TONGA
Economic Outlook and Associated Reform Efforts

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TONGA
Economic Outlook and Associated Reform Efforts

Outline of Presentation
- Current economic outlook
- Sectoral performance (July-Dec 2003)
- Social situation
- Reform efforts/progress
Current Economic Outlook

* GDP averaged 2.2% (1990/91-00/01)
  - averaged 1.4% (01/02-03/04)

* official budget deficit – TOP$10.5
  or (2003)/3.1 of GDP

* Financing of budget deficit
  - 28% external/72% domestic
Current Economic Outlook

* total expenditure & net lending (below budget)
  - est. 32.1% of GDP (low budget capital expenditure)

* Wages & salaries expenditure < budgeted
  - (48.8% total current expenditure)

* inflation - reached 12.4% (Dec 2003)
Current Economic Outlook

* Trade deficit (widening) + deficits in services & investment income accounts > then increase surplus on transfer account resulting in current deficit of 1.4% of GDP

* Foreign reserves averaged 2.3 months of imports covered, recovered in Dec 2003 (ESPR loan)

* Debt servicing - manageable (25% GDP)
Current Economic Outlook

* Unemployment – 13.3%
  - 73% males; 27%
  - sex specific LFPR increase in 15-19
  - fairly young LF
  - more women than men
  - 58% of w.a in LF

Would there be enough employment opportunities in the labour market?
Current Economic Outlook

* Remittance (TOP$142.1m/01/02)
  - HIES (2001): 75%
  - 35% of GDP in 2001/2002
  - receipt issue

* Development assistance
  - increase from 10% of GDP (1970s) to 20% (80s)
  - 16% of GDP in 2000/2001 (consistent with anticipated downturn)
  - shift in donor emphasis
Current Economic Outlook

* Short term Economic Outlook
  - slow increase GDP
  - fiscal consolidation

* Medium term outlook
  - tax/financial/public service reform
  - create employment opportunities in priority areas

* Long term outlook
  - Tonga's position within the global economy
Sectoral performance

* agriculture
* fisheries
* manufacturing
* construction
* tourism
* whole, retail & distribution
* transport & communication
Social Situation

* Demographic profile

- CBR 30.3/000
- BDR 7.5/000
- RNI 22.8/000
- Net migration -19.8/000
- Population 0.3%
Social Situation

* gradual increase of people in Nuku'alofa
* emerging social issues
  - youth unemployment (43% in age group 15-19)
  - drug problems
  - youth violence, abuse, crime
  - increase environment pollution
Social Situation

* depletion of coastal marine resources
* primary school resources (despite good education indicators/quality is POOR)
* poor quality of health facilities
* expected continual rate of social problems if population growth not contained
* deportees
Social Situation

Poverty & Hardship

* approximately 23% of households were estimated to have income below the basic needs poverty line of T$28.18

* Tonga adopted MDGs overriding development objectives
Reform Efforts and Progress

‘... Tonga now recognises that change is inevitable. That this change is needed NOT because of the failure of the past but precisely in order to preserve what we value most in Tongan society. We value economic opportunity for our people. We value relatively equitable distribution of benefits within society. We value these things most of all because they underpin what we see as essential fairness of Tongan society. We recognise that stagnation of our economy and our institutions are beginning to undermine these benefits and it is time to change while we still control the process than waiting for change to be forced upon us by circumstances beyond our control ...’
Reform Efforts and Progress

* Public service reform
  - key objective
  - expected outputs
  - recent progress
Reform Efforts and Progress

* Tax reform
  - Proposed tax policy would improve system and stimulate development
  - Tax reform measures strengthen enforcement/compliance
  - Movement away from trade taxes
* **Private sector reform**
  - promote private sector & reform investment policy; improve regulatory environment
  - investment market driven not government directed
  - encourage investment
* **Current investment climate**
  - excessive regulation & lack of predictability in administration of policy
  - discourages large scale investments
* Private sector reform – Current reform efforts
  - Establishment of government–private sector consultative committee

* New legislative climate guarantees
  - national treatment of for/investors
  - repatriation of investment capital
  - less administrative barriers
  - ongoing administrative barriers project
Reform Efforts and Progress

* Monitoring & Mitigation Efforts
  - recent progress
Reform Efforts and Progress

* Sustainability of reform efforts