The Tongan economy

2014 Pacific Update
Australian National University, Canberra
16 June 2014
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1. Domestic production
<table>
<thead>
<tr>
<th></th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013(f)</th>
<th>FY2014(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Primary sector</td>
<td>17.2</td>
<td>17.0</td>
<td>17.0</td>
<td>17.9</td>
<td>17.6</td>
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<tr>
<td>Secondary sector</td>
<td>18.6</td>
<td>19.1</td>
<td>19.1</td>
<td>18.2</td>
<td>18.7</td>
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<tr>
<td>Services sector</td>
<td>53.7</td>
<td>53.5</td>
<td>53.7</td>
<td>53.7</td>
<td>53.6</td>
</tr>
</tbody>
</table>

Source: NRBT
<table>
<thead>
<tr>
<th></th>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013(f)</th>
<th>FY2014(f)</th>
<th>FY2015(f)</th>
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<tbody>
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<td>GDP</td>
<td>1.1</td>
<td>3.2</td>
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<td>5.5</td>
<td>0.2</td>
<td>1.4</td>
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<tr>
<td>Secondary sector</td>
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<td>6.5</td>
<td>0.5</td>
<td>-4.6</td>
<td>5.3</td>
<td>2.9</td>
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<tr>
<td>Services sector</td>
<td>-1.2</td>
<td>2.0</td>
<td>1.3</td>
<td>0.3</td>
<td>1.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: NRBT

* These industries are forecast collectively, based on their average historical growth rates and relationships with the other industries.

** Includes taxes minus subsidies and imputed bank service charges
Challenges to agriculture

- Lack of economies of scale in production;
- Increasing production costs; and
- Quality control issues.
- Weak coordination and partnership efforts among all key stakeholders.

GoT, its development partners and the private sector continue looking into ways of addressing them.
Constraints to fisheries

- Inadequate infrastructure,
- Limited cargo space available for fisheries exports and high freight costs,
- Lack of value added activities for fish exports,
- Access to finance,
- High costs of production,
Construction outlook for inclusive growth

• Need to engage the local construction firms in the major public constructions, especially the donor funded ones;

• Need to utilize more and more of the local raw materials and manpower.
Tourism

- Tourism related sector contributes only 3% to GDP.
- Grew by 2% in FY2013, which was in line with a slight improvement in tourist air arrivals by 6%.
- In FY2014, air visitors declined by 20% compared to previous year - partly due to the uncertainty in the domestic airline industry.
- There is significant increase in cruise ships visiting Tonga.
Tourism

Visitor arrivals
12 months total: Quarterly

*January 2012 was the introduction of foreign exchange dealer reporting
Source: NRBT & Tonga Dept. of Statistics
Challenges to Tourism

• Need to improve Tonga’s international and intra-national air links;
• Need to improve tourist accommodation by types and capacity.
• Need to be more competitive in its tourism product delivery, in order to share and take advantage of the tourism economies of scale in its neighbouring countries such as Fiji and Samoa.
Tourism receipts

• There are difficulties in distinguishing between tourism receipts from remittances data, and other foreign exchange receipts;

• Travel receipts includes those in credit card transactions but some of these transactions are not related to tourism.
2. External sector
Import Payments
Rolling 12 month average

Sources: banking system; foreign exchange dealers; NRBT
<table>
<thead>
<tr>
<th></th>
<th>Jun-12</th>
<th>Jun-13</th>
<th>Mar-13</th>
<th>Mar-14</th>
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<tbody>
<tr>
<td><strong>Current Account</strong></td>
<td>-55.4</td>
<td>-66.5</td>
<td>-74.8</td>
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<tr>
<td><strong>Merchandise trade</strong></td>
<td>-210.3</td>
<td>-248.6</td>
<td>-252.0</td>
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<tr>
<td>Exports</td>
<td>7.8</td>
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<td>12.2</td>
<td>15.2</td>
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<td>Imports</td>
<td>218.1</td>
<td>260.9</td>
<td>264.1</td>
<td>259.0</td>
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<td><strong>Services balance</strong></td>
<td>-0.8</td>
<td>6.3</td>
<td>5.2</td>
<td>6.1</td>
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<td>Receipts</td>
<td>96.9</td>
<td>125.2</td>
<td>127.4</td>
<td>118.7</td>
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<td>Payments</td>
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<td><strong>Income balance</strong></td>
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<td>1.2</td>
<td>5.5</td>
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<tr>
<td>Receipts</td>
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<td>11.7</td>
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<tr>
<td>Payments</td>
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<td>10.5</td>
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<td><strong>Transfers balance</strong></td>
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<td>Payments</td>
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<td><strong>Unclassified</strong></td>
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<td><strong>Overall Balance</strong></td>
<td>42.3</td>
<td>17.2</td>
<td>5.5</td>
<td>30.0</td>
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</tbody>
</table>
Remittance Receipts
Rolling 12 month total

Sources: banking system; foreign exchange dealers; NRBT
Gross Private Remittances

12 month total

*January 2012 was the introduction of foreign exchange dealer reporting
Source: Banking systems; Foreign exchange dealers; NRBT
Gross Private Remittances*

Financial year

$TOP millions


Per cent of GDP (RHS)

$TOP millions

0 50 100 150 200 250

% 0 10 20 30 40 50

*January 2012 was the introduction of foreign exchange dealer reporting
Source: National Reserve Bank of Tonga
Foreign Exchange Dealers' Total Receipts

Monthly

- Exports Proceeds
- Travel Related
- Remittances in kind
- RSE
- Family Support (RHS)

Sources: NRBT, Foreign exchange dealers
Sources: banking system; foreign exchange dealers; NRBT
Gross Official Foreign Reserves

- **Level (LHS)**
- **Months of OET imports (RHS)**
- **Months of Trade imports (RHS)**

* Break in January 2012 due to introduction of foreign exchange dealer reporting.

Sources: banking system; foreign exchange dealers; NRBT
3. Monetary sector
* Break in data in January 2012 due to a change in reporting methodology
Sources: NRBT, Banking System
Lending Rates

Weighted average of all banks, all products, monthly*

Sources: Banks, NRBT estimates
Business Lending Balances

$TOP millions

Sources: Banking System
Household Lending Balances

*Monthly*

![Graph showing Household Lending Balances](image)

Sources: Banking System; SPBD; RFB
Inflation

Year-ended

Source: Statistics Department
Meat, Fish and Poultry Inflation

Year-ended

- **Imported inflation**
- **In NZ, converted to $TOP, lagged two months**

Source: NRBT; Statistics New Zealand
4. Fiscal sector