PACIFIC REGIONAL DEBT CONFERENCE

“Addressing Debt Sustainability in the Pacific in the Aftermath of COVID-19”

5 – 8 April 2022

“Debtor and Bilateral & Multilateral Development Partner Perspectives”
Theme:

What are Tonga’s perspectives and insights on fiscal, debt and climate vulnerability risks, including loss and damage caused by natural disasters faced by Tonga and the measures to be implemented to reduce such risks.
Agenda:

Fiscal Update
Debt Risks/Measures
Disaster impact/measures
Fiscal Anchors

- Fiscal Performance is weakening by disasters
- Wage bill exceeds the threshold (less than 53 percent)
- Revenue collection projects to remain below target (greater than 22 percent)
- Debt: Aim to reduce debt and vulnerability

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<tbody>
<tr>
<td>Domestic Revenue to GDP (%) (&gt;22% of GDP)</td>
<td>23.7</td>
<td>23.3</td>
<td>20.8</td>
<td>21.8</td>
<td>20.9</td>
<td>19.9</td>
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<tr>
<td>Compensation of Employees (%) (&lt;53% of Domestic Revenue)</td>
<td>57.8</td>
<td>64.3</td>
<td>66.9</td>
<td>62.1</td>
<td>58.1</td>
<td>55.9</td>
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<td>External Debt as % of GDP (&lt;50% of GDP)</td>
<td>36</td>
<td>38.6</td>
<td>37.5</td>
<td>32.4</td>
<td>27.9</td>
<td>22.6</td>
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### Public Debt Position

#### Total Public Debt ($million) 2020/21 – 2025/26 (including actual and projected)

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<th>Year</th>
<th>Total Public Debt (30 June)</th>
<th>Percentage</th>
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<tr>
<td>2020/21</td>
<td>T$ 506.4m</td>
<td>100%</td>
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<tr>
<td>External</td>
<td>T$ 439.1m</td>
<td>86.7%</td>
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<tr>
<td>Domestic</td>
<td>T$ 67.3m</td>
<td>13.3%</td>
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#### Bar Chart

- **External Debt**
- **Domestic Debt**
- **% Total Public Debt to GDP**
• Tonga maintains high debt distress risk rating

• Expected high debt service of EXIM loan repayment commencing in FY 23/24
Losses and Damages caused by Natural Disasters

Cost Damage and Losses kept on increasing due to the frequency of the disasters eg. TC Harold and Covid-19 both occurred in 2020 while the country not fully recovered from TC Gita in 2018

1946-2019: 25 disasters caused US$240 million in damages and losses

TC Gita (2019) – USD164M

TC Harold: USD124m

HTHH VE – Damage est USD208M

Tonga is expecting to experience average annual damages caused by earthquake, tsunami, TC of US$15.5 million.

Considering all risks combined- there is 2% probability every year that direct damages will exceed US$140m and 1% probability that it will exceed US$225m
Measures to reduce Losses and Damages caused by natural disasters

Disaster Risk Financing Instruments
Development partner support
Private insurance
Relocation - Moving aware from disaster prone area
Warning systems and infrastructure
Providing access to higher grounds
Pack up facility/contingency planning for critical infrastructure

PRAY and more PRAYING
Outlook

Debt Strategy:

1. No new highly concessional debt
2. Pursue debt relief

BUT in the fiscal impact of natural disasters will need funding

Options are – Development Partners support or Debt
Malo ‘aupito