

## Preface

This bulletin presents the Tonga Balance of Payments statistics for the year 2013-14

An introductory note explains the Balance of Payments statements and the sources of data. It is followed by technical notes on the scope and methodology of the statistics. A short analysis and graphs of selected items are also included.

I wish to thank all organizations both in Government and in the Private sector, which have supplied basic data, and in particular, the Overseas Exchange Transactions Divisions of the Commercial banks and the National Reserve Bank of Tonga. Special mention must be made of the hard work and devotion of the staff members of Balance of Payments Division in the compilation of this report.

The Department would welcome any comments and suggestions to improve the contents, coverage and the quality of the statistics published in this report.

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## **Symbols and Abbreviations used**

The following symbols and abbreviations are used throughout the bulletin.

-	Nil
...	Not available
R	Revised
T\$	Tongan Pa'anga
000	Thousand
f.o.b	Free On Board in the exporting country
n.i.e.	Not Identified Elsewhere
TBOP	Tonga Balance of Payment
OET	Overseas Exchange Transaction

# **PART 1: Introductory and Technical Notes**

## **I Introduction**

### ***Confidentiality of Information***

The Tonga Balance of Payment (TBOP) report, published in a form that prevents any particular item from being identifiable as relating to any particular organization or person, apart of course for items from already – published sources. Based on these considerations, the release of some information in detailed form is restricted to the standard form shown in the tables.

## **II Technical Notes**

Balance of Payments statements in this publication record economic transactions between Tonga and the rest of the world (or in other words, transactions of residents of Tonga with non residents). They show the value of goods, services, income, transfers and changes in Tonga's claims on the liabilities with foreigners.

International TBOP is based on principles set out in the "Balance of Payments Manual" published by the Monetary Fund <sup>1</sup>

### ***Sources of information***

The statistics presented are from many sources. The major ones are:

Statistics on International Merchandise Trade compiled by the Statistics Department from custom entries completed for all goods exported and imported across the Tonga frontier.

The Monthly Overseas Exchange Transaction records, prepared by all commercial banks in Tonga and the National Reserve Bank of Tonga. These records show all transactions made with the overseas countries through the banking system.

The monthly returns of Tonga Government agencies located overseas.

### **Geographic Area**

The geographic areas covered by TBOP include all island groups of Tongatapu, Vava'u, Ha'apai, 'Eua and the Niuas.

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<sup>1</sup>*Balance of Payments Manual, Sixth Edition, 2008.*

## **Accounting System**

A double entry is used to prepare the TBOP, that every transaction results in a pair of equal credit and debit entries. Any entries, which are not automatically paired, such as grants and gifts, are deliberately furnished with special offsetting entries. The sum of all credit entries in the statement is thus in principle numerically equal to the sum of all the debit entries, with any inequality that may arise being attributable to net statistical errors and omissions.

## **Residence**

The concept of residence used in TBOP includes the general government, all individuals, private non-profit bodies serving as public and private individual enterprises, and mobile equipment located or operating within the territory of Tonga.

The general Government of Tonga includes Tongan Embassies, Consulates and other entities of general government located abroad. Embassies and consulate representatives of foreign governments located in Tonga are not considered as Tongan residents.

The concept of residence adopted for individuals includes all persons who may be expected to consume goods and services, participate in the production of goods and services or engage in economic activities in Tonga.

The resident individuals in Tonga are considered to comprise all persons living within the territory of Tonga for at least one year. Thus tourists, crew members of vessels or aircrafts engaged in international trade, commercial travelers and employees of non-resident enterprise (except students and diplomats) who come to Tonga for less than one year and vice versa are non-residents. Employees of foreign governments and international bodies, such as diplomatic and consulate representatives and other foreign government personnel are treated as non-residents. Tongan citizens who are employed by foreign embassies and reside in Tonga are regarded as Tongan residents employed by foreigners. Tongan resident enterprises are actual or notional units engaged in:

- i. Production of goods and services in Tonga.
- ii. Transactions in land located within the territory of Tonga.
- iii. Transactions in leases, rights, concessions, patents, copyrights, and similar non-financial intangible assets issued by the Tongan Government.

## **Valuation**

Balance of Payments accounts are valued at market prices, a valuation system common to that used by the National Accounting Convention.

Market price is defined as the amount of money that a willing buyer pays to acquire something from a willing seller in a commercial transaction.

One important category of transaction worth mentioning is the one sided transactions. In such transactions, one party provides nothing on which an economic value is placed in return for a real or financial asset received from the other party. An example is the provision of capital equipment received by the Government of Tonga or the private sector, from a donor country under bilateral aid programmes (eg New Zealand, Australia etc). The value of such equipment appears in the TBOP as an import and the value of freight under transportation. The value placed on this type of transaction is the cost to the donor country of the goods provided or services involved. In the example the value entered in the TBOP would be the cost of acquiring the commodity and placing it on board a ship and the freight cost of that said commodity by the donor country.

The counter entry to this type of transaction appears in the item transfers the same value as the original transaction.

Taxes, duties, subsidies, rebates, discounts, and the like are a form of the incidental cost that maybe included in a transaction and taken into account in establishing its market value. Alternatively they may be regarded as a separate transaction. The IMF recommended that the incidental costs of the kind mentioned above be included in the original transaction in order to maintain a uniform system of valuation and TBOP follows this recommendation.

### **Time of recording**

To achieve simultaneous recording of the two entries for a given transaction in the double-entry system of balance of payments, rules must be adopted governing the time at which a transaction is deemed to have taken place. It should be noted that, in practice, the two entries representing a transaction are often derived independently from separate sources of data, for which the principle of timing used could be different. The time of legal change of ownership of the various assets provided under a contract is generally considered to be the most relevant.

### **Unit Account**

Data on the values of transactions in real resources and financial instruments from which TBOP is compiled are expressed in a variety of currencies. In order to compile TBOP statements, these data must be converted to a common currency or unit of account.

Since Balance of payments statements need to be comparable with the other economic statistics of the nation, this indicates using the national currency as the unit of account. Thus Tonga uses the Tongan pa'anga (dollar) as the unit of account.

### **Measure of Balance**

As previously noted balances shown by selected combinations of balance of payments accounts are of considerable interest to analysts and government officials.

A term widely used in analyzing balance of payments statements is the term 'balance'. A balance is calculated by adding the credit entries, for selected components and subtraction of the

debit entries, for the same components. For example, the balance of services is the sum of all credit entries, minus all debit entries, for those components in the statement, which represent transaction in services.

A balance, which shows a net credit, is termed a 'surplus' and one showing a net debit is termed a 'deficit'.

In the analytical presentation, components are arranged in a column. Components that comprise an analytic category are grouped together. Thus it is possible to obtain a balance by drawing a horizontal line after the last component of an analytical category and summing all the components above the line, hence the expressions 'above the line' and 'below the line'.

There are two major balances in the Tonga analytical presentation. The first is the balance of current account. The current account items (above the line) include the components of goods, services, income and current transfers while the components of capital transfers and financial claims and liabilities comprise the Capital and Financial account (below the line). The balance on current account measures the net flow of real resources between Tonga and the rest of the world (above the line) with the flow of financial instruments between Tonga and the rest of the world being below the line. The items below the line include components of movements in capital transfers, reserve assets and official borrowing.

### **Statistical discrepancies or errors and omissions**

Compiling TBOP presents some difficult problems and errors and omissions normally occur in two major areas, namely (i) coverage and (ii) valuation.

(i) **Coverage:** Despite attempts to gather data on all items, some international transactions are not reported. One category of transaction that probably is often substantially under-reported is purchases and sales of short-term financial claims. It is widely believed that unreported movements of short-term capital contribute a great deal to total errors and omissions. In addition, there has been no attempt to collect complete data on certain other transactions, which are estimated by balance of payments statisticians. The sample observations, on which estimates are based, are sometimes of doubtful reliability, and even the best sampling and estimating techniques will not prevent errors of estimation.

(ii) **Valuation:** Although imports documents may state a precise value for a particular commodity, a different amount may eventually be paid to the exporter. These types of discrepancy can arise for a number of reasons, ranging from default by the importer to incorrect valuation of the merchandise on the import documents.

Because of problems of coverage and valuation, total recorded debits do not equal total recorded credits in the actual balance of payments accounts in any year.

To accommodate such discrepancies, a residual account, statistical discrepancy, is created. An excess of credits in all other accounts is offset by an equivalent debit to this account, or an excess of debits in other accounts is offset by an equivalent credit to this account. The statistical discrepancy account thus serves at least two purposes; it gives the balance of payments analyst

an indication of the net error in the balance of payments data, and further it provides a means of satisfying the requirement of double entry book keeping that the total debits must equal total credits.

### **III Components of the analytic presentation of the Tonga Balance Of Payments (TBOP)**

#### **Exports/Imports**

Details of the composition of Tonga's trade (derived from customs data) can be found in the reports of Foreign Trade Statistics. However, some goods are believed to pass the Tongan frontier without customs entry and the TBOP makes adjustments to cover unrecorded imports or exports.

Foreign Trade statistics values imports c.i.f. (cost, insurance and freight) while in balance of payments statistics imports are valued at f.o.b. (free on board) in their country of export. For balance of payments purposes, an estimate is made of the cost of insurance and the freight components of imports, (c.i.f.) to place these data on an f.o.b. basis. This adjustment comprises most of the negative entry in the debit column. The counterparts to the adjustment are made under transportation and insurance services.

#### **Services**

Items included under services comprise all transactions on transport, insurance, travel, communication, financial, computers and information, royalties and license fees, other business services, personal and government services not included elsewhere. The largest component is travel, mainly comprising "tourist" expenditure in Tonga.

#### **Transport**

Transport includes freight and other distribution services in connection with merchandise. In addition various services are included under the heading "transport", including services performed by carriers, principally for the carriage of passengers, which are not classified under the heading "travel", together with goods and services acquired by carriers and consumed in their operations.

#### **Travel**

Travel covers primarily spending by travelers (tourist and business visitors) during visits of less than one year in that economy. The goods and services are purchased by, or on behalf of, the traveler or provided, without a quid pro quo, for international carriage of travelers, which is covered in passenger services under transport.



## **Other Services**

Other Services includes all transactions in services not included elsewhere.

The main categories are:

***Private Transactions*** which includes;

Communication services

Construction services

Insurance services

Financial services

Computer and information services

Royalties and license fees

Other business services including merchant and trade related services, operational leasing and miscellaneous business, professional and technical services.

Personal, cultural and recreational services

### ***Government Transactions***

Such as expenses of embassies and consulates, military units and Agencies abroad, and other official entities located abroad; and other services provided to or obtained by government. Included here are transactions of the type included in the private transactions listed above, but where one of the parties to the transaction is a government.

### **Embassies and Consulates:**

Wages and salary payments, representing labour income of local staff.

Personal expenditures by diplomatic and consular staff and their dependents in Tonga.

Other expenditures by diplomatic and consular staff for goods and services such as office supplies, furnishings, fuel, utilities, and rent or purchases or sales of embassy and other buildings, official cars, (including operation and maintenance) and official entertainment.

### **Military Units and Agencies abroad:**

These are treated in the same way as embassies and consulates.

### **Other official entities located abroad:**

These entries cover offices of general government, which are not integrated with the embassy organization.

### **Other services provided to or obtained by government:**

Included here are transactions of the type included in the private transactions listed above, but where one of the parties to the transaction is a government.

## **Income**

Income covers income of non-residents from the financial assets invested in Tonga (debit) and income of Tongan residents from their financial assets invested abroad (credit). Sub-components of income are:

*Compensation of employees, Investment Income, including direct investment, portfolio investment and other investment income.*

The OET data only record cash remittances. Reinvested profits of direct investment enterprises in Tonga are therefore currently excluded from the income component, although they should be included as a debit entry.

## **Current transfers**

These are transfers undertaken without a quid pro quo (for instance, a donation, a remittance by an emigrant worker, or a country's contribution to an international organization).

Private current transfers include remittances, contributions and other current transfers. Government current transfers include the counter entry from various foreign countries to Tonga government pension payments.

## **Balance on current account**

The balance on current account is calculated as the difference between the sum of all debits and the sum of all credits representing merchandise trade, services, income and current transfers.

## **The Capital and Financial Account**

The capital and financial account is divided into two main categories: the capital account and the financial account.

The capital account covers all transactions that involve the receipt or payment of capital transfers and acquisition/disposal of non-produced, non-financial capital. The financial account covers all transactions associated with changes of ownership in the foreign financial assets and liabilities of an economy. Such changes include the creation and liquidation of claims on, or by, the rest of the world.

In the financial account, therefore, increases in assets (and decreases in liabilities) are indicated with a minus sign, (debit entry) and decreases in assets (and increases in liabilities) are indicated with a plus sign (credit entry).

The financial account excluding reserves covers direct investment, portfolio investment, and other investment, which make up a long term and short-term investment.

The main data source for the Capital and Financial account is the Overseas Exchange Transactions (OET) record of all the commercial banks of Tonga and the National Reserve Bank of Tonga (NRBT), supplemented by data provided by Ministry of Finance.

### **Reserves**

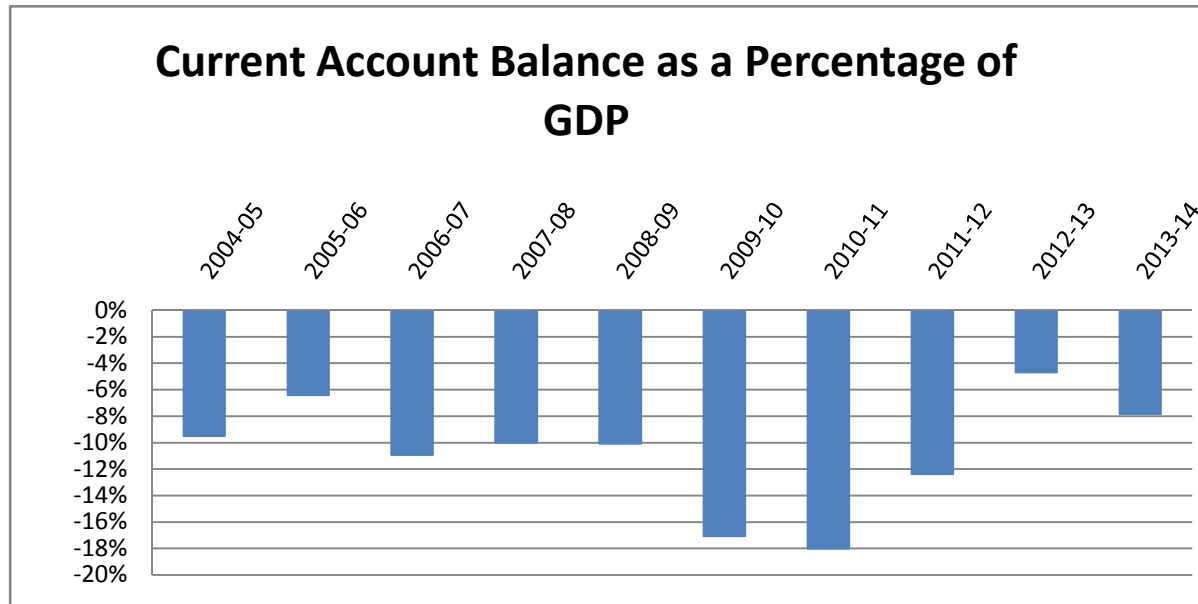
This reserve covers assets that are available for use by the central authorities either to finance payment imbalances directly or to manage the size of such imbalances by intervening to influence the exchange rate for the national currency.

Prior to the formation of the NRBT the Bank of Tonga held foreign exchange assets, as agent of the Government of Tonga. Thus these overseas exchange assets are included in reserves.

Other foreign assets held by the authorities are also classified under the reserve category. Prior to the creation of the NRBT, these assets included securities held by the Treasury and other Government bodies, which are readily negotiable claims on foreigners. Since July 1989, the NRBT holds most of the Kingdom's external reserves.

## PART 11 – Analysis and Graphs

Figure 1



The major components of Tonga's current account include Tonga's trade balance (in goods and services), investment income and current transfers. The current account balance for the fiscal year 2013-14 showed a deficit of T\$63 million compared to a deficit of T\$36.6 million in 2012-13. The increase in current account deficit from the previous year was of 72% and was mostly contributed by an increase in Primary Income Debits or Outflows of 40.3% (from T\$22.1 million to T\$31million) from what recorded a year earlier. For the fiscal year 2013-14 the current account deficit was -8% of GDP compared with -5% of GDP for the fiscal year 2012-13, and -12% for the fiscal year 2011-12.

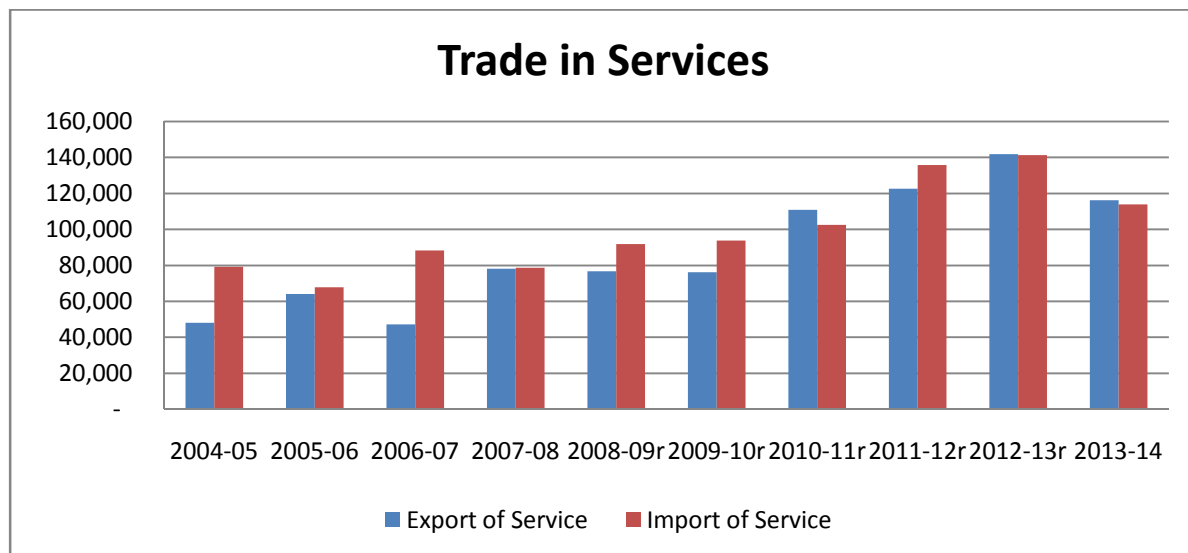
**Figure 2**



The net trade in goods was a deficit of \$T307.5 million in the fiscal year 2013-14. The deficit increased by 3% from \$T299 million in 2012-13. The foreign trade showed that overseas exports of goods increased to T\$32.4 million, an increase of 25% as compared to T\$25.9million the value of export of the previous fiscal year. The four major exports commodities are as follows: Live animals and animal products which include different type of fish, molluscs, octopus and crustaceans at T\$6.1million, pumpkins contributed T\$2.9 million, ground kava amounted to T\$2.1million and yams valued at T\$2millions.

The imports of goods increased to T\$339.9 million in 2013-14. Imports of goods shows an increased by 4.6% from the previous fiscal year from T\$324.9million. The 4 major imports groups are as followed; Mineral products still lead the imported goods at T\$81.7million, machinery & mechanical & electrical appliances and parts thereof were T\$58.6million, prepared foodstuffs, beverages, spirits & tobacco were T\$50.8million and Live animals and animals products valued at T\$44.3million.

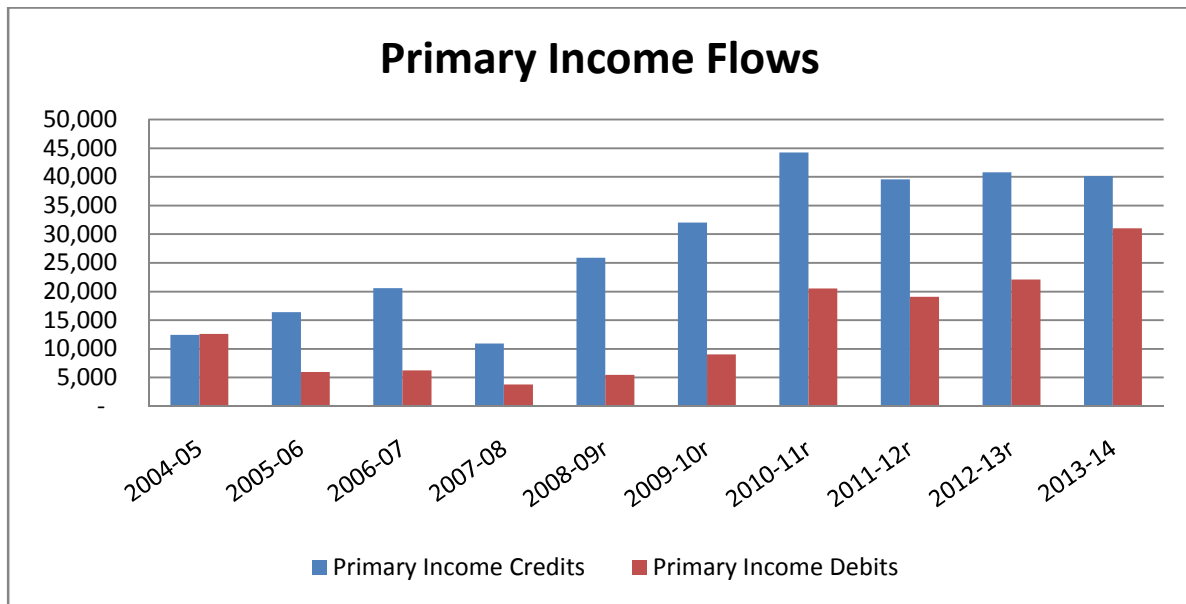
**Figure 3**



The net trade in services was T\$2.3 million in 2013-14, a huge increase from net trade in services of the previous fiscal year 2012-13 which was T\$0.4million. Exports of services were T\$116.2 million a decrease of 18% from T\$141.8million in 2012-13. Travel services inflow, capture overseas tourists' spending while in Tonga, families spending when visiting for family reunions, church conferences, the Heilala festival and others. Travel receipts showed a 15.2% decrease from T\$76.9million in 2012-13 to T\$65.1 million in 2013-14. Transport services inflow increased from T\$22.3 million in 2012-13 to T\$25.9 million in 2013-14. The increased in transport services inflow was mainly due to increase in air transport and freight. The inflows from personal, cultural and recreational services increased from T\$2million in 2012-13 to T\$3.7million in 2013-14, an 83% increased from the previous financial year. Telecommunications, computer and information services inflow decreased by 38%, a fall from T\$3.9million in 2012-13 to T\$2.4million only in 2013-14. The inflow from construction services in 2013-14 showed a major decreased by 80% from the previous financial year, from T\$3.4million to T\$0.6million, as the construction of the central Nuku'alofa area has mostly completed.

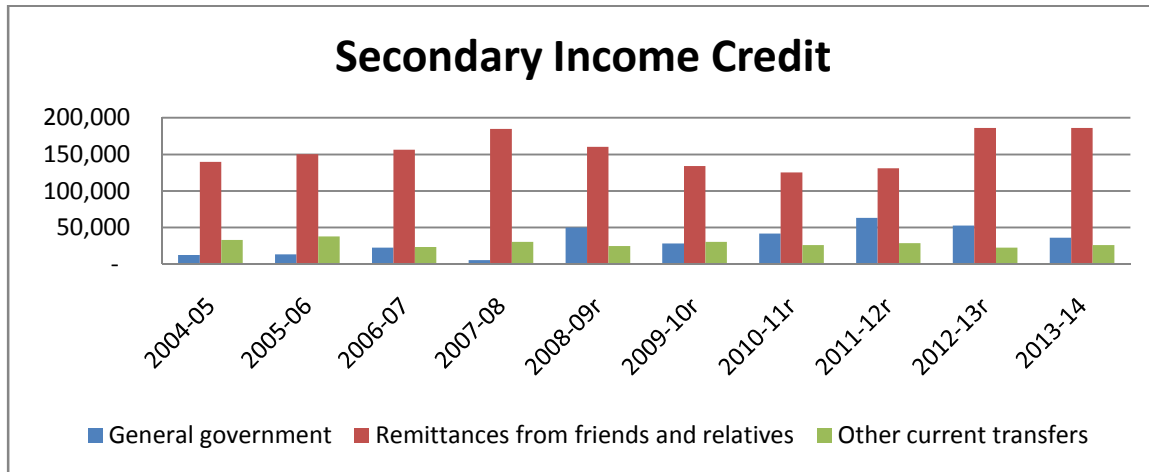
Imports outflows in 2013-14 were T\$113.9 million, a decreased of 19.3% from T\$141 million in 2012-13. Travel services outflows decreased by 4% from T\$39.5million in 2012-13 to T\$37.9 million in 2013-14. There was an increase by 14% in telecommunication, computer and information services outflow from T\$2.4million in 2012-13 to T\$2.7million in 2013-14. Construction services outflow showed a 70% increase from 0.4million in 2012-13 to 0.7million in 2013-14. The imports of personal, cultural and recreational services decreased by 65% from T\$4.8million in 2012-13 to 0.8million in T\$2013-14.

**Figure 4**



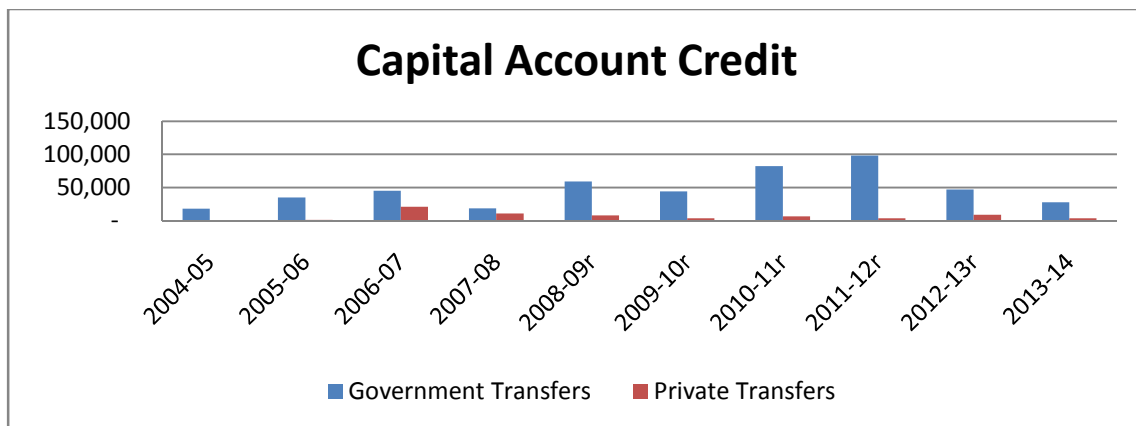
Primary Income Inflow recorded a minor decrease by 1.6% from previous fiscal year while the Primary Income debits or outflow increased by 40% from T\$22.1million in 2012-13 to T\$31million in 2013-14. Net primary income surplus decreased by T\$9.6 million from T\$18.7 million in 2012-13 to T\$9.1 million in 2013-14. Main components of primary income inflows include compensation of employees, direct investments, other investments and reserve assets. Compensation of employees inflow increased by 12% from T\$26.5 million in 2012-13 to T\$29.9 million in 2013-14. This receipt includes the wages of Tongan seasonal workers worked abroad. Investment income in Tonga falls by 28% from T\$13.3million in 2012-13 to T\$0.9 million in 2013-14. Investment income sent abroad increased to T\$28 million in 2013-14 as compare to T\$22 million in 2012-13.

**Figure 5**



The balance on secondary income in 2013-14 was T\$233 million surplus, a 4% decreased compared to a surplus of T\$243 million in 2012-13. Secondary income inflows was T\$248.3 million in 2013-14, a 5% decreased from T\$261.5 million in 2012-13. Current transfers received from friends and relatives overseas increased by 15.2% from T\$22.6 million in 2012-13 to T\$26.1 in 2013-14. General government transfers inflows decreased by 31% from the previous fiscal year from T\$52.7 million in 2012-13 to T\$36.2 million in fiscal year 2013-14 from.

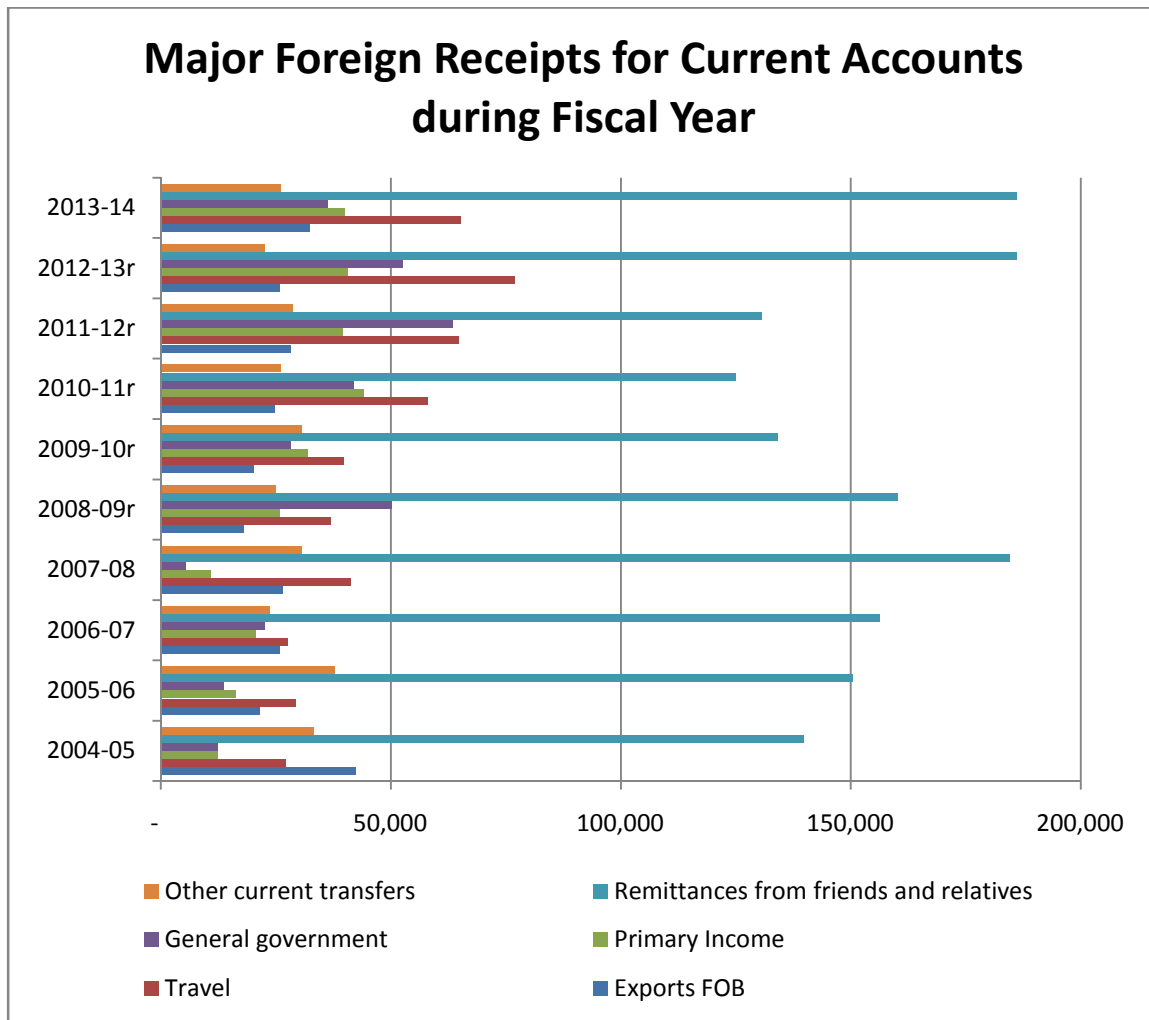
**Figure 6**



The capital transfers received, decreased by 44% from previous fiscal year, from T\$55.7 million in 2012-13 compare to T\$31 million in 2013-14. The inflow of capital transfer of T\$27.6 million were for the general government projects and the remaining T\$3.4million was for other sectors.



**Figure 7**



The major foreign receipts for current account showed that remittances from friends and relatives abroad, made the highest contribution of T\$186.1 million in 2013-14 followed by Government transfers with T\$36.2 million, Travel with T\$65.2 million, primary income with T\$40 million, exports of goods with T\$32.4 million and other current transfers with T\$26.1 million. In comparison to 2012-13, remittances from friends and relatives slightly fall by less than 1% and so as primary income, travel decreased by 15.3%, Government transfers decreased by 31.2%, Exports of goods improved by 25.1% and other current transfers climbed by 15.8%.