30th June 2025

GOVERNMENT OF TONGA

MINISTRY OF FINANCE

ANNUAL PUBLIC DEBT BULLETIN

Prepared by

Debt Management Section/ Financial Framework Division

Ministry of Finance

Authorised for release by

A/CEO for Finance

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1. Acronyms and Abbreviations

ADB	Asian Development Bank
APDB	Annual Public Debt Bulletin
ATF	Average Time to Refixing
ATM	Average Time to Maturity
AUD	Australian Dollar
CBD	Central Business District
CDB	China Development Bank
CNY	Chinese Yuan Renminbi
ComSec	Commonwealth Secretariat
DMS	Debt Management Section
DSA	Debt Sustainability Analysis/Assessment
DOD	Disbursed Outstanding Debt
EGS	Exports of Goods and Services
EIB	European Investment Bank
EUR	Euro
EXIM	Export–Import Bank of China
FC	Foreign Currency
FI	Financial Institution
FY	Financial Year
GDP	Gross Domestic Product
GoT	Government of Tonga
GBP	Great British Pounds
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IN	Interest
JPY	Japanese Yen

MoF	Ministry of Finance
MTDS	Medium Term Debt Strategy
NRBT	National Reserve Bank of Tonga
NPV	Net Present Value
NZD	New Zealand Dollars
PAT	Ports Authority Tonga
PFMA	Public Finance Management Act
PR	Principal
PRC	People Republic of China
RFB	Retirement Fund Board
SDR	Special Drawing Rights
TA	Technical Assistance
TCC	Tonga Communication Corporation
TDB	Tonga Development Bank
TDS	Total Debt Service
TDDS	Total Domestic Debt Service
TEDS	Total External Debt Service
TOP	Tongan Pa'anga
TPL	Tonga Power Limited
TSDF	Tonga Strategic Development Framework
USD	United States Dollar
WB	World Bank

2. Acknowledgements

This year's publication continues to uphold the reporting standard established in prior years, including the adherence to the standards outlined in the Public Debt Statistics Guide. We express our appreciation to all the individuals and institutions whose dedication and collaborative spirit have supported the preparation of this Annual Public Debt Bulletin. Their contributions have reflected our shared commitment to strengthen debt management and ensuring the debt's operation remains transparent, accountable and aligned to national priorities.

3. Foreword

The Ministry of Finance is pleased to present the Annual Public Debt Bulletin (APDB) for the Financial Year 2024/2025. This publication provides an updated and comprehensive overview of the Kingdom's public debt position, reinforcing our commitment to transparency, accountability, and prudent fiscal management.

During the year, Tonga continued to navigate the challenges of a high debt distress classification while maintaining a strong commitment to sustainability. External debt declined steadily, supported by ongoing principal repayments on legacy bilateral loan and the Government's continued preference for highly concessional financing. At the same time, domestic debt remained stable, with consistent rollover of bond maturities and gradual improvements in market confidence reflected in a shift toward longer-term tenors.

This fiscal year also marked meaningful progress in strengthening the policy environment that underpins our debt operations. The revision of the Government Guarantee Policy and the introduction of a new On-Lending Policy represent major milestones under the Sustainable Development Policy Framework (SDPF). These reforms enhance oversight of fiscal risks, reinforce safeguards for public resources, and establish clearer processes for future borrowing undertaken by state-owned enterprises and entities. These developments contribute directly to improving the resilience and sustainability of Tonga's public debt portfolio.

The Ministry continued to prioritise accuracy and accessibility of debt information. Improvements in data management, ongoing refinement of the Meridian system, and close coordination across divisions have strengthened the quality of analysis presented in this report.

As we look ahead, the Ministry remains committed to deepening debt transparency, further strengthening our risk assessment tools, and aligning borrowing decisions with national priorities, including resilience-building and long-term fiscal sustainability. These efforts are essential to safeguarding Tonga's financial stability and supporting its development aspirations.

I extend my appreciation to all teams involved in the preparation of this report and acknowledge their continued dedication to improving debt management practices in the Kingdom. It is through this collective commitment that we continue to advance the integrity and effectiveness of public debt operations in Tonga.

MINISTRY OF FINANCE TONGA

Ms. Aivi T. Fakahua.

Acting Chief Executive Officer for Finance.

4. Executive Summary

The total outstanding loans disbursed (DOD) by the government as of June 30th, 2025, in millions of Pa'anga, are as follows:

Table 1 Overview of Tonga's Public Debt and Contingent Liabilities FY2019/20-FY2024/25.

Loans	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	1 yr change	5 yr change
External	418.4	439.1	428.0	419.1	373.0	342.0	-31.0	-76.4
Domestic	70.0	67.3	67.3	67.3	70.3	68.5	-1.8	-1.4
Total Public Debt	488.4	506.4	495.3	486.5	443.4	410.5	-32.9	-77.9
Guarantees	0.0	12.9	9.6	16.2	16.9		-1.2	15.7
On-lent	51.7	51.5	47.4	47.0	46.8	34.6	-12.2	-17.1
Total Contingent Debt	540.1	570.8	552.3	549.7	507.1	445.1	-46.2	-79.3

Total public debt: As of FY2024/2025, the total public debt is estimated at $410.5m which represents 32.6% of GDP. This comprises of external debt of $342.0m *(27.1%)* and Domestic debt of $68.5m *(5.4%)*. Over the past five years, external debt has decreased by $76.4m, primarily due to the ongoing repayment commitment toward the legacy bilateral loan to the Export-Import Bank of China (EXIM Bank) alongside the Government prudence approach toward new borrowings. Any changes due to ongoing loan disbursements and exchange rates, including periods of depreciation of the Pa'anga, have generally increased the cost of external debt servicing, but repayment efforts have contributed to the overall reduction.

Domestic Debt Composition: The domestic debt primarily consists of Government Bond issues, with the majority held by the Financial Institution (FI) at $32.6m (2.6% of GDP), National Retirement Fund Board (NRFB) hold $16.0m *(1.3% of GDP)*, and Others account for $9.1m *(0.7% of GDP)*.

External Debt Creditors: The three (3) largest external debt creditors include the EXIM Bank, which holds $140.8m *(41.2%)*, International Development Association (IDA), with $100.7m *(29.4%)* and the Asian Development Bank (ADB) amounting to $46.0m (13.5%). For FY 2024/25, total disbursements for project loans are estimated at $2.8m across the sectors of Energy, Resilience and Poverty reductions, representing 0.2% of GDP.

External Loan Currency Denomination: The principal currencies for external loans are Special Drawing Rights (SDR), totaling $170.9m *(50.0%)*, CNY amounting to $140.8m *(41.2%)*, and USD Dollar with $30.3m *(8.9%)*. Over the past five years, the CNY composition remains with the largest share of Tonga's portfolio has decreased by $76.4m, primarily due to the commencement of principal repayment for the Nuku'alofa CBD Reconstruction Project, estimated at $42.1m in FY 2025 alongside active repayments aimed at supporting the GoT's debt reduction objectives across the loan portfolio.

The Total External DOD in net present value (NPV) as of 30 June 2025 is estimated at $343.4m, which represents *29% of GDP* based on current Foreign Currencies to Tongan Pa'anga exchange rates. Over the next two years, considering the debt sustainability targets outlined below, it is expected that most indicators will remain within acceptable limits, with no breaches anticipated, even when accounting for potential fluctuations[1].

[1]Nominal GDP, Exports & Remittances increase by 2%, Revenue increase by 21%, & FC rates increase by 5%.

Table 2: Debt Sustainability Projections and IMF-GoT Targets (FY2024 - FY2026)

Debt Sustainability	IMF-GoT Target	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Indicators	**%**	**%**	**%**	**%**	**%**
NPV of debt as:					
% of GDP	55	29%	23%	18%	13%
% of GDP (& remittances)	36	19%	15%	13%	9%
% of exports	*240*	941%	748%	587%	419%
% of exports & remittances	*120*	55%	41%	37%	28%
% of recurrent revenue	250	90%	74%	61%	30%
Total Debt Service as:					
% of exports	21	179%	173%	1662%	156%
% of exports & remittances	16	10%	10%	10%	10%
% of recurrent revenue	23	17%	17%	17%	11%

The External Debt Outstanding (DOD) to GDP ratio continues to decline towards IMF medium-term targets, supported by principal repayments on the Nuku'alofa CBD loan from China and the Government's preference for highly concessional loans and grant-based budget support.

As at FY2024/25, the NPV of external debt is 29% of GDP, while debt as a percentage of exports remains high at 941%, reflecting ongoing vulnerability to external revenue fluctuations. The primary creditor remains EXIM Bank, with most debt denominated in Chinese Yuan (CNY), creating exposure to exchange rate risks.

External debt service is elevated at 179% of exports in FY2024/25 but is projected to decline in the medium term, indicating gradual improvement in debt sustainability. Public debt remains manageable, with the Government servicing loans without exceptional financing. With a debt-to-GDP ratio of 33% and projected medium-term economic growth of 2.8%, updating the MTDS is critical to strengthen resilience against spill-over effects from COVID-19 and the Hunga Tonga Hunga Ha'apai eruption, which continue to impact revenue and external sector performance.

5. Introduction

The Annual Public Debt Bulletin (APDB) serves as Tonga's primary publication for reporting on public debt operations and related policy frameworks. Its purpose is to provide transparent, consistent, and technically sound information on the Government's debt position, the structure of the debt portfolio, and the institutional arrangements that guide debt management.

This Bulletin covers the fiscal year ending 30 June 2025 and consolidates historical data, current-year developments, and medium-term projections to support a comprehensive understanding of public debt dynamics. It sets out the legal and policy framework governing public debt management in Tonga under the Public Finance Management Act 2002.

The APDB outlines the roles and responsibilities of the Debt Management Unit and collaborating divisions within the Ministry of Finance, whose coordinated efforts ensure the accuracy, monitoring, and disclosure of public debt and contingent liabilities. By presenting the structure of the debt portfolio, the approach to risk management, and the treatment of contingent liabilities, the Bulletin contributes to strengthened governance and supports informed policy decision-making.

6. Framework for Public Debt Management Operations

6.1 Legislative Arrangements

The Public Finance Management Act (PFMA) 2020 is the main law guiding Government borrowings, loans, and guarantees. Part V (Sections 23–34) sets out the authority to borrow, the process for signing loan agreements, and the issuance of securities such as stocks, bonds, promissory notes, and treasury bills. It also covers subsidiary loan agreements, on-lending, guarantees, indemnities, and the use of security. To promote transparency, the Act requires the maintenance of a register of all loans and guarantees.

6.2 Institutional Roles

6.2.1 Ministry of Finance

The Ministry of Finance, through the Debt Management Section (DMS) under the Financial Framework Division, is responsible for managing Government borrowings, on-lending, and guarantees. It ensures compliance with the PFMA 2020 and implements the Government's debt management objectives under the Medium-Term Debt Management Strategy (MTDS). The MoF (DMS) also serves, as secretariat to the Public Debt Management Committee (PDMC).

6.2.2 National Reserve Bank

The National Reserve Bank of Tonga (NRBT) acts as registrar for Government securities and fiscal agent for both external and domestic loan payments. It also provides advice on market preferences and liquidity to support Government debt operations.

6.2.3 Reforms

During the fiscal year 2024-2025, several key debt management reforms and activities were implemented to strengthen policy frameworks, enhance transparency, and improve institutional capacity. These included:

(i) Development of On-lent Policy to provide a clear guideline for the management and monitoring of government on-lent arrangements.
(ii) Revised Government Guarantee Loan Policy to strengthen the assessment and approval process for new guarantees.
(iii) Implementing, monitoring and revising the MTDS to guide the borrowing and maintain deb sustainability.
(iv) Preparation and publication of the Annual Debt Report 2023/2024 maintaining the transparency and accountability of debt reporting.
(v) Maintain compliance with Sustainable Development Finance Policy SDFP through timely submission of Quarterly Reports.
(vi) Completion of Public Debt Statement to the Public Account FY2023-2024
(vii) Settlement of 1 CBD and 80% repayment of 1 CBD following successful negotiation 2024.
(viii) Ongoing capacity building of staff by participation in donor funded trainings as related to debt management data issues, during July 2024 – June 2025.

Table 3: Staff Capacity Developments FY2024-2025

No.	Training/Workshop	Person(s) Attended	Location	Date
1	Public Debt Management Workshop	Sasinita Tapueluelu	London, United Kingdom	16 - 18th September 2024
2	Local Currency Bond Market Framework workshop	'Aivi Fakahua Kapea Vakameilalo Siosiua Paongo Saane 'Ofa Sela Tonga	Suva, Fiji	7 – 11th October 2024
3	IMF/WB Low-Income Country Debt Sustainability Framework (LIC-DSF) Regional Workshop	Senilosi Vaea Anaseini Fihaki Semisi Faupula	Nadi, Fiji	11 – 15th November 2024
4	Regional Workshop-Medium Term Debt Strategy Analytical Tool (MTDS AT)	Anaseini Fihaki	Nadi, Fiji	3 – 7th March 2025

7. Recent Developments

7.1 Macroeconomic Developments

Table 4: Main Economic Variables in TOP ($m)

	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	1 yr change	5 yr change
Gross Domestic Product	1,018.1	1,041.7	1,086.3	1,162.0	1,177.2	1,261.2	84.0	243.1
Fiscal Balance	59.7	(10.3)	(13.5)	(22.9)	(35.2)	78.0	113.2	18.3
Current Account Balance	19.4	(24.7)	(31.5)	(43.0)	(41.0)	(44.1)	(3.1)	(24.7)

Inflation (%)	(1.4)	6.9	11.2	7.4	3.8	3.0	(0.8)	4.4
Exports of Goods & Services	36.1	35.8	33.2	27.3	27.3	19.4	(7.9)	(16.7)
Debt Services	29.9	21.3	28.3	35.4	57.5	70.0	12.5	40.1
Expenditure	384.0	458.5	463.1	505.2	518.0	601.6	83.6	217.7
Revenue	405.2	479.9	486.1	575.4	524.5	575.1	50.6	169.9
Remittances	350.8	461.1	472.3	528.9	521.1	540.7	19.6	189.9
Foreign Reserves	543.8	715.2	871.2	921.4	*921.4*	925.1	3.7	381.3

Tonga's economy continued its recovery trajectory over the last 5 years, with nominal GDP reflecting a growth of T$243.1 million. This growth is attributed to several factors, including the reconstruction works, donor-funded infrastructure projects, steady remittance inflows and a rebound in tourism and private sector activities. According to the NRBT June report and IMF 2025 Article IV, real GDP growth is projected at around 2.7 percent for FY2025, supported by resilient remittances and ongoing fiscal stimulus through the Government Development Loan facility and other investment programs.

Inflation has eased to 3 percent in FY2024/25, below the NRBT's 5 percent reference rate, following earlier spikes linked to global supply shocks. Fiscal performance strengthened, with the government recording a surplus of $194.0m in FY2024/25 due to increase in donor grant. The FY2024/25 Budget Statement continue to reaffirm the Government's commitment to prudent fiscal management, debt sustainability, and efficient expenditure under the Medium Debt Strategy 2021-2025.

Overall, the external position remains stable, with foreign reserves at about $925.0m (over nine months of import cover) and remittances exceeding $540.0m mitigating current account deficits and supporting external debt servicing capacity. While growth prospects are positive, vulnerabilities remain due to climate related shocks and global uncertainties, underscoring the need to continued fiscal discipline, structural reforms, and climate resilient investment to maintain long term debt sustainability.

7.2 Borrowing Programme

The Government's borrowing programme for FY2024/25 remains anchored in its Medium Debt Strategy 2021-2025, which provides the strategic directive of contracting no new external loans unless when necessary. This prudent borrowing stance reflects the Government's ongoing commitment to maintaining debt sustainability while supporting essential public investments aligned with its national priorities.

During FY2024/25, there were no new loan contracted, but ongoing disbursements continued for previous contracted concessional project loans from the World Bank (WB) ($2.2m) and the International Fund for Agricultural Development (IFAD) ($0.6m). These disbursements supported ongoing projects focused on resilience and poverty reduction and were largely offset by the scheduled debt service payments of $51.1m.

Domestically, the Government did not issue new bonds in FY2024/25 reflecting prudent fiscal stance while continue to foster its domestic market development. Nevertheless, Tonga remained classified in high risk of debt distress following the IMF/WB assessment in 2024, holding the Government to primarily rely on 100% grant-based assistance and budget support from development partners.

This borrowing programme year-on-year continue to underscore the Government's conservative approach to debt management, emphasizing concessional financing and prudent fiscal measures while supporting ongoing development initiatives.

7.2.1 Fiscal Outcome

Table 5: Fiscal Outcome in TOP ($m)

Item	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY 2023/24	FY2024/25	1 yr change	5 yr change
1. Total Receipts	405.2	479.9	486.1	575.4	524.5	575.1	50.6	169.9
2. Total Expenditure	384.0	458.5	463.1	505.2	518.0	601.6	83.6	217.7
3. Gross Fiscal Deficit/Surplus	21.2	21.3	23.0	70.2	6.5	-26.5	(33.0)	(47.8)
As a % of GDP	2.1	2.0	2.1	6.0	0.6	-2.1	(2.7)	(4.2)
4. Financing of Fiscal Deficit								
(a) Local Currency Financing								
(i) Bonds	19.0	15.0	15.8	15.1	11.0	16.8	5.8	(2.2)
(b) Foreign Currency Financing								
(i) Loans	6.1	25.5	0.6	21.6	2.1	2.8	0.7	(3.3)

Table 5 presents the Government's fiscal outcomes over the period FY2019/20 to FY2024/25. Over this period, fiscal performance reflects the combined effects of external shocks, recovery-related spending, and substantial support from development partners. According to the Government of Tonga Budget Statements FY2024/25, total receipts increased from $405.2 million in FY2019/20 to $575.1 million in FY2024/25, supported by domestic revenue recovery and elevated grant inflows associated with post-disaster reconstruction and budget support.

The IMF 2023 Article IV Consultation Staff Report notes that fiscal revenues in recent years were significantly bolstered by external grants following the COVID-19 pandemic and the Hunga Tonga–Hunga Ha'apai volcanic eruption in January 2022, which temporarily strengthened the fiscal position despite subdued domestic economic activity. This assessment is consistent with the Government's fiscal reporting, which highlights the role of development partner financing in supporting both recurrent and capital expenditures during the recovery phase.

Over the same period, total expenditure increased from $84.0 million in FY2019/20 to $601.6 million in FY2024/25. The Budget Statement FY2024/25 attributes this growth to higher recurrent spending pressures including public sector wages, operational costs, and social support measures as well as increased capital expenditure related to infrastructure rehabilitation, climate resilience, and donor-financed development projects. The IMF 2023 similarly observes that post-disaster reconstruction and social spending needs have contributed to sustained expenditure pressures.

As a result of these trends, the fiscal balance shifted over time. Fiscal surpluses were recorded between FY2019/20 and FY2023/24, peaking in FY2022/23, before narrowing significantly in FY2023/24 and turning into a deficit in FY2024/25. The IMF Staff Concluding Statement of the 2024 Article IV Mission highlights that recent fiscal surpluses were largely grant-driven and are expected to unwind as external support moderates and expenditure demands remain elevated. This is consistent with the fiscal deficit of $26.5 million recorded in FY2024/25.

In terms of financing, domestic borrowing through government bonds remained a key source of deficit financing. The Annual Public Debt Bulletin FY2023/24 indicates that domestic bond issuance has been managed prudently to support liquidity needs while limiting refinancing risks and crowding-out effects. Over the five-year period, domestic financing declined overall, reflecting the Government's cautious approach to domestic debt accumulation.

External loan financing remained volatile and relatively modest in recent years. The Medium-Term Debt Strategy (MTDS) 2021-2025 and IMF Debt Sustainability Analysis 2023 emphasize the Government's continued preference for concessional external borrowing and restraint in contracting new loans, in line with debt sustainability objectives. The low level of foreign loan disbursements in FY2023/24 and FY2024/25 is consistent with this policy stance.

Overall, the fiscal outcomes presented in Table 5 underscore the importance of strengthening domestic revenue, prioritising expenditure, and maintaining prudent borrowing practices to safeguard fiscal and debt sustainability over the medium term.

7.2.2 Government Borrowing

This section outlines the Government of Tonga's borrowing targets and strategies for FY2024/25. As of this period, external debt accounts for approximately 80% of total public debt, while domestic debt represents 20%, reflecting a slight shift as domestic debt has increased modestly. The majority of the external debt continues to be obtained on highly concessional terms, with an average maturity of 38 years and a low

interest rate of 0.9% per annum, primarily from EXIM Bank and the World Bank's International Development Association (IDA).

Domestic debt remains primarily composed of Government bonds issued in the local market, typically with shorter tenors averaging 4–5 years and a higher interest rate of around 2.8% per annum, reflecting more commercial terms. Financial Institutions continue to account for the majority of domestic bond holdings, supported by high banking system liquidity and strong demand for fixed-income securities. The Government's borrowing strategy emphasizes maintaining favourable financing terms while gradually developing the domestic market to enhance debt sustainability and reduce reliance on external debt.

Table 6: Government Borrowing in TOP ($m)

Total Net Borrowing	FY 2025 Original	FY 2025 Actual	Change
Domestic	0.0	0.0	0.0
External	0.0	2.8	2.8
Total Net Borrowing	**0.0**	**2.8**	**2.8**
Gross Borrowing by Instrument			
Bonds	67.3	68.5	1.2
Loans	419.1	342.0	77.1
Total Gross Borrowing by Instrument	**486.4**	**410.5**	**78.3**

In FY 2024–2025, total net borrowing increased from an original estimate of $0.0 million to an actual $2.8 million, entirely due to external borrowing, while domestic borrowing remained at $0.0 million.

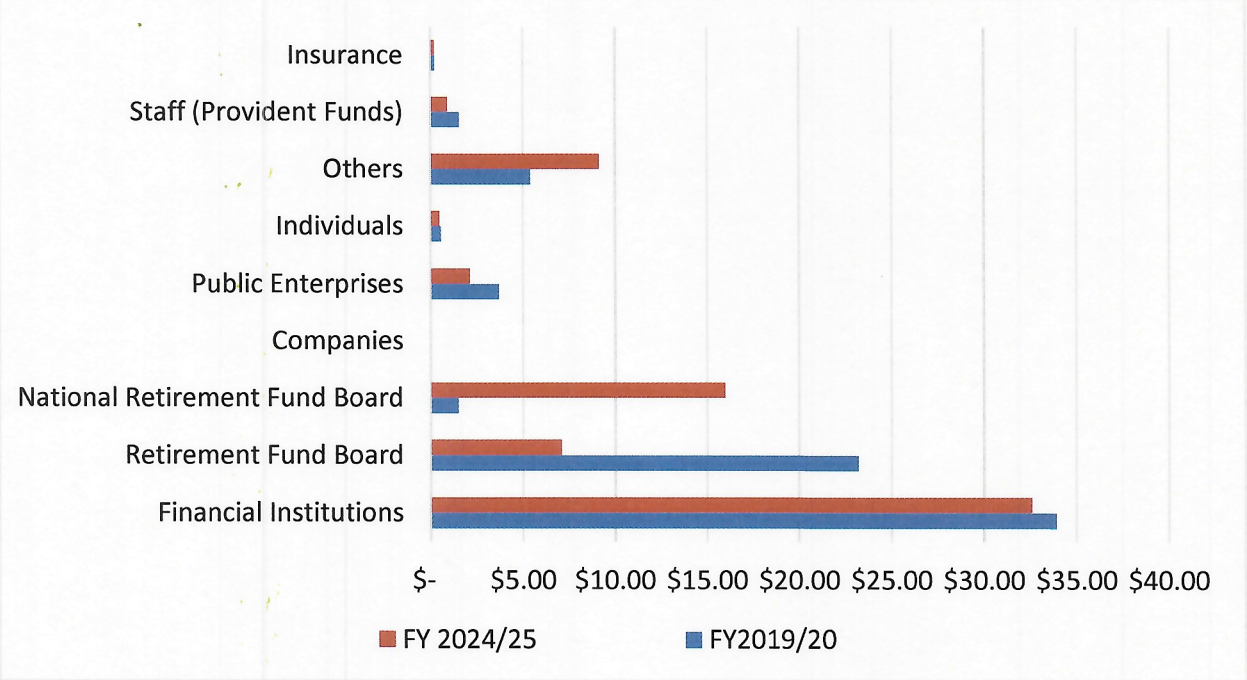
According to the Government's MTDS 2021–2025, this external borrowing forms part of the financing strategy designed to meet the Government's budgetary requirements while maintaining debt sustainability within risk parameters.

Gross borrowing by instrument showed that bond issuance rose slightly from $67.3 million to $68.5 million. In contrast, loans decreased from $419.1 million to $342.0 million, resulting in a total gross borrowing decline from $486.4 million to $410.5 million. The reduction in loans is consistent with the Government's published approach to managing external debt, including servicing principal repayments on major loans such as the Nuku'alofa CBD China Loan.

Overall, total net borrowing increased by $2.8 million, bond issuance increased by $1.2 million, loans decreased by $77.1 million, and total gross borrowing decreased by $78.3 million. These figures reflect the Government's planned borrowing strategy as reported in official documents, aligning borrowing activity with medium-term fiscal and debt management objectives.

7.3 Domestic Debt Issuance

Figure 1: Domestic Debt Issuance by Holders for FY2019/20 vs FY2024/25 in TOP ($m)



Over the five-year period from FY2019/20 to FY2024/25, the domestic debt slightly decreased from $70.0 million to $68.5 million. The Government primarily issues bonds on a roll-over basis, with redemptions or new issues made as exceptions.

In FY2024/25, the largest domestic debt holders were Financial Institutions with $32.58 million (48%), the National Retirement Fund Board with $15.97 million (23%), and other entities, including Churches and NGOs, with $9.14 million (13%). Over the period, the National Retirement Fund Board significantly increased its holdings, while the Retirement Fund Board, public enterprises, staff provident funds, and individuals reduced their participation. Financial institutions, benefiting from high liquidity, maintained a strong presence and are likely to continue increasing their share. Overall, the composition of domestic debt indicates a shift toward retirement funds and other institutional investors, while traditional holders have reduced their exposure.

7.4 Developments in the Secondary Market

As at 30 June 2025, liquidity in Tonga's banking system remained elevated, with banking system liquidity continuing to expand on a year-on-year basis driven by increase in bank deposits and currency in circulation, which has supported a deep pool of excess reserves for commercial banks and contributed to relatively low market interest rates in comparison to prior periods. Liquidity conditions have been acknowledged as persistent, prompting the National Reserve Bank of Tonga (NRBT) to explore enhanced monetary tools, including the issuance of NRBT notes to absorb excess liquidity and strengthen policy transmission.

Financial Institutions continue to account for the majority of Government bonds, reflecting sustained demand from highly liquid banks, while retirement funds and other institutional investors also remain important holders of domestic securities. The NRBT, acting as the registrar of Government securities, continues to administer bond issuance procedures with public tenders announced through local media and the NRBT's website. The current process remains, and the NRBT engages directly with commercial banks and other investors to confirm interest and allocations.

Despite these positive dynamics, the domestic secondary market remains underdeveloped, with limited trading activity and an absence of standardized market mechanisms such as auctions and a centralized trading platform. Consistent with the objectives of the MTDS 2021–2025, there is an ongoing need to deepen market structures, strengthen market practices, develop an operational guideline for domestic and improve price discovery mechanisms to support sustainable development of the domestic Government securities market. In this context, the Ministry of Finance in coordination with the NRBT, will continue to investigate practical strategies over the next three years to enhance secondary market infrastructure and consider proposals for further technical assistance on a Local Currency Bond Market Framework where available to improve market functioning and investor participation.

7.5 *External Debt Borrowing*

Table 7: Average Terms of New Loans

	FY 2019/20	FY 2024/25
Maturity (Years)	35	34
Grace Period (Years)	10	8
Interest Rate (%)	1	-

In assessing the average terms of Tonga's external loan portfolio over the period from FY 2019/20 to FY 2024/25, as presented in Table 7 above, there were no new external loans contracted during the period. Consequently, the observed changes in average loan terms reflect the natural evolution of the existing loan portfolio rather than new borrowing.

The average maturity declined marginally from 35 years to 34 years, while the average grace period shortened from 10 years to 8 years. This reflects the progression of existing loans through their repayment schedules, with several facilities moving out of their grace periods and into active principal repayment phases. Despite these changes, the portfolio continues to be characterised by highly concessional terms, consistent with Tonga's borrowing policy of relying on concessional financing and grants.

7.6 *Disbursement of External Loans*

Table 8: Disbursement of External Loans in TOP ($m)

DETAILS	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	1 yr change	5 yr change
Disbursed Outstanding Debt	418.4	439.1	428.0	419.1	373.0	342.0	(31.1)	(76.4)
Disbursements	6.1	25.5	0.6	21.6	2.1	2.1	0.7	(3.3)

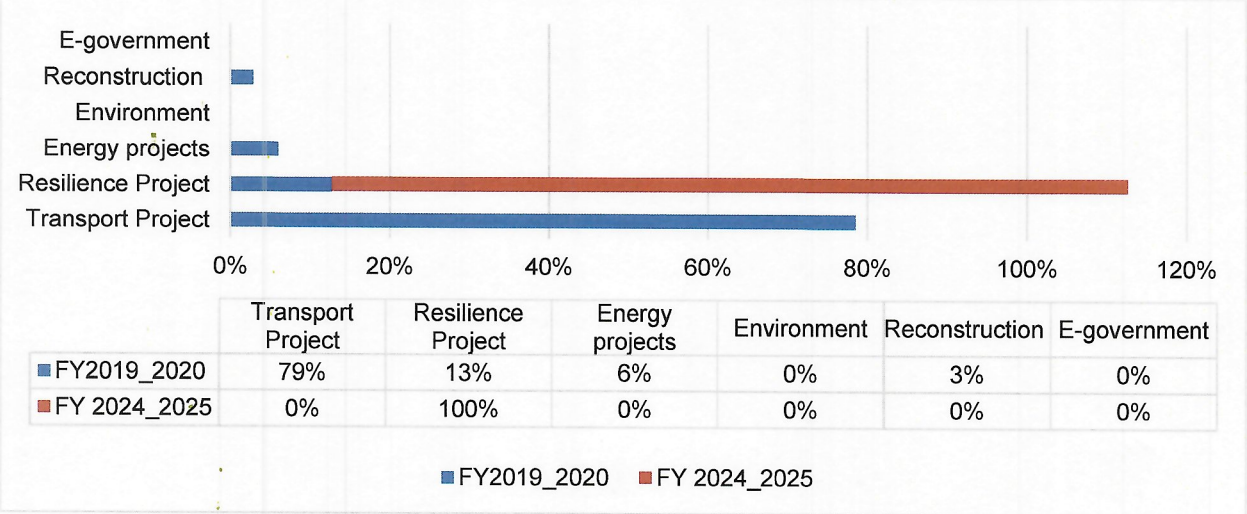
Principal Repayments	10.9	6.3	12.4	20.3	46.4	46.4	(0.1)	35.4
Net Flows on Debt	(4.8)	19.3	(11.8)	1.4	(44.3)	44.3	0.8	(38.7)
Interest Payments	6.3	1.6	4.2	6.2	5.6	5.6	(0.8)	(1.4)
Net Transfers on Debt	(11.0)	17.6	(16.0)	(4.9)	(49.9)	49.9	1.6	(37.3)
Total Debt Service	17.2	7.9	16.7	26.5	52.1	52.1	(0.9)	34.0

Between FY 2019-2020 and FY 2024-2025, Tonga's disbursed outstanding debt declined from $418.4 million to $342.0 million, a reduction of $76.4 million over five years. This downward trend reflects a deliberate effort to reduce the country's debt burden. The decline was primarily driven by a substantial increase in principal repayments, which surged to $46.4 million in FY 2023-2024 and FY 2024-2025, coinciding with the commencement of principal payments on the Nuku'alofa CBD China Loan.

Disbursements over the period were uneven, peaking at $25.5 million in FY 2020-2021 and $21.6 million in FY 2022-2023, before sharply dropping to $2.1 million in FY 2023-2024 and FY 2024-2025, indicating limited ongoing project's disbursement activity. This pattern suggests a more cautious approach to new borrowing in line with Tonga's Debt Management Strategy 2021–2025 and the country's fiscal objectives.

Total debt service increased substantially in FY 2023-2024 to $52.1 million, doubling from $26.5 million in FY 2022-2023. The increase was largely driven by higher principal repayments, while interest payments remained relatively stable at $5.6 million. The data highlight the commitment to debt reduction: despite fluctuating disbursements over the past five years, the government focused on reducing outstanding debt through higher repayments, consistent with fiscal prudence and the objectives of the 2021–2025 Debt Management Strategy.

Figure 2: Disbursement of External Loans by Use of Funds



	Transport Project	Resilience Project	Energy projects	Environment	Reconstruction	E-government
FY2019_2020	79%	13%	6%	0%	3%	0%
FY 2024_2025	0%	100%	0%	0%	0%	0%

Figure 2 highlights a pronounced shift in Tonga's national investment priorities between FY2019/20 and FY2024/25. In FY2019/20, funding was predominantly directed toward transport projects, which accounted for 79% of total allocations, followed by resilience projects (13%) and energy initiatives (6%), while minimal resources were assigned to reconstruction (3%) and none to environment or e-government programs. By FY2024/25, the allocation profile had shifted entirely toward resilience projects, which received 100% of available funding, with all other sectors including transport, energy, environment, reconstruction, and e-government receiving no allocations. This strategic reorientation underscores the Government's heightened focus on disaster preparedness and climate resilience, reflecting exposure to natural hazards and its commitment to long-term sustainability and adaptive national development planning.

8. Public Debt Portfolio

8.1 Overview

As of 30th June 2025, external debt remained the largest component of the total public at $342.0m followed by domestic debt at $68.5m. The external debt fell by 0.8% from 2024, while domestic debt rose by 0.8%, reflecting the Government's strategy to minimize new external borrowing and rely more on the domestic market.

The portfolio composition as shown in Table 9 below is composed of loans (83%) and Government securities (17%). Loan balances declined by $31.0m over the year and by $76.4m over five years due to ongoing repayments which also reflect the highly concessional terms of the external portfolio coupling with the exposure to exchange rate risk. The Securities remained relatively stable with only a $1.8m decrease due to subscription rates of roll-over bonds whilst the Arrear remained at zero, indicating strong repayment performance.

Table 9: Public Debt by Instrument Type in TOP ($m)

Gross debt by instrument type	FY2019_2020	FY2020_2021	FY2021_2022	FY2022_2023	FY2023_2024	FY 2024_2025	1 yr change	5 yr change	% Share Ratio
Loans	418.4	439.1	428.0	419.1	373.0	342.0	(31.0)	(76.4)	83%
Securities	70.0	67.3	67.3	67.3	70.3	68.5	(1.8)	(1.4)	17%
Arrears	-	-	-	-	-	-	-	-	-

8.1.1 Debt Indicators

Table 10: Debt Indicators in TOP ($m)

	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY 2024/25	1 yr change	5 yr change
Gross central govt debt	488.4	506.4	495.3	486.5	443.4	410.5	(32.9)	(77.9)
Debt-to-GDP (%)	48.0	48.6	45.6	41.9	37.7	32.6	(5.1)	(15.4)

External Debt	418.4	439.1	428.0	419.1	373.3	342.0	(31.0)	(76.4)
External debt-to-GDP (%)	41.1	42.2	39.4	36.1	31.7	27.1	(4.6)	(14.0)
External debt-to-EGS (%)	1159.1	1226.5	1289.0	1535.3	1366.5	1762.9	396.4	603.8
External debt-to-Reserves (%)	76.9	61.4	49.1	45.5	40.5	37.0	(3.5)	(40.0)
Domestic Debt	70.0	67.3	67.3	67.3	70.3	68.5	(1.8)	(1.4)
Domestic debt to GDP (%)	6.9	6.5	6.2	5.8	6.0	5.4	(0.5)	(1.4)/
Ratio of total debt service to exports (%)	105.6	69.8	104.1	159.5	237.5	360.9	123.4	255.3
Ratio of concessional debt to total debt (%)	100.00	100.00	100.00	100.00	100.00	100.00	0.0	0.0

In FY2024/25, the Gross Central Government debt declined to $410.5m, down by 15.9% from FY2019/20, reflecting prudent fiscal management and target debt repayments which contribute to the improvement in Debt-to-GDP ratio from 48.0% to 32.6%. The improvements in the overall gross central government debt and the debt-to-GDP ratio is largely driven by a decline in external debt, which fell to $342.0m, a 18.3% decrease over the past five (5) years. This is the outcome of the Government's policy to strictly refrain from new borrowings and to only consider highly concessional loans when necessary. This reduction in external debt also contributed to a decline in external debt-to-GDP ratio to 27.1% and a lower external debt-to-reserves of 37.0%. In contrast, the ratio of total debt service to export, however, has increased from 105.6% in FY 2019/20 to 360.9% in FY 2024/25, indicating rising pressure on the country's ability to service external debt through export revenues. This underscore the needs for stronger export growth and continued reliance on concessional external loan terms, nothing that the Government external debt portfolio is currently 100% concessional and provides more favourable repayment conditions.

On the other hand, domestic debt remained stable with a slight decline in FY2024/25 due to the undersubscription on rolled-over bonds. Under the revised Medium Term Debt Strategy 2026-2028, the Government plans to focus in expanding domestic borrowing and issue more domestic bonds in the upcoming fiscal year.

8.2 Domestic Central Government Debt

8.2.1 Domestic Debt by Holder

Table 11: Bonds by Holder in TOP ($m)

Holder	FY2019/20		FY 2024/25		5 yr change
	$m	%	$m	%	
Financial Institutions	33.9	48.4	32.6	47.5	(1.3)
Retirement Fund Board	23.2	33.1	7.1	10.4	(16.1)
National Retirement Fund Board	1.5	2.1	16.0	23.3	14.5
Public Enterprises	3.7	5.3	2.1	3.1	(1.6)
Individuals	0.5	0.8	0.5	0.7	(0.1)
Others	5.4	7.7	9.1	13.3	3.7
Staff (Provident Funds)	1.5	2.2	0.9	1.3	(0.6)
Insurance	0.2	0.3	0.2	0.3	0.0
Total	70.0	100.0	68.5	100.0	(1.4)

The domestic bond is largely policy driven with interest rates administratively set by the Government. This policy framework has contributed to the stability of the domestic bond stock over the years. However, despite the stable stock level, the composition of bond holders shifted noticeably compared to FY2019/20.

A major development within the domestic debt landscape is the sharp decline in the Retirement Fund Board's share, which fell significantly from 33.1% to 10.4%. In contrast, the National Retirement Fund Board's holdings have rose substantially to 23.3% indicating a more active role in government financing. Corporate debt has declined to 3.1%, while the "Others" category, which likely includes various private sector investors, has expanded. In contrast, the Financial Institutions comprises of commercial banks' shares have also slightly declined by 1.3% over the 5 years. These changes highlight a reallocation of domestic preference within a policy driven market, reinforcing the need to further develop the domestic market to improve alignment between investor demand and government financing strategies.

8.2.2 Domestic Debt by Tenor

Table 12: Bonds by Tenor in TOP ($m)

FY2019/20				FY 2024/25			5-year
Security Type Bonds (Years)	Amount	Cum. Amount	Cum. %	Amount	Cum. Amount	Cum. %	Change
2-3 Years	18.8	18.8	26.8	9.0	9.0	13.2	(9.7)
4-5 Years	37.4	56.2	80.2	50.9	59.9	87.5	13.5
6-7 Years	13.8	70.0	100.0	8.6	68.5	100.0	(5.2)
Total	70.0			68.5			(1.4)

The domestic debt by tenor has undergone noticeably shifts over the past five years reflecting the Government's financing strategies.

As of FY 2024/2025, the largest portion of domestic debt is concentrated in bonds with maturities between 4-5 years, representing 74.3% of total domestic debt, up from 53.4% in FY 2019/2020. Bonds maturing in 2-3 years have decreased from 26.8% to 13.2%, indicating a reduction in short-term debt. Debt maturing in 6-7 years has decreased by 7.2%, maintaining a small portion of the portfolio. No bonds are set to mature

beyond 7 years or within the next year, suggesting a focus on minimizing short-term debt pressure while extending the overall maturity into medium-term tenor. Total domestic debt slightly decreased from $70.0m to $68.5m over the five-year period due to undersubscriptions of rolled over bonds.

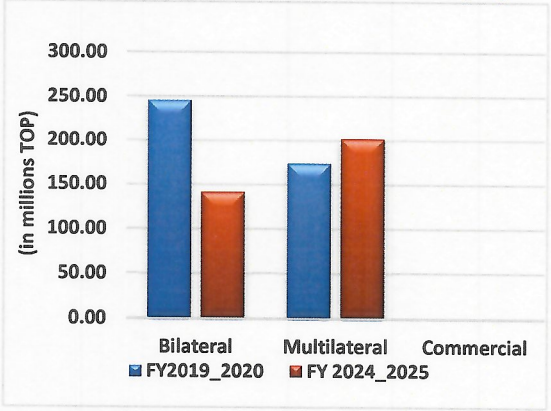
8.3 External Central Government Debt

8.3.1 External Debt by Creditor Category

Over the past five years, the total external debt has decreased by 18.3%, primarily due to a significant reduction in bilateral debt, which fell by 42% as the government continued to repay its loans to China.

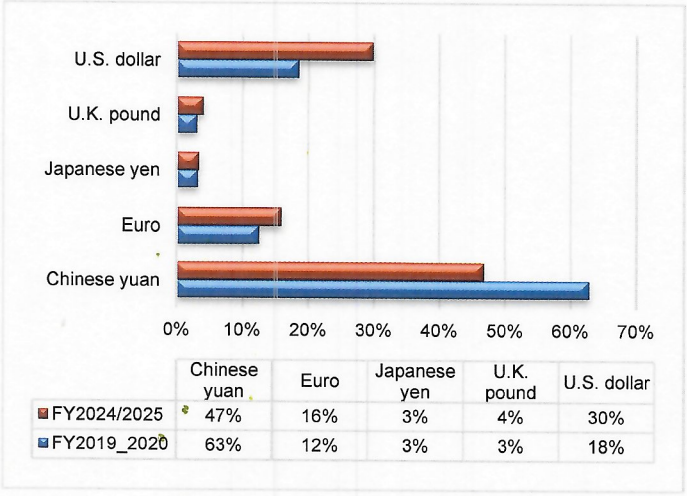
Conversely, multilateral debt comprising of loans from international organizations such as the WB, IMF, and ADB- has increased by 16% because of new loans contracted from the IMF and WB during this period up until 2022 and continuous disbursements for project loans onwards. It is important to note that Tonga is maintaining its position in accordance with the revised MTDS 2021-2025, which aims to avoid new external loans unless highly concessional financing is required as a last resort.

Figure 3: External Debt by Creditor Category



8.3.2 External Debt by Currency

Figure 4: Currency Composition with SDR Decomposition in TOP ($m)



	Chinese yuan	Euro	Japanese yen	U.K. pound	U.S. dollar
FY2024/2025	47%	16%	3%	4%	30%
FY2019_2020	63%	12%	3%	3%	18%

As of June 30th, 2025, the largest portion of external debt is still in CNY, though its share has declined from 63% in FY2019/20 to 47% in FY2024/25. This decrease is largely driven by repayments of the China EXIM loan.

At the same time, the share of debt in USD has risen sharply from 18% to 30% between FY2019/20 and FY2024/25. This increase reflects the IMF Rapid Credit Facility (RCF) loans taken as emergency budget financings in 2020 and 2022 in the wake of the COVID 19 pandemic. The euro's share has increased moderately, rising from 12% to 16%. In contrast, the U.K pound experienced a slight increase, moving from 3% to 4%, while the Japanese Yen maintained a constant share of 3%. The decomposition of the SDR in the provided figure shows the importance of maintaining a balanced portfolio to manage exchange rate risk effectively.

8.4 Total Public Debt Service

Table 13: Public Debt Service in TOP ($m)

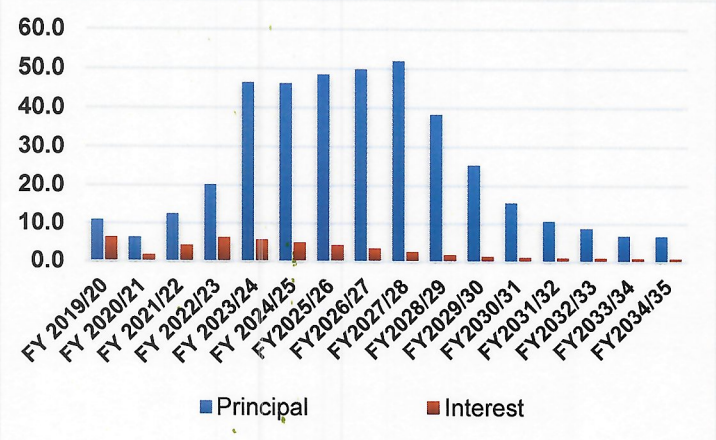
	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY 2023/24	FY 2024/25	1yr change	5yr change
External Principal	10.9	6.3	12.4	20.3	46.4	46.3	(0.1)	35.4
External Interest	6.3	1.6	4.2	6.2	5.6	4.9	(0.8)	(1.4)
Total External debt service (TEDS)	17.2	7.9	16.7	26.5	52.1	51.2	(0.9)	34.0
TEDS as a % of total debt service (TDS)	45.1	31.5	48.2	60.8	80.3	73.1	(7.2)	28.0
Domestic Principal	19.0	15.0	15.8	15.1	11.0	16.8	5.8	(2.2)
Domestic Interest	2.0	2.1	2.0	2.0	1.7	2.1	0.3	0.1
Total Domestic debt service (TDDS)	21.0	17.1	17.9	17.1	12.8	18.9	6.1	(2.1)
TDDS as a % of TDS	54.9	68.5	51.8	39.2	19.7	26.9	7.2	(28.0)
Total debt service	38.1	25.0	34.6	43.5	64.8	70.0	5.2	31.9
Recurrent Revenue	350.7	338.9	350.2	406.3	400.9	502.5	101.5	151.8
Export Earnings	36.1	35.8	33.2	27.3	27.3	19.4	(7.9)	(16.7)
Total debt service as % of revenue	10.9	7.4	9.9	10.7	16.2	13.9	(2.2)	3.1
Total external debt service as % of exports	47.6	22.0	50.2	97.0	190.7	263.7	73.0	216.1

Significant trends are shown in debt service obligations over the fiscal years from FY 2019/20 to FY 2024/25 with the total external debt service (TEDS) surged from $17.2m to $51.2m, indicating Government's commencing the repayment of principals. This increase is reflected in TEDS as a percentage of total debt service, climbing from 45.1% to 73.1% as at end June 30, 2025. The heightened focus on external obligations amidst fluctuating revenue and export earnings, which are also noteworthy as total debt service relative to recurrent revenue increased from 10.9% to 13.9% as of June 2025, and as a percentage of export earnings shifted intensely from 47.6% to 263.7%.

Conversely, Total Domestic Debt Service (TDDS) initially decreased from $21.0 million to $18.9 million as of June 30, 2025. This decline caused its share of total debt service to drop from 54.9% to 26.9% due to undersubscribed rolled over bonds over the years. This trend highlighted the stability of the domestic market over the years with bond tenors shifting to more medium-term maturity.

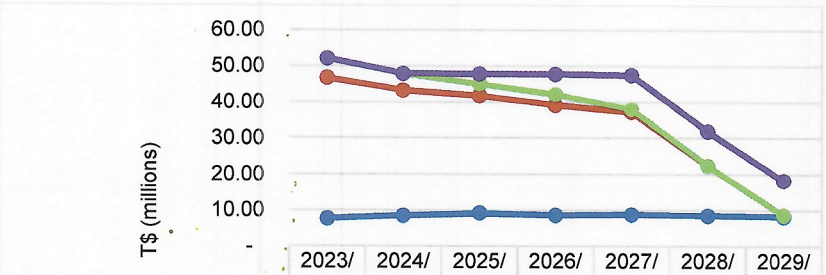
8.4.1 Principal and Interest Payments

Figure 5: External Debt Service Trend (10 years projection)



As shown in the following Chart, external debt service doubled from FY 2019-2021 following reschedule of the first repayment of principal for the two large EXIM Bank loans delayed by five years and will remain over the medium term until maturity of loans from EXIM for CBD and Roads projects in FY 2029/30. Annual installations are much higher now, given that the period for principal repayment is reduced from 15 years to 5 years.

Figure 6 External Debt Service Projections by major loan instruments



	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Other External	7.79	8.57	9.22	8.67	8.83	8.57	8.24
Other External + China loans	46.65	43.20	41.74	39.08	37.14	22.36	8.67
Other Ext + China loans + DSSI	52.06	47.89	44.98	42.11	37.98	22.38	8.67
Other Ext + China loans + DSSI + IMF	52.06	47.89	47.80	47.75	47.50	31.90	18.19

Figure 6 shows the main loan instruments that are driving the spikes in repayments which are the China loans, its three (3) debt service suspension initiatives and the rapid credit facility of the IMF. The external debt service is projected to dramatically decrease by FY2029/2030 when the China loans are fully settled. The debt service projection does not include any new loans as GoT remains prudent with its borrowing strategy.

8.5 Portfolio Risks

Table 14: Cost and Risk Indicators for Existing Debt as of 30 June 2025

Risk Indicators	External debt	Domestic debt	Total debt
Amount (in millions)	342.0	68.5	410.5
Nominal debt as % GDP	27.4	5.4	32.8
PV as % of GDP	21.7	5.4	27.2

Cost of debt	Weighted Av. IR (%)	1.3	2.4	1.4
Refinancing risk	ATM (years)	6.9	2.3	6.2
	Debt maturing in 1yr (% of total)	12.9	19.8	13.9
nterest rate risk	ATR (years)	6.9	2.3	6.2
	Debt refixing in 1yr (% of total)	12.9	19.8	13.9
	Fixed rate debt (% of total)	100	100.0	100
FX risk	FX debt (% of total debt)			83.4
	ST FX debt (% of reserves)			5.2

The risk indicators for Tonga's public debt portfolio reveal important insights into the composition and vulnerabilities of its external and domestic debt. As of FY2024/2025, Tonga's total debt amounts to **$410.5m**, with **$342.0m** in external debt and **$68.5m** in domestic debt. The nominal debt as a percentage of GDP stands at **34.0%**, with external debt constituting **28.3%** and domestic debt at **5.6%**.

In terms of present value, external debt represents **21.7%** of GDP, while domestic debt is at **5.4%**, yielding a total present value (PV) ratio of **27.2%**. The weighted average interest rates indicate a lower cost of borrowing for external debt at **1.3%**, compared to **2.4%** for domestic debt, resulting in an overall cost of **1.4%**.

Regarding refinancing risk, the average time to maturity (ATM) for external debt is **6.9 years**, which is relatively stable, while domestic debt has a shorter ATM of **2.3 years**. Notably, only **12.9%** of total external debt is maturing within one year, which minimizes immediate refinancing pressure. However, domestic debt exhibits a higher refinancing risk with **19.8%** maturing within the same timeframe.

Interest rate risk is similarly managed, with a consistent ATM of **6.9 years** for external debt and **2.3 years** for domestic debt. The entirety of the debt portfolio, encompassing both external and domestic obligations, is structured as fixed-rate debt (100%), thereby eliminating the potential impact of interest rate fluctuations.

Foreign exchange risk remains a concern, as **83.4%** of total debt is denominated in foreign currencies. Nevertheless, this percentage reflects a decrease from the previous level of 93.1% as at June 30 2025.Short-term foreign exchange debt constitutes **14.7%** of foreign reserves, highlighting vulnerability to exchange rate volatility.

Overall, while Tonga has effectively managed interest rate and refinancing risks, the substantial exposure to foreign currency debt necessitates vigilant monitoring of exchange rate movements to maintain debt sustainability and fiscal health.

9. Contingent Liabilities

Table 15: Overview of Contingent Liabilities as of June 30, 2025 (in TOP $m))

On-lent Facility	Outstanding Balance	Micro Loan Facility	Outstanding Balance	Loan Guarantees	Outstanding Balance	Total Contingent Liabilities
Reconstruction Nuku'alofa CBD (Exim)	25.1	Cooperative Stores	0.1	Roads Development	6.9	**$50.2m**

Development Lending (ADB Projects)	2.1	TC Gita Loan	2.6	Aircraft Lease	0.7	Total contingent Liabilites to GDP **4%**
Recovery	1.9	Micro loan for Women	1.6	Refinancing	5.6	
		Agricultural Management Fund (AMF)	0.9	Asset Acquisition	2.5	
		Fisheries Export Development Fund (FEDF)	0.2			
Total On-lending	**29.2**	**Total Micro Loans**	**5.4**	**Total Loan Guarantees**	**15.7**	

Table 17 highlights the considerable fiscal risks from contingent liabilities amounting to $50.2m, representing 4% of GDP as of June 30, 2025. A substantial portion of these liabilities comes from on-lent facilities, such as the Nuku'alofa CBD Reconstruction loan ($25.1 m) and other development lending ($2.1m). The nonperforming nature of some loans, coupled with additional risks from loan guarantees totalling $15.7m could strain government finances if defaults occur. During the recent financial year, 31% of the total outstanding amount was successfully collected. This significant achievement is attributed to the continuous collaboration and focused consultation between the Government and the Nuku'alofa CBD Reconstruction borrowers.

After the Cabinet approval on February 23, 2024, to write off 25% of the original principal amount plus the remaining cost of borrowing payable as of January 31, 2024, significant progress was observed. Specifically, one borrower fully settled their outstanding debt, and another remitted nearly 80% of their remaining outstanding debt following the write off. MoF remains committed to negotiating viable settlement solutions for the remaining outstanding balances with all other Nuku'alofa CBD Reconstruction borrowers.

As with the ADB and Recovery Projects, MoF continues to negotiate with them and actively follow up on longstanding payables to minimize the risks of defaults which in turn would negatively affect the debt protectory and further increasing Tonga's to external shocks. As such effective oversight and mitigation strategies are essential to manage these risks and safeguard Tonga's fiscal and economic health.

10. Debt Sustainability Analysis

Figure 7 NPV of External Debt as % of GDP & Remittances

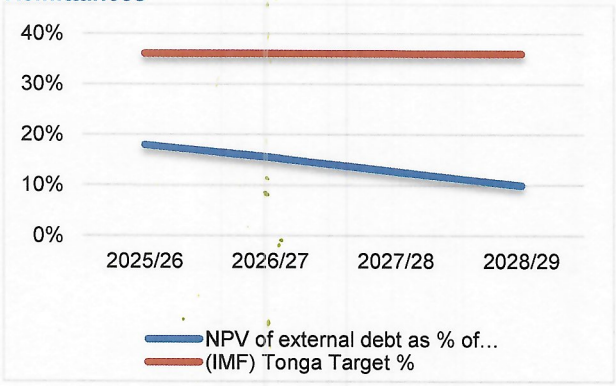
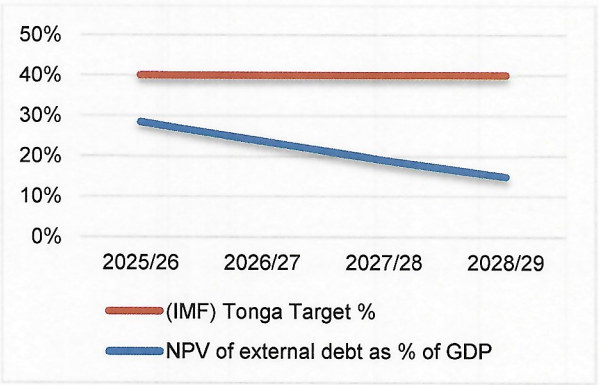


Figure 8: NPV of External Debt as % of GDP



Tonga's external debt sustainability over the period from FY2025/26 to FY2028/29 shows significant improvements in key metrics, particularly in relation to GDP, remittances, and government revenues.

The Net Present Value (NPV) of external debt as a percentage of GDP is projected to fall from 28% in FY2025/26 to 15% by FY2028/29, staying well below the IMF target of 40%. Similarly, the NPV of external debt as a percentage of GDP and remittances is expected to drop from 18% to 10%, which is also well below the IMF's target of 36%. This trend suggests a positive outlook for Tonga's debt sustainability, with the country's debt burden becoming more manageable relative to its economic output and remittances over the coming years.

Figure 10: NPV of External Debt as % of Exports

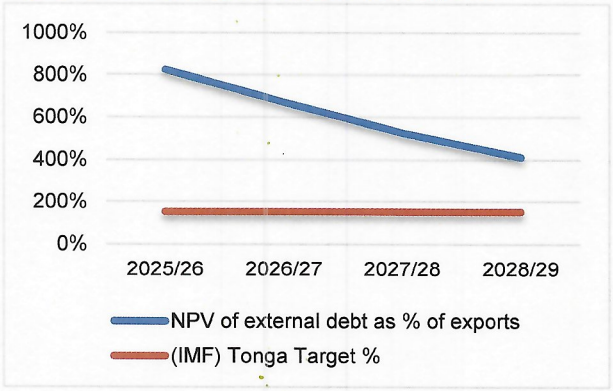
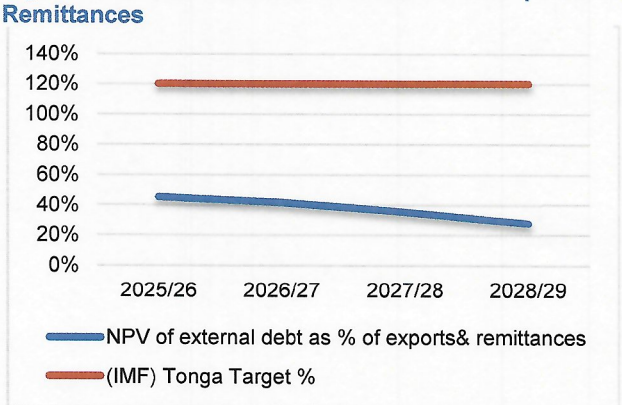
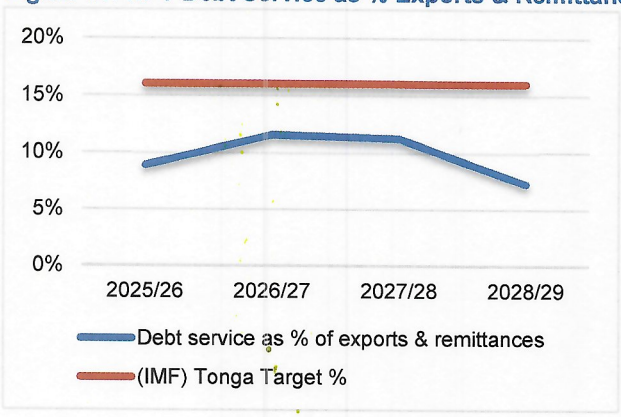


Figure 9 NPV of External Debt as % of Exports & Remittances



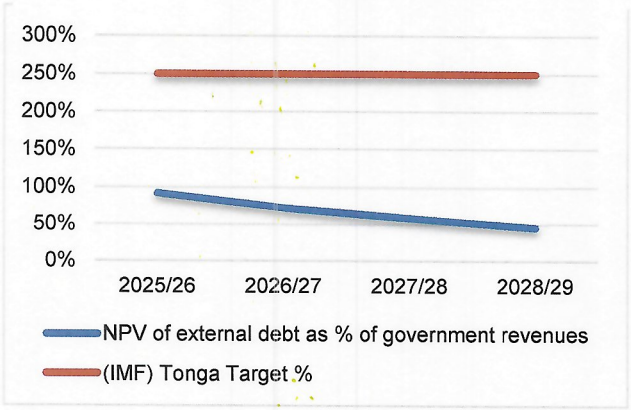
However, there are clear vulnerabilities when considering export-based indicators. The NPV of external debt as a percentage of exports remains significantly above the IMF's target of 150%, starting at an alarming 824% in FY2025/26 and declining to 412% by FY2028/29. Even with this reduction, the ratio far exceeds the target, reflecting Tonga's reliance on external debt that is not sufficiently backed by export earnings. The NPV of external debt as a percentage of exports and remittances, while still below the IMF target of 120%, shows a healthier trend, dropping from 46% in FY2025/26 to 28% by FY2028/29, indicating that remittances are playing a critical role in offsetting the country's export vulnerabilities.

Figure 11: NPV Debt Service as % Exports & Remittances



In terms of the government's ability to service its debt, the NPV of external debt as a percentage of government revenues presents a positive picture. The ratio begins at 91% in FY2025/26 and remains stable, ending at 45% by FY2028/29, well below the IMF's target of 250%. This suggests that the Tongan government has sufficient revenue to cover its external debt obligations, reinforcing the country's overall debt sustainability, particularly from a fiscal perspective. However, this could also mean a prudent measure on GoT's spendings over the medium term to make sufficient fiscal space for debt servicing.

Figure 12: NPV of External Debt as % of Government Revenue



Nevertheless, the debt service-to-export ratios highlight significant risks. Tonga's debt service as a percentage of exports remains well above the IMF's target of 20%, starting at 161% in FY2025/26 and only declining slightly to 108% by FY2028/29. This indicates that the country's export earnings are not enough to comfortably service its external debt. However, when remittances are considered alongside exports, the debt service-to-export and remittances ratio remains stable at 9% over the period, staying below the IMF target of 16%.

Figure 13 NPV Debt Service as % of Exports

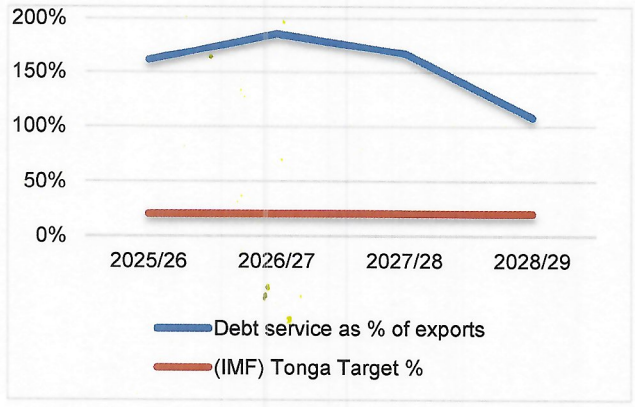
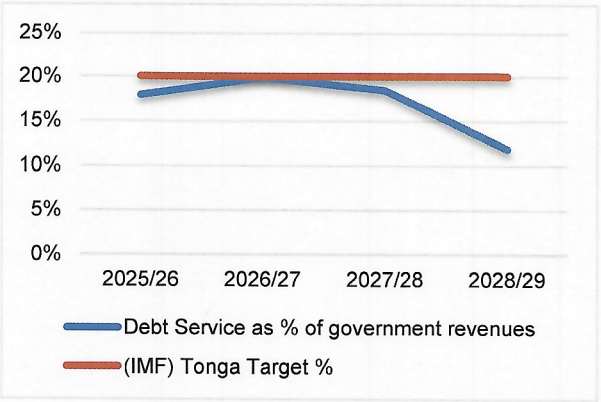


Figure 14: NPV Debt Service as % of Government Revenues



Additionally, debt service as a percentage of government revenues stays comfortably below the 20% target, starting at 18% and rising slightly to 12% by FY2028/29, further confirming that the government's revenue base is sufficient to meet its debt servicing obligations.

Tonga's external debt sustainability outlook from FY2025/26 to FY2028/29 reflects significant progress, particularly in relation to key metrics like GDP, remittances, and government revenues. However,

vulnerabilities persist when export-based indicators are considered. The reliance on remittances to support debt sustainability highlights the need for more diversified and robust export growth to reduce vulnerabilities in the long term. This overall progress in debt sustainability aligns closely with Tonga's Composite Indicator (CI) score of 3.06, as indicated in the IMF Article IV 2024. The CI score places Tonga in the "medium" debt-carrying capacity category, which reflects the country's ability to manage external debt while remaining cautious about export vulnerabilities. The significant reduction in key debt metrics relative to GDP and government revenues reinforces Tonga's moderate capacity to handle debt sustainably, as projected over the medium term, while underscoring the need for continued attention to export-related risks.

11. Conclusion and Way Forward

As at 30th June 2025, the Government's external debt in nominal value is estimated at *32.8% of GDP*, which stays below the revised IMF and GoT target of 55%. Going forward, and as per Sustainable Development Framework Policy (SDFP) policy performance action (PPA) for Tonga, the Government is anticipating not to contract any new non-concessional borrowing and for transparency and accountability, Ministry of Finance will ensure update quarterly debt bulletin is published in the Ministry's website within the following month and going forward.

The external debt sustainability position remains vulnerable and cautious efforts are required in the medium term to minimize the risks going forward. The main principles to consider, include:

1. Maintaining external debt at a sustainable level within the recommended targets, by the Government not contracting any new external loan except for highly concessional facility;
2. Have a more balanced composition between external and domestic debt including development of the Government Securities Market.

Given that some strategies will be beyond the direct control of DMS that the MoF will be working closely with other stakeholders, as required.

For ongoing capacity building of staff in this important area of work, staff will attend donor funded training courses as available and need to build capacity in areas including risk assessment. The Ministry needs to work closely with Donor partners to follow up TA on priority areas of concern to ensure sound public debt management plays a critical role in meeting the government's financing needs in a timely manner and helping ensure lowest possible debt servicing costs over the medium – to long-term at a prudent degree of risk.

The Debt Management team will continue to publish future Annual Debt Bulletin as directed by Cabinet in March 2024.