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November 2, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Tonga - 1988 Staff Report on the Interim Article IV
Consultation Discussions

There is attached for the information of the Executive Directors the 1988 staff report on the interim Article IV consultation discussions with Tonga. As Tonga is on a bicyclic consultation procedure, the 1989 Article IV consultation will be completed not later than November 23, 1989.

Mrs. Gürgen (ext. 7340) is available to answer technical or factual questions relating to this paper.

Att: (1)

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INTERNATIONAL MONETARY FUND

TONGA

1988 Staff Report on the Interim Article IV
Consultation Discussions

Prepared by the Asian Department

(In consultation with the Central Banking, Exchange and
Trade Relations, Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by P.R. Narvekar and H.B. Junz

October 31, 1988

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Tonga: Basic Data

GDP per capita (1986):	SDR 650				
Fiscal year:	July 1-June 30				
	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
				Est.	Proj.
	<u>(Percentage change)</u>				
Output and prices					
Nominal GDP (T\$ mn.)	80.0	98.9	110.1	119.8	134.0
Real GDP	5.6	3.0	3.5	-2.0	4.5
Consumer prices (period average)	1.7	31.2	7.5	11.2	7.0
	<u>(In percent of GDP)</u>				
Central government budget					
Revenue and grants	47.5	42.6	46.2	46.8	46.7
Revenue	27.6	26.6	26.8	29.9	28.0
External grants	19.9	15.9	19.3	16.9	18.7
Current expenditure	24.8	25.9	27.0	27.0	26.4
Development expenditure	25.5	17.3	22.6	17.0	19.3
Overall balance	-4.2	-0.9	-3.9	1.8	-1.2
External financing	1.7	0.1	6.4	0.8	1.9
Domestic financing	2.4	0.8	-2.5	-2.6	-0.7
	<u>(In millions of pa'anga)</u>				
Money and credit (end period)					
Domestic credit	8.9	13.0	12.1	17.7	21.0
Government, net	-2.3	-1.6	-4.9	-8.0	-9.0
Private sector	11.2	14.6	17.0	25.7	30.0
Total liquidity (M2)	24.1	27.0	36.0	35.2	41.0
One-year bank deposit rate (in percent)	5.75	5.75	5.75	5.75	...
Maximum bank lending rate (in percent) ^{1/}	10.0	10.0	10.0	10.0	...
	<u>(In millions of SDRs)</u>				
Balance of payments					
Exports, f.o.b.	8.8	5.3	5.5	4.3	6.8
Imports, f.o.b.	-37.0	-35.4	-34.1	-38.2	-44.7
Services (net)	2.0	-0.4	2.6	2.6	3.1
Private transfers (net)	16.7	20.5	18.0	17.3	20.3
Official transfers (net)	12.5	10.2	11.4	11.0	14.7
Current account balance	3.0	0.1	3.4	-3.0	0.2
Overall balance	-1.3	-2.3	6.4	0.1	1.9
Current account (in percent of GDP)	4.7	0.1	5.8	-4.5	0.3
Gross official reserves (in months of imports)	4.6	4.2	6.1	5.5	5.1
Debt service (in percent of current receipts)	2.0	1.9	1.6	3.8	2.5
Real effective exchange rate					
(1980 = 100; end of period)	110.1	116.7	107.1	119.0	...
SDR per T\$ (period average)	0.78	0.64	0.54	0.55	...
SDR per T\$ (end period)	0.67	0.58	0.56	0.61	...

Sources: Data provided by the Tongan authorities; and staff estimates and projections.
^{1/} Average lending rates were about 8.5 percent.

I. Introduction

The interim Article IV consultation discussions with Tonga were held in Nuku'alofa during August 25-September 6, 1988. The mission met with the Minister of Finance, the Secretary and Deputy Secretary for Finance, and other government officials. The staff team comprised Mrs. Gürgen (head), Messrs. Kahkonen and Tokumaru, and Miss Hoole as secretary (all ASD).

Tonga avails itself of the transitional arrangements under the provisions of Article XIV, although no restrictions are maintained on payments and transfers for current international transactions.

II. Economic Background and Recent Developments

1. Economic background

The Kingdom of Tonga, situated in the South Pacific, is a small island economy (population of around 95,000) with limited natural resources and an underdeveloped infrastructure. Agriculture constitutes the mainstay of the economy, generating about 40 percent of gross domestic product (GDP). Land is cultivated under a tenure system that specifies the size of holdings. The major crops are coconuts, bananas, and vanilla beans, which together supply two thirds of exports. Manufacturing is confined mostly to coconut processing. Exports cover about one fifth of imports, with the remainder financed largely by private remittances and official aid flows. The operations of the public sector, including nonfinancial public enterprises, dominate the economy. The Government normally generates a small surplus in the recurrent budget and limits development spending to resources made available through concessional foreign financing, thus avoiding recourse to domestic bank financing and foreign commercial borrowing. The financial system consists essentially of the Bank of Tonga, a commercial bank owned jointly by the Government and three foreign banks, and the Tonga Development Bank. In the absence of a central bank, the Treasury, the Bank of Tonga, and the Commissioners of Currency and Coinage perform central banking functions. Tonga maintains an exchange system under which the pa'anga is pegged at par to the Australian dollar.

Recent developments in selected macroeconomic aggregates are shown in Chart 1. Over the past five years, real GDP growth has averaged close to 3 percent annually. The rate of inflation has fluctuated, reflecting the availability of domestic supplies as well as changes in the cost of imports from New Zealand, Tonga's major trading partner. In a departure from past trend, strong expenditure growth has resulted in

budget deficits in 1984/85 ^{1/} and 1986/87, financed in the latter year by a sizable foreign commercial loan. While exports have remained low, large private remittances and concessional external aid have resulted in current account surpluses in most years; excluding official transfers, the current account has recorded sizable deficits. Official reserves have been maintained at the equivalent of about 5 months of imports.

2. Developments during 1987/88

Real GDP is estimated to have declined by 2 percent in 1987/88, owing to a severe drought that reduced agricultural output by over 10 percent. ^{2/} Coconut and banana production were the hardest hit. The coconut sector was also affected by the low market prices for copra in the recent past that encouraged shifts out of coconut production, while banana production suffered from the phasing out of a fertilizer subsidy provided by the New Zealand Government. Supply shortages slowed production in the coconut processing industries; the desiccated coconut factory ceased operations for several months, while the coconut mill processed imported nuts. Manufacturing in other areas was buoyant, particularly in the newly established beer brewing, leather goods, and boat building industries. There was a construction boom, reflecting the expansion of airport and tourism facilities, completion of a cultural center, and stepped up private housing development. Government spending on social and community services also contributed to output growth.

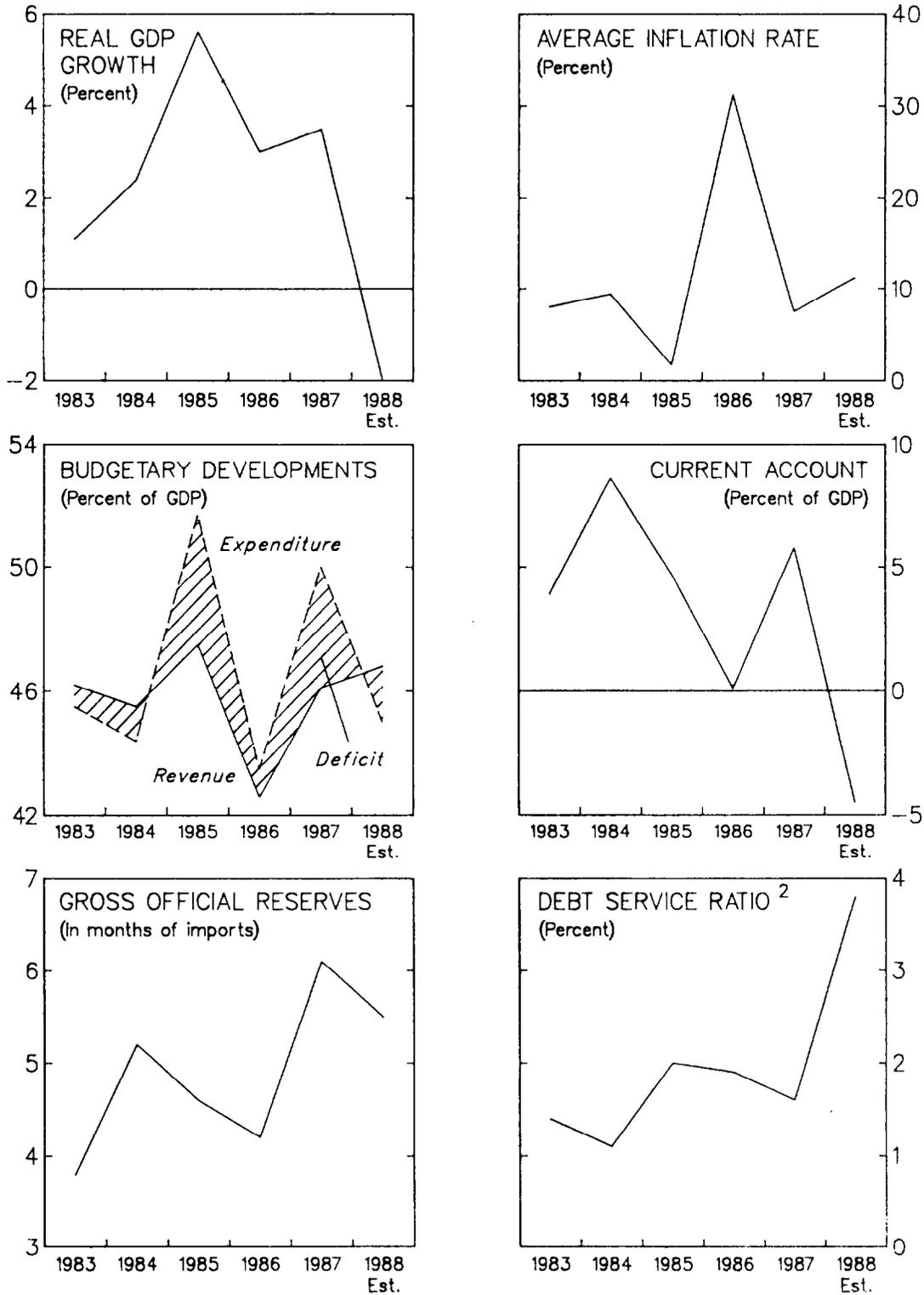
The average rate of inflation rose to 11 percent in 1987/88 (Chart 2). There is a strong link between domestic and foreign price movements, given the large weight (close to 60 percent) of imported goods in Tonga's consumer price index. The availability of domestic food supplies is also an important factor in price developments. This was apparent in 1987/88, when a sharp rise in domestic food prices, induced mainly by the drought, resulted in a onetime increase in the price level. While the increase in the cost of imported goods moderated for the year as a whole, the strong growth in credit to the private sector also contributed to the pressure on prices.

The central government budget moved into an overall surplus equivalent to 1.8 percent of GDP in 1987/88, following a deficit of 4 percent in the previous year (Chart 3). The improvement was attributable to a buoyant domestic revenue performance; some restraint on current government spending; and a sizable shortfall in development expenditure (Table 1). Domestic revenue reached 30 percent of GDP. There was a sharp increase in tax revenue, as income tax collections were boosted by

^{1/} The fiscal year is from July 1 to June 30.

^{2/} An assessment of real sector developments is hampered by the lack of official national accounts estimates beyond 1984/85. Economic statistics in most other areas are also limited in coverage, quality, and currentness.

CHART 1
TONGA
SELECTED MACROECONOMIC VARIABLES, 1983-88¹



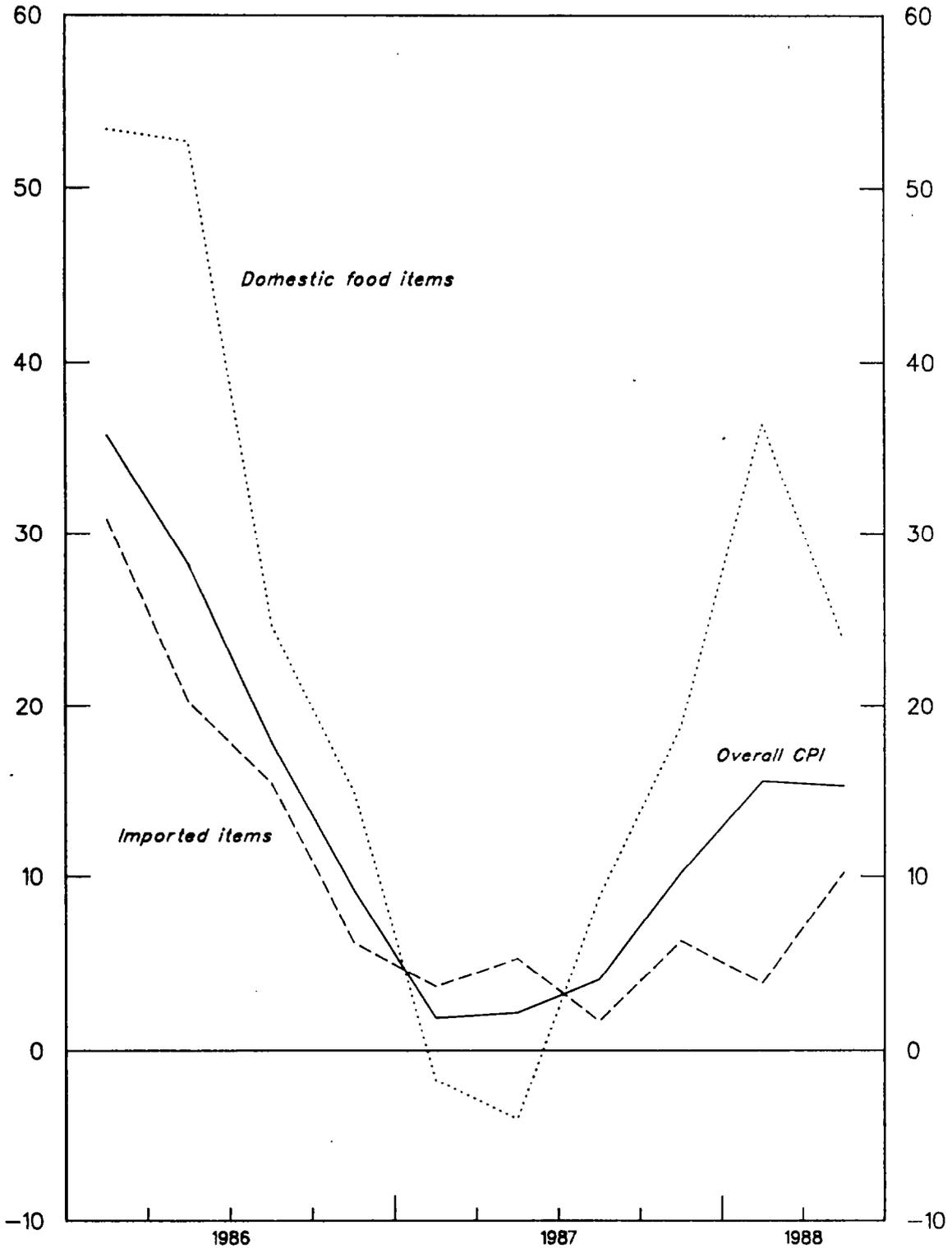
Sources: Data provided by the Tongan authorities; and staff estimates.

¹ Fiscal years, ending June 30.

² In percent of current earnings.



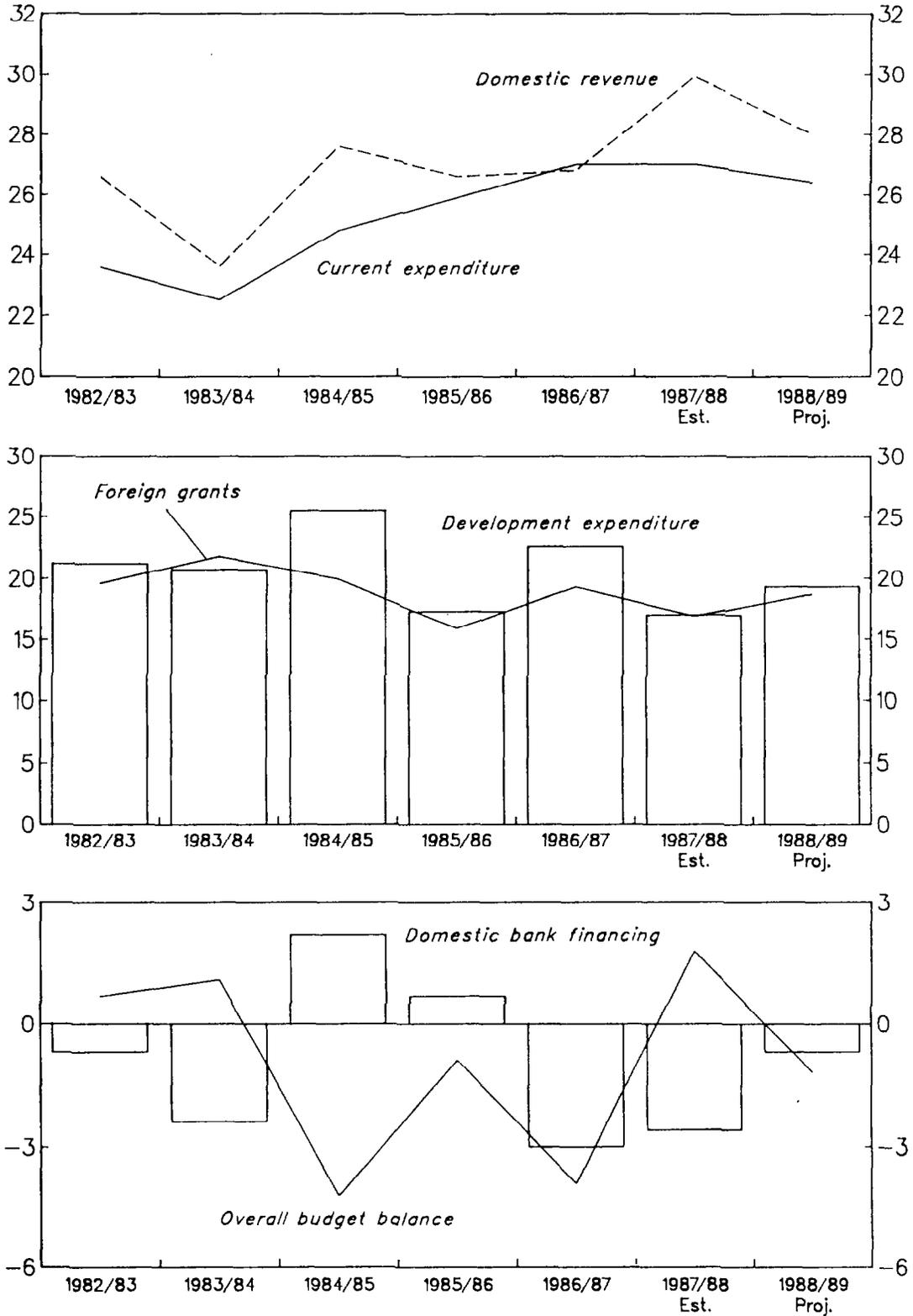
CHART 2
TONGA
RECENT PRICE DEVELOPMENTS, Q1 1986-Q2 1988
(Annual rates of change)



Source: Data provided by the Tongan authorities.



CHART 3
TONGA
BUDGETARY DEVELOPMENTS, 1982/83-1988/89
(In percent of GDP)



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



Table 1. Tonga: Central Government Finances, 1983/84-1988/89

(In millions of pa'anga)

	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89	
					Budget	Est.	Budget	Proj.
Revenue and grants	33.9	38.0	42.1	50.8	49.5	56.1	57.5	62.5
Revenue	17.6	22.0	26.3	29.5	29.0	35.9	32.5	37.6
Tax	12.4	15.8	18.6	21.1	21.4	24.8	23.7	27.1
Nontax	5.2	6.2	7.8	8.4	7.6	11.1	8.9	10.5
External grants	16.2	15.9	15.8	21.3	20.5	20.2	25.0	25.0
Expenditure and net lending	33.0	41.3	42.9	55.1	50.2	54.0	58.7	64.1
Current expenditure	16.7	19.9	25.6	29.7	26.5	32.3	30.3	35.4
Development expenditure	15.4	20.4	17.1	24.9	22.3	20.3	25.4	25.9
Net lending	0.9	1.1	0.2	0.5	1.3	1.3	2.9	2.9
Overall balance (- deficit)	0.8	-3.3	-0.8	-4.3	-0.7	2.1	-1.2	-1.6
In percent of GDP	(1.1)	(-4.2)	(-0.9)	(-3.9)	(...)	(1.8)	(...)	(-1.2)
Financing	-0.8	3.3	0.8	4.3	0.7	-2.1	1.2	1.6
Foreign (net)	0.7	1.4	0.1	7.0	1.9	1.0	3.2	2.6
Drawings	1.1	1.8	0.6	7.8	2.5	2.5	4.0	4.0
Repayments	0.4	0.4	0.5	0.8	0.6	1.5	0.8	1.4
Bank (net)	-1.8	1.7	0.7	-3.3	-1.2	-3.1	-2.0	-1.0
Other	0.3	0.2	--	0.6	--	--	--	--
Memorandum item:								
Current balance	0.9	2.2	0.7	-0.2	2.5	3.6	2.2	2.2
In percent of GDP	(1.2)	(2.7)	(0.7)	(-0.2)	(...)	(3.0)	(...)	(1.6)

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

higher receipts from the Bank of Tonga whose profits rose substantially, and retail sales tax collection procedures were strengthened. Nontax revenue performance was aided by a large transfer by the Shipping Corporation of Polynesia from accumulated charter receipts.

The growth in current spending slowed to about 9 percent in 1987/88. A number of special factors--such as wage adjustments to attract qualified personnel, expenses incurred in educating the public on changes in the tax system, and subsidies paid to the Commodities Board--had boosted current spending in earlier years. The absence of such factors, combined with a growing determination of the authorities to tighten expenditure controls, resulted in a decline in current spending in real terms. Development expenditure also fell by 20 percent in 1987/88 as several large projects--including the expansion of a harbor and upgrading of airport facilities--were delayed. This under-performance reflected certain planning and administrative difficulties. External grants did not drop commensurately, as most funds were disbursed in anticipation of timely project implementation. The overall budget surplus permitted the Government to further improve its net creditor position with the Bank of Tonga and make an early repayment on a foreign commercial loan. Reflecting the latter, as well as the absence of further recourse to commercial borrowing, the net foreign financing of the budget declined sharply.

The financial performance of the major public enterprises in 1987/88 was mixed. The reserves of the Commodities Board under the Copra Price Stabilization Fund were replenished, reflecting the revival in world coconut prices, partially passed on to producers, and growing STABEX transfers from the European Community. However, the Board suffered from losses on its desiccated coconut and banana operations. The financial position of the domestic airline remained precarious as two of its airplanes ceased operations owing to maintenance problems. The prospects for elimination of losses in the near future appear slim. Although not facing immediate financial difficulties, the Telecommunications Commission and the Electricity Board were adversely affected by inadequate tariff adjustments and, in the latter case, an increase in arrears on collections.

While the deterioration in the external position had a dampening effect on liquidity growth in 1987/88, domestic credit expansion was strong, fueled by a sharp increase in credit to the private sector (Table 2). ^{1/} The growth in credit to public enterprises, mainly to the domestic airlines and the Commodities Board, is estimated to have accounted for about one fifth of the increase (equivalent to about 1.5 percent of GDP). The expansion in private sector credit was mainly associated with increased housing demand, as well as preparations for

^{1/} Credit to the private sector includes lending to public enterprises.

Table 2. Tonga: Monetary Survey, 1983/84-1988/89 ^{1/}

(In millions of pa'anga; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Proj.
Net foreign assets	<u>21.6</u>	<u>25.1</u>	<u>25.2</u>	<u>36.9</u>	<u>34.7</u>	<u>38.0</u>
Domestic credit	<u>6.4</u>	<u>8.9</u>	<u>13.0</u>	<u>12.1</u>	<u>17.7</u>	<u>21.0</u>
Government (net) ^{2/}	-4.0	-2.3	-1.6	-4.9	-8.0	-9.0
Private sector ^{3/}	10.4	11.2	14.6	17.0	25.7	30.0
Other items (net) ^{4/}	<u>8.6</u>	<u>9.9</u>	<u>11.2</u>	<u>13.0</u>	<u>17.2</u> ^{5/}	<u>18.0</u>
Total liquidity	<u>19.4</u>	<u>24.1</u>	<u>27.0</u>	<u>36.0</u>	<u>35.2</u>	<u>41.0</u>
Currency	2.8	2.9	4.2	4.4	5.6	...
Demand deposits	6.2	7.3	7.1	9.9	9.9	...
Savings deposits	5.0	7.1	8.2	10.5	11.3	...
Time deposits	5.4	6.8	7.5	11.3	8.5	...
<u>(Annual percentage change)</u>						
Memorandum items:						
Domestic credit	-1.8	39.1	46.1	-6.9	46.3	18.6
Private credit	3.9	7.7	30.2	16.2	51.3	16.7
Total liquidity (M2)	21.0	23.9	12.1	33.6	-2.2	16.5
Average growth in M2	17.9	15.4	21.4	21.6	14.1	...

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

^{1/} Incorporates the relevant accounts of the Treasury, and the Boards of Currency and Coinage Commissioners.

^{2/} Includes aircraft loan to the Government.

^{3/} Includes public enterprises.

^{4/} Includes bills payable.

^{5/} The increase in other items (net) in 1987/88 is accounted for mostly by the increase in Bank of Tonga's capital and reserves.

special events, including the King's 70th birthday celebrations. Total liquidity declined by about 2 percent. ^{1/} The drop reflected the bunching of time deposit withdrawals by the Tonga Development Bank and the Shipping Corporation of Polynesia at the end of the fiscal year as well as slower growth in savings deposits, the yields on which became increasingly negative.

Following a strong performance in 1986/87, Tonga's balance of payments weakened in 1987/88 (Table 3). The current account moved into deficit (equivalent to 4.5 percent of GDP) for the first time in several years. Exports declined sharply as the drought reduced exports of coconut products and bananas, while vanilla exports suffered from marketing problems and a downturn in prices. Import demand was strong, particularly for food items, construction materials, and transportation equipment. Both official and private transfers declined, the latter owing mostly to economic conditions in some host countries, including increased unemployment in New Zealand. Net official capital flows were also lower as commercial borrowing fell sharply. Gross international reserves declined to the equivalent of 5.5 months of imports. An accelerated repayment on a foreign commercial loan raised the debt service ratio (by about 1.2 percentage points) to 3.8 percent in 1987/88, while improving the future debt-servicing profile.

On the occasion of the 1987 Article IV consultation, Directors indicated that while adjustment policy had to focus on reversing recent fiscal trends through stricter expenditure control, interest and exchange rate policies could play a useful supporting role. Market-oriented interest rates would help promote private savings and improve resource allocation. Reviewing the fixed link with the Australian dollar would provide scope for greater flexibility in exchange rate policy.

III. Report on the Discussions

The drought-related setbacks of the past year are not expected to have enduring consequences for the economy. The outlook for 1988/89 is for a resumption in GDP growth to over 4 percent, a moderation in inflation to 7 percent as food prices stabilize and credit growth is brought under control, and a strengthening of the external position with a recovery of both exports and private remittances. The discussions with the authorities focused on the importance of continued restraint on government spending for medium-term external viability, as well as the need to diversify the economy by providing appropriate incentives. The mission discussed the role of interest rate and exchange rate reforms in realizing these objectives, and strengthening domestic savings and investment.

^{1/} On an average basis, M2 grew by 14 percent in 1987/88 compared with 21 percent in the previous year.

Table 3. Tonga: Balance of Payments, 1983/84-1988/89

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Proj.
Trade balance	<u>-27.3</u>	<u>-28.2</u>	<u>-30.1</u>	<u>-28.6</u>	<u>-33.9</u>	<u>-37.9</u>
Exports (f.o.b.) <u>1/</u>	7.2	8.8	5.3	5.5	4.3	6.8
Imports (f.o.b.) <u>1/</u>	-34.5	-37.0	-35.4	-34.1	-38.2	-44.7
Services (net)	<u>2.1</u>	<u>2.0</u>	<u>-0.4</u>	<u>2.6</u>	<u>2.6</u>	<u>3.1</u>
Receipts	18.1	18.5	16.2	17.6	18.1	20.8
Payments	-16.1	-16.5	-6.7	-15.0	-15.5	-17.7
Private transfers (net)	<u>16.7</u>	<u>16.7</u>	<u>20.5</u>	<u>18.0</u>	<u>17.3</u>	<u>20.3</u>
Receipts	19.8	18.9	22.8	20.5	19.7	23.1
Payments	-3.1	-2.2	-2.3	-2.6	-2.4	-2.8
Official transfers (net)	<u>14.0</u>	<u>12.5</u>	<u>10.2</u>	<u>11.4</u>	<u>11.0</u>	<u>14.7</u>
Current account	<u>5.5</u>	<u>3.0</u>	<u>0.1</u>	<u>3.4</u>	<u>-3.0</u>	<u>0.2</u>
Official capital (net)	<u>0.7</u>	<u>0.9</u>	<u>-0.1</u>	<u>4.1</u>	<u>0.9</u>	<u>2.0</u>
Receipts	1.0	1.4	0.4	4.4	1.9	2.7
Payments	-0.3	-0.6	-0.5	-0.4	-1.0	-0.7
Errors and omissions <u>2/</u>	<u>-0.7</u>	<u>-5.2</u>	<u>-2.3</u>	<u>-1.1</u>	<u>2.2</u>	<u>-0.3</u>
Overall balance	<u>5.5</u>	<u>-1.3</u>	<u>-2.3</u>	<u>6.4</u>	<u>0.1</u>	<u>1.9</u>
Memorandum items:						
Current account						
(in percent of GDP)	8.6	4.7	0.1	5.8	-4.5	0.3
SDR per pa'anga						
(period average)	0.87	0.78	0.64	0.53	0.55	0.59

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

1/ Including re-exports.

2/ Including the counterpart to valuation changes and net private capital flows.

1. Fiscal policy

The 1988/89 budget is expected to move into overall deficit equivalent to about 1 percent of GDP. 1/ The deficit is to be fully financed by concessional foreign borrowing, while a slight further improvement in the Government's net creditor position with the banking system is envisaged. The projections indicate revenue growth of about 5 percent, implying some decline in real terms, as the budget does not contain any significant new revenue measures, and the special factors that boosted revenue collections in the previous year are unlikely to be repeated. Tax revenue will approximately maintain its share in GDP (20 percent), while nontax revenue will decline to levels attained prior to 1987/88 (about 8 percent of GDP). In contrast, external grants are expected to grow by 24 percent; most of the increase represents disbursements for the construction of a stadium for the 1989 South Pacific Games. Overall, revenue and grants are projected to maintain their combined share in GDP (approximately 47 percent). Current expenditure projections incorporate approved cost of living adjustments, ranging from 2 percent to 17 percent (averaging 10 percent), to compensate for the recent loss of real income and in order to narrow the salary differentials in the civil service. A strong growth is indicated in development spending, attributable mainly to the stadium project. The share of total expenditure in GDP is estimated to rise to 48 percent, but to remain below its share in 1986/87.

The expenditure projections are influenced by two considerations: measures introduced to restrain the growth in current spending and some anticipated easing of the administrative impediments to project implementation. Legislation was enacted, effective July 27, 1988, to limit extrabudgetary current spending during the fiscal year to 5 percent of initial appropriations, and subject spending in excess of this limit to approval by the Legislative Assembly. 2/ The authorities consider this change to be an important move toward tighter discipline over current spending, since the Legislative Assembly will now have the opportunity to review expenditure proposals outside the budget framework rather than be notified of additional spending at the end of the fiscal year. However, the authorities do not expect the 5 percent limit to be fully binding in 1988/89, given that the initial appropriations were overly conservative and did not allow for the subsequent imposition of a limit on spending. In addition to the above measure to contain extrabudgetary

1/ Revenues and expenditures in the approved budget for 1988/89 are estimated conservatively, as has traditionally been the case. In discussion with the authorities, the mission constructed revised budgetary projections for 1988/89 that constitute the basis of the discussion in this section.

2/ In the past, when extrabudgetary expenditure became necessary, disbursements were made under special warrants authorized by the Privy Council, which consists of the King and the Cabinet.

expenditure, work is under way on upgrading of the government accounting system to allow for better monitoring of expenditure. 1/ Regarding development spending, the authorities agreed that the recent shortfalls in project implementation suggest the need for better coordination with aid donors on project selection, as well as measures to address administrative deficiencies.

The scope for generating additional revenue remains limited. The authorities believe that there is room for improved cost recovery in certain areas of government service, including transportation, communications, and health services. Government fees and charges that have not been raised for prolonged periods are being reviewed. A further possible source of revenue is a contributory civil service pension scheme. 2/ While joint work with the International Labor Organization on the introduction of such a scheme has been under way for some time, prospects for its adoption in the near future appear slim. One fear is that the scheme would trigger demands for broadly based welfare programs that could offset the envisaged gains to the budget.

2. Monetary policy

Monetary policy in 1988/89 is aimed at supporting a recovery in productive activity while maintaining financial stability. Staff projections indicate that liquidity growth of about 16 percent would be broadly consistent with these objectives. Given the balance of payments outlook, which implies an increase in external reserves, domestic credit growth would need to be restrained to about 19 percent to meet the liquidity target. This would require a substantial slowing down in the recent strong expansion of credit to the private sector. There are indications of a dampening in credit demand in recent months as the impact of the special factors (the King's birthday) that stimulated private consumption have weakened. The authorities are aware of the risks associated with excessive credit growth and will keep credit developments under close review.

Control over monetary aggregates is exercised mainly through guidelines that restrict the Bank of Tonga's lending when foreign reserves fall below a critical level. The use of other monetary policy instruments is limited, since reserve requirements are not enforced and lending rates are fixed by law. The ceilings on lending rates, with commensurately low deposit rates, have resulted in negative real rates during periods of high inflation, and in internationally uncompetitive yields (Chart 4). The prospective establishment of a central bank is expected to strengthen the conduct of monetary policy. The National

1/ The authorities have recently requested technical assistance from the Fund in this area.

2/ Under the present scheme, contributions are not required from participants, while pension benefits are paid out of government revenue.

Reserve Bank (NRB) bill 1/ is in its final stages of discussion in the Legislative Assembly, and present expectations are for the NRB to become operational by March 1989. The proposed bill provides the NRB with comprehensive powers to impose reserve requirements and liquid asset ratios on banks, as well as penalty charges on noncompliance with such requirements. Moreover, once the NRB bill becomes effective, the section of the existing legislation imposing a limit on lending rates will be repealed, paving the way for a change in the present interest rate structure. The authorities do not consider an earlier reform of interest rates, which would involve a change in legislation, to be politically feasible. Once established, the NRB would administer interest rates within certain specified ranges, taking into account expected domestic price developments and interest rates in neighboring countries, in particular in Australia and New Zealand.

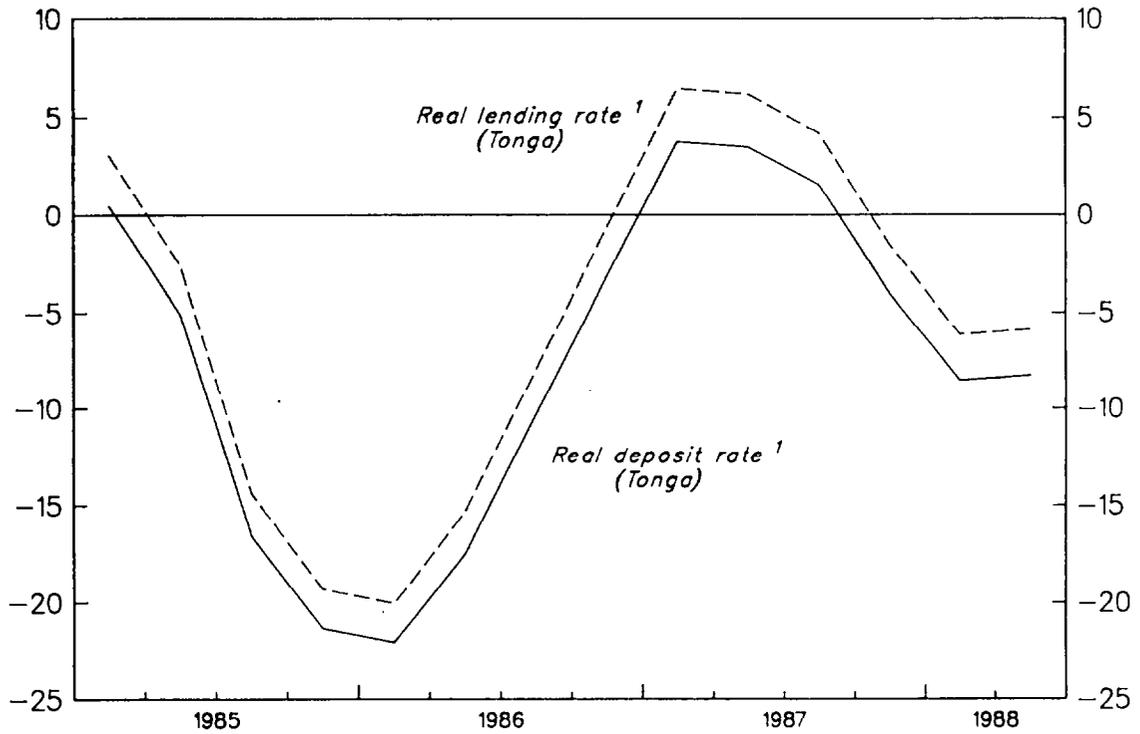
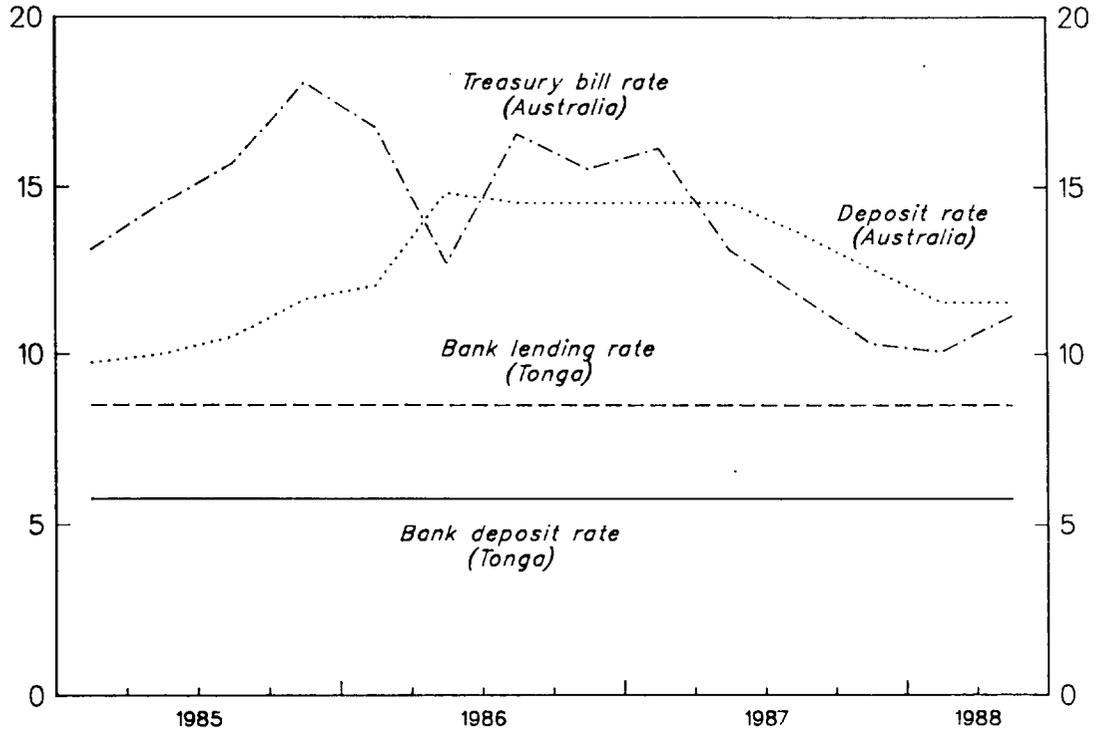
3. External prospects and policies

The balance of payments outlook for 1988/89 indicates an approximately balanced current account and a small overall surplus. Exports are projected to recover from their depressed level of the previous year, with virtually all major categories recording strong volume growth, while also benefiting from improved prices. Import growth is expected to accelerate, reflecting, for the most part, increased investment activity. The widening in the trade deficit will be offset by the projected improvement in net services, and the recovery in private and official transfers. The rebound in private transfers is in line with the strengthening of such flows in recent months, while the growth in official transfers is related mainly to the financing of the stadium for the South Pacific Games. Recourse to new commercial borrowing is not anticipated. The coverage of gross official reserves is expected to remain at about five months of imports. Both external debt and debt service ratios are projected to decline, the latter dropping to 2.5 percent of current earnings (Chart 5).

The system of pegging the pa'anga at par to the Australian dollar resulted in the depreciation of the pa'anga against most major currencies during 1984-87, reflecting the general weakness of the Australian dollar in this period (Chart 6). The nominal effective exchange rate depreciated sharply. However, the depreciation of the pa'anga against the New Zealand dollar raised import costs and domestic prices, dampening the depreciation of the real effective exchange rate. More recently, the pa'anga has strengthened with the Australian dollar which, coupled with the deterioration in relative prices, has

1/ A revised central bank bill was submitted to the Legislative Assembly in August 1988, after meeting with considerable resistance on its first introduction a year earlier. A CBD advisor has been on assignment since May 1987 to assist in the establishment of a central bank.

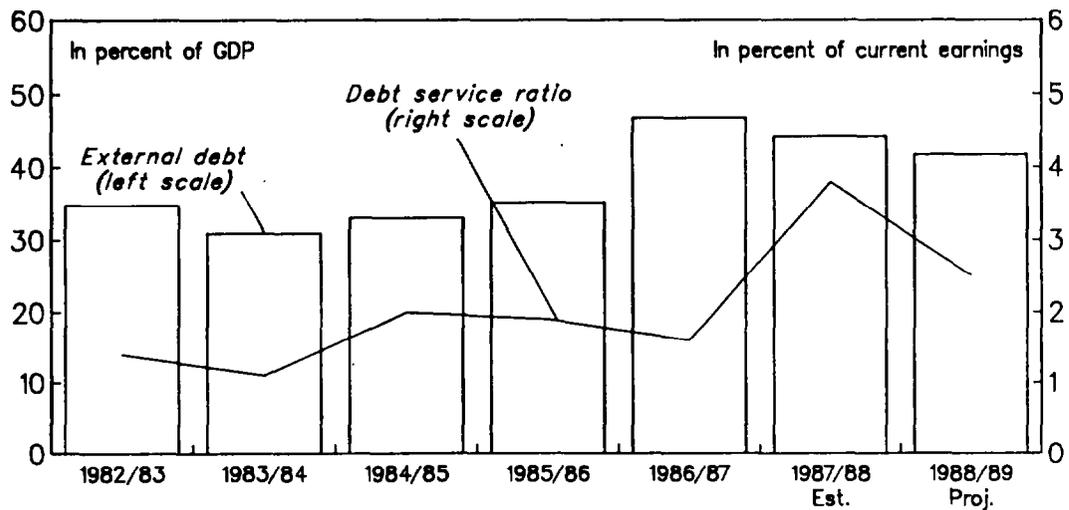
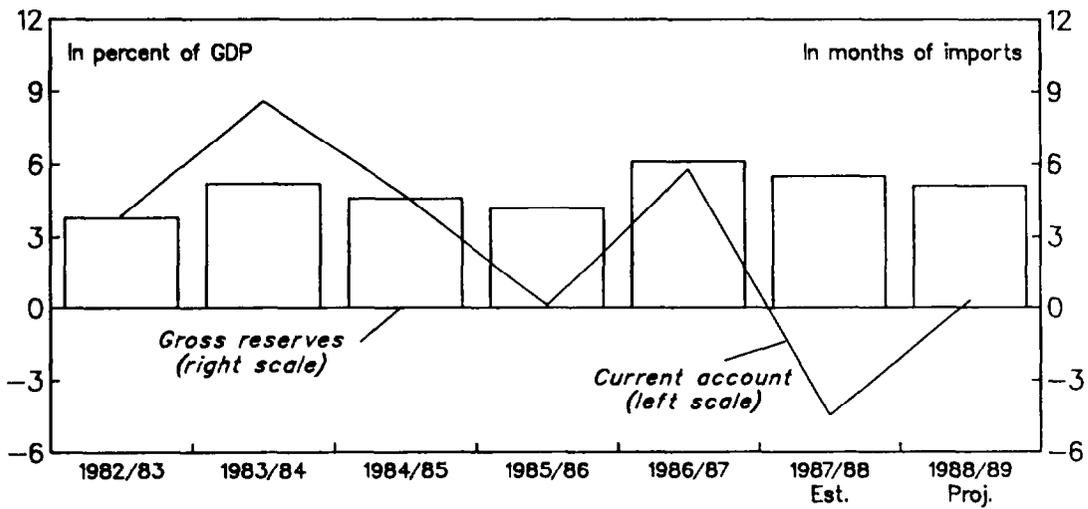
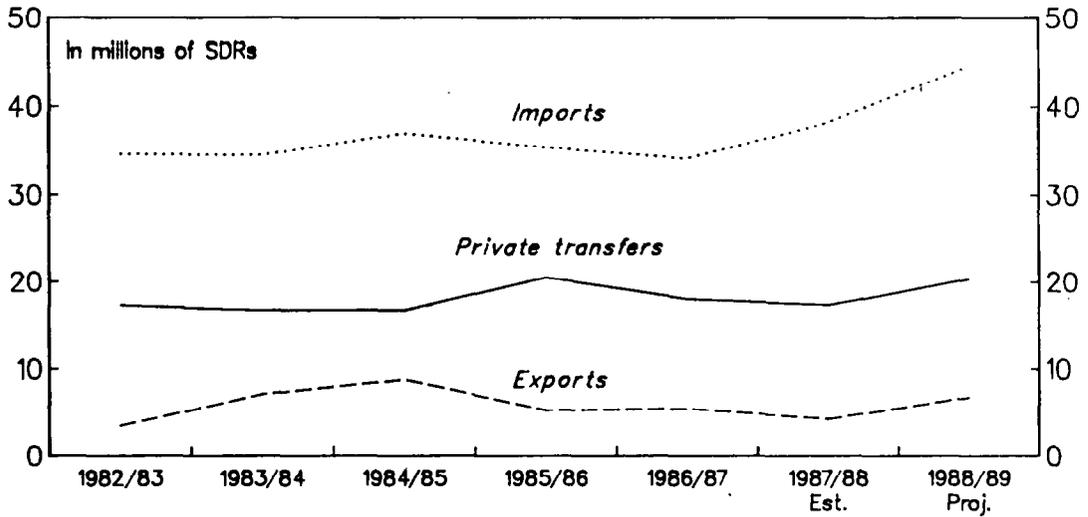
CHART 4
TONGA
INTEREST RATES, Q1 1985-Q2 1988
(In percent per annum)



Sources: Data provided by the Tongan authorities; and IMF, *International Financial Statistics*.
1 Adjusted for inflation.



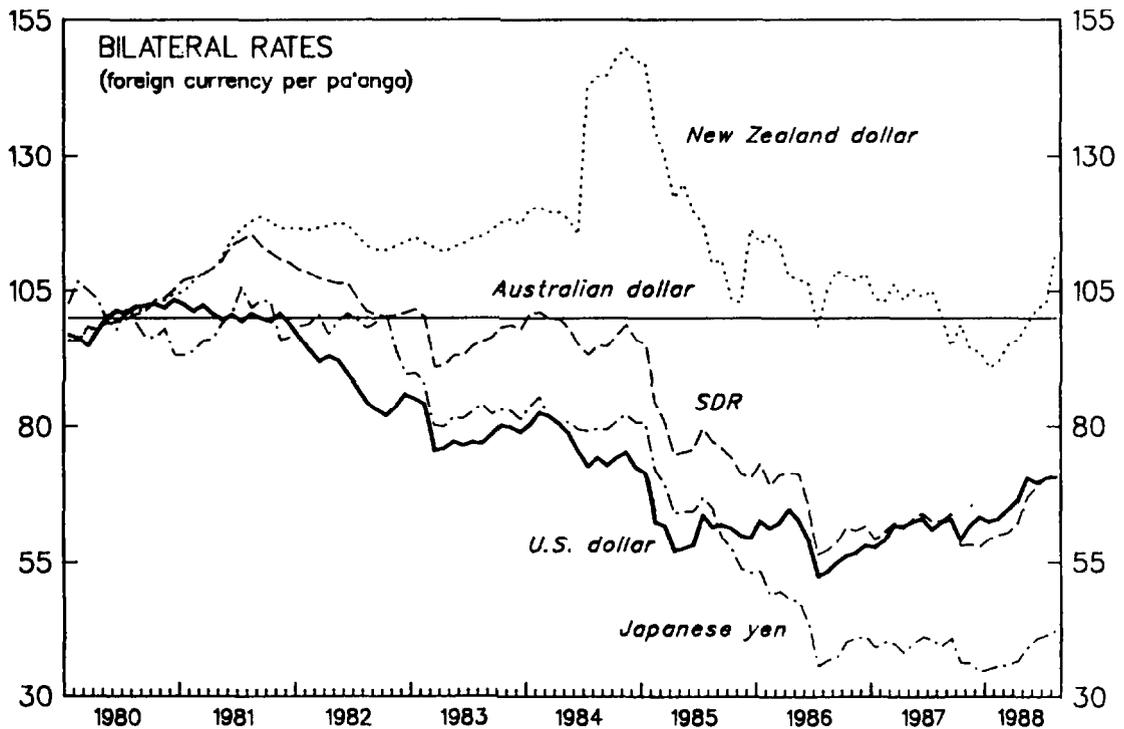
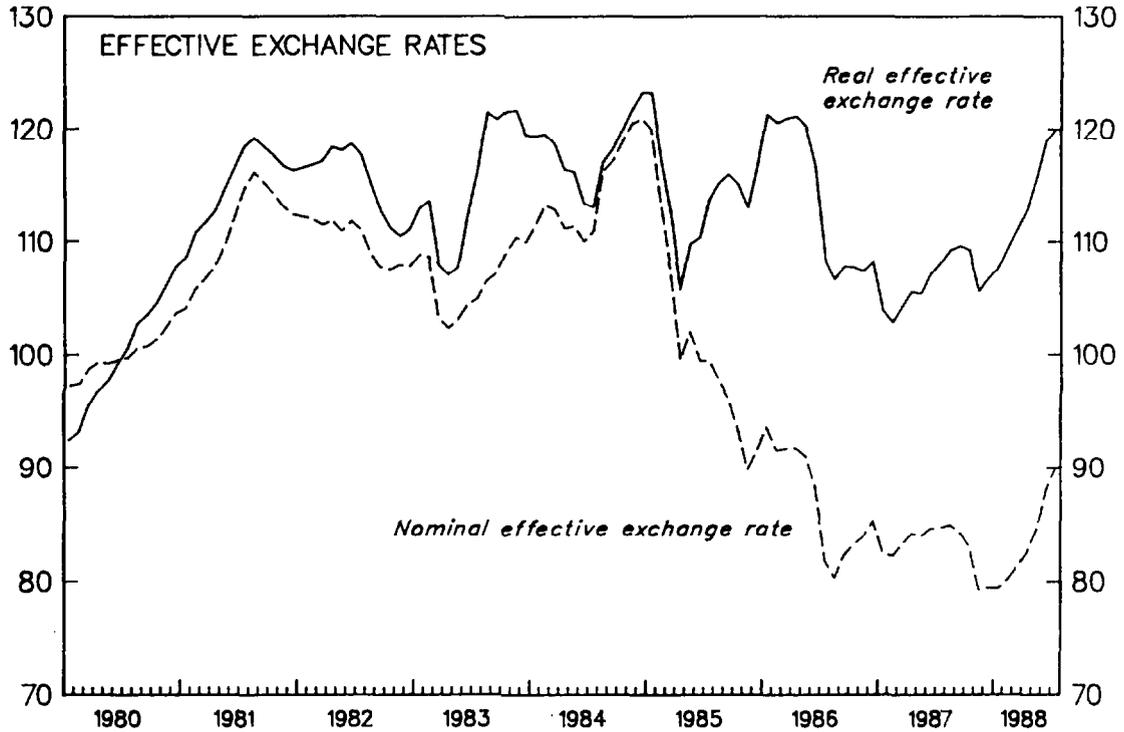
CHART 5
 TONGA
 EXTERNAL INDICATORS, 1982/83-1988/89



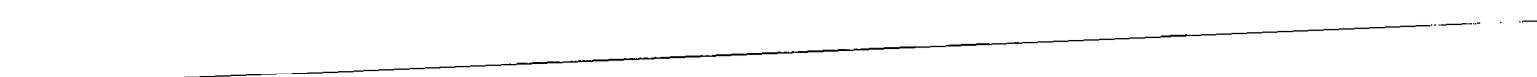
Sources: Data provided by the Tongan authorities; and staff estimates and projections.



CHART 6
TONGA
EXCHANGE RATE INDICES, 1980-88
(1980=100)



Sources: International Monetary Fund, Information Notice System Index, and *International Financial Statistics*.



resulted in an appreciation of both the nominal and real effective exchange rates for the pa'anga since late 1987. Tonga has lost competitiveness throughout most of the present decade, but particularly in the more recent period, relative to other countries in the region that have pursued more active exchange rate policies (Chart 7). The simple currency peg, moreover, has increased the variability over time of both the nominal and real effective exchange rates for the pa'anga, adding to uncertainty and complicating economic decision making. In view of these considerations, the authorities are considering breaking the fixed link of the pa'anga with the Australian dollar through the adoption of a basket peg following the establishment of the NRB. Once the new system is in place, the authorities intend to pursue a more active exchange rate policy with a view to providing adequate incentives, particularly to the newly emerging export industries, and restoring international competitiveness.

4. Development prospects and policies

Tonga's development targets and policies are detailed in five-year development plans, the latest of which is the Fifth Plan covering the period 1986-90. The principal areas of emphasis in the Fifth Plan are: development of the productive sectors, namely agriculture, fisheries, and manufacturing; expansion of infrastructure and more intensive development of the outer islands; promotion of private sector activity in manufacturing, commerce, trade, and tourism; and human resource development, primarily with a view to meeting the growing skilled labor needs of the economy. The annual growth target, although scaled down from the previous plan in light of actual performance, remains an ambitious 5 percent, with the manufacturing, construction, and service sectors projected to register the strongest growth. The financing of the Fifth Plan relies heavily on foreign resources. Information on actual performance under the Plan to date is fragmentary, 1/ although growth performance is estimated to have remained well below the Plan target during the first three years of implementation.

The prospects for agricultural growth and diversification in the period ahead are limited. The performance of the coconut sector will be constrained by the slow progress in coconut replanting, as well as the reduced desire to engage in coconut production. Two related factors appear to be responsible for the latter: more attractive job opportunities abroad, and growing reliance on overseas remittances. The outlook for the banana sector, the second major crop, is clouded by the termination of the preferential treatment by New Zealand for Tonga's banana exports by 1990, at which time Tonga will need to compete with the Philippines and Ecuador in this market. In addition, subsidies

1/ The issuance of the Fifth Plan was delayed, and reviews have not been conducted, owing mainly to the lack of adequate statistics on national income, savings, and investment.

provided by the New Zealand Government to banana growers will be completely phased out by end-1988. In contrast, vanilla production has expanded rapidly and holds prospects for future growth, as do certain fruits and vegetables; coffee production has been initiated on an experimental basis. The land tenure system was liberalized in the early 1980s to allow for the leasing of up to 83 acres of land for 30 years. Further changes in the system, which is closely linked to the nation's social structure, are not presently contemplated. The major recent development in the fisheries sector has been the construction of a deep sea fishing fleet (40 boats) under a United Nations program; future activity will involve the promotion of tuna fishing.

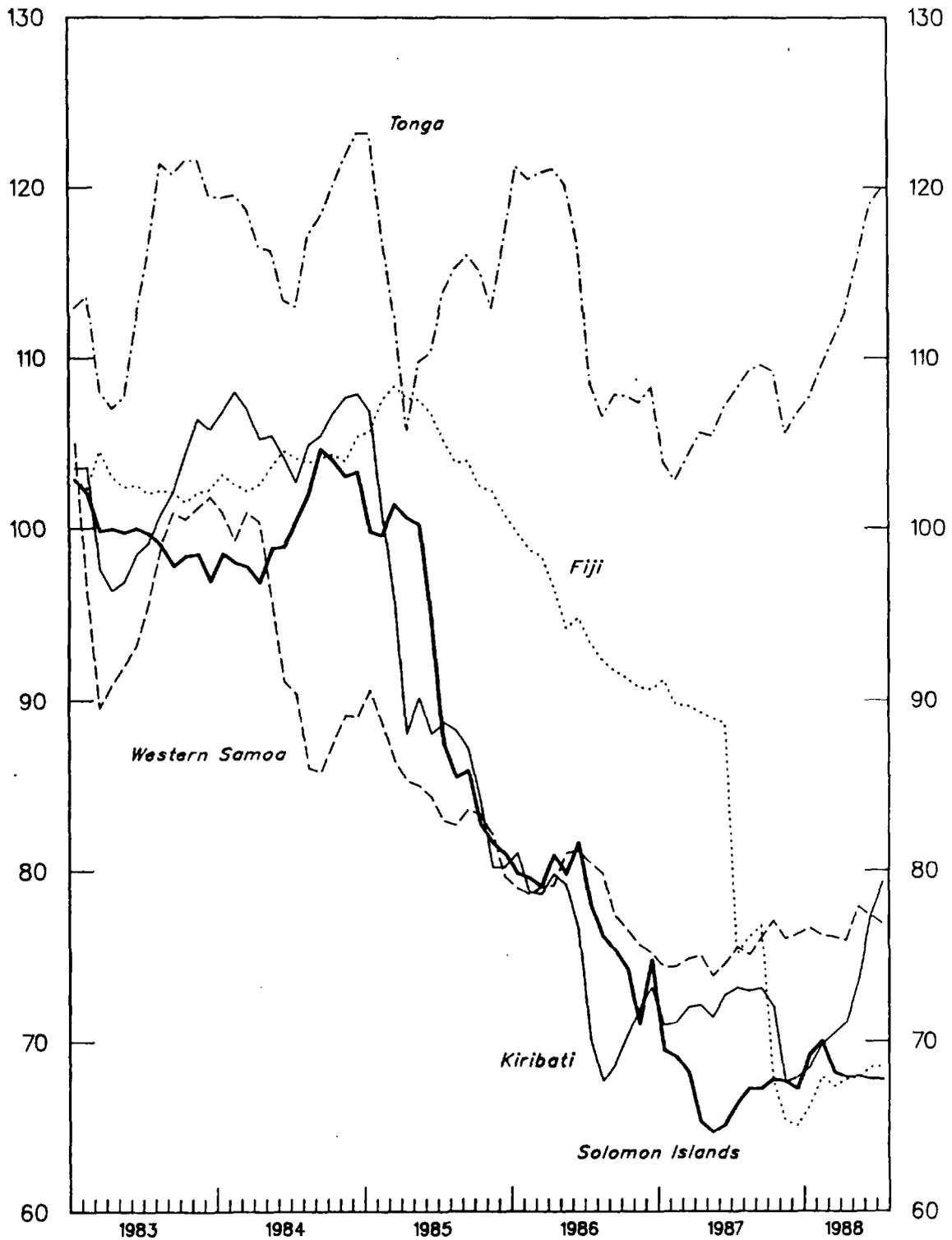
The authorities have encouraged investment in manufacturing and tourism. The private manufacturing sector comprises industries (including production of knitwear, fiberglass boats, sporting goods, leather garments, and beer brewing) operating in the Small Industries Center (SIC). Almost 40 percent of the production in the SIC, which has grown rapidly from a small base, is export oriented. The industrial incentives provided to domestic and foreign investors include duty-free imports of raw materials and capital goods, and certain tax concessions, including tax holidays. The construction of a second SIC on a much larger scale is being planned under a loan from the Asian Development Bank. Several of Tonga's export goods benefit from duty-free entry into Australia and New Zealand under a regional agreement. Country-specific quotas applied by the two countries are kept under review; Tonga's quota for leather garments has recently been raised.

Tourism receipts have more than doubled over the past five years, and constitute an important source of foreign exchange earnings, close to twice the size of merchandise exports in 1987/88. Hotel accommodations, while upgraded substantially over the past year in preparation for the South Pacific Forum meetings, remain inadequate. Fourteen new hotel construction proposals by foreign investors are currently under review by the Government. Other prospective promotional measures include the establishment of new direct air routes from major cities in neighboring countries; increased advertising and package tours; and programs to develop marine sports, shopping facilities, and sightseeing tours in order to raise average expenditure per tourist.

5. Medium-term outlook

The staff's medium-term balance of payments projections, prepared in discussion with the authorities, indicate small current account deficits, averaging about 0.7 percent of GDP annually, during 1989/90-1993/94 (Table 4). This outcome, however, is dependent on continued growth in private and official transfers. On the basis of present policies, export growth prospects are not very strong, even under fairly optimistic assumptions about nontraditional exports. For the period through 1993/94, the SDR value of exports is projected to grow by an annual average of 4 percent, with stronger growth (close to

CHART 7
TONGA
DEVELOPMENTS IN REAL EFFECTIVE EXCHANGE RATES, 1983-88
(Indices: 1980=100)



Source: International Monetary Fund, Information Notice System Index.



Table 4. Tonga: Medium-Term Balance of Payments,
1988/89-1993/94

(In millions of SDRs)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
			Projections			
Trade balance	-37.9	-38.1	-39.6	-41.1	-43.3	-46.4
Exports (f.o.b.) ^{1/}	6.8	6.7	6.9	7.3	7.7	8.2
Imports (f.o.b.) ^{1/}	-44.7	-44.8	-46.4	-48.3	-51.0	-54.6
Services (net)	3.1	3.2	3.2	3.4	3.5	3.8
Receipts	20.8	21.2	22.1	23.0	24.3	26.0
Payments	17.7	18.0	18.9	19.7	20.7	22.2
Private transfers (net)	20.3	20.8	21.9	23.1	24.7	26.4
Official transfers (net)	14.7	12.6	13.9	14.3	14.9	15.6
Current account balance	0.2	-1.5	-0.5	-0.4	-0.2	-0.6
Capital account (net)	1.7	2.1	1.9	1.7	1.6	1.8
Overall balance	1.9	0.6	1.5	1.4	1.5	1.2
			(In percent of GDP)			
Memorandum items:						
Current account ^{2/}	0.3	-1.9	-0.6	-0.4	-0.2	-0.5
External debt	39.5	38.3	37.3	36.0	34.9	33.2
Concessional	34.0	33.3	33.0	32.4	31.9	30.7
Commercial	5.6	4.9	4.3	3.6	3.1	2.6
Debt service ratio						
(In percent of current earnings)	2.5	2.6	2.6	2.7	2.0	2.3
Gross reserves						
(In months of imports)	5.1	5.2	5.3	5.4	5.4	5.2

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

^{1/} Including re-exports.

^{2/} Current account deficits excluding official transfers would average about 16 percent of GDP annually during the period in question.

6 percent) in the final three years. Coconut exports are projected to approximately maintain their share in total exports, banana exports to decline following the termination of the preferential treatment by New Zealand in 1990/91, and exports of vanilla, fish, and manufactured goods to show relatively strong growth, raising their shares in total exports. Import growth is projected to be consistent with 3 percent real GDP growth and prudent financial management. Given the relative discrepancy between the size of exports and imports, a steady widening in the trade deficit is implied. The net services account is projected on the basis of a strengthening in the tourism sector, the growth in trade flows, and expected net interest earnings. Private transfers are assumed to grow by an average of about 5 percent annually, while official transfers are derived on the basis of information provided by the authorities.

Inflows of official loans are based on disbursements from existing commitments, as well as an assumed replenishment of the aid pipeline in the final three years of the period to sustain the earlier trend in disbursements. These projections result in overall balance of payments surpluses that would allow for the maintenance of gross reserves at the equivalent of about five months of imports. The authorities consider a relatively high level of reserves to be desirable, given the vulnerability of the economy to weather conditions and changes in the world economic environment. The projections assume adherence to the present policy of refraining from commercial borrowing. The debt service ratio, therefore, is expected to remain at about 2.5 percent of current earnings.

The balance of payments outlook is highly sensitive to changes in the projections for private and official transfers. If the increase in private transfers is reduced to 3 percent annually, the overall surplus would be eliminated by 1992/93, and the current account would move into a deficit in excess of 3 percent of GDP by 1993/94. If, in addition, a slightly lower growth is assumed for official transfers, the above deterioration would be sharper and occur sooner. By 1993/94, the current account deficit would reach 4 percent of GDP, the overall balance of payments deficit would be close to SDR 3 million, and the coverage of gross reserves would decline to below 4 months of imports. These alternative scenarios underscore the vulnerability of Tonga's balance of payments and the need to diversify and strengthen foreign exchange earnings from exports and tourism.

IV. Staff Appraisal

Throughout the present decade, Tonga achieved modest rates of economic growth, interrupted only in years when natural calamities retarded agricultural production. Emigration to neighboring countries provided remunerative employment, while remittances from abroad supplemented foreign exchange earnings. At the same time, a traditional

system of community support helped alleviate the adverse economic and social consequences of limited domestic employment opportunities. Large inflows of concessional external assistance contributed significantly to investment and growth.

Tonga's economic performance in 1987/88 was affected by a drought that reduced agricultural output and exports. In a departure from recent trends, the external current account moved into deficit. In contrast, the government budget outcome was more favorable than anticipated, reflecting a strong revenue performance, some expenditure restraint, and delays in development spending. Private sector demand for housing and consumer goods contributed to rapid domestic credit growth. Inflation rose, reflecting also higher domestic food prices induced by supply shortages.

The prospects for 1988/89 are for a recovery in agricultural output and GDP growth, a slowing down in inflation as domestic credit expansion is brought under control and food prices stabilize, and a strengthening in the external position. The budgetary projections for the year imply, in the staff's assessment, some deterioration in the overall position, owing mainly to a catching up on investment spending. In order to restrain current spending, the Government has introduced legislation to subject expenditure requests beyond a specified limit to review by the Legislative Assembly. This is a welcome development that should help strengthen discipline over current spending.

The conduct of monetary policy has been constrained by the limited structure of the financial system. The present expectations are for the establishment of the National Reserve Bank by early 1989. This will pave the way for the review of the present interest rate structure. It is important to remove the ceiling on lending rates and adopt a market-oriented interest rate policy. At the same time, it will be necessary to make more active use of other monetary policy instruments to better regulate domestic credit and liquidity growth. Prudent financial management will be essential in the period ahead to prevent a resurgence of inflation and a weakening of the external position.

The staff's projections for the medium term indicate low export growth, even on the basis of fairly optimistic assumptions on export diversification and commodity prices. A modest rate of real import growth, needed to sustain a 3 percent real GDP growth, implies a widening of the trade deficit. There will, therefore, be continued reliance on private transfers and concessional foreign aid to ensure approximate balance on the external current account, and an overall payments position that would sustain the present import coverage of reserves. A reduction in Tonga's vulnerability to external shocks will require diversification of foreign exchange earnings. Exchange rate policy can be expected to play an important role in providing adequate incentives to the traded goods and tourism sectors. The pegging of the pa'anga at par to the Australian dollar has contributed to the recent

real effective appreciation of the pa'anga, as well as a general loss of competitiveness since the turn of the present decade. The staff welcomes the authorities' intention to review the exchange rate system with a view to breaking the fixed link to the Australian dollar and pursuing a more flexible exchange rate policy.

If the growth potential of Tonga is to be realized and greater economic diversification achieved, a number of structural changes need to be undertaken. The Government's provision of industrial incentives and infrastructure to promote export-oriented manufacturing, as well as investment in tourism facilities are important steps toward attaining these goals. Structural issues are also being addressed within the framework of the Fifth Plan. It will be necessary to follow up on implementation and identify areas of continued weakness. This task, as well as policy review and formulation in all areas, would be facilitated by the availability of a more comprehensive and systematic economic data base.

Tonga maintains an exchange system that is free of restrictions on current international transactions. Accordingly, the staff encourages the authorities to consider accepting the obligations of Article VIII, Sections 2, 3, and 4.

Tonga has been placed on the bicyclic procedure by the Executive Board and, therefore, the 1989 Article IV consultation with Tonga will be completed not later than November 23, 1989.

Table 5. Tonga: Gross Domestic Product by
Sectoral Origin, 1983/84-1987/88 1/

(In millions of pa'anga, at 1981/82 prices)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Agriculture	22.2	24.2	25.0	25.9	23.1
Mining and quarrying	0.4	0.4	0.4	0.4	0.4
Manufacturing	5.0	5.3	6.1	6.3	6.6
Electricity and water	0.4	0.5	0.6	0.6	0.6
Construction	4.1	4.4	3.3	3.4	3.7
Wholesale and retail trade	5.7	6.3	6.7	6.9	7.2
Transport and communications	3.3	3.4	3.5	3.6	3.7
Finance and real estate	2.1	2.6	2.6	2.7	2.8
Community and social services	10.7	10.8	11.6	12.0	12.6
GDP at factor cost	<u>53.9</u>	<u>57.9</u>	<u>59.8</u>	<u>61.9</u>	<u>60.7</u>
Indirect taxes less subsidies	8.9	8.5	8.7	9.0	8.7
GDP at market prices	<u>62.8</u>	<u>66.4</u>	<u>68.5</u>	<u>70.9</u>	<u>69.4</u>
Monetary	47.3	50.0	51.9	53.7	52.6
Nonmonetary	15.5	16.4	16.6	17.2	16.8
Memorandum items:					
Real GDP (percentage change)	2.4	5.6	3.0	3.5	-2.0
GDP at current market prices (in millions of pa'anga)	74.5	80.0	98.9	110.1	119.8

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

1/ Fiscal year July 1-June 30.

Table 6. Tonga: Commodities Board Operations, 1983-88

	1983	1984	1985	1986	1987 Est.	1988 Proj.
Procurement						
Domestic copra ('000 metric tons)	4.4	5.7	5.3	8.0	3.9	1.8
Imported copra ('000 metric tons)	--	1.1	0.5	-1.0	0.6	0.8
Whole coconuts (millions)	4.1	3.7	4.9	6.2	0.2	0.5
Bananas ('000 cartons) <u>1/</u>	59	145	134	178	173	125
Green vanilla beans (metric tons)	--	4.5	17.7	22.8	7.3	15.9
Cured vanilla beans (metric tons) <u>2/</u>	2.9	3.0	5.6	4.7	6.2	8.0
	(In thousands of metric tons)					
Production						
Coconut oil	2.6	3.5	3.2	4.3	3.1	1.6
Coconut meal	1.1	1.5	1.4	1.9	1.6	0.8
Desiccated coconut	0.7	0.6	0.5	0.9	0.6	0.5
	(In pa'anga)					
Average prices to growers						
Copra (per metric ton)	423	510	371	220	241	300
Green vanilla beans (per kilo)	...	12.0	14.0	13.0	12.5	11
Cured vanilla beans (per kilo)	...	65.0	72.0	67.0	77.6	55
	(In thousands of pa'anga)					
Copra Price Stabilization Fund						
Opening balance	709	969	1,077	791	250	494
STABEX transfers	150	34	--	691	500	1,050
Copra levy	106	9	10	--	--	--
Interest earnings	47	66	65	20	11	90
Subsidy payments	43	--	361	1,252	267	84
Closing balance	969	1,077	791	250	494	1,550

Source: Data provided by the Tongan authorities.

1/ One carton of 19 kilograms.

2/ One metric ton of cured beans requires 4.2 metric tons of green beans.

Table 7. Tonga: Output, Employment, and Exports of the Small Industries Center, 1983/84-1987/88

(In thousands of pa'anga unless otherwise specified)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Paint					
Output	180	396	434	465	731
Employment	7	7	7	7	7
Sports equipment					
Output	400	220	154	36	48
Employment	41	13	34	13	6
Export value	...	203	141	34	25
Knitwear					
Output	380	243	507	720	668
Employment	102	171	180	241	302
Export value	...	236	454	706	668
Excavators					
Output	234	267	684	580	100
Employment	12	51	60	60	60
Export value	...	231	316	200	70
Toilet paper					
Output	200	242	264	370	350
Employment	3	5	5	6	6
Jewelry					
Output	14	69	70	75	38
Employment	10	7	7	7	9
Export value	...	97	80	90	38
Furniture					
Output	45	68	77	80	35
Employment	14	10	10	10	5
Wire fencing					
Output	140	140	150	72	59
Employment	5	5	6	4	4
South Pacific leather					
Output	—	—	—	—	298
Employment	—	—	—	—	66
Export value	—	—	—	—	298
South Sea Yachting					
Output	—	—	—	—	218
Employment	—	—	—	—	28
Export value	—	—	—	—	130
Royal Beer Co. Ltd.					
Output	—	—	—	—	743
Employment	—	—	—	—	18
Export value	—	—	—	—	19
Miscellaneous					
Output	192	235	306	390	—
Employment	111	66	70	75	—
Export value	...	37	40	60	—
Total					
Output	1,784	1,880	2,646	2,788	3,288
Employment	305	330	379	423	511 ^{1/}
Export value	...	804	1,031	1,090	1,248
Memorandum item:					
Number of companies	15	17	18	21	23

Source: Data provided by the Tongan authorities.

^{1/} An additional 1,489 people are employed in industries outside the Small Industries Center.

Table 8. Tonga: Tourism Statistics, 1983-83

(In percent of total)

	1983	1984	1985	1986	1987 Est.	1988 Proj.
Number of visitors <u>1/</u> (Percentage change)	16,995 7.3	17,151 0.9	17,538 2.3	17,806 1.5	19,100 7.3	21,100 10.5
Nationality of visitors						
United States	24.4	18.6	23.3	22.1	27.4	27.6
Australia	17.4	21.6	19.6	18.3	16.4	17.4
New Zealand	22.4	22.7	22.1	23.6	21.0	22.0
Germany, Fed. Rep. of	5.6	6.0	6.5	5.2	5.6	6.0
Fiji	8.0	7.4	7.0	8.1	5.2	4.0
Other	22.2	23.7	21.5	22.7	24.4	23.0
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Average length of stay (in days)	9.2	7.2	9.7	10.6	11.6	12.0
Gross receipts <u>2/</u> (in millions of T\$)	6.2	6.2	10.1	11.0	12.8	15.2
Average expenditure per visitor (in T\$) <u>2/</u>	366	360	575	607	670	720
Hotel rooms available	346	352	386	445	465	500
Number of cruise ship passengers	75,499	67,618	63,661	26,871	18,334	17,000

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

1/ Arriving by air.

2/ Based on surveys of the Tonga Visitors Bureau; these data may differ from the balance of payments data which are derived from banking statistics.

Table 9. Tonga: Electric Power Board Operations,
1983/84-1987/88

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
<u>(In millions of kilowatts)</u>					
Production and sales					
Output	13.1	14.4	15.4	17.4	19.6
Sales	10.8	12.5	13.2	14.3	16.1
<u>(In millions of pa'anga)</u>					
Financial data					
Revenue	2.57	3.30	3.85	4.30	4.90
Current expenditure	2.28	2.90	3.58	3.80	3.74
Capital expenditure	0.13	0.17	0.17	0.43	0.93
Overall balance	0.16	0.23	0.09	0.07	0.23
<u>(Seniti per kilowatt; end of period)</u>					
Tariffs ^{1/}					
Minimum charge	215	260	305	284	284
Level 2	19.1	22.9	25.6	23.9	23.9
Level 3	17.6	21.8	25.6	23.9	23.9

Source: Data provided by the Tongan authorities.

^{1/} The tariffs are set according to consumption level: the minimum charge is for consumption below 11 kilowatt hours; level 2 is for consumption above 11 and below 525 kilowatt hours; and level 3 is for all consumption above 525 kilowatt hours.

Table 10. Tonga: Consumer Price Index, 1983/84-1987/88 ^{1/}
 (Annual average percentage change)

	Weights	1983/84	1984/85	1985/86	1986/87	1987/88
Food	55.1	8.9	-5.8	37.7	6.0	14.4
Drink and tobacco	8.5	24.5	5.6	22.4	5.5	14.3
Clothing and footwear	6.2	19.5	12.2	23.7	16.5	-1.1
Housing operations	3.8	7.9	7.6	21.8	15.1	1.1
Household items	12.4	3.5	9.0	26.7	3.4	6.1
Transport	6.1	6.2	13.1	12.0	5.6	-5.7
Miscellaneous	8.0	10.9	24.2	31.1	18.0	19.4
Overall index	100.0	9.4	1.7	31.2	7.5	11.2
		(End-of-period percentage change)				
Memorandum item:						
Overall index	100.0	4.3	11.4	28.1	2.2	15.3

Source: Data provided by the Tongan authorities.

^{1/} Base period January-March 1976 = 100.

Table 11. Tonga: Government Salary Structure,
1983/84-1988/89 1/

(In pa'anga per year)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 <u>2/</u>
Secretary	9,440	14,000	14,000	14,000	14,000	14,875
Deputy Secretary	7,450	11,000	11,000	11,000	11,000	11,688
Assistant Secretary	3,600	4,000	4,150	4,150	4,150	4,669
Accounting officer	2,724	2,950	3,100	3,100	3,400	3,825
Treasury clerk	2,205	2,400	2,575	2,575	2,875	3,234
Stenographer	1,457	1,575	1,775	1,951	1,951	2,195
Office help	850	900	1,100	1,210	1,210	1,361

Source: Data provided by the Tongan authorities.

1/ Minimum point range, except for the salaries of secretaries and deputy secretaries which are fixed.

2/ Incorporates cost of living adjustments approved in the 1988/89 budget.

Table 12. Tonga: Selected Budgetary Indicators, 1983/84-1988/89

(In percent of GDP)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Proj.
Revenue and grants	45.5	47.5	42.6	46.2	46.8	46.7
Revenue	23.6	27.6	26.6	26.8	29.9	28.0
Tax	16.6	19.8	18.8	19.2	20.7	20.2
Nontax	7.0	7.8	7.9	7.7	9.3	7.8
External grants	21.8	19.9	15.9	19.3	16.9	18.7
Expenditure and net lending	44.3	51.7	43.4	50.0	45.0	47.9
Current expenditure	22.5	24.8	25.9	27.0	27.0	26.4
Development expen- diture	20.7	25.5	17.3	22.6	17.0	19.3
Net lending	1.2	1.3	0.2	0.4	1.1	2.2
Overall balance	1.1	-4.2	-0.9	-3.9	1.8	-1.2
Financing	1.1	4.2	0.9	3.9	-1.8	1.2
Foreign (net)	1.0	1.7	0.1	6.4	0.8	1.9
Bank (net)	-2.4	2.2	0.7	-3.0	-2.6	-0.7
Other	0.4	0.2	0.1	0.5	--	--
Memorandum item: Current balance	1.2	2.7	0.7	-0.2	3.0	1.6

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

Table 13. Tonga: Central Government Revenue, 1983/84-1988/89

(In millions of pa'anga)

	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89	
					Budget	Est.	Budget	Proj.
Tax revenue	<u>12.4</u>	<u>15.8</u>	<u>18.6</u>	<u>21.1</u>	<u>21.4</u>	<u>24.8</u>	<u>23.7</u>	<u>27.1</u>
Income and poll tax	<u>2.4</u>	<u>2.4</u>	<u>2.8</u>	<u>2.7</u>	<u>1.0</u>	<u>3.6</u>	<u>3.0</u>	<u>3.5</u>
Goods and services	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>2.6</u>	<u>2.6</u>	<u>3.0</u>	<u>3.4</u>	<u>3.7</u>
Sales tax	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>2.3</u>	<u>2.3</u>	<u>2.8</u>	<u>3.1</u>	<u>3.4</u>
License fees	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>
International transactions	<u>9.7</u>	<u>13.0</u>	<u>15.3</u>	<u>15.7</u>	<u>17.7</u>	<u>18.0</u>	<u>17.1</u>	<u>19.8</u>
Import duties	<u>5.1</u>	<u>6.4</u>	<u>6.9</u>	<u>7.6</u>	<u>8.7</u>	<u>9.0</u>	<u>8.5</u>	<u>9.9</u>
Wharfage on goods	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>
Ports and services tax	<u>4.1</u>	<u>6.1</u>	<u>7.8</u>	<u>7.5</u>	<u>8.4</u>	<u>8.4</u>	<u>8.0</u>	<u>9.3</u>
Airport tax	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Nontax revenue	<u>5.2</u>	<u>6.2</u>	<u>7.8</u>	<u>8.4</u>	<u>7.6</u>	<u>11.1</u>	<u>8.9</u>	<u>10.5</u>
Government services <u>1/</u>	<u>3.9</u>	<u>4.3</u>	<u>5.6</u>	<u>5.3</u>	<u>5.9</u>	<u>5.9</u>	<u>6.2</u>	<u>6.2</u>
Rents and investment income	<u>0.9</u>	<u>1.5</u>	<u>1.8</u>	<u>2.3</u>	<u>1.3</u>	<u>3.3</u>	<u>2.3</u>	<u>2.4</u>
Other <u>2/</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.8</u>	<u>0.4</u>	<u>1.9</u>	<u>0.3</u>	<u>1.9</u>
Total	<u>17.6</u>	<u>22.0</u>	<u>26.3</u>	<u>29.5</u>	<u>29.0</u>	<u>35.9</u>	<u>32.5</u>	<u>37.6</u>

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

1/ Excludes gross income from the post office.2/ Includes net income from the post office, transfers from duty-free shops, and revenue from certain government fees.

Table 14. Tonga: Central Government Current Expenditure,
1983/84-1988/89

(In millions of pa'anga)

	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89	
					Budget	Est.	Budget	Proj.
Public administration	<u>6.0</u>	<u>7.0</u>	<u>9.2</u>	<u>12.2</u>	<u>9.6</u>	<u>12.3</u>	<u>12.7</u>	<u>14.8</u>
General administration	<u>3.6</u>	<u>4.3</u>	<u>5.9</u>	<u>8.2</u>	<u>5.6</u>	<u>8.1</u>	<u>8.5</u>	<u>10.2</u>
Fiscal administration	<u>0.6</u>	<u>0.5</u>	<u>0.7</u>	<u>0.9</u>	<u>1.1</u>	<u>1.1</u>	<u>1.2</u>	<u>1.3</u>
Law and order	<u>1.8</u>	<u>2.2</u>	<u>2.6</u>	<u>3.0</u>	<u>2.8</u>	<u>3.1</u>	<u>3.1</u>	<u>3.4</u>
Social and community services	<u>5.3</u>	<u>6.1</u>	<u>7.6</u>	<u>8.5</u>	<u>9.0</u>	<u>9.8</u>	<u>9.8</u>	<u>10.7</u>
Education	<u>2.4</u>	<u>2.9</u>	<u>3.7</u>	<u>4.2</u>	<u>4.9</u>	<u>5.2</u>	<u>5.1</u>	<u>5.6</u>
Health	<u>2.3</u>	<u>2.6</u>	<u>3.2</u>	<u>3.3</u>	<u>3.2</u>	<u>3.6</u>	<u>3.8</u>	<u>4.0</u>
Pensions and gratuities	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.6</u>	<u>0.8</u>
Other	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>
Economic services	<u>5.0</u>	<u>6.0</u>	<u>7.1</u>	<u>7.4</u>	<u>6.6</u>	<u>7.7</u>	<u>6.7</u>	<u>8.3</u>
Agriculture, forestry, and fishing	<u>1.5</u>	<u>1.7</u>	<u>2.0</u>	<u>2.1</u>	<u>2.3</u>	<u>2.3</u>	<u>2.4</u>	<u>2.6</u>
Tourism	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Transport and works	<u>2.8</u>	<u>3.9</u>	<u>4.7</u>	<u>5.1</u>	<u>4.1</u>	<u>5.1</u>	<u>4.0</u>	<u>5.3</u>
Communications <u>1/</u>	<u>0.6</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>	--	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Other <u>2/</u>	<u>0.3</u>	<u>0.7</u>	<u>1.6</u>	<u>1.7</u>	<u>1.3</u>	<u>2.5</u>	<u>1.1</u>	<u>1.6</u>
Total	<u>16.7</u>	<u>19.9</u>	<u>25.6</u>	<u>29.7</u>	<u>26.5</u>	<u>32.3</u>	<u>30.3</u>	<u>35.4</u>

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

1/ Excludes post office expenditure.

2/ Includes STABEX transfers to the Commodities Board; excludes amortization on public debt and appropriations for the Development Budget and sinking funds.

Table 15. Tonga: Interest Rate Structure, 1983/84-1987/88

(In percent per annum; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88
Bank of Tonga deposits					
Savings deposits ^{1/}	5.00	5.00	5.00	5.00	5.00
Time deposits ^{2/}					
3 months	5.25	5.25	5.25	5.25	5.25
6 months	5.50	5.50	5.50	5.50	5.50
12 months	5.75	5.75	5.75	5.75	5.75
24 months	6.00	6.00	6.00	6.00	6.00
36 months	6.50	6.50	6.50	6.50	6.50
Bank of Tonga loans					
Housing					
Normal ^{3/}	7.50	7.50	8.50	8.50	8.50
Investment	10.00	10.00	10.00	10.00	10.00
Personal ^{3/}	8.5-10.0	8.5-10.0	10.00	10.00	10.00
Commercial	8.5-10.0	8.5-10.0	10.00	10.00	10.00
Investment	10.00	10.00	10.00	10.00	10.00
Tonga Development Bank loans					
Agriculture					
Below T\$2,000	6.00	6.00	6.00	8.00	8.00
T\$2,000 and over	6.00	6.00	6.00	8.00	8.00
Export industries					
Below T\$2,000	8.00	8.00	8.00	8.00	8.00
T\$2,000 and over	8.00	8.00	8.00	8.00	8.00
Other					
Below T\$2,000	10.00	10.00	10.00	10.00	10.00
T\$2,000 and over	10.00	10.00	10.00	10.00	10.00

Source: Data provided by the Tongan authorities.

^{1/} The minimum balance to earn interest is T\$15, and the maximum balance on which interest is payable is T\$15,000 for personal accounts and T\$50,000 for charitable organizations.

^{2/} For deposits under T\$100,000; for deposits of T\$100,000 and over the interest rates are 6.0 percent for 3 months, 6.25 percent for 6 months, 6.5 percent for 12 months, 6.5 percent for 24 months, and 6.75 percent for 36 months.

^{3/} Including a loan fee of 0.5 percent.

Table 16. Tonga: Assets and Liabilities of the Bank of Tonga,
1983/84-1987/88

(In millions of pa'anga; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88
Assets	<u>33.2</u>	<u>40.6</u>	<u>43.2</u>	<u>56.7</u>	<u>62.6</u>
Cash	1.0	1.0	0.8	1.6	0.8
Claims on Government	0.7	3.6	3.4	2.9	2.7
Securities	0.7	0.7	0.8	0.6	0.6
Aircraft loan	--	2.8	2.6	2.3	2.1
Claims on private sector and public enterprises	10.1	10.9	14.3	16.6	25.5
Foreign assets	20.2	23.5	23.2	34.0	31.5
Foreign currency	0.1	0.1	0.1	--	--
Deposits with banks abroad	19.0	22.3	22.2	34.0	31.5
Securities held abroad	1.1	1.1	1.0	--	--
Other assets	1.2	1.6	1.5	1.6	2.1
Liabilities	<u>33.2</u>	<u>40.6</u>	<u>43.2</u>	<u>56.7</u>	<u>62.6</u>
Government	6.6	7.6	6.4	9.8	13.4
Demand deposits	2.2	1.3	1.0	1.4	3.5
Time deposits	4.5	6.3	5.4	8.4	9.9
Nongovernment	16.6	21.2	22.8	31.7	29.6
Demand deposits	6.2	7.3	7.1	9.9	9.9
Savings deposits	5.0	7.1	8.2	10.5	11.2
Time deposits	5.5	6.8	7.5	11.3	8.5
Bills payable	0.7	0.8	1.4	0.8	1.1
Foreign liabilities	0.2	0.4	1.3	0.9	0.6
Capital and reserves	9.1	10.6	11.3	13.5	17.9

Source: Data provided by the Tongan authorities.

Table 17. Tonga: Bank Credit by Sector, 1983/84-1987/88

(In millions of pa'anga; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88
Agriculture	0.2	0.2	0.2	0.3	1.1
Manufacturing	0.3	0.3	0.3	0.4	0.5
Transport and communi- cations	0.4	0.6	0.6	0.8	1.7
Commerce and trade	0.9	0.9	1.8	1.7	2.4
Construction	0.1	0.1	0.1	0.2	0.3
Services	0.3	0.5	0.7	0.7	2.4
Housing	5.0	5.0	5.8	7.1	10.3
Personal	0.7	1.0	2.1	2.5	5.1
Official entities	2.0	2.2	2.4	2.4	1.4
Nonprofit bodies	0.2	0.1	0.3	0.4	0.3
Total	<u>10.1</u>	<u>10.9</u>	<u>14.3</u>	<u>16.6</u>	<u>25.5</u>

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

Table 18. Tonga: Assets and Liabilities of the Tonga Development Bank, 1983/84-1987/88

(In millions of pa'anga; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88
Assets	<u>6.6</u>	<u>7.9</u>	<u>10.0</u>	<u>12.2</u>	<u>15.9</u>
Cash	0.7	1.4	2.0	2.7	0.6
Loans and equities	5.0	5.6	7.2	8.4	13.9
Agriculture	2.2	2.5	2.9	3.4	4.5
Industry and trade	2.9	3.1	4.1	4.7	9.1
Other	0.2	0.2	0.3	0.3	0.5
Less: Unearned interest	0.3	0.3	0.2	0.1	0.2
Equities	--	0.1	0.1	0.1	--
Fixed assets <u>1/</u>	0.8	0.8	0.8	1.0	1.4
Other	0.1	--	--	0.1	--
Liabilities	<u>6.6</u>	<u>7.9</u>	<u>10.0</u>	<u>12.2</u>	<u>15.9</u>
Foreign borrowing	3.1	3.9	5.1	5.8	8.2
Domestic borrowing from					
Bank of Tonga	0.3	0.2	0.2	0.2	0.3
Provisions for doubtful loans	0.2	0.3	0.4	0.6	0.7
Capital and reserves	2.9	3.4	4.1	5.0	5.9
Other	0.1	0.1	0.1	0.6	0.8
Memorandum item:					
Loan approvals	<u>2.4</u>	<u>3.5</u>	<u>4.9</u>	<u>5.4</u>	<u>11.2</u>
Agriculture	1.4	1.9	2.7	3.0	4.0
Industry and trade	1.0	1.5	2.0	2.3	7.1
Other	--	0.1	0.2	0.1	0.1

Sources: Data provided by the Tongan authorities.

1/ Net of depreciation.

Table 19. Tonga: Exports by Commodity, 1983/84-1987/88
 (Value in thousands of SDRs, unit values in SDRs per metric ton,
 and volume in metric tons)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Copra					
Value	--	--	--	82	--
Volume	--	--	--	1,000	--
Unit value	--	--	--	82	--
Copra meal					
Value	74	67	43	44	2
Volume	709	355	1,321	1,671	68
Unit value	104	190	32	26	24
Coconut oil					
Value	2,835	4,131	1,338	1,000	718
Volume	3,281	4,262	4,253	4,108	2,001
Unit value	864	969	315	244	359
Desiccated coconut					
Value	506	531	378	373	252
Volume	532	463	575	875	400
Unit value	951	1,147	657	426	631
Bananas					
Value	423	589	666	995	431
Volume	1,558	2,381	3,149	4,974	1,852
Unit value	271	247	211	200	233
Vanilla beans					
Value	489	882	755	759	466
Volume	8	13	13	15	9
Unit value (per kilo)	60	66	59	52	51
Root crops ^{1/}					
Value	168	324	123	140	191
Volume	688	1,550	552	558	750
Unit value	244	209	222	251	254
Watermelons					
Value	529	357	125	2	2
Volume (thousands)	238	131	77	1	1
Unit value (per unit)	2.22	2.72	1.62	2.00	2.00
Fish					
Value	337	448	415	669	731
Volume	216	260	347	598	664
Unit value	1,561	1,721	1,197	1,119	1,101
Other (value) ^{2/}	1,859	1,501	1,417	1,486	1,466
Total (value)	<u>7,219</u>	<u>8,830</u>	<u>5,258</u>	<u>5,550</u>	<u>4,259</u>

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

^{1/} Root crops comprise taro, yams, and cassava.

^{2/} Including re-exports.

Table 20. Tonga: Imports by Commodity Group, 1983/84-1987/88

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Food and live animals	7.3	8.4	7.8	7.8	10.3
Beverages and tobacco	1.7	2.2	2.0	2.0	1.8
Raw materials	2.0	1.9	1.8	2.0	1.6
Mineral fuels	4.5	3.9	3.9	3.3	3.4
Animal and vegetable oils and fats	0.1	0.1	0.1	0.1	0.1
Chemicals	1.8	2.0	2.7	2.4	2.2
Manufactured goods	6.2	7.0	6.0	5.6	5.1
Machinery and transport equipment	7.6	8.5	7.4	7.2	9.9
Other	3.3	3.0	3.7	3.8	3.8
Total	<u>34.5</u>	<u>37.0</u>	<u>35.4</u>	<u>34.1</u>	<u>38.2</u>

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

Table 21. Tonga: Direction of Trade, 1982/83-1986/87

(In percent of total)

	1982/83	1983/84	1984/85	1985/86	1986/87
Exports					
Australia	20	32	29	30	27
New Zealand	58	45	57	54	42
United Kingdom	--	14	--	--	--
United States	11	1	9	8	19
Other	11	7	5	8	12
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Imports					
Australia	22	24	25	25	26
New Zealand	35	39	38	39	36
Japan	9	8	8	9	11
Germany, Fed. Rep. of	--	1	3	3	1
United Kingdom	2	3	2	2	5
United States	9	4	6	6	3
Other	23	21	18	16	18
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Sources: Data provided by the Tongan authorities.

Table 22. Tonga: External Grants and Concessionary Loans,
1983/84-1987/88

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
Bilateral assistance	<u>10.7</u>	<u>9.2</u>	<u>7.8</u>	<u>8.4</u>	<u>8.5</u>
Australia	4.4	5.2	2.5	3.1	2.9
Canada	0.1	0.1	0.1	0.1	0.1
France	0.1	0.1	0.1	0.1	0.1
Germany, Fed. Rep. of	0.7	0.7	0.5	0.3	0.5
Japan	2.9	0.7	1.9	2.4	2.2
New Zealand	2.4	2.3	2.4	2.3	2.5
United States	0.1	0.1	0.2	0.1	0.1
Multilateral grants	<u>3.4</u>	<u>3.3</u>	<u>2.3</u>	<u>3.0</u>	<u>2.6</u>
European Community - STABEX	1.0	--	--	0.7	0.8
European Community - Other	--	1.2	0.5	0.8	0.3
UN agencies	2.1	1.8	1.4	1.1	1.3
Commonwealth Fund	0.3	0.3	0.4	0.4	0.2
Multilateral loans	<u>1.0</u>	<u>1.4</u>	<u>0.4</u>	<u>0.7</u>	<u>1.4</u>
Asian Development Bank	0.9	1.1	0.1	0.2	0.5
European Investment Bank	0.1	0.2	--	0.3	0.3
International Fund for Agricultural Development	--	0.1	0.3	0.3	0.3
International Development Association	--	--	--	--	0.3
Total	<u>15.1</u>	<u>13.9</u>	<u>10.5</u>	<u>12.1</u>	<u>12.5</u>

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

Table 23. Tonga: International Reserves, 1983/84-1987/88

(In millions of SDRs; end of period)

	1983/84	1984/85	1985/86	1986/87	1987/88
Assets	<u>18.2</u>	<u>17.1</u>	<u>15.2</u>	<u>21.4</u>	<u>21.3</u>
Government	<u>1.3</u>	<u>1.4</u>	<u>1.1</u>	<u>1.5</u>	<u>1.5</u>
Treasury	0.4	0.5	0.4	0.6	0.5
Currency Commissioners	0.9	0.9	0.7	0.9	1.0
Reserve position in the Fund	--	--	0.7	0.8	0.7
Bank of Tonga	16.9	15.7	13.4	19.1	19.1
Bank of Tonga liabilities	<u>0.1</u>	<u>0.3</u>	<u>0.8</u>	<u>0.5</u>	<u>0.3</u>
Net total reserves	<u>18.1</u>	<u>16.8</u>	<u>14.5</u>	<u>20.9</u>	<u>21.0</u>
Memorandum items:					
Assets (in months of imports)	5.2	4.6	4.2	6.1	5.5
SDR per pa'anga (end of period)	0.84	0.67	0.58	0.56	0.61

Source: Data provided by the Tongan authorities.

Table 24. Tonga: External Debt and Debt Service, 1983/84-1987/88

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88 Est.
External debt (end of period)	19.9	20.7	22.3	27.6	28.9
United Kingdom	3.1	2.8	2.7	2.4	3.1
Germany, Fed. Rep. of	9.7	9.3	11.2	12.6	11.4
Asian Development Bank	5.2	6.4	6.1	6.2	6.9
European Investment Bank	0.9	1.1	1.1	1.3	1.5
International Development Association	--	--	--	--	0.3
International Fund for Agricultural Development	--	0.2	0.6	0.6	1.0
OPEC Fund	1.0	0.9	0.6	0.6	0.3
Other <u>1/</u>	--	--	--	3.9	4.5
Debt service	0.5	0.9	0.8	0.7	1.6
Amortization	0.3	0.5	0.4	0.4	1.0
Interest	0.2	0.4	0.4	0.3	0.6
Memorandum items:					
External debt (in percent of GDP)	30.9	33.0	35.2	46.8	44.3
Debt service (in percent of exports of goods, services, and private transfers)	1.1	2.0	1.9	1.6	3.8

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

1/ Commercial loan to finance a telecommunications project.

Tonga: Social and Demographic Indicators 1/

Area:	747 square kilometers
Population (1986):	94,500
Rate of growth	slightly negative
Density:	127 per square kilometer
GDP per capita (1986):	SDR 650
Population characteristics:	
Life expectancy	64 years
Infant mortality	58 per thousand
Crude birth rate	29 per thousand
Crude death rate	8 per thousand
Health:	
Population per physician	2,400
Population per hospital bed	300
Access to safe water:	
Total population	74 percent
Urban population	86 percent
Rural population	70 percent
Nutrition:	
Per capita calorie intake	2,845 per day
Per capita protein intake	68 grams per day

Sources: Data provided by the Tongan authorities; and the World Bank.

1/ Latest available data for 1982-86.

Tonga: Fund Relations
(As of September 30, 1988)

I. Membership status

Date of membership: September 13, 1985
Status: Article XIV

A. Financial Relations

II. General Department

Quota:	SDR 3.25 million
Total Fund holdings of currency:	SDR 2.51 million (77.3 percent of quota)
Fund credit:	None
Reserve tranche position:	SDR 0.74 million
Lending to the Fund:	None

III. Stand-By or Extended Arrangements
and Special Facilities

Tonga has not used Fund resources since becoming a member.

IV. SDR Department

Tonga is a participant.	
Net cumulative allocations:	None
Holdings:	SDR 72,470
Current designation plan:	None

V. Administered Accounts

Trust Fund loans:	Not applicable
SFF Subsidy Account:	Not applicable

VI. Overdue obligations to the Fund

None

B. Nonfinancial RelationsVII. Exchange rate arrangement

Since November 1976, the pa'anga has been pegged at par to the Australian dollar. At present, Tonga does not have a central bank and the authorities do not buy or sell foreign exchange. As a transitional arrangement, the Bank of Tonga quotes daily rates for the pa'anga against eight other currencies on the basis of their respective values vis-a-vis the Australian dollar, which is the intervention currency. The spread between the Bank of Tonga's buying and selling rates is 2 percent. However, for export receipts, the Bank buys foreign exchange at the midpoint rate. There are no taxes or subsidies on purchases or sales of foreign exchange.

VIII. Last Article IV consultation

Staff discussions were held during August 10-21, 1987. The Executive Board discussed the staff report (SM/87/253, 11/2/87) on November 23, 1987.

IX. Consultation cycle

The bicyclic consultation procedure has been adopted.

X. Technical assistance

Central Banking

An expert was assigned for one year from May 1987 to assist in the establishment and initial operations of the central bank; his term has been extended by another year. The authorities have recently requested an additional expert to assist with statistics and research once the central bank is established.

Statistics

Assistance was provided during 1986 in the areas of balance of payments and money and banking statistics.

XI. Resident Representative/Advisor None

Relations with the World Bank Group

Tonga joined the World Bank and IDA on September 13, 1985 and October 23, 1985, respectively. An introductory country economic memorandum, entitled "The Kingdom of Tonga: An Introductory Economic Report" (Report No. 6379 - TON, November 25, 1986), provides the general backdrop for the Bank's operations in Tonga. An IDA credit equivalent to SDR 1.6 million was approved on June 2, 1987 for the Tonga Development Bank, cofinanced with a loan and technical assistance from the Asian Development Bank equivalent to SDR 1 million. In June 1988, a World Bank mission to Tonga reviewed progress in project implementation under the above credit, including the status and latest developments regarding the Government's efforts to undertake interest rate reform.

Tonga

Statistical IssuesOutstanding statistical issues

There is currently no country page for Tonga in International Financial Statistics (IFS), but the Bureau of Statistics has advanced plans for publication of such page.

a. Real sector

Although the Bureau of Statistics is planning to publish general economic data for Tonga in the country page of IFS, the coverage, scope, and currentness of the data need to be improved.

b. Government finance

There is currently no presentation of government finance statistics in the Government Finance Statistics Yearbook or in IFS. A reply to the 1987 GFS questionnaire was received last year but it was incomplete. The authorities have requested technical assistance in government finance statistics to advise on the compilation of data and to establish procedures for systematic reporting.

c. Monetary accounts

A Bureau of Statistics technical assistance mission visited Tonga in December 1986. The main objective of that mission was to derive monetary data, following the Fund's statistical methodology, that would be as consistent as possible with the data likely to become available following the establishment of a central bank in Tonga. The authorities have now indicated their agreement with the recommendations made in the mission's report, and they began reporting money and banking statistics to the Bureau in August 1988.

d. Balance of payments

Tonga regularly reports balance of payments data directly to the Bureau of Statistics. However, as identified in the report of a mission on balance of payments methodology in 1986, there are substantial gaps in the capital account as well as certain misclassifications of data within the current account (particularly between services and private transfers). In July 1988 the authorities advised the Bureau of Statistics that it was their intention to implement the recommendations contained in the mission's report on a step-by-step basis and thereby gradually improve the quality of the data.

