



## QUARTERLY DEBT BULLETIN as of 31<sup>st</sup> March 2024

### OVERVIEW

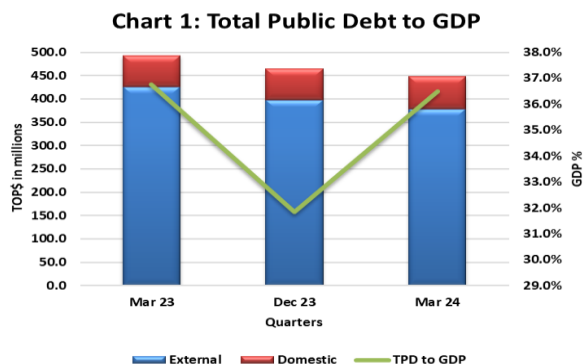
This report summarizes the Government's (GoT) position during FY 2023/24 from 1<sup>st</sup> January 2024 to the 31<sup>st</sup> of March 2024, in millions of Pa'anga. Comparisons have been made to the previous quarter (December 2023), and to the previous year (March 2023). The information covers External, Domestic, On-lent, and Government Guaranteed debt.

### 1. TOTAL PUBLIC DEBT

**1.1 Total Public Disbursed Outstanding Debt** as of 31<sup>st</sup> March 2024 is estimated at \$448.4m (at 36.5% of GDP) as shown in Table 1 and Chart 1. Total public debt decreased by \$15.8m between December 2023 and March 2024. This was mainly due to principal repayment of \$20.9m made during the March 2024 quarter, at the same time the Pa'anga depreciated against the major borrowing currencies: to USD (2.05%) and CNY (0.4%). There was a new Government Bond issuance of \$3m during the quarter.

**Table 1: Total Public Debt by Residency**

| LOANS                    | Mar 23       | Dec 23       | Mar 24       |
|--------------------------|--------------|--------------|--------------|
| <b>External</b>          | 425.4        | 397.0        | 378.1        |
| <b>Domestic</b>          | 67.3         | 67.3         | 70.3         |
| <b>TOTAL PUBLIC DEBT</b> | <b>492.8</b> | <b>464.3</b> | <b>448.4</b> |



**Total Debt Service (Expenditure)** for March 2024 quarter is estimated at \$30.6m, for *external debt* at \$24.1m (78.6%) and *domestic debt* payment at \$6.5m (21.4%). This is equivalent to 2.5% of GDP (at \$1229.2m).

### 2. EXTERNAL DEBT

**2.1 Total External debt** as of the 31<sup>st</sup> of March 2024 is recorded at \$378.1m (30.8% of GDP). The external debt consists of multilateral creditors 53.0% and 47.0% bilateral creditors. The external disbursed outstanding debt amount decreased by \$18.9m and

\$47.3m when compared to December 2023 and March 2023 quarters respectively.

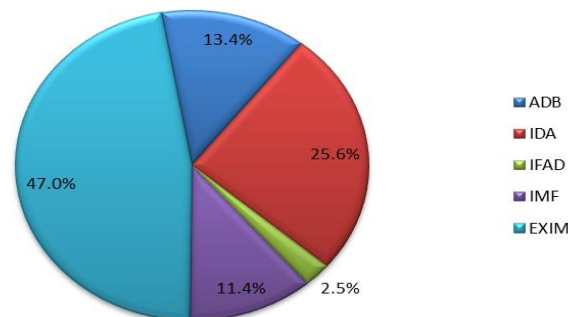
### 2.2 External DOD by Creditor

The external debt by Creditor is shown in Table 2 and Chart 2.

**Table 2: External DOD by Creditor (in T\$m)**

| CREDITOR              | Mar 23       | Dec 23       | Mar 24       |
|-----------------------|--------------|--------------|--------------|
| <b>Multilateral</b>   | <b>204.3</b> | <b>200.2</b> | <b>200.3</b> |
| ADB                   | 55.1         | 51.0         | 50.7         |
| IDA                   | 97.6         | 96.9         | 96.8         |
| IFAD                  | 8.6          | 9.6          | 9.5          |
| IMF                   | 43.0         | 42.7         | 43.3         |
| <b>Bilateral</b>      | <b>221.1</b> | <b>196.8</b> | <b>177.8</b> |
| Exim Bank             | 221.1        | 196.8        | 177.8        |
| <b>Total EXTERNAL</b> | <b>425.4</b> | <b>397.0</b> | <b>378.1</b> |

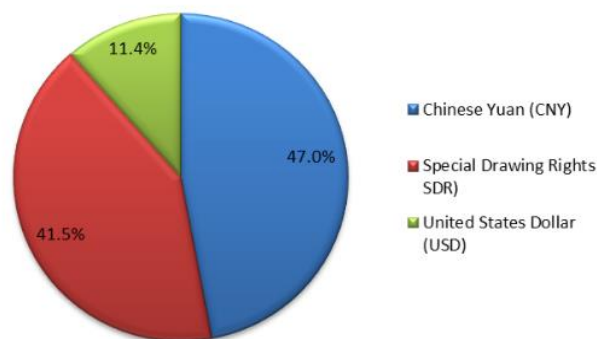
**Chart 2: External DOD by Creditor (in %)**



### 2.2 External DOD by Currency Composition

The main outstanding loan currency as of 31<sup>st</sup> March 2024 denominated in Chinese Yuan and is shown in Chart 3 and with decomposition of the SDR basket of currency in Chart 4.

**Chart 3: External Debt by Currency Composition**

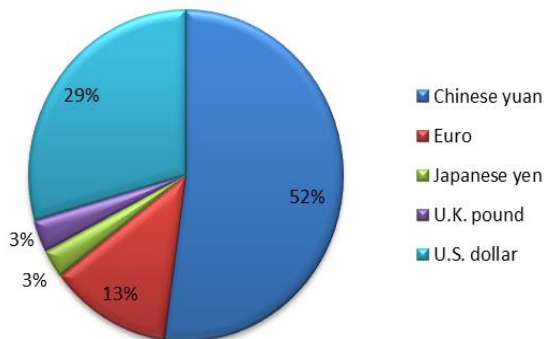




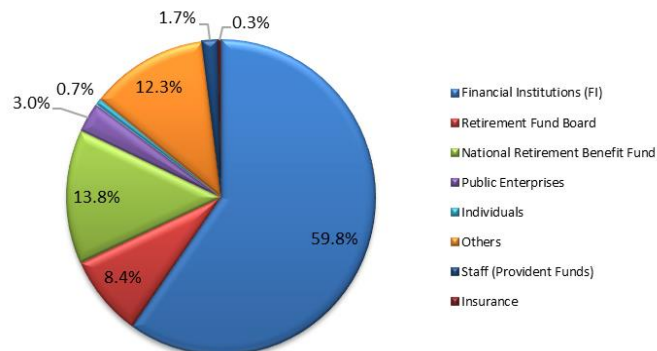
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domestic loan payment arrears. All bonds are held by residents of Tonga.

**Chart 4: External Debt by Currency composition with SDR decomposed**



**Chart 5: Domestic Bonds by Bond Holders**



**External Disbursement**

Even though there were no new external loans contracted during the Quarter, there was a disbursement of \$0.05m made during the March 2024 quarter. This disbursement was for the Outer Island Renewable Energy on-going project loan which was effective in 2017.<sup>1</sup>

**2.3 External Debt Service**

Total external debt service for the Quarter ending on the 31<sup>st</sup> of March 2024 is estimated at \$50.1m. This is equivalent to 4.1% of annual GDP (at \$1,229.2m), in ratio to recurrent revenue for FY 2023/24 (GoT) of 12.8% (at \$392.3m) and in ratio to recurrent expenditure for FY 2023/24 of 11.9% (at \$419.5m).

For external debt, the main repayment quarters as projected, are the quarters ending in September 2023 at \$23.2m (44.7% of total external debt service for FY 2023/24) and March 2024 at \$22.9m (44.0% of total external debt service for FY 2023/24). There were no external payment arrears.

**3 DOMESTIC DEBT**

**3.1 Total Domestic debt** as of 31<sup>st</sup> March 2024 is recorded at \$70.3m (5.7% of annual GDP), for GoT bonds on issue. The main bond holders are the Financial Institutions at \$42.04m (59.8%) and National Retirement Benefit Fund at \$9.74m (13.8%) as shown in Chart 5. There were no

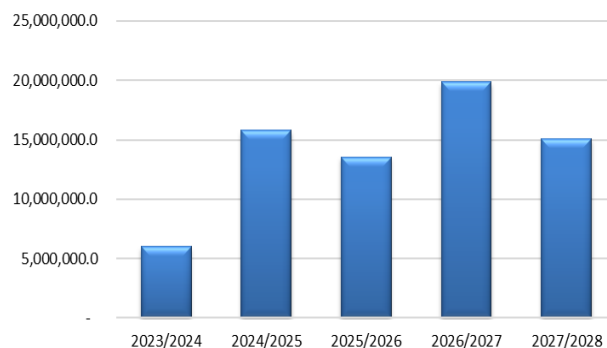
**3.2 Government Bond Maturity by Financial Year**

Domestic Debt is composed of Treasury bonds with tenors ranging from 2 years to 6 years. Government has mainly issued bonds with a maturity of 5 years.

From the 1<sup>st</sup> of January to 31<sup>st</sup> of March 2024, the Government of Tonga issued a total of \$9m Treasury Bonds with tenors of 3 years.<sup>2</sup>

Chart 6 shows Bond maturity by financial year (FY). The National Reserve Bank of Tonga (NRBT) act as the registrar of domestic bonds issuance.

**Chart 6: Government of Tonga Treasury Bond Maturity by Financial Year in T\$**



**3.3 Domestic Debt Service**

Domestic debt service for the quarter ending March 2024 is estimated at \$7.1m, and this is equivalent to

<sup>1</sup> The loan is SDR 1.8 million contracted from ADB Special Funds resources with a maturity 31 years including 8 years grace period, at an interest rate of 1% per year during grace period and 1.5% per year thereafter.

<sup>2</sup>A roll over Treasury Bond of \$6m in January 2024 and a new Treasury Bond issuance of \$3m in February 2024.



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0.6% of annual GDP (at \$1,229.2m). The main repayment quarters as projected for domestic debt comprise of January 2024 at \$6.2m (44.7% of total domestic debt service for FY 2023/24), April 2024 at \$5.4m (38.5% of total domestic debt service for FY 2023/24) and June 2024 at \$1.3m (9.7% of total domestic debt service for FY 2023/24). The presented figures are due to the maturing of bonds during these quarters. There were no domestic payment arrears.

#### **4. GOVERNMENT GUARANTEES**

**Total government guaranteed debt** as of 31<sup>st</sup> of March 2024 is estimated at \$16.01m, of which is \$13.9m is for private companies (Cost Low Company Ltd \$5.6m, Inter Pacific Ltd \$3.4m, Royco Ports Services Ltd \$2.3m, Island Dredging Company Ltd \$2.1m, City Engineering and Constructions Company Ltd \$0.5m) and \$2.1m is for Public Company (Lulutai Airlines Ltd \$2.1m) There were no government payments required for loan guarantees. Further, there were no new guarantees issued during the reporting quarter.

#### **5. ON-LENT LOANS**

**Total on-lent loans** as of the 31<sup>st</sup> of March 2024 due to the GoT from various public and other enterprises, are estimated at \$44.8m (3.6% of annual GDP), a slight decrease from \$44.81m as at 31<sup>st</sup> of December 2023. The outstanding amount was for on-lending to public companies (\$2.4m) for Development projects and for private companies (\$42.4m) for Nuku'alofa CBD projects.<sup>3</sup>

The Total debt service (revenue) for March 2024 quarter is estimated at \$0.5m for on-lent loan repayments from O.G Sanft & Sons Ltd. The total amount of on-lent arrears as of March 31<sup>st</sup>, 2024, is estimated at \$31.8m. This comprises of private companies on-lent loans for Nuku'alofa CBD projects.

#### **6. COST AND RISK INDICATORS**

The cost of the existing debt portfolio is relatively low and driven by a large share of external debt. At the end of March 2024, the value of total debt represented 30.7% of GDP as illustrated in Table 3. This shows that total debt is an important share of concessional external borrowing. The cost of domestic debt is higher than the cost of external debt with a weighted average implied interest rate of **respectively 2.8% and 1.4%**.

Refinancing risk is the main risk of the existing debt portfolio. The domestic debt portfolio is exposed to refinancing risk at 15.6% of the government securities due for redemption within 1 year and an average time

to maturity (ATR) of only 2.5 years. This also implies to External debt portfolio.

As with the Foreign Exchange Risk, an 84.1% of debt denominated in foreign currencies is high even though it has declined by 3% from previous quarter (December 2023). This is an indication that the Government has commenced with the repayment of the Nuku'alofa CBD Reconstruction Project loan to China.

**Table 3: Cost and Risk Indicators**

| <i>Risk Indicators</i>                |                                                 | <i>External debt</i> | <i>Domestic debt</i> | <i>Total debt</i> |
|---------------------------------------|-------------------------------------------------|----------------------|----------------------|-------------------|
| <b>Amount (in millions TOP)</b>       |                                                 | 378.1                | 70.3                 | 448.4             |
| <b>Nominal debt as percent of GDP</b> |                                                 | 30.8                 | 5.7                  | 36.5              |
| <b>Cost of debt</b>                   | Interest payment as percent of GDP <sup>3</sup> | <b>0.4</b>           | <b>0.1</b>           | <b>0.5</b>        |
|                                       | Weighted Av. IR (percent)                       | <b>1.4</b>           | <b>2.8</b>           | <b>1.6</b>        |
| <b>Refinancing risk</b>               | ATM (years)                                     | <b>7.3</b>           | <b>2.5</b>           | <b>6.6</b>        |
|                                       | Debt maturing in 1yr (percent of total)         | <b>11.9</b>          | <b>15.6</b>          | <b>12.5</b>       |
|                                       | Debt maturing in 1yr (percent of GDP)           | <b>3.3</b>           | <b>0.8</b>           | <b>4.0</b>        |
| <b>Interest rate risk</b>             | ATR (years)                                     | <b>7.3</b>           | <b>2.5</b>           | <b>6.6</b>        |
|                                       | Debt refinancing in 1yr (percent of total)      | <b>11.9</b>          | <b>15.6</b>          | <b>12.5</b>       |
|                                       | Fixed rate debt incl T-bills (percent of total) | <b>100.0</b>         | <b>100.0</b>         | <b>100.0</b>      |
|                                       | T-bills (percent of total)                      | <b>0.0</b>           | <b>0.0</b>           | <b>0.0</b>        |
| <b>FX risk</b>                        | FX debt (percent of total debt)                 |                      |                      | 84.1              |
|                                       | ST FX debt (percent of reserves)                |                      |                      | 5.0               |

<sup>3</sup> Reconstruction of Nuku'alofa Central Business District (CBD) due to the political uproar and destruction of most business stationed in CBD in November 2016.



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**7. DEBT SUSTAINABILITY INDICATORS**

Under the baseline scenario, Tonga is not breaching the IMF thresholds (International Monetary Fund, 2023) and the PV of external debt-to-GDP ratio is expected to decline by approximately 5% each financial year, reflecting large repayments to China Exim Bank. This is shown in Table 4.

**Table 4: Sovereign Debt Sustainability Indicators**

| Indicators                      | (IMF)<br>Tonga<br>Target % | 2024/25 | 2025/26 | 2026/27 |
|---------------------------------|----------------------------|---------|---------|---------|
| <i>NPV of external debt as:</i> |                            |         |         |         |
| % of GDP                        | 55%                        | 26%     | 21%     | 17%     |
| % of GDP & remittances          | 36%                        | 18%     | 14%     | 12%     |
| % of government revenues        | 250%                       | 47%     | 39%     | 32%     |
| <i>Debt Service as:</i>         |                            |         |         |         |
| % of exports & remittances      | 21%                        | 11%     | 10%     | 10%     |
| % of revenues                   | 23%                        | 10%     | 9%      | 9%      |

**8. EXCHANGE RATE FLUCTUATIONS**

The significant movement of the Pa'anga against the borrowing currencies during March 2023 and March 2024 showed a depreciation of the Pa'anga against the USD (1.41%) and an appreciation against the CNY (3.6%) and SDR (0.2%) as shown in Table 5 below.

**Table 5: FC/TOP Exchange Rate<sup>4</sup>**

| TOP/FC | Mar 23 | Dec 23 | Mar 24 |
|--------|--------|--------|--------|
| CNY    | 0.3419 | 0.3284 | 0.3296 |
| SDR    | 3.1603 | 3.1596 | 3.1530 |
| USD    | 2.3493 | 2.3346 | 2.3825 |
| EUR    | 2.5684 | 2.5885 | 2.5848 |
| GBP    | 3.0651 | 2.9797 | 3.0198 |
| JPY    | 0.0204 | 0.0165 | 0.0158 |

**ABBREVIATIONS:**

| GDP    | Gross Domestic Product                           |
|--------|--------------------------------------------------|
| GoT    | Government of Tonga                              |
| DOD    | Disbursed Outstanding Debt                       |
| ADB    | Asian Development Bank                           |
| IDA    | International Development Association-World Bank |
| IFAD   | International Fund for Agricultural Development  |
| IMF    | International Monetary Fund                      |
| CNY    | Chinese Yuan Renminbi                            |
| SDR    | Special Drawing Rights                           |
| USD    | United States Dollar                             |
| EUR    | The Euro                                         |
| GBP    | Great Britain Pound                              |
| JPY    | Japanese Yen                                     |
| F/Year | Financial Year                                   |
| CBD    | Central Business District                        |
| NPV    | Net Present Value                                |
| ATR    | Average Time to Maturity                         |
| NRBT   | National Reserve Bank of Tonga                   |

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**REFERENCE:**

International Monetary Fund. (2023). TONGA :2023 Article IV Consultation-Press Release; And Staff Report. *IMF Country Report No. 23/361*, 11-12.

<sup>4</sup> FC: Foreign Currency, TOP: Tongan Pa'anga