

WORLD RANK: REGIONAL RANK:

83

17

ECONOMIC FREEDOM STATUS:
MODERATELY FREE

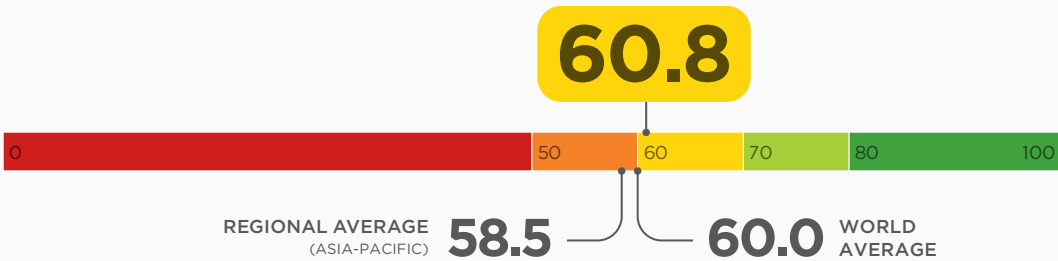
TONGA

Tonga's economic freedom score is 60.8, making its economy the 83rd freest in the 2022 *Index*. Tonga is ranked 17th among 39 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Tonga's economic growth has fluctuated during the past five years. It slowed in 2017 and 2018, accelerated slightly in 2019, turned negative in 2020, and remained negative in 2021. Economic freedom has declined over the same half-decade. With lower scores for **business freedom**, **labor freedom**, and **monetary freedom**, Tonga has recorded a 2.2-point overall loss of economic freedom since 2017 and is at the bottom of the "Moderately Free" category. Tonga receives support from international donors, and **fiscal health** is robust, but **investment freedom** and **financial freedom** are quite weak.

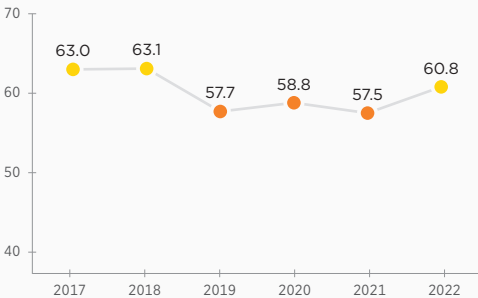
IMPACT OF COVID-19: As of December 1, 2021, data on the number of deaths attributed to the pandemic in Tonga were not available, and the government's response to the crisis ranked 62nd among the countries included in this *Index* in terms of its stringency. The economy contracted by 0.5 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 2009): +6.7

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
0.1 million

GDP (PPP):
\$0.6 billion
-0.5% growth
in 2020
5-year compound
annual growth 2.1%
\$6,191 per capita

UNEMPLOYMENT:
4.4%

INFLATION (CPI):
0.2%

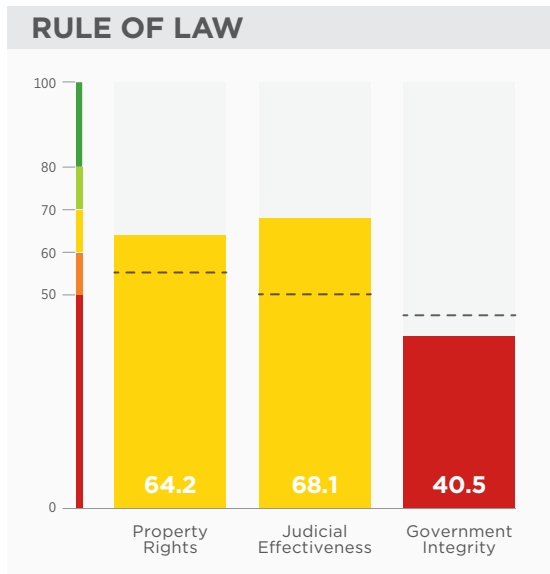
FDI INFLOW:
\$0.0 million

PUBLIC DEBT: 41.6%
of GDP

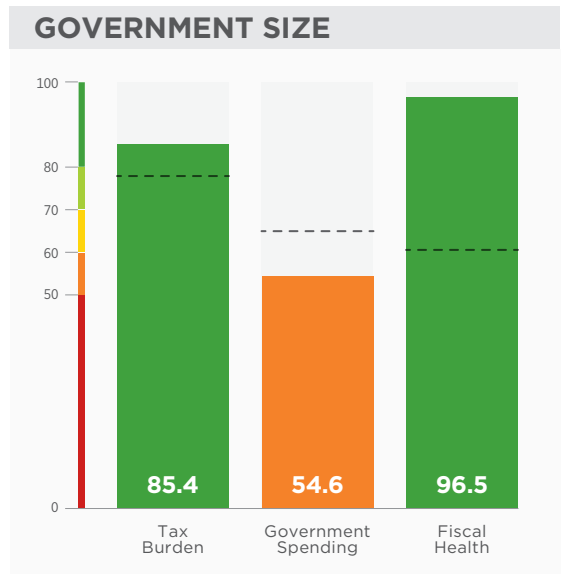
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: The archipelagos of the Friendly Islands were united in 1845. The Kingdom of Tonga, the South Pacific's last Polynesian monarchy, withdrew from British protection and became fully independent in 1970. The royal family of King Tupou VI, hereditary nobles, and a few other landholders control the country's politics. Tonga held its first elections in 2010 under a newly formed constitutional monarchy. After his death, the late prime minister and leader of the Democratic Party of the Friendly Islands (DPFI) 'Akilisi Pohiva was replaced by Pohiva Tu'ionetoa. Tonga's economy depends on such agricultural products as squash, vanilla beans, and yams as well as on tourism and exports of fish. Remittances from emigrants account for nearly one-third of GDP.

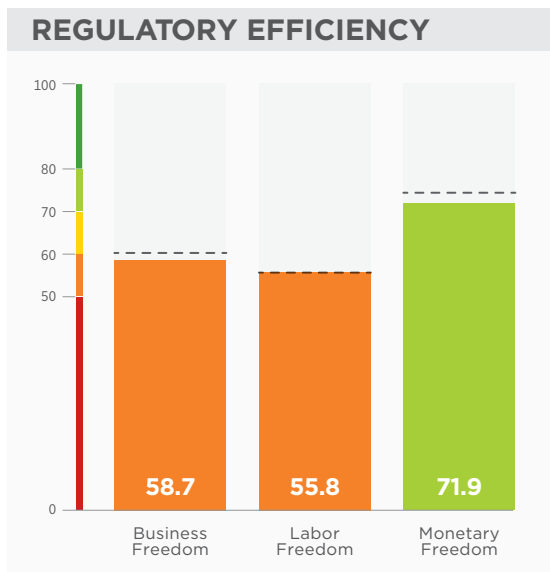
12 ECONOMIC FREEDOMS | TONGA



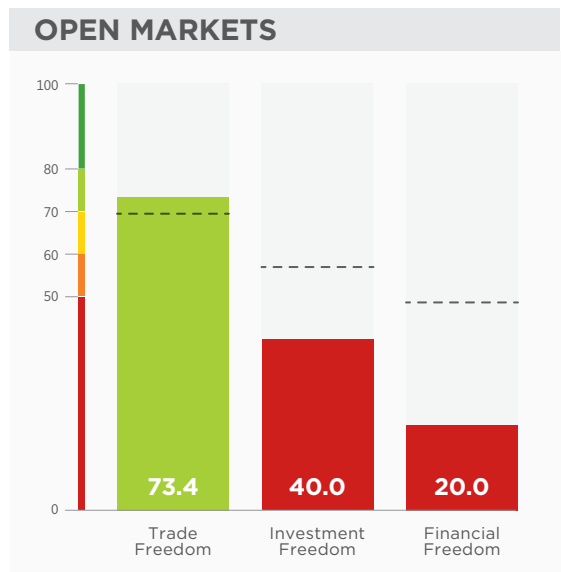
Property rights are poorly defined in law, and enforcement of those rights is weak. Technically, all land belongs to the king. The king also retains authority over judicial appointments and dismissals. Courts are slow and poorly resourced. Corruption and abuse of office are serious problems. Government officials are sometimes held to account for bribery and other malfeasance, but anticorruption mechanisms are generally weak.



The top individual income tax rate is 20 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax. The overall tax burden equals 20.9 percent of total domestic income. Government spending has amounted to 38.9 percent of total output (GDP) over the past three years, and budget surpluses have averaged 3.5 percent of GDP. Public debt is equivalent to 41.6 percent of GDP.



An educated, English-speaking workforce and reasonably sound infrastructure, like Tonga's fertile soil for crops, provide potential for businesses. Remittances are the source of most hard currency earnings, followed by tourism. One of the world's most aid-dependent countries, Tonga is heavily subsidized by inflows of grant aid that represent the preponderance of budget spending.



Tonga has three preferential trade agreements in force. The trade-weighted average tariff rate is 5.8 percent, but layers of nontariff barriers continue to impede trade flows. Foreign investment is screened by the state, and investment in some sectors is restricted. The underdeveloped legal system impedes the growth of a modern financial sector. Much of the population remains outside of the formal banking sector.