



## QUARTERLY DEBT BULLETIN as of 30<sup>th</sup> September 2024

### OVERVIEW

This report summarizes the Government's (GoT) debt position from 1<sup>st</sup> July 2024 to the 30<sup>th</sup> of September 2024, in millions of Pa'anga. Comparisons have been made to the previous quarter (June 2024), and to the same quarter in the previous year (September 2023). The information covers External, Domestic, On-lent, and Government Guaranteed debt.

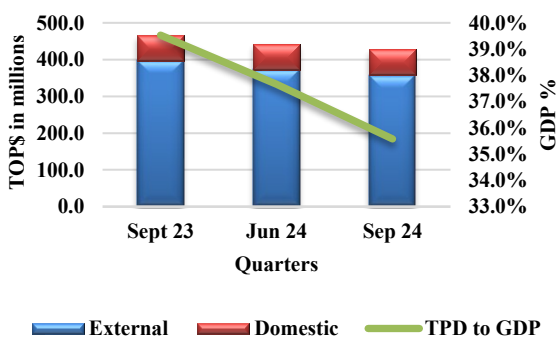
### 1. TOTAL PUBLIC DEBT

**1.1 Total Public Disbursed Outstanding Debt** as of 30<sup>th</sup> September 2024 is estimated at \$427.7m (35.6% of GDP) as shown in Table 1 and Chart 1 below. Total public debt decreased by \$15.7m between June 2024 and September 2024. This was mainly due to principal repayment of \$19.6m made during the September 2024 quarter, at the same time the Pa'anga depreciated against the major borrowing currencies: to SDR (1.4%) and CNY (2.0%). As at end of September 2024, 36% of total loan from China EXIM Bank paid (est. \$90.3m out of \$249.7m total loan outstanding from China EXIM Bank). There were no new loans contracted during the quarter.

**Table 1: Total Public Debt (T\$m) by Residency**

LOANS	Sept 23	Jun 24	Sept 24
External	398.0	373.0	358.0
Domestic	67.3	70.3	69.7
<b>TOTAL PUBLIC DEBT</b>	<b>465.4</b>	<b>443.4</b>	<b>427.7</b>

**Chart 1: Total Public Debt to GDP**



**1.2 Total Debt Service (Expenditure)** for September 2024 quarter is estimated at \$29.7m, of which for *external debt* is \$23.2m (78.1%) and *domestic debt* payment at \$6.5m (21.9%). This is equivalent to 1.9% of GDP (\$1202.1m).

### 2. EXTERNAL DEBT

**2.1 Total External debt** as of 30<sup>th</sup> September 2024 is recorded at \$358.0m (29.8% of GDP). The external debt consists of multilateral creditors 55.5% and 44.5% bilateral creditors. The external disbursed outstanding debt amount decreased by \$37.7m and \$15.7m respectively when compared to September 2023 and June 2024 quarters respectively.

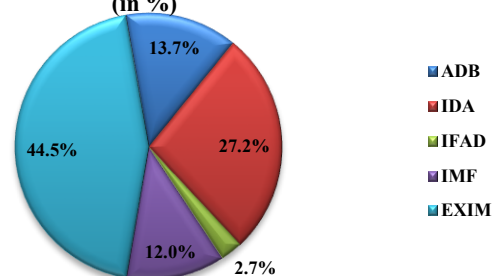
### 2.2 External DOD by Creditor

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

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

CREDITOR	Sept 23	Jun 24	Sept 24
<b>Multilateral</b>	<b>200.8</b>	<b>197.3</b>	<b>198.6</b>
ADB	52.6	48.9	49.0
IDA	96.2	95.9	97.2
IFAD	8.4	9.7	9.6
IMF	43.6	42.9	42.8
<b>Bilateral</b>	<b>197.2</b>	<b>175.7</b>	<b>159.4</b>
Exim Bank	197.2	175.7	159.4
<b>Total EXTERNAL</b>	<b>398.0</b>	<b>373.0</b>	<b>358.0</b>

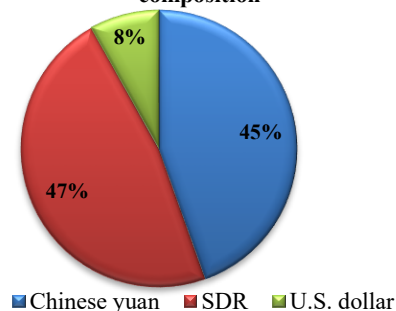
**Chart 2: External DOD by Creditor (in %)**



### 2.2 External DOD by Currency Composition

The main outstanding loan currency as of 30<sup>th</sup> September 2024 denominated in Special Drawing Rights (SDR) and is shown in Chart 3 and with decomposition of the SDR basket of currency in Chart 4.

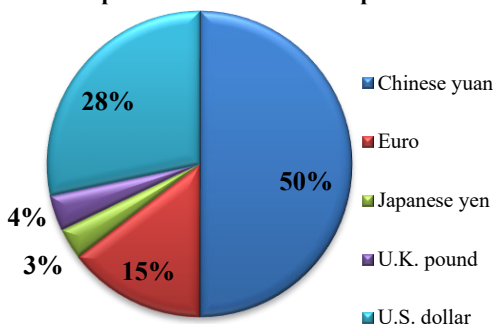
**Chart 3: External Debt by Currency composition**



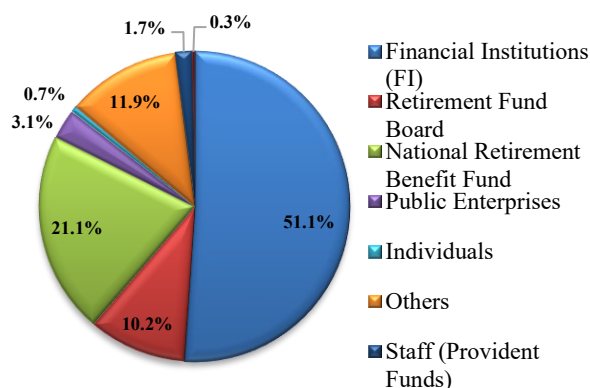


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**Chart 4: External Debt by Currency composition with SDR decomposed**



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



**2.3 External Disbursement**

Even though there were no new external loans contracted during the quarter, there was a disbursement of \$0.7m made during the September 2024 quarter. This disbursement was for Pacific Resilience Project loan which was effective in 2015.<sup>1</sup>

**2.4 External Debt Service**

Total external debt service for the quarter ending on the 30<sup>th</sup> of September 2024 was \$29.7m. This is equivalent to 2.5% of annual GDP (\$1,202.1m), as a percentage to recurrent revenue for FY 24/25 (GoT) of 5.1% (at \$452.3m) and as a percentage of recurrent expenditure for FY 24/25 of 1.4% (at \$452.3m).

For external debt, the main repayment quarters in which majority of the repayments will fall in as projected, are the quarters ending in September 2024 amounted to \$21.7m (43% of total external debt service for FY 24/25) and March 2025 amounted to \$20.5m (40.5% of total external debt service for FY 24/25). There were no external payment arrears.

**3 DOMESTIC DEBT**

**3.1 Total Domestic debt** as of 30<sup>th</sup> September 2024 is recorded at \$69.7m (5.8% of annual GDP), for GoT bonds on issue. The main bond holders are the Financial Institutions amounted to \$35.6m (51.1%) and National Retirement Benefit Fund which amounted to \$14.7m (21.1%) as shown in Chart 5. There were no domestic loan payment arrears. All bonds are held by the residents of Tonga.

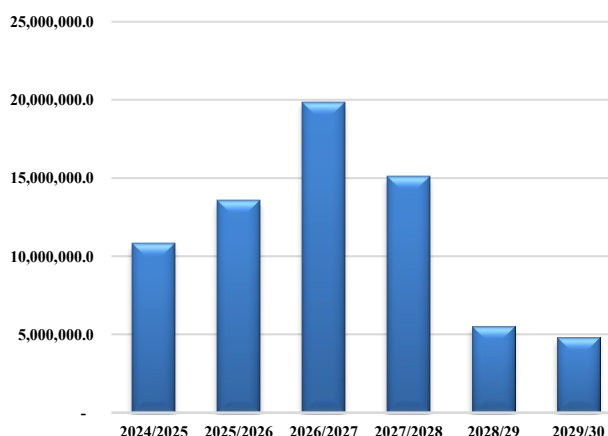
**3.2 Government Bond Maturity by Financial Year**

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> January to 30<sup>th</sup> September 2024, the Government of Tonga issued a total of \$6.0m Treasury Bonds with tenors of 4-5 years.<sup>2</sup>

Chart 6 below shows Bond maturity by financial year (F/Y). The National Reserve Bank of Tonga (NRBT) act as the registrar of domestic bonds issuance<sup>3</sup>.

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



<sup>1</sup> The loan is SDR 6 million contracted from IDA to support a regional climate and disaster resilience program. This program, undertaken by the PIFS and SPC countries, financed by IDA and other donor partners.

<sup>2</sup>Two Treasury bonds, totaling \$6million were rolled over in July 2024.

<sup>3</sup>National Reserve Bank of Tonga Act 1988 (rev.2011) section 4(a).



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### 3.3 Domestic Debt Service

Domestic debt service for the quarter ending September 2024 is estimated at \$6.5m, which is equivalent to 0.5% of the annual GDP (\$1,202.1m). Domestic repayments for the Quarter in reporting reached its highest in July 2024, due to the maturity of two Treasury bonds totaling \$6.0m (20% of total Debt Service for the Quarter). A Bond worth \$1.0m matured on June 30<sup>th</sup>, effective July 1<sup>st</sup>, while a \$5.0m bond matured on July 25<sup>th</sup>. There were no domestic payment arrears, at the completion of the reporting quarter.

### 4. GOVERNMENT GUARANTEES

**Total government guaranteed debt** as of 30<sup>th</sup> September 2024 is estimated at \$16.4m, of which \$15.0m is for private companies (Cost Low Company Ltd \$6.2m, Inter Pacific Ltd \$3.4m, Royco Ports Services Ltd \$2.4m, Island Dredging Company Ltd \$2.2m, City Engineering and Constructions Company Ltd \$0.8m) and \$1.4m is for Public Company (Lulutai Airlines Ltd \$1.4m) 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 30<sup>th</sup> September 2024 due to the GoT from various public and other enterprises, is estimated at \$38.5m (3.2% of annual GDP), a decrease from \$44.9m as at 30<sup>th</sup> of September 2023. In February 2024, following extensive collaboration and negotiations between the GoT and the Nuku'alofa CBD borrowers, Cabinet approved a write-off of 25% of the principal and outstanding interest on the loans. The event was initiated in response to the recurring plumbing issues and substandard construction, which led to payment defaults.

The outstanding amount was for on-lending to public companies (\$2.2m) for Development projects and for private companies (\$36.4m) for Nuku'alofa CBD projects.<sup>4</sup>

The Total debt service (revenue) for September 2024 quarter is estimated at \$0.05m for on-lent loan repayments from Royco Amalgamated Ltd. The total amount of on-lent arrears as of September 30<sup>th</sup>, 2024, is estimated at \$19.5m. This comprises 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 September 2024, the value of total debt represented 35.6% 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 3.0% and 1.0%**.

Refinancing risk is the main risk of the existing debt portfolio. The domestic debt portfolio is exposed to refinancing risk at 15.5% of the government securities due for redemption within 1 year and an average time to maturity (ATR) of only 2.6 years. However, as a percentage of GDP, this risk is less in the domestic debt than that with the external debt at 0.9%, compared to 2.1%. This also implies to External debt portfolio. Significant reductions in Debt maturing in 1 year for external debt were realized due to the repayment of loans by China Exim-Bank for the Nuku'alofa CBD project. A similar but slight reduction was observed in domestic debt, which declined by 0.1% compared to the previous quarter (June 2024).

As with the Foreign Exchange Risk, 84.1% of debt denominated in foreign currencies is still high. 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**

Risk Indicators		External debt	Domestic debt	Total debt
<b>Amount (in millions TOP)</b>		358.0	69.7	427.7
<b>Nominal debt as percent of GDP</b>		29.8	5.8	35.6
<b>Cost of debt</b>	Interest payment as percent of GDP <sup>3</sup>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>
	Weighted Av. IR (percent)	<b>1.0</b>	<b>3.0</b>	<b>1.3</b>
<b>Refinancing risk</b>	ATM (years)	<b>8.0</b>	<b>2.6</b>	<b>7.2</b>
	Debt maturing in 1yr (percent of total)	<b>6.1</b>	<b>15.5</b>	<b>7.4</b>
	Debt maturing in 1yr (percent of GDP)	<b>2.1</b>	<b>0.9</b>	<b>3.1</b>
<b>Interest rate risk</b>	ATR (years)	<b>8.0</b>	<b>2.6</b>	<b>7.2</b>
	Debt refixing in 1yr (percent of total)	<b>6.1</b>	<b>15.5</b>	<b>7.4</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)			2.8

<sup>4</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) Tonga Target %	2024/25	2025/26	2026/27
<i>NPV of external debt as:</i>				
% of GDP	55%	29%	23%	18%
% of GDP & remittances	36%	19%	15%	13%
% of exports	240%	941%	748%	587%
% of exports & remittances	120%	55%	41%	37%
% of government revenues	250%	90%	74%	61%
<i>Debt Service as:</i>				
% of exports	21%	179%	173%	162%
% of exports & remittances	16%	10%	10%	10%
% of revenues	23%	17%	17%	17%

**8. EXCHANGE RATE FLUCTUATIONS**

The significant movement of the Pa'anga against the borrowing currencies, during September 2023 and September 2024, showed a depreciation of the Pa'anga against the CNY (2%), SDR (1.4%) and an appreciation against the USD (1.7%), as shown in Table 5 below.

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

TOP/FC	Sept 23	Jun 24	Sept 24
CNY	0.3279	0.3257	0.3321
SDR	3.1479	3.1140	3.1580
USD	2.3939	2.3674	2.3283
EUR	2.5324	2.5420	2.6072
GBP	2.9287	3.0048	3.1270
JPY	0.0161	0.0148	0.0164

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**REFERENCE:**

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**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/Y	Financial Year
CBD	Central Business District
NPV	Net Present Value
ATR	Average Time to Maturity
NRBT	National Reserve Bank of Tonga
PIFS	Pacific Islands Forum Secretariat
SPC	Secretariat of the Pacific Community

<sup>5</sup> FC: Foreign Currency, TOP: Tongan Pa'anga