowing. In addition, NPL ratios are subject to certain delay in reporting and thus could at best serve as a lagging indicator of household credit quality.



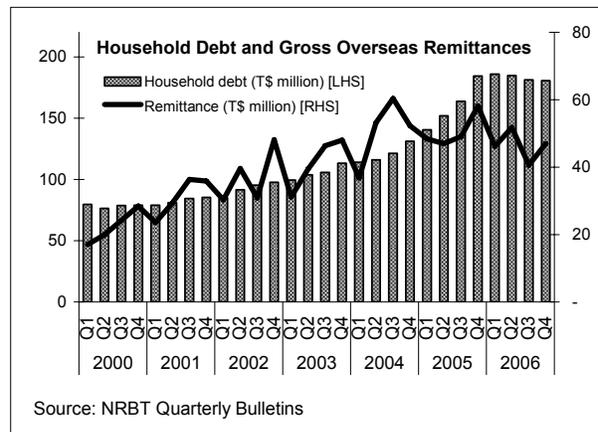
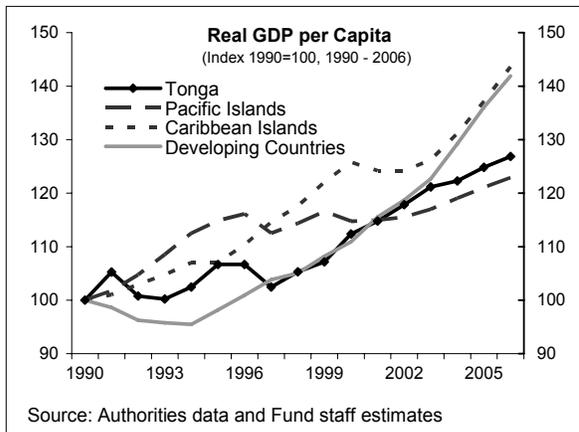
C. Understanding the Causes of Household Debt Increase

27. **Within the framework of the life-cycle hypothesis, the paper finds that Tonga's relatively young demographic distribution tends to be associated with higher level of aggregate household debt.** The life-cycle models thus draw a link between age and indebtedness: a young household must borrow against future income in order to reach its

desire consumption level. Examining Tonga's age distribution, one sees that Tonga currently has a population distribution that is not uniform but acutely skewed towards the younger ages. As these cohorts of younger households age, their debt burden will grow; so will the share of households within age brackets associated with high debt. If the Tongan population's fertility rate remains stable at a medium rate as forecast by the Tongan Department of Statistics, aggregate household debt will grow purely as a result of demographic change in the near future, taking into account the continued trend of out-migration.

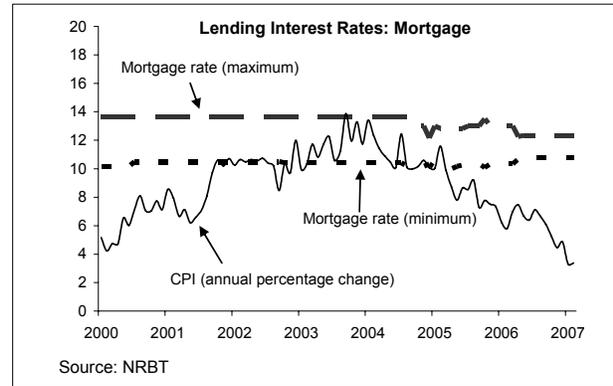


28. **Household indebtedness appears to rise with improved confidence on income and job prospects.** Continued expansion of economic growth over the last decade, characterized by low unemployment and rising income per capita, has restored consumer confidence. One fifth of average household income comes from overseas remittances, which had increased by 25 percent annually from 2000 to 2004. With renewed confidence in income and job prospects, households might have borrowed more in line with their higher expectation of future income in the early periods to reach a more stable path of consumption. In fact, many households decided to take out loans to purchase assets such as housing, automobiles and household appliances, some demand of which may have been delayed since the slow growth period in the early 1990s.



29. **The effect of changes in real interest rates on net aggregate indebtedness is theoretically ambiguous, so as in Tonga.** The overall impact of relative magnitude of substitution and income effects is different across households depending on their stages of the life-cycle. Hence, younger households with prospect of higher future labor income are more likely to be attracted to borrow more by lower interest rates, whereas older households

with accumulated wealth will be more likely to be affected by lower return on their assets and thus less likely to borrow. In Tonga where the majority of households are young, mortgage loans expanded rapidly over 2004-05, averaging over 40 percent growth annually. Evidence shows a strong negative correlation between mortgage loans and levels of nominal interest rates to residential homes, except in 2006 when credit ceilings were imposed. On the other hand, the relationship between housing loans and real interest rates remains ambiguous. During the housing loan surge in 2004-05, minimum mortgage rates—particularly for owner-occupied housing—remained stable despite declining inflation.



30. **On the supply side, anecdotal evidence shows that credit constraints have eased for young households in Tonga.** The relaxing of credit constraints has been brought about by an increase in the supply of funds for household loans and an improvement in the efficiency of the household loans market.¹⁶ In the case of decisions to purchase housing, which is the largest single expenditure among household loans, most financial institutions will require some down payments as well as evidence of steady income prospects. Young households with small savings and initial uncertain income path will therefore not be able to take out mortgage loans. As their income and savings grow, their liquidity constraints will be gradually eased, and thus be able to borrow enough to buy the houses. This would contribute to the hump-shaped pattern of household debt and home ownership over the life cycle that is observed in many countries. From interviews with bank officials, young households have a higher degree of financial access to mortgage loans.

31. **Sharply higher liquidity within commercial banks in 2004 has proven to be a boon to households in search of credit.** In a loanable funds market that has traditionally favored the corporate sector, increased liquidity as a result of Shoreline refinancing in June 2004 provided banks with a larger pool of potential funds from which to lend. It is possible that banks may give up lending to the corporate sector, channeling their effort instead towards the household sector, especially mortgages and consumer loans. In addition, the government policy of encouraging the development bank to extend credit to households

¹⁶ There is no clear evidence that a rise in banking efficiency contributed to higher household credit in Tonga. The entry of foreign banks started in the 1970s with Westpac and two other banks in the 1990s; there has been no change in the past five years that could explain the credit boom.

had proven effective in the past; households in remote islands that historically had difficulty in accessing credit have been served.¹⁷

32. **The rise in household indebtedness may be overstated by a statistical problem.** It is possible that households with high business potential had borrowed from the informal sector in the past; and consequently their loans were not captured in the statistics. Over the years, these households have developed their credit history such that they can now borrow from banks.

D. Implications for Financial System Stability

33. **Despite a high growth rate, household credit is unlikely to pose serious problems to financial stability.** At present, there is no obvious sign of quality deterioration of household credit as the NPL rates for household loans are declining. Though remaining relatively high by international standard, NPLs have been adequately provisioned. The capital adequacy ratio for commercial banks and finance companies remains solid with the BIS ratio being more than 16 percent¹⁸. Although banks' exposure to the household sector is substantial, with all household loans accounting for around 62 percent of total outstanding loans, the bulk of household credit is mortgage, which offers relatively good collateral values for financial institutions in case of loan defaults. The personal loans—accounted for a quarter of total household loans—are strongly secured by salary-deduction arrangement.

34. **Regardless of whether households have borrowed excessively or not, increased household indebtedness has a number of important macroeconomic implications.** The paper outlines some of the key implications of rising household debt in Tonga, which should be taken into considerations by policy makers and market participants alike.

35. **The increasing trend of debt-to-income ratios implies that Tongan household's consumption will become more sensitive to future changes in interest rates, income and asset prices.** As household's indebtedness increases, its debt service will rise, resulting in lower free income—defined as total household income less necessary and pre-committed expenditures (such as debt services). If households were to experience shocks, such as rising interest rates, they would have to pay more to service debt and thus have smaller amount of income to consume other goods, compared to the case where they were debt-free. In the case of Tonga, those with mortgage loans will be vulnerable to rising interest rates as most mortgages are variable rate loans. The risks will be especially great if households were drawn to the low borrowing rate and increase the size of the mortgage excessively without properly taking into account the likely increase in interest rates and debt services that may follow.

¹⁷ Tonga Development Bank has recently shifted towards more commercially-oriented operations.

¹⁸ As of end-2005.

36. **The distribution of debt matters in determining the impacts of higher level of debt on the economy.** For example, newer entrants into the labor force or lower income earners are more prone to unemployment. If these groups happen to have high debt burden, they face high risk of becoming unemployed and experiencing severe financial stress in the future. Another example has to do with rising interest rate and the different impacts it has on net borrowers and net lenders. For net borrowers, the impact will be lower consumption; for net lenders, increase in interest rate will boost the return on their wealth. The aggregate impact will then depend critically on the distribution of debt and assets across the household sector as well as the different marginal propensity to consume across household groups.

37. **If low-income households have relatively high debt burden, the sensitivity of the economy to interest rate changes will escalate.** In general, low income groups are more vulnerable to changes in interest rates because they may have fewer resources to smooth their consumption. Although low-income groups may have lower nominal levels of consumption than high-income groups, the higher marginal propensity to consume among the low-income groups mean their impact to the economy is still important. The impact also could be relevant in terms of changes in consumption patterns with low-income groups accounting relatively more on necessary items such as food.

38. **More prudential measures should be implemented in response to recent unfavorable economic conditions.** Recent developments in monetary stance, which include lifting credit ceilings and lowering reserve requirement in February 2007, potentially lead to a surge in household lending instead of the intended corporate sector. If the reported drop in remittances is confirmed, banks should be more cautious in using overseas remittances as a determinant for consumer loan size. Although it is too soon to realize full impact of the November riot on asset quality or household difficulties in servicing debt, the NRBT must strengthen their supervisory efforts that will augment quality of loan decision while not precluding access to debt. Given an expected growth pick-up in consumer credit and mortgages, it is important that attention is paid to establish the necessary setting for a highly efficient consumer credit market in the long run. Priorities include improving data collection and the greater sharing of consumer credit information among financial institutions, raising financial literacy and personal finance skills among consumers, and building a national database on household balance sheets.

Table 1. Tonga: Real Gross Domestic Product by Sector of Origin, 1999/00–2005/06 1/
(In 2000/01 prices)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
(In millions of pa'anga)							
Primary sector							
Agriculture, forestry, and fisheries	64.0	64.7	66.8	69.3	67.0	65.0	64.7
Secondary sector	38.4	38.9	40.8	41.8	41.4	45.4	45.4
Mining and quarrying	0.9	0.9	1.0	1.1	1.1	1.2	1.2
Manufacturing	11.4	11.5	12.2	12.2	12.9	13.1	13.1
Electricity and water	4.5	4.6	4.8	5.1	5.4	5.9	6.1
Construction	21.6	21.8	22.8	23.5	22.0	25.3	25.0
Tertiary sector	123.5	128.1	130.9	135.1	141.2	145.1	148.8
Commerce, restaurants, and hotels	33.9	34.0	36.2	37.6	40.7	42.1	43.8
Transportation and communications	17.6	20.3	19.7	20.8	21.4	21.8	22.5
Finance and real estate	25.4	26.0	26.1	27.2	28.5	30.0	31.0
Government services	31.1	31.9	32.6	32.8	34.3	34.7	34.8
Entertainment and private services	13.8	14.0	14.3	14.5	14.7	15.0	15.3
Ownership of dwellings	10.0	10.1	10.2	10.4	10.5	10.6	10.8
Less: Imputed bank service charge	-8.2	-8.2	-8.2	-8.1	-8.9	-9.2	-9.5
Total GDP at factor costs	225.9	231.6	238.5	246.2	249.6	255.4	258.9
Net indirect taxes	43.1	44.2	45.6	47.0	47.7	48.8	49.5
Total GDP at constant market prices	269.1	275.8	284.1	293.2	297.3	304.2	308.4
(Percent change)							
Primary sector							
Agriculture, forestry, and fisheries	5.7	1.0	3.3	3.7	-3.3	-3.0	-0.5
Secondary sector	-0.4	1.2	5.1	2.3	-1.0	9.7	0.0
Mining and quarrying	-9.7	10.0	9.4	2.5	3.2	8.0	-0.8
Manufacturing	-5.8	0.9	6.1	0.0	5.5	1.6	0.0
Electricity and water	9.0	3.2	2.6	6.0	7.2	8.0	5.0
Construction	1.2	0.7	5.0	2.7	-6.4	15.0	-1.1
Tertiary sector	7.2	3.7	2.2	3.2	4.5	2.7	2.6
Commerce, restaurants, and hotels	17.8	0.3	6.5	4.0	8.3	3.5	4.0
Transportation and communications	5.5	15.2	-2.8	5.4	3.0	2.0	3.0
Finance and real estate	5.1	2.4	0.4	4.2	4.7	5.2	3.6
Government services	2.8	2.7	2.0	0.6	4.7	1.0	0.5
Entertainment and private services	1.8	1.8	1.7	1.7	1.7	1.8	2.0
Ownership of dwellings	1.3	1.3	1.3	1.3	1.3	1.4	1.4
Less: Imputed bank service charge	2.2	0.8	-0.9	-0.7	10.1	3.0	3.0
Total GDP at factor costs	5.4	2.5	3.0	3.2	1.4	2.3	1.4
Net indirect taxes	5.4	2.6	3.0	3.2	1.4	2.3	1.3
Total GDP at constant market prices	5.4	2.5	3.0	3.2	1.4	2.3	1.4
Memorandum items:							
GDP deflator	0.2	3.8	9.4	8.9	5.0	9.7	7.0
GDP at current market prices	5.6	6.5	12.7	12.4	6.4	12.2	8.4

Source: Data provided by the Tongan authorities.

1/ Fiscal year begins in July.

Table 2. Tonga: Agricultural Products Marketed in Tonga, 1999/00–2005/06 1/
(1987/88=100)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	(12-month percent change)						
Values							
Total	-28.0	-48.6	27.4	41.2	-8.1	-13.5	23.1
Root crops	-33.3	-56.6	22.1	-18.6	35.9	9.5	15.4
Coconuts	-0.9	-17.2	38.4	-46.6	-5.5	-13.7	80.4
Bananas	-24.9	-55.0	43.1	2.1	25.7	5.0	-7.8
Watermelon	-7.3	-37.7	43.9	-53.4	123.0	-31.9	68.2
Other fruit	-40.4	-80.2	229.1	89.0	-14.9	-34.7	-11.7
Vegetables	-26.6	-30.8	0.6	394.3	-49.8	-28.4	17.7
Miscellaneous	-47.3	-53.7	-82.5	3,381.8	23.5	-41.2	-28.1
Volumes							
Total	14.1	-54.8	22.4	-16.4	-13.4	-0.1	11.3
Root crops	20.7	-64.9	0.8	-24.0	6.3	20.9	1.7
Coconuts	-14.7	-9.2	108.6	-68.8	-27.3	5.9	24.8
Bananas	35.9	-60.4	40.7	-25.3	34.3	24.8	-21.4
Watermelon	31.2	-41.1	2.6	-57.5	136.8	-35.6	69.5
Other fruit	-37.8	-65.1	154.6	93.4	-50.6	20.9	-42.9
Vegetables	-1.6	-43.1	-15.1	354.1	-63.0	-28.7	9.7
Miscellaneous	-16.8	-87.3	-81.5	1,200.0	-26.2	-47.9	-28.0
Unit values							
Total	-22.6	15.7	137.4	-16.7	34.7	0.8	11.0
Root crops	-45.7	5.3	40.0	21.4	14.7	-7.7	11.1
Coconuts	18.2	0.0	-23.1	40.0	28.6	-16.7	46.7
Bananas	-31.8	-13.3	15.4	30.0	-10.3	-8.6	12.5
Watermelon	-25.7	0.0	34.6	11.4	0.0	5.1	12.2
Other fruit	-1.6	-11.5	-16.7	20.0	35.2	-24.7	20.0
Vegetables	-11.9	-9.6	36.2	45.3	8.6	1.0	12.7
Miscellaneous	-44.9	192.6	427.8	-40.0	59.6	8.3	7.6

Sources: Data provided by the Tongan authorities; and Statistical Bulletin Tables D2, D3, and D4.

1/ Data reflect agricultural products sold in Talamahu market.

Table 3. Tonga: Indicators of Economic Activity, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Electricity consumed (thousand kw)	32,127	33,844	36,176	35,907	38,741	41,044	46,002
Cement imports (million tons)	12,533	10,288	11,929	14,682	12,364	21,745	10,363
New registrations of motor vehicles (number)	1,811	1,940	2,007	2,093	1,987	2,015	2,486
Retail petrol prices (seniti, end of period)	103	117	110	115	151	172	222
Electricity prices (seniti, end of period)	27.0	37.5	37.5	45.5	45.5	56.5	56.5
	(12-month percent change)						
Electricity consumed	9.1	5.3	6.9	-0.7	7.9	5.9	12.1
Cement imports	35.4	-17.9	16.0	23.1	-15.8	75.9	-52.3
New registrations of motor vehicles	36.5	7.1	3.5	4.3	-5.1	1.4	23.4
Retail petrol prices	65.9	13.8	-6.6	5.0	31.1	13.9	29.3
Electricity prices	0.0	38.9	0.0	21.3	0.0	24.2	0.0

Source: Data provided by the Tongan authorities.

Table 4. Tonga: Tourism Statistics, 1999/00–2005/06

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Number of air arrivals	27,709	33,868	33,722	34,918	38,044	40,259	40,131	41,890
(Percent change)	4.1	22.2	-0.4	3.5	9.0	5.8	-0.3	4.4
Country of origin								
Australia	4,751	6,045	5,453	5,989	6,885	8,547	7,433	8,930
New Zealand	8,718	10,088	10,674	12,611	13,555	15,023	16,895	17,215
United States	5,341	6,922	7,053	6,972	7,464	7,737	7,459	7,865
Pacific Islands	2,746	3,061	2,797	3,217	3,627	2,455	2,195	2,380
Other	6,153	7,752	7,745	6,129	6,510	6,497	6,149	5,500
Country of origin (in percent of total)								
Australia	17.1	17.8	16.2	17.2	18.1	21.2	18.5	21.3
New Zealand	31.5	29.8	31.7	36.1	35.6	37.3	42.1	41.1
United States	19.3	20.4	20.9	20.0	19.6	19.2	18.6	18.8
Pacific Islands	9.9	9.0	8.3	9.2	9.5	6.1	5.5	5.7
Other	22.2	22.9	23.0	17.6	17.1	16.1	15.3	13.1
Arrivals on cruise ships 1/	5,737	5,151	4,976	5,753	6,503	3,309	11,805	6,524
Total arrivals 2/	33,446	39,019	38,698	40,671	44,547	43,568	51,936	48,414
(Percent change)	3.3	16.7	-0.8	5.1	9.5	-2.2	19.2	-6.8
Tourism receipts (in millions of pa'anga) 3/	13.0	16.5	12.7	12.4	25.7	30.4	24.4	27.7
Average expenditure per visitor (in pa'anga) 3/	389	423	328	304	576	698	470	572
(Percent change)	-11.2	8.7	-22.5	-7.3	89.5	21.2	-32.6	21.6

Source: Data provided by the Tongan authorities.

1/ Including passengers and crew members.

2/ Sum of air passengers and cruise passengers, except for 2003/04.

3/ Data from Overseas Exchange Transaction (OET) records.

Table 5. Tonga: Consumer Price Index, 1999/00–2005/06
(Annual average)

	Weights 1/	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
(November 2002 =100)								
Total	100.0	78.0	83.7	92.1	101.9	113.9	125.2	135.0
Local component	33.8	83.2	89.3	95.8	103.3	108.9	122.4	137.5
Imported component	66.2	74.0	79.3	89.2	100.9	116.4	126.6	133.6
Food	44.4	74.3	78.2	91.7	102.9	112.7	120.9	126.4
Housing	5.3	91.8	93.5	98.7	99.6	103.8	115.3	131.8
Household goods	12.0	79.6	83.7	90.0	100.9	110.5	121.4	136.0
Clothing and footwear	3.4	79.7	80.8	83.8	97.4	101.1	112.5	125.1
Transportation	14.2	76.6	90.9	92.7	101.1	109.1	128.5	151.4
Tobacco and alcohol	12.3	79.8	93.7	95.9	103.3	140.9	156.4	157.3
Miscellaneous	8.4	86.6	90.1	93.4	100.6	104.7	113.3	123.9
(Percent change)								
Total	...	4.9	7.3	10.0	10.7	11.8	9.9	7.8
Local component	...	-0.2	7.3	7.3	7.8	5.4	12.4	12.3
Imported component	...	10.0	7.2	12.5	13.1	15.4	8.8	5.5
Food	...	0.3	5.2	17.3	12.3	9.5	7.2	4.6
Housing	...	11.4	11.4	11.4	11.4	11.4	11.4	11.4
Household goods	...	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Clothing and footwear	...	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Transportation	...	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Tobacco and alcohol	...	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Miscellaneous	...	7.2	7.2	7.2	7.2	7.2	7.2	7.2

Source: Data provided by the Tongan authorities.

1/ Revised on 2002 basis.

Table 6. Tonga: Population and Labor Market, 1999–2006

	1999	2000	2001	2002	2003	2004	2005	2006
				Est.				
Total population	99,819	100,281	100,673	101,002	101,405	101,865	102,371	101,134
Male	50,731	51,017	51,273	51,474	51,711	51,975	52,262	51,197
Female	49,088	49,264	49,400	49,528	49,694	49,890	50,109	49,937
Labor force	...	...	...	...	90,370	...	...	...
Male	...	...	...	...	45,720	...	...	...
Female	...	...	...	...	44,650	...	...	...
Employed	...	...	...	...	34,560	...	...	...
Male	...	...	...	...	20,420	...	...	...
Female	...	...	...	...	14,140	...	...	...
Full-time government workers (In percent of total employees)	...	...	...	...	4,319 12	...	...	...
Participation rate	...	...	...	...	63.6	...	...	...
Male	...	...	...	...	74.6	...	...	...
Female	...	...	...	...	52.7	...	...	...
Unemployment rate	...	...	...	...	5.2	...	...	...

Source: Data provided by the Tongan authorities.

Table 7. Tonga: Central Government Revenue, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
	(In millions of pa'anga)						
Total revenue and grants	71.3	78.5	95.2	99.3	111.0	122.1	154.5
Total revenue	70.2	76.1	93.2	96.4	105.9	116.6	144.6
Current revenue	70.2	76.1	93.2	96.4	105.9	116.6	144.6
Tax revenue	52.6	54.6	74.5	80.7	86.1	98.4	122.2
Taxes on income profits and capital gains	10.5	10.0	15.6	15.5	16.3	20.6	26.9
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Domestic taxes on goods and services	7.6	8.3	10.0	10.9	12.0	21.4	52.7
Sales tax	6.0	6.2	7.6	8.1	9.0	18.7	50.8
Other taxes	1.6	2.1	2.3	2.9	3.0	2.8	1.9
Taxes on international trade and transactions	34.2	35.8	48.5	53.8	57.2	55.6	41.9
Other taxes	0.3	0.4	0.4	0.5	0.5	0.7	0.7
Nontax revenue	17.6	21.5	18.7	15.7	19.7	18.2	22.4
Entrepreneurial and property income	4.8	6.7	5.1	2.9	7.1	3.7	5.6
Administrative fees and charges	12.0	10.8	12.8	11.5	12.2	13.5	13.0
<i>Of which:</i> Revolving funds	3.7	3.0	4.3	3.5	3.1	5.4	4.9
Fines and forfeits	0.4	0.2	0.3	0.3	0.3	0.3	0.3
Other nontax revenue	0.5	3.8	0.4	0.9	0.2	0.6	3.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	1.1	2.4	2.0	2.9	5.2	5.5	9.9
	(In percent of GDP)						
Total revenue and grants	27.5	28.5	30.6	28.4	29.9	29.2	34.1
Total revenue	27.1	27.6	30.0	27.6	28.5	27.9	31.9
Current revenue	27.1	27.6	30.0	27.6	28.5	27.9	31.9
Tax revenue	20.3	19.8	24.0	23.1	23.2	23.6	27.0
Taxes on income profits and capital gains	4.0	3.6	5.0	4.4	4.4	4.9	5.9
Taxes on property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services	2.9	3.0	3.2	3.1	3.2	5.1	11.6
Sales tax	2.3	2.3	2.5	2.3	2.4	4.5	11.2
Other taxes	0.6	0.7	0.8	0.8	0.8	0.7	0.4
Taxes on international trade and transactions	13.2	13.0	15.6	15.4	15.4	13.3	9.3
Other taxes	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Nontax revenue	6.8	7.8	6.0	4.5	5.3	4.4	4.9
Entrepreneurial and property income	1.9	2.4	1.7	0.8	1.9	0.9	1.2
Administrative fees and charges	4.6	3.9	4.1	3.3	3.3	3.2	2.9
<i>Of which:</i> Revolving funds	1.4	1.1	1.4	1.0	0.8	1.3	1.1
Fines and forfeits	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other nontax revenue	0.2	1.4	0.1	0.2	0.0	0.2	0.8
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants (in cash)	0.4	0.9	0.7	0.8	1.4	1.3	2.2
Memorandum item:							
GDP (nominal, in millions of pa'anga)	259.1	275.8	310.8	349.4	371.9	417.3	452.6

Source: Data provided by the Tongan authorities.

Table 8. Tonga: Central Government Current Expenditure by Economic Classification, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
(In millions of pa'anga)							
Total expenditure and lending minus repayments	72.2	82.9	99.3	109.8	107.7	111.6	169.4
Total expenditure	73.9	77.5	98.7	100.3	108.7	112.6	170.6
Current expenditure	70.6	70.8	81.6	91.3	101.7	107.9	167.0
Wages and salaries	37.0	39.9	44.0	44.3	45.7	49.7	90.8
Employer contributions	...	2.0	1.7	1.5	1.5	2.6	3.8
Other purchases of goods and services	24.5	21.0	26.8	32.1	36.7	40.2	47.6
Interest payments	1.8	1.7	2.3	2.3	3.2	3.8	3.3
Subsidies and other current transfers	7.3	6.1	5.8	8.9	10.4	9.4	10.7
Subsidies to nonfinancial public enterprises	0.0	0.1	0.3	2.4	1.8	1.1	0.3
Subsidies to financial institutions	0.5	0.1	0.0	0.1	0.1	0.3	0.0
Transfers to nonprofit institutions	2.6	2.4	1.6	1.7	2.1	2.2	3.9
Transfers to households	3.2	2.7	2.8	2.6	2.8	3.0	4.7
Transfers abroad	0.9	0.8	1.2	1.4	0.8	1.1	1.3
Transfers to other enterprises	...	...	...	0.6	2.7	1.8	0.5
Transfer value	...	...	1.0	2.2	4.1	2.1	10.7
Other expenditures 1/	...	3.8	6.9	0.4	3.1	0.5	-1.0
Capital expenditure	3.3	2.9	10.2	8.6	3.9	4.3	4.6
Acquisition of fixed capital assets	1.9	2.2	9.2	7.6	3.7	3.4	3.6
Purchases of land and intangible assets	0.9	0.1	0.1	0.4	0.1	0.2	0.1
Capital transfers	0.5	0.6	0.9	0.6	0.1	0.7	0.9
Lending minus repayments	-1.7	5.4	0.6	9.5	-0.9	-1.1	-1.2
Domestic	-1.7	5.4	0.6	9.5	-0.9	-1.1	-1.2
To non-financial public enterprises	-0.8	6.9	0.3	10.7	0.5	0.3	0.0
To financial institutions	-0.9	-1.5	0.3	-1.2	-1.5	-1.3	-1.2
Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)							
Total expenditure and lending minus repayments	27.9	30.1	32.0	31.4	29.0	26.7	37.4
Total expenditure	28.5	28.1	31.8	28.7	29.2	27.0	37.7
Current expenditure	27.2	25.7	26.3	26.1	27.3	25.8	36.9
Wages and salaries	14.3	14.5	14.2	12.7	12.3	11.9	20.1
Employer contributions	...	0.7	0.6	0.4	0.4	0.6	0.8
Other purchases of goods and services	9.4	7.6	8.6	9.2	9.9	9.6	10.5
Interest payments	0.7	0.6	0.7	0.7	0.9	0.9	0.7
Subsidies and other current transfers	2.8	2.2	1.9	2.6	2.8	2.3	2.4
Subsidies to nonfinancial public enterprises	0.0	0.0	0.1	0.7	0.5	0.3	0.1
Subsidies to financial institutions	0.2	0.0	0.0	0.0	0.0	0.1	0.0
Transfers to nonprofit institutions	1.0	0.9	0.5	0.5	0.6	0.5	0.9
Transfers to households	1.2	1.0	0.9	0.8	0.8	0.7	1.0
Transfers abroad	0.3	0.3	0.4	0.4	0.2	0.3	0.3
Transfers to other enterprises	...	...	...	0.2	0.7	0.4	0.1
Transfer value	...	...	0.3	0.6	1.1	0.5	2.4
Other expenditures	...	1.4	2.2	0.1	0.8	0.1	-0.2
Capital expenditure	1.3	1.1	3.3	2.5	1.0	1.0	1.0
Acquisition of fixed capital assets	0.7	0.8	3.0	2.2	1.0	0.8	0.8
Purchases of land and intangible assets	0.4	0.0	0.0	0.1	0.0	0.0	0.0
Capital transfers	0.2	0.2	0.3	0.2	0.0	0.2	0.2
Lending minus repayments	-0.6	2.0	0.2	2.7	-0.3	-0.3	-0.3
Domestic	-0.6	2.0	0.2	2.7	-0.3	-0.3	-0.3
To nonfinancial public enterprises	-0.3	2.5	0.1	3.1	0.1	0.1	0.0
To financial institutions	-0.3	-0.5	0.1	-0.3	-0.4	-0.3	-0.3
Other domestic lending minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
GDP (nominal)	259.1	275.8	310.8	349.4	371.9	417.3	452.6

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Estimated based on the difference between below and above the line data.

Table 9. Tonga: National Debt Outstanding, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
(In millions of pa'anga; end of period)							
Total debt	126.0	176.0	202.4	226.4	224.6	210.6	217.3
Total domestic debt	30.6	64.4	70.2	83.3	73.7	62.9	51.3
Bank loans	0.0	0.0	1.0	6.0	5.1	1.0	2.4
Bonds on issue	13.9	18.9	20.9	26.2	26.2	28.5	24.9
Government-guaranteed debt	16.7	17.7	22.0	21.8	19.2	12.3	13.6
Retirement transfer preserved accounts	...	27.8	26.3	29.3	23.2	21.1	10.4
Total external debt 1/	95.4	111.7	132.2	143.1	150.9	147.7	166.0
Bilateral	12.7	18.5	22.1	26.0	23.9	23.2	25.3
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	12.7	12.8	12.1	11.1	8.8	8.5	9.4
United Kingdom	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	0.0	5.7	10.0	14.9	15.1	14.7	15.9
Multilateral	78.7	93.2	110.1	117.0	127.0	124.5	140.7
Asian Development Bank	59.6	72.2	87.1	89.3	97.3	91.3	98.4
European Investment Bank	1.7	0.6	1.6	0.7	1.9	1.2	1.2
International Development Association	7.0	8.2	8.6	13.8	15.3	20.4	28.9
International Fund for Agricultural Development	10.4	12.2	12.8	13.2	12.5	11.6	12.2
Commercial loans	4.0	0.0	0.0	0.0	0.0	0.0	0.0
(In millions of U.S. dollars; end of period)							
Total debt	74.7	81.8	94.0	105.4	112.2	108.9	105.5
Total domestic debt	18.1	29.9	32.6	38.8	36.8	32.5	24.9
Total external debt 1/	56.5	51.9	61.4	66.6	75.4	76.4	80.6
(In percent of GDP; end of period)							
Total debt	47.2	57.8	65.9	66.2	61.7	50.6	46.8
Total domestic debt	11.5	21.1	22.9	24.4	20.3	15.1	11.0
Total external debt 1/	35.7	36.7	43.1	41.8	41.5	35.5	35.8
Memorandum items:							
Pa'anga per U.S. dollar (end of period)	1.7	2.2	2.2	2.1	2.0	1.9	2.1
GDP (in millions of U.S. dollar)	158.1	141.6	142.6	159.2	181.8	215.3	225.3

Source: Data provided by the Tongan authorities.

1/ Includes government and government-guaranteed debt.

Table 10. Tonga: Tonga Trust Fund, 1999/00–2005/06
(In millions of pa'anga)

	1999/00	2000/02	2002/03	2003/04	2004/05 Prel.	2005/06
Opening balance	52.0	62.9	6.9	1.7	0.1	1.8
Proceeds	3.9	1.5	0.2	0.0	1.8	2.7
Local collections and other	0.1	0.4	0.1	0.0	0.0	0.0
Overseas collections and interest earned	3.8	1.1	0.1	0.0	1.8	2.7
Tongasat	0.0	0.0	0.0	0.0	0.0	0.0
Drawdown	3.2	45.6	5.5	1.6	0.1	0.1
Advances to government of Tonga	1.0	2.1	0.4	0.1	0.0	0.0
Other expenditure	2.2	43.5	5.1	1.5	0.1	0.1
Prior year adjustments 2/	...	-9.9	...	...	...	...
Revaluation adjustment	10.2	-2.0	0.2	0.0	0.0	0.0
Closing balance	62.9	6.9	1.7	0.1	1.8	2.7
Invested overseas 3/	46.5	0.0	1.7	0.0	1.8	2.7
Deposited in Tonga	1.2	0.4	0.0	0.1	0.0	0.0
Unclassified	15.2	6.5	0.0	0.0	0.0	0.0

Source: Data provided by the Tongan authorities.

1/ Auditing accounts combine 2000/01 and 2001/02 into 2000/02.

2/ The adjustments are made to the cash account to reflect the revaluation adjustments from previous years and the loss stemming from the liquidation of the U.S. investments in 2002.

3/ Investments overseas declined to zero in 2000/01 due to mismanagement.

Table 11. Tonga: Public Sector Enterprises
(As of March 2007)

Organization	Government ownership (percent)	Turnover latest year (T\$ million)	Comments
Companies			
International Dateline Hotel (IDH)	100	0.1	Holding Janfull International Dateline Hotel (49%).
Leiola Duty Free	75	3.0	In the process of privatization.
Sea Star Fishing Company Limited	70	1.5	In the process of privatization.
Shipping Corporation of Polynesia Limited	100	1.7	
Domestic	...	...
Fua Kavenga	...	...	Sold in 2006
Management coy	...	...
Tonga Communications Corporation	100	20.8	International & domestic telecommunications
Tongan Corporation	100	0.1	
Tonga Investment Limited (TIL)	100	5.7	In the process of privatization.
Frisco Hardware Limited	...	...
Homegas Limited	...	...
Primary Produce Export Limited	...	...
Tongatapu Machinery Pool Limited	100	1.3	
Tonga Timber Limited	100	n.a.	
Statutory Bodies			
Tonga Broadcasting Commission	100	1.7	Provides broadcasting services.
Tonga Electric Power Board	100	0.5	Regulates the power sector.
Tonga Ports Authority	100	3.2	Operates and manages ports.
Tonga Water Board	100	2.9	Operates and manages water supply.
Banks			
Tonga Development Bank	100	6.1	
Westpac Bank of Tonga	40	na	
Trading Activities			
Export Produce Treatment Services Ltd. (MAF)	100	...	
Machinery Pool (MAF)	100	...	
Quarries (MOW)	100	...	
Printing Department (PMO)	100	0.769	Corporatized in January 2005
Small Industries Centre (MLCI)	100	...	
Survey Operations (MLSNR)	100	...	
Talamahu Market (MAF)	100	...	
Tonga Post Office (MOF)	100	...	Proposed corporatization in July 2005
Government Store	100	...	

Source: Data provided by the Tongan authorities.

Table 12. Tonga: Monetary Survey, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
(In millions of pa'anga; end of period)							
Net foreign assets	26.9	32.8	33.5	31.3	85.6	77.2	72.6
Foreign assets	32.0	46.5	44.6	49.2	109.3	91.8	95.0
Foreign liabilities	-5.1	-13.8	-11.1	-17.9	-23.8	-14.6	-22.5
Net domestic assets	70.3	90.3	99.1	119.2	92.8	122.9	154.9
Net domestic credits	89.2	119.1	130.2	151.3	131.8	165.5	213.5
Government	0.8	4.3	-5.6	1.6	-10.7	-26.3	-19.1
Non-financial public enterprises	2.3	5.4	9.5	12.2	11.1	6.4	3.9
Private sector	86.5	107.9	125.2	138.6	133.4	189.9	233.8
Non-monetary financial institutions 1/	-0.3	1.5	1.2	-1.1	-1.9	-4.5	-5.2
Other items (net)	-18.9	-28.8	-31.1	-32.2	-39.1	-42.6	-58.6
Total domestic liquidity (M2)	97.2	123.0	132.7	150.5	178.5	200.1	228.9
Narrow money (M1)	27.8	33.0	42.4	51.6	65.8	68.7	55.7
Currency outside banks	8.0	10.4	11.9	12.9	15.2	14.9	17.1
Demand deposits	19.8	22.6	30.4	38.8	50.6	53.8	38.6
Quasi money	69.4	90.0	90.3	98.9	112.7	131.4	173.2
Savings deposits	24.6	31.2	36.8	36.7	34.8	38.1	53.2
Term deposits	40.8	42.5	46.7	46.9	64.3	85.1	108.2
Foreign currency accounts	4.0	16.3	6.8	15.2	13.5	8.1	11.8
(12-month percent change)							
Net foreign assets	-21.8	21.8	2.3	-6.6	173.3	-9.8	-6.0
Foreign assets	-19.3	45.4	-4.2	10.3	122.3	-16.0	3.5
Foreign liabilities	-3.3	169.6	-19.7	61.6	33.0	-38.5	53.8
Net domestic assets	27.1	28.4	9.8	20.2	-22.1	32.5	26.0
Private sector	7.0	24.8	16.0	10.7	-3.8	42.4	23.2
Total domestic liquidity (M2)	8.4	26.6	7.8	13.4	18.6	12.1	14.4
Narrow money (M1)	12.7	18.7	28.4	21.9	27.5	4.4	-18.9
Quasi money	6.7	29.8	0.3	9.5	14.0	16.6	31.8
(In millions of U.S. dollars; end of period)							
Net foreign assets	15.9	15.2	15.6	14.6	42.7	39.9	35.2
Foreign assets	19.0	21.6	20.7	22.9	54.6	47.5	46.1
Foreign liabilities	-3.0	-6.4	-5.1	-8.3	-11.9	-7.6	-10.9
Memorandum items:							
Velocity (GDP/average M2)	2.7	2.2	2.3	2.3	2.1	2.1	2.0
Exchange rate (pa'anga per U.S. dollar; end period)	1.7	2.2	2.2	2.1	2.0	1.9	2.1

Sources: National Reserve Bank of Tonga; and Fund staff estimates.

1/ Nonmonetary financial institutions (NMFI) include TDB and TTF.

Table 13. Tonga: Accounts of the National Reserve Bank of Tonga, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
(In millions of pa'anga; end of period)							
Net foreign assets	25.8	25.4	39.3	36.7	88.9	78.9	76.1
Foreign assets	26.2	25.8	39.6	36.9	89.7	82.1	83.2
Foreign liabilities	-0.5	-0.4	-0.2	-0.2	-0.8	-3.2	-7.1
Net domestic assets	-0.1	7.0	1.3	2.4	-9.7	-23.5	-14.6
Net domestic credit	0.2	10.2	0.1	1.1	-13.2	-25.0	-11.3
Net claims on government	0.2	1.4	-3.5	-2.7	-13.2	-25.0	-11.3
Claims on government	5.4	14.2	14.1	17.4	16.8	9.5	16.2
Deposits from government	-5.2	-12.8	-17.6	-20.1	-30.0	-34.5	-27.6
Net claims on financial institution	0.0	8.8	3.6	3.8	0.0	0.0	0.0
Other items (net)	-0.3	-3.2	1.2	1.2	3.5	1.5	-3.3
Reserve money	25.6	32.4	40.6	39.1	79.2	55.4	61.5
Currency on issue	10.2	13.1	15.2	17.0	17.2	18.5	21.2
Required reserves	12.5	18.3	20.5	21.1	25.8	30.1	28.2
Other bank deposits	2.9	1.0	5.0	1.0	36.2	6.9	12.1
(In millions of U.S. dollars; end of period)							
Net foreign assets	15.3	11.8	18.3	17.1	44.4	40.8	36.9
Foreign assets	15.6	12.0	18.4	17.2	44.8	42.5	40.4
Foreign liabilities	-0.3	-0.2	-0.1	-0.1	-0.4	-1.7	-3.5
Memorandum items:							
Money multiplier (M2/Reserve Money)	3.8	3.8	3.3	3.8	2.3	3.6	3.7
Exchange rate (pa'anga per U.S. dollar; end period)	1.7	2.2	2.2	2.1	2.0	1.9	2.1

Sources: National Reserve Bank of Tonga; and Fund staff estimates.

Table 14. Tonga: Consolidated Accounts of Deposit Money Banks, 1999/00–2005/06
(In millions of pa'anga; end of period)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Net foreign assets	1.0	7.3	-5.8	-5.4	-3.4	-1.7	-3.5
Foreign assets	5.7	20.7	5.0	12.2	19.6	9.7	11.8
Foreign liabilities	-4.7	-13.4	-10.8	-17.6	-23.0	-11.4	-15.3
Net domestic assets	92.7	107.9	127.8	146.2	168.5	191.4	219.1
Net domestic credit	92.4	119.2	134.5	157.1	146.9	195.0	230.0
Net claims on government	0.6	2.9	-2.1	4.3	2.5	-1.3	-7.7
Claims on government	9.6	8.6	9.2	10.3	10.0	8.6	3.3
Deposits from government	-9.0	-5.7	-11.3	-6.0	-7.5	-9.9	-11.1
Claims on nonfinancial public entities	2.3	5.4	9.5	12.2	11.1	6.4	3.9
Claims on private sector	86.5	107.9	125.2	138.6	133.4	189.9	233.8
Claims on NMFIs	3.0	3.0	2.0	2.0	0.0	0.0	0.0
Other items (net)	0.3	-11.3	-6.8	-11.0	21.6	-3.6	-11.0
<i>Of which:</i>							
Claims on central bank	25.7	21.5	27.4	24.5	61.9	39.2	43.2
Reserves	16.9	21.5	27.4	24.5	61.9	39.2	43.2
Cash in vault	2.1	2.7	3.2	4.1	2.0	3.6	4.1
Deposits at NRBT	14.8	18.8	24.2	20.4	59.9	35.6	37.6
NRBT Notes	8.8	0.0	0.0	0.0	0.0	0.0	0.0
Capital and reserves	-27.6	-36.9	-41.1	-43.6	-48.4	-45.5	-50.4
Total deposits	93.8	115.2	121.9	140.7	165.2	189.7	217.0
Demand deposits	24.1	37.9	36.8	53.3	62.2	59.8	49.7
Savings deposits	24.6	31.2	36.8	36.9	35.1	38.3	53.8
Time deposits	45.1	46.0	48.4	50.6	67.9	91.5	113.5

Sources: National Reserve Bank of Tonga; and Fund staff estimates.

Table 15. Tonga: Bank Credit by Sector, 1999/00–2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Commercial banks							
	(In millions of pa'anga; end of period)						
Central government 1/	0.5	0.1	0.1	4.9	3.7	2.4	1.4
Public enterprises	2.3	5.4	9.5	12.2	11.1	6.4	3.9
Private sector	86.4	107.8	125.2	138.6	133.3	189.8	233.7
Agriculture	4.8	6.7	9.8	7.9	7.6	10.4	12.1
Industry and trade	37.1	53.2	61.0	71.3	51.5	64.2	80.7
Housing	28.4	33.6	34.0	41.7	46.4	81.6	101.8
Personal	13.6	13.4	20.3	17.6	27.7	33.3	38.8
Other	2.4	0.9	0.2	0.1	0.1	0.3	0.4
Total	89.2	113.3	134.7	155.7	148.1	198.6	239.1
	(Percent change)						
Private sector	7.0	24.8	16.2	10.7	-3.8	42.3	23.2
Agriculture	77.2	38.7	46.6	-18.9	-4.6	37.7	16.2
Industry and trade	21.6	43.6	14.6	16.9	-27.7	24.5	25.7
Housing	-10.5	18.4	1.0	22.6	11.4	75.9	24.8
Personal	-11.0	-1.8	51.5	-13.3	57.4	20.1	16.6
Other	406.0	-65.1	-82.4	-21.3	8.5	119.5	28.8
Total	4.8	27.1	18.9	15.6	-4.9	34.1	20.4
Tonga Development Bank							
	(In millions of pa'anga; end of period)						
Central government	2.0	1.6	0.2	1.2	1.2	7.6	4.7
Public enterprises	1.1	1.0	0.8	0.3	2.2	2.2	1.4
Private sector	34.3	33.9	37.4	44.6	41.9	37.0	44.2
Agriculture	13.0	11.7	13.3	16.8	16.5	14.9	17.9
Industry and trade	10.9	9.5	9.4	10.4	7.5	6.2	6.8
Other	10.4	12.7	14.7	17.4	17.9	15.9	19.4
Total	37.4	36.5	38.4	46.1	45.2	46.8	50.3
	(Percent change)						
Private sector	-2.6	-1.0	10.2	19.3	-6.0	-11.7	19.4
Agriculture	-11.6	-9.8	13.7	26.1	-1.5	-9.5	19.6
Industry and trade	-14.9	-13.0	-1.2	11.2	-28.1	-17.6	10.8
Other	34.8	22.5	15.3	18.2	2.9	-11.3	22.6
Total	-1.1	-2.3	5.1	19.9	-1.7	3.4	7.6

Source: National Reserve Bank of Tonga, Quarterly Bulletin, Table B6 and B7.

1/ Excludes holdings of government securities.

Table 16. Tonga: Accounts of the Tonga Development Bank, 1999/00–2005/06
(In millions of pa'anga; end of period)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Assets							
Reserves	1.3	1.5	2.2	2.4	2.1	2.4	5.9
Deposits at deposit money banks	1.9	0.7	0.0	2.4	2.9	7.0	0.2
Domestic credits to non-financial sectors	37.5	36.5	38.4	46.0	45.2	46.8	50.3
Government	2.0	1.6	0.2	1.2	1.2	7.6	4.7
Non-financial public enterprises	1.1	1.0	0.8	0.3	2.2	2.2	1.4
Private sector	34.4	33.9	37.4	44.6	41.9	37.0	44.2
Other assets	9.6	9.1	9.3	8.5	9.3	9.9	9.6
Liabilities and capital							
Foreign borrowing 1/	3.8	3.0	2.7	1.8	1.8	0.9	0.6
TDB bonds and notes	11.6	12.4	14.6	22.6	21.9	26.5	20.4
Held by government	3.5	2.2	3.0	3.3	4.9	6.4	4.6
Held by banks	1.5	3.0	2.0	2.0	0.0	0.0	0.0
Held by others	6.6	7.2	9.5	17.3	16.9	20.1	15.9
Government lending funds 2/	14.8	12.6	10.4	9.4	7.6	6.8	6.1
Liabilities to deposit money banks	0.7	0.3	1.0	1.4	2.0	3.6	8.6
Liabilities to NRBT	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	10.5	9.4	7.7	8.7	8.8	9.0	9.3
Capital and reserves	9.0	10.1	13.5	15.5	17.3	19.3	20.9

Sources: National Reserve Bank of Tonga; and Fund staff estimates.

1/ Direct borrowing by NMF1 from foreign sources. Some exchange risk is assumed by the government.

2/ Represents borrowing by the government from foreign sources for onlending to NMF1. Exchange risk is assumed by the government.

Table 17. Tonga: Interest Rate Structure, 1999/00–2005/06
(In percent per annum; end of period)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
National Reserve Bank of Tonga (NRBT)							
Minimum lending rate 1/	9.0	9.0	12.0	12.0	12.0	12.0	12.0
Reserve Bank notes (3 months) 2/	3.6	3.6	3.6	...	...	...	...
Reserve Bank notes (1 month) 2/	3.5	3.5	3.5	...	...	...	5.0
Commercial bank deposits							
Saving deposits	3.2	3.1	3.1	3.2	3.2	3.3	3.2
Time deposits							
3-months	5.0	5.0	5.1	5.1	5.4	5.3	5.8
6-months	5.4	5.4	5.5	5.5	5.8	5.8	6.2
12-months	6.0	5.9	6.0	6.0	6.3	6.2	6.6
24-months	6.2	6.2	6.3	6.3	6.6	6.3	6.7
36-months	6.3	6.5	6.8	6.8	6.9	6.5	6.8
48-months	7.2	6.7	7.0	7.0	7.0	6.4	6.8
Average rate on all savings and time deposits	4.8	4.8	4.7	4.6	5.1	5.1	5.4
Commercial bank loans							
Base rate 3/	9.0	9.0	9.0	9.0	9.5	9.0	9.4
Personal housing	10.0	10.5	10.5	10.4	10.4	10.3	10.8
Tonga Development Bank loans							
Small-scale subsistence 4/	10.5	10.5	10.5	10.5	10.5	10.5	11.5
High priority loans 5/	10.5	10.5	10.5	10.0	10.0	10.0	11.0
Maximum rate	16.5	16.5	16.5	16.5	16.5	15.5	15.5
Memorandum items:							
Real interest rate 6/	0.7	-1.7	-4.3	-5.0	-5.9	-4.3	-1.8
Spread lending and deposit rate 7/	4.4	4.9	4.8	4.7	4.5	4.6	4.7
Reserve requirement 8/	15.0	15.0	15.0	15.0	15.0	15.0	12.5

Sources: Data provided by the Tongan authorities; and Fund staff estimates.

1/ Minimum lending rate was raised to 5.4 percent in June 1995 and to 7 percent in December 1995.

2/ The NRBT notes were introduced in April 1993. Prior to that, the NRBT had long-term deposits from the BOT. The NRBT notes has been discontinued since March 2001.

3/ Base rate is the lowest rate charged.

4/ For loans to export-oriented industries, manufacturing and raw materials processing, and tourism activities except restaurants.

5/ Loans less than T\$1,000 for activity in agriculture, fisheries, and livestock.

6/ Average rate for saving and time deposits minus average inflation.

7/ Based on lending rate for personal housing and average rate on saving and deposit rate.

8/ Statutory reserve requirements (introduced March 1993) were 5 percent and raised to 10 percent in December 1995, to 12 percent in September 1998, and to 15 percent in September 2000, reduced to 12.5 in March 2006. They are not remunerated.

Table 18. Tonga: Exports by Major Commodity, 1999/00–2005/06 1/

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
Squash							
Value (in millions of U.S. dollars)	5.5	2.7	3.3	5.4	6.8	8.4	4.1
Volume (metric tonnes)	15,305	12,535	14,027	13,282	21,280	11,330	13,100
Unit value (US\$/tonne)	357	213	235	408	322	740	316
Fish							
Value (in millions of U.S. dollars)	2.4	4.1	3.2	5.6	9.1	5.7	3.3
Volume (metric tonnes)	724	1,057	1,377	2,945	3,225	3,054	1,952
Unit value (US\$/tonne)	3,315	3,879	2,320	1,881	2,831	1,865	1,673
Root crops							
Value (in millions of U.S. dollars)	0.6	1.0	0.8	0.8	0.7	1.3	0.6
Volume (metric tonnes)	1,970	2,392	2,272	2,093	1,653	2,965	1,709
Unit value (US\$/tonne)	301	419	365	361	457	426	350
Vanilla							
Value (in millions of U.S. dollars)	0.5	0.2	0.3	2.3	2.6	0.6	0.0
Volume (metric tonnes)	28	15	2.7	15.3	19.9	11.0	2.2
Unit value (US\$/kilogram)	18	11	112	148	133	52	28
Copra							
Value (in millions of U.S. dollars)	...	...	...	...	...	...	...
Volume (metric tonnes)	...	...	...	...	...	...	...
Unit value (US\$/tonne)	...	...	...	...	...	...	...
Kava							
Value (millions of U.S. dollars)	...	...	0.2	0.3	0.4	0.4	0.3
Volume (metric tonnes)	...	...	25.7	34.9	54.0	35.2	22.2
Unit value (US\$/kilo)	...	...	8.8	8.9	7.7	11.2	12.5
Manufactured goods (in millions of U.S. dollars)	0.7	0.3	0.5	0.3	0.5	1.5	0.6
Total (in millions of U.S. dollars) 2/	13.4	6.5	8.4	15.0	18.9	14.0	9.2
Memorandum item:							
Export unit value							
(1995/96 = 100)	60.9	36.5	51.5	91.3	86.1	85.0	101.2

Source: Tonga Statistics Department.

1/ Values are on f.o.b. basis.

2/ Includes reexports and total of only above products, thus may differ from total export figure of other tables.

Table 19. Tonga: Imports by Commodity, Category, and Sector, 1999/00–2005/06 1/
(In millions of U.S. dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
Total imports	70.7	69.8	87.3	85.6	97.4	115.9	115.6
By commodity group							
Food, live animals, beverages, etc.	23.5	22.5	24.4	24.0	29.4	31.9	32.5
Fuels, minerals and chemicals	16.9	17.9	18.9	19.8	25.1	31.8	36.8
Crude materials, inedible	6.6	5.2	6.4	6.6	7.8	8.2	9.4
Manufactured goods and materials	9.2	7.9	10.2	9.1	8.2	10.0	9.6
Machinery, transportation and service equipment	11.7	7.8	16.0	15.6	14.8	22.9	15.0
Miscellaneous	2.8	8.5	11.4	10.5	12.2	11.1	12.3
By economic category							
Consumer goods	28.2	26.0	30.4	29.7	33.8	44.5	39.8
Intermediate goods	29.9	20.2	27.6	27.2	27.4	31.9	29.7
Capital goods	5.7	3.4	6.1	4.8	6.2	7.6	6.0
Others	7.1	20.2	23.2	23.7	30.1	31.9	40.5
By institutional sector							
Government	6.9	8.5	10.2	7.2	9.3	7.8	8.7
Quasi-government	2.5	2.7	3.9	2.0	1.6	2.7	2.5
Private	61.4	58.6	73.3	76.3	86.6	105.5	104.7
Memorandum item:							
Import unit value (1995/96 = 100)	84.0	84.0	83.0	86.0	97.0	109.9	112.5

Source: Tonga Statistics Department.

1/ Values are on c.i.f. basis derived from preliminary customs data.

Table 20. Tonga: Direction of Trade, 1999/00–2005/06

(In percent of total)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2004/05 Prel.	2005/06
Exports								
Australia	2.7	3.9	2.6	1.4	1.3	2.8	2.9	2.6
Fiji	1.6	1.1	1.0	1.2	0.3	0.8	0.6	1.6
Japan	58.1	43.6	40.8	38.6	39.7	47.2	47.0	53.4
New Zealand	8.9	17.2	15.3	10.3	6.4	24.0	22.0	11.5
United States	18.8	11.3	15.7	27.9	26.5	11.4	11.6	10.5
Other countries	9.9	22.9	24.6	20.6	25.8	13.8	16.0	20.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports								
Australia	23.4	25.0	23.3	18.0	22.5	17.4	17.8	10.7
Fiji	13.5	14.8	9.1	20.3	17.7	17.0	17.4	27.0
Japan	5.9	7.9	4.8	3.2	2.8	3.0	3.0	3.6
New Zealand	36.2	38.2	37.6	42.1	39.3	37.2	37.8	35.0
United States	12.3	8.6	12.2	8.4	8.4	8.6	8.6	9.1
Other countries	8.6	5.5	13.0	8.1	9.4	16.7	15.5	14.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tonga Statistics Department.

Table 21. Tonga: Disbursements of Official External Loans and Grants, 1999/00–2005/06
(In millions of U.S. dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
Total external loans disbursement 1/	4.0	3.5	7.5	4.3	8.7	3.2	7.0
Of which:							
Multilateral							
Asian Development Bank	2.0	1.0	5.5	0.0	6.8	0.0	0.0
International Development Association	0.0	0.0	0.0	2.2	0.9	3.2	7.0
International Fund for Agricultural Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total grants	1.7	0.9	1.9	...	...	...	...
Aid in kind	1.2	0.0	0.1	...	...	...	...
Aid in cash	0.5	0.9	1.9	1.3	2.6	5.1	9.9
Of which:							
Bilateral grants	0.4	0.7	0.8	0.5	1.1	2.5	5.7
Australia	0.2	0.5	0.4	0.2	0.8	1.4	0.9
New Zealand	0.1	0.0	0.2	0.2	0.3	1.1	4.6
Republic of China	0.0	0.1	0.1	0.0	0.0	0.1	0.2
Multilateral grants	0.1	0.2	1.1	0.8	1.5	2.6	4.2
EU	0.0	0.1	0.7	0.3	0.8	1.2	3.2
UN agencies	0.1	0.1	0.3	0.3	0.2	0.5	0.6
Others	0.0	0.0	0.0	0.2	0.4	0.9	0.3
Total foreign assistance	5.6	4.4	9.4	...	...	...	...

Source: Data provided by the Tongan authorities.

1/ Includes government and government-guaranteed debt.

Table 22. Tonga: External Debt and Debt Service, 1999/00–2005/06

(In millions of U.S. dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
						Prel.	
Total external debt outstanding 1/	56.5	51.9	61.4	66.6	75.4	76.4	80.6
Bilateral	7.5	8.6	10.3	12.1	12.0	12.0	12.3
France	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	7.5	6.0	5.6	5.2	4.4	4.4	4.6
United Kingdom	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	0.0	2.6	4.6	6.9	7.5	7.6	7.7
Multilateral	46.6	43.3	51.1	54.5	63.4	64.4	68.3
Asian Development Bank	35.3	33.6	40.4	41.6	48.6	47.2	47.8
European Investment Bank	1.0	0.3	0.7	0.3	0.9	0.6	0.6
International Development Association	4.2	3.8	4.0	6.4	7.6	10.6	14.0
International Fund for Agricultural Development	6.2	5.7	5.9	6.2	6.2	6.0	5.9
Commercial loans	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt service	2.9	4.4	2.0	2.2	3.2	3.4	3.7
Amortization	2.1	3.8	1.5	1.7	2.4	2.5	2.9
Interest	0.8	0.6	0.5	0.5	0.8	0.9	0.8
Memorandum items:							
External debt/GDP (in percent)	35.7	36.7	43.1	41.8	41.5	35.5	35.8
GDP (in millions of U.S. dollars)	158.1	141.6	142.6	159.2	181.8	215.3	225.3
Debt-service ratio (in percent of exports of goods and services)	10.0	17.3	5.9	6.3	8.7	8.3	9.3
Average interest rate	1.5	1.2	0.8	0.8	1.0	1.2	1.0
Amortization rate 2/	3.7	7.2	2.5	2.5	3.2	3.3	3.6
TOP/USD (end of period)	1.7	2.2	2.2	2.1	2.0	1.9	2.1
TOP/USD (period average)	1.6	1.9	2.2	2.2	2.0	1.9	2.0

Source: Data provided by the Tongan authorities.

1/ Includes government and government-guaranteed debt.

2/ Percent of outstanding stock of debt at the beginning of the year that was amortized during the year.