



ANNUAL BORROWING PLAN

Financial Year 2024/25

**Financial Framework Division
Ministry of Finance, Kingdom of Tonga**

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1. General Statement

- The Ministry of Finance of the Kingdom of Tonga published its Medium-Term Debt Management Strategy (MTDS) for fiscal years (FY) 2021 – 2025 in March 2021. The MTDS will be updated to end of June 2024 and to be published by end of September 2024. The MTDS outlines the Government’s debt management objectives and a framework for the formulation and implementation of a prudent borrowing program for the above-mentioned time frame. The priority according to MTDS is to focus on grant financing and domestic bond issuances at lengthened maturities. The MTDS targets external debt share of 70%, and average term maturity of 40 yrs. Up to FY2024, the debt share is 84% and 16% of the total outstanding debt for external and domestic debt respectively and the average term maturity is 34 yrs for external debt and 5% for domestic debt.
- The Annual Borrowing Plan (ABP) specifies the Government’s financing needs and sources for FY2025 and is consistent with the MTDS and the budget strategy for FY2025. It is also consistent with the Medium-Term Fiscal Strategy and the principles of responsible financial management to ensure that Government debt remains within sustainable levels.
- The risk of external debt distress and overall risk of debt distress rating for Tonga remains high as per IMF Staff report for the 2023 Article IV Consultation on Debt Sustainability Analysis (DSA). Large external shocks in recent years have exacerbated Tonga’s debt vulnerabilities resulting in Government introducing new issuance of bond during FY 2024. Given the current year balanced budget, Tonga does not plan to contract new external loans unless it is a very highly concessional loan terms and conditions (free-interest loan) and looking at reducing FX exposure by increasing domestic financing to comply with the Medium-Term Debt Strategy (MTDS). The MTDS 2021-2025 was setting the Debt Policy to remain with no new non-concessional borrowing except borrowing from highly concessional facilities and endeavor efforts to develop the domestic government securities market
- Government of Tonga is anticipating a continuous high debt service in FY 2025 and the next 3 years due to the commencement of the principal repayment of the Nuku’alofa CBD Reconstruction project loan to China EXIM Bank. Total debt service due to China EXIM Bank in FY 2025 is estimated at TOP \$42m, which accounts for 61 percent of Tonga’s total debt service for FY 2025. The government issued a new domestic bond in FY 2024 (TOP \$6m, 3 years, 3% interest rate) as one of the refinancing options to assist with our external debt repayment and will continue to increase domestic financing to reduce exchange rate risk.

The Government through the Ministry of Finance will ensure financing needs are met at minimal costs, subject to prudent levels of risk while maintaining the objective of domestic bond market development. Additionally, Government is supporting the maintenance of adequate foreign reserves and liquidity in the banking sector.

The Government of Tonga, through the National Reserve Bank of Tonga (NRBT), has implemented several measures to support the maintenance of adequate foreign reserves and liquidity in the banking sector. Here are some key strategies:

1. **Foreign Reserves Management:**
 - **Budget Support and Grants:** Tonga has received substantial budget support, relief funds, and official grants from development partners. These inflows have significantly bolstered the country’s foreign reserves.
 - **Remittances:** Remittances from Tongans living abroad play a crucial role in maintaining foreign reserves. These inflows help stabilize the economy and provide a buffer against external shocks.
2. **Credit Growth and Lending Rates:**
 - **Encouraging Credit Growth:** The NRBT has been working to stimulate credit growth by ensuring that lending rates are conducive to borrowing. This includes monitoring and adjusting interest rates to support economic activities.
 - **Support for Private Sector:** By maintaining high liquidity levels, the NRBT supports the private sector, encouraging investments and economic growth.

These measures collectively help maintain a stable financial environment in Tonga, ensuring that the banking sector remains robust and capable of supporting the country’s economic needs.

2. Government Borrowing Requirements for FY 2025

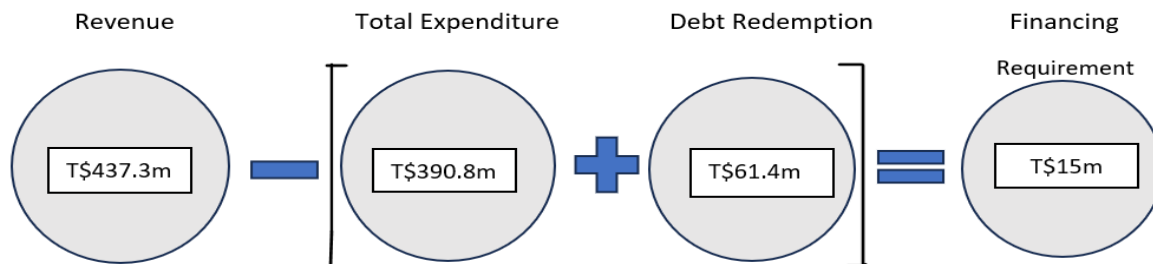
ABP for FY 2025 presents the Government’s annual strategy for debt operations to support the efficient financing of the budget.

The cumulative financing requirement is T\$15m, after considering the expected large primary surplus FY 2025, as approved by Parliament of Tonga.

Table 1: Financing Requirement for FY 2025

	FY24/25
	Amount in \$m
Primary surplus	46.5
External debt service	45.3
Domestic bonds maturing	15.8
Extra redemption	0.4
Financing needs	15
Borrowing plan	15

Figure 1: Government Borrowing Requirements for FY 2025



The scheduled debt repayments include TOP \$15.8m in domestic debt repayments and TOP \$45.3m in external debt repayments.

3. Planned Funding Sources for FY2025

- The Government will continue to pursue domestic borrowing in terms of Government Bond roll-over and new issuance if needed, with no new external borrowing unless there will be a highly concessional facility, to ensure that the debt composition is well managed against any exchange rate risks. The total revised financing need is estimated at T\$15m, which will be sourced from 100% of domestic bond rollover.¹
- The current debt composition target is to achieve a ratio of 70:30 domestic to external debt. The recent financing from multilateral and bilateral partners is expected to decrease the external debt composition tolerance level in terms of exposure to foreign currency risks during the next 2 financial years. However, external financing will be managed over the MTDS period to maintain the debt composition.
- The ABP FY2025 envisages a domestic environment with a high level of liquidity in the banking sector and stable opportunities for the Government to refinance and increase long-term Government debt securities in the market and at lower yields. The Government will continue to assess and monitor domestic market conditions and investor responses, which could result in changes to the prospective funding plan.

3.1 Domestic Borrowing Plan

- The Government planned continuous domestic financing which will be from the Government bond roll over the current stock as part of its development objective to build the market yield curve.
- The Government domestic debt management strategy for this period as outlined in the MTDS emphasizes the following objectives:
 - Change maturity profile through a gradual reduction in T-Bills.
 - Issuances of short and medium-term domestic bonds (2 – 5 years tenors).
 - Continued issuance of long-dated bonds (10 – 20 years tenors).

¹ According to the Public Finance Management Act 2002, the limit of new borrowing is TOP 15m.

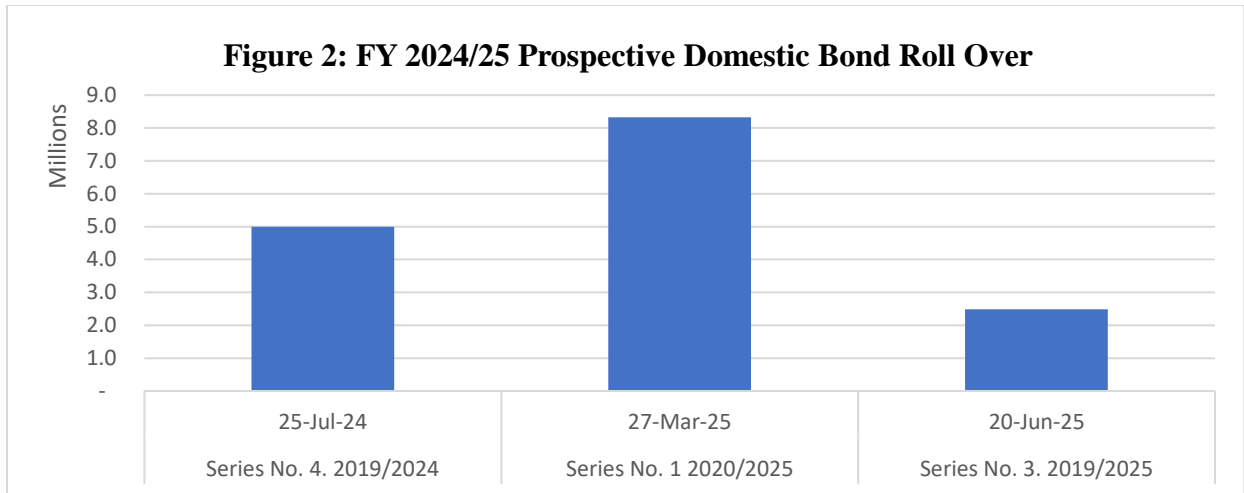


Table 2: Prospective Government Bonds Rollover and Maturity Profile in FY25

	PARTICULARS	ISSUANCE DATE	MATURITY DATE	Principal AMOUNT	INT %	Interest due
1	Series No. 5 2024/2029	25 July 2024	25 July 2029	5,000,000.0	3.00	150,000.00
2	Series No. 1 2025/2029	27 March 2025	27 March 2029	8,321,000.0	2.50%	208,025.00
3	Series No. 2 2025/2030	20 June 2025	20 June 2030	2,488,000.0	3.50%	87,080.00

Table 3: Government Bonds Stock and Maturity Profile

F/YEAR		PARTICULARS	MATURITY DATE	Principal AMOUNT	INT %	Interest due
	1	Series No. 4. 2019/2024	25-Jul-24	5,000,000.0	3.00	150,000.00
	2	Series No. 1 2020/2025	27-Mar-25	8,321,000.0	2.50	208,025.00
	3	Series No. 3. 2019/2025	20-Jun-25	2,488,000.0	3.50	87,080.00
2024/2025		TOTAL BOND PRINCIPAL DUE FY 2024/25		15,809,000.0		
	4	Series No. 3. 2020/2026	30-Apr-26	7,216,000.0	3.50	252,560.00
	5	Series No. 6 2020/2025	25-Aug-25	2,960,000.0	3.00	88,800.00
	6	Series No. 2 2021/2026	30-Jun-26	3,390,000.0	3.00	101,700.00
2025/2026		TOTAL BOND PRINCIPAL DUE FY 2025/26		13,566,000.0		
	7	Series No. 3 2021/2026	12-Aug-26	4,000,000.0	3.00	120,000.00

	8	Series No. 4 2021/2026	1-Sep-26	966,000.0	2.50	24,150.00
	9	Series No. 5 2021/2026	1-Nov-26	712,000.0	2.50	17,800.00
	10	Series No. 6 2021/2026	17-Nov-26	168,000.0	3.00	5,040.00
	11	Series No. 1 2024/2027	8-Jan-27	6,026,000.0	3.00	180,780.00
	12	Series No. 1 2022/2027	7-Feb-27	5,000,000.0	2.50	125,000.00
	13	Series No. 2 2024/2027	28-Feb-27	3,000,000.0	2.50	75,000.00
2026/2027		TOTAL BOND PRINCIPAL DUE FY 2026/27		19,872,000.0		
	14	Series No. 2. 2022/2027	2-Oct-27	5,000,000.0	2.50	125,000.00
	15	Series No. 1. 2023/2028	22-May-28	5,100,000.0	2.50	127,500.00
	16	Series No. 2. 2023/2028	19-Jun-28	5,000,000.0	2.50	125,000.00
2027/2028		TOTAL BOND PRINCIPAL DUE FY 2027/28		15,100,000.0		
	17	Series No. 3. 2024/2029	14-Apr-29	5,000,000.00	2.00	100,000.00
	18	Series No. 4. 2024/2028	1-Jul-28	1,000,000.0	2.50	25,000.00
		TOTAL BOND PRINCIPAL DUE FY 2028/29		6,000,000.00		
		TOTAL GOT BONDS ON ISSUE		70,347,000.0		\$1,938,435.00

3.2 External Debt

The Government is not anticipating taking new external loan and external loan disbursement in the next 3 years unless a natural disaster hits Tonga, and the Government might take up emergency loan facilities for economic recovery and to foster economic growth. The maturing external debt in FY25 is expected to be covered by the primary fiscal surplus while the rest of the maturing domestic external debt will be fully rolled over.

4 Consultation and Relations with Domestic Stakeholders/International Partners

The Government, through the Debt Management Unit of the Ministry of Finance, will continue to frequently consult with market participants and make appropriate adjustments to its planned offers, as required.

On a quarterly basis, Public Debt Management Committee (PDMC) meetings will be arranged to re-commence with representatives of the National Reserve Bank of Tonga and the Ministry of

Finance to take stock of recent issuances and plans for upcoming issuances, provide an update on market activities, share economic outlook and fiscal position and any other recent developments.

Going forward, ABP will be published at the beginning of each fiscal year and will guide major market participants in the Government financing need for the fiscal year.

5 Implementation/Review and Disclosure

This ABP involves financing activity to be implemented effective in FY 2025, including domestic borrowing and may include other derivatives that might introduce in the future. An annual review or an annual assessment of this plan is to be conducted by Government, through the Ministry of Finance (Debt Management Unit), to **assist the Government in terms of policy design - whether to borrow or cease borrowing.**

To achieve greater levels of debt transparency in Tonga, the main drivers and restrictions of a government's ability to directly disclose debt statistics need to be clearly presented. For instance, yearly publication of ABP within first month of the financial year, is preferable.