

ENABLING ECONOMIC ACTIVITY

For a smaller economy, Tonga is reasonably well serviced with four main banks, which fall under the regulatory control of the National Reserve Bank.

In recent times, the country's commercial banks have tightened their lending criteria, partly in line with global conditions, but also in response to local factors. This has contributed to what the National Reserve Bank of Tonga calls 'record liquidity,' and for businesses and investors with viable projects, good opportunities.

SOUND BANKING SYSTEM

In its March 2009 Monetary Policy Statement, the Reserve Bank says the banking system remains sound: 'while private sector credit growth slowed considerably in the past six months ... lending to the business sector continues to grow at around 20% per annum.'

The Reserve Bank expects reconstruction following the civil disturbances of 2006 will underpin growth for the next few years.

KEY PLAYERS

ANZ's flagship branch, which opened in June 2009, is one of the first tangible products of this reconstruction effort. It's also part of broader expansion on ANZ's part, including new headquarters in Ma'ufanga and expanded provision of ATMs. ANZ Tonga General Manager Arthur Hubbard says while local business conditions are subdued, 'We've now got better liquidity and we'd like to lend.'

Tonga's other major commercial bank is the Westpac Bank of Tonga, which is now 100% owned by Westpac Banking Corporation following its purchase of government's shareholding last year. Ashleigh Matheson, Westpac Bank of Tonga's General Manager, says the Bank has TOP\$36 million (US\$18 million) in liquid assets. However he identifies Tonga's land tenure system as a constraint to growth.

'The land tenure system provides a disincentive for investors and for banks to take risk in Tonga. Every Tongan has a right to land and Tongans can't lose their land. Therefore, we can't use land as collateral for a mortgage or loan,' Matheson says. Westpac is making a submission to the forthcoming Royal Land Commission on the matter.

The locally-incorporated, Malaysian-owned MBf Bank started business in Tonga in 1993. It is a niche player in Tonga, with less than 10% of the total market.

H K Yeoh, General Manager of MBf, says that their share of market, though marginal, is growing:

'Last year, across the board we achieved a growth of 20% ... and we should be able to replicate another strong performance for 2009 ... From our point of view there is a growing demand for personal banking. We have taken a direct business approach in this simple but difficult market. We are a low-cost service provider, with a low fees structure people understand.'

Another niche bank, the Tonga Development Bank, focuses on development financing and micro-lending. It accounts for about 85% of Tonga's agricultural lending, and has about 15% of the market share. Manager—Risk Management John Bath believes there's further potential in the agricultural sector. 'Agriculture has got some good ideas—part of the issue is the volume that is required. We have a coffee industry, kava and vanilla, and we've funded them over the years.'

A notable feature of Tonga's financial services landscape is the proliferation of international money transfer outlets belonging to companies like Western Union and Moneygram (whose local agent is Westpac Bank of Tonga)—a symptom of Tonga's reliance on overseas remittances.

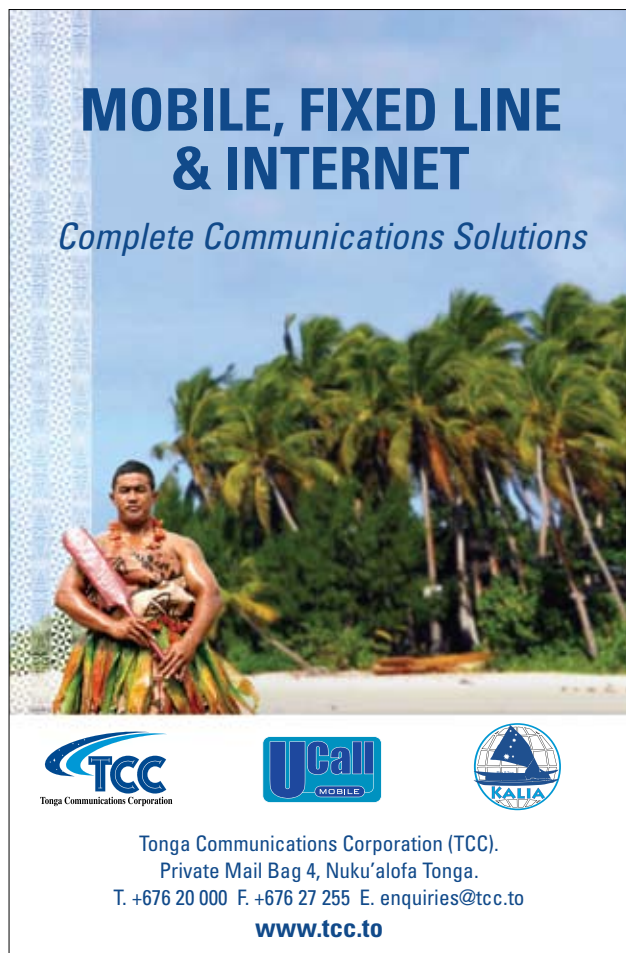
SIGNS FOR OPTIMISM

Other non-bank operators in Tonga's financial sector say recent developments in the local business environment present opportunities.




Christine 'Uta'atu of Tonga's largest accounting firm, 'Uta'atu and Associates, says changes in the global economy and local circumstances—the problems of 2006 and impending political changes—mean many of their clients are being more vigilant about their books:

'I think people are working smarter than they were before, keeping an eye on cash flow, and being ready for changes,' she told *Business Advantage*.

Ross Chapman, as Chief Executive Officer of Pacific Management Consulting—part of the diversified Pacific Finance & Investments Group—says he has 'a lot of confidence in the economy, and for people looking at investing in the country there are a lot of opportunities here. 'Tonga has been overlooked in the past,' Chapman says. ■



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