

Discussion Paper

Achieving Debt Sustainability and the MDGs in Small Island Developing States: The Case of Tonga

10 December 2010

United Nations Development Programme

POVERTY REDUCTION



Acknowledgements

This discussion paper was commissioned by UNDP. It was written by Siosuia T. T. Utoikamanu. Thanks to: Mereseini Bower (UNDP Fiji Multi-Country Office), Toily Kurbanov (UNDP Fiji Multi-Country Office), Emma Mario (UNDP Fiji Multi-Country Office), Knut Osby (UNDP Fiji Multi-Country Office), Gail Hurley (Poverty Group, UNDP), Matt Davis, PFTAC (IMF) and Suhash Joshi PFTAC (IMF) for their feedback and inputs on earlier versions of the paper.

Cover photo acknowledgements: Tonga's blowholes. The photograph symbolises the idea that should Tonga's debt continue to rise at a rapid rate, it could sweep over the entire country. Thanks to anabruno.wordpress.com

Contact information

Poverty Group, Bureau for Development Policy, UNDP: poverty.reduction@undp.org

Disclaimer

The views expressed in this publication are those of the author and do not necessarily represent those of the institutions to which they are affiliated or the United Nations, including UNDP, or their Member States.

Copyright © December 2010

United Nations Development Programme

Bureau for Development Policy

Poverty Group

304 East 45th Street

New York, NY 11375

USA

Email: poverty.reduction@undp.org

Website: www.undp.org/poverty

TABLE OF CONTENTS

Contents

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN SMALL ISLAND DEVELOPING STATES: THE CASE OF TONGA	1
TABLE OF CONTENTS.....	4
EXECUTIVE SUMMARY	5
1. INTRODUCTION AND OVERVIEW OF TONGA AND ITS ECONOMY.....	7
1.1 <i>Tonga At A Glance</i>	7
1.2 <i>The Impact of the Global Economic Crisis</i>	8
2. PROGRESS AND CHALLENGES TO MDG ACHIEVEMENT IN TONGA	11
3. PUBLIC DEBT TRENDS – BACKGROUND	12
3.1 <i>Public Debt Stocks and Creditor Profile</i>	12
3.2 <i>Debt Service Indicators</i>	15
4. PUBLIC EXPENDITURE ALLOCATIONS ON THE MDG ACTIVITIES	18
5. DOMESTIC RESOURCE MOBILIZATION	20
6. POLICY OPTIONS	22
6.1 <i>Economic Policymaking</i>	22
6.2 <i>Review of Priority Expenditures</i>	23
6.3 <i>Debt Relief and Debt Conversions</i>	23
6.4 <i>Improved Donor Support</i>	24
6.5 <i>Revision of International Trade Commitments</i>	24
ANNEX 1: TONGA’S PROGRESS TOWARDS THE MDGS	26
ANNEX 2: A NOTE ON DATA DIFFERENCES	27
7. REFERENCES	28

Executive Summary

This Discussion Paper forms part of UNDP's 2010 research project entitled 'Achieving Debt Sustainability and the MDGs in Small Island Developing States'. The initiative looks at the problem of high levels of public debt in many small island developing states (SIDS) and the possible impacts on governments' efforts to reduce poverty and increase economic growth. In October 2010, UNDP published a report which provided an overview of the issue of indebtedness in small island economies as well as presented a range of policy options to deal more effectively with the problem. To accompany this paper, it has commissioned four country case studies which explore the issue in greater detail in different country (and regional) contexts. These countries are: Grenada, the Maldives, St. Kitts and Nevis and Tonga. This Discussion Paper looks at the issue of debt in the Kingdom of Tonga in the Pacific.

Prior to the recent food-fuel-financial crises, the Kingdom of Tonga had successfully managed to reduce public debt levels. However, by June 2010, public debt had increased to 43.3 percent of GDP from 30.1 percent in 2007/08. One of the impacts of recent increases in debt levels has been to place Tonga at "high risk of debt distress" as underscored by the International Monetary Fund (IMF). The Government of Tonga had previously exercised a more conservative policy towards external borrowing. However civil disorder in 2006 resulted in the destruction of the central business district in the capital, Nuku'alofa, equivalent to approximately 10 percent of GDP. This led, in turn, to significant reconstruction costs financed mostly through new external debt. It was followed by the recent food-fuel-financial crises which led to sharp increases in energy and food prices, and a decline in tourism and migrant remittance flows. As a result, government tax revenues declined by 14.4 percent of GDP in 2008/09 when compared to the previous year. In response to these crises, the government implemented an economic stimulus programme which was financed via both external and domestic sources. This led to further increases in the country's public debt burden.

The main implication of increased levels of public debt is that the government will have higher debt service obligations in the future. This will reduce fiscal space and place increased pressure on the government's abilities to finance important MDG activities and programmes. Debt service is projected to increase sharply from 2013/14 onwards to 4.2 percent of GDP from 2.4 percent in 2010/11. Total public debt service as a percent of revenues reached over 17 percent in 2010 and is projected to increase further still. On the basis of past practice, it is possible that the government, in the absence of increased revenue flows, may need to reduce budget allocations to certain government ministries which include the Ministries of Health, Education and Environment and Climate Change, whose activities have most direct impact on the MDG indicators.

While the Kingdom of Tonga has made good progress towards the Millennium Development Goals (MDGs), there are constraints in its efforts to achieve some of the targets within the stated time frame of 2015. Tonga, like many of its neighbours in the Pacific faces the challenges of a small land area, limited skilled human resource capacity, long distances from overseas markets, and is extremely vulnerable to natural disasters. It is also highly dependent on migrant remittances and overseas aid.

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

Progress towards some of the MDG targets are in danger of being undermined if present expenditure structures within the key ministries are not reformed to improve efficiency. The government must: rebalance budget allocations from recurrent expenditures towards capital investment, operational and maintenance expenditures as well as rebalance the direction of expenditure towards primary health care and ensure an appropriate balance between primary and tertiary education expenditures. It must also increase resources to the agencies responsible for environment and national disaster management to improve nation-wide preparedness for the impacts of natural disasters and climate change.

This Discussion Paper outlines a number of policy recommendations to the government in order to improve economic policy-making and put debt on a sustainable trajectory over the medium-term. First, it needs to strengthen its economic management framework as well as its economic processes (for instance strengthen dialogue with a wider range of national stakeholders) in order to assist policy-makers to make clear policy decisions based on rigorous analysis; second, institutional debt management capacities need to be strengthened; third the government could also engage with creditors to seek debt relief and/or debt conversions for climate change adaptation; fourth the government should engage development partners to increase grant assistance in recognition of the country's structural weaknesses and vulnerabilities – this effort would come at the time when many donors' aid budgets are under severe strain or are being reallocated to the poorest countries; finally the government could explore possibilities to revisit its commitments under various trade arrangements.

1. Introduction and Overview of Tonga and its Economy

1.1 Tonga At A Glance

1. The Kingdom of Tonga consists of five main groups of small islands: the southern Tongatapu group, the central Ha'apai group, the northern Vava'u group, 'Eua, and the two northernmost islands of Niuatoputapu and Niuafu'ou. Only 36 islands out of a total of 170 are permanently inhabited. The total population based on the 2006 Census was 101,991.¹ 70 percent of the population resides on the main island of Tongatapu. About 48 percent of the population is below the age of 19. The total land area is estimated at 717 square kilometers. The UN's Environmental Vulnerability Index (EVI) classifies Tonga as 'extremely vulnerable' when measured against indicators which include resilience against natural disasters and climate change, its degree of economic diversification and other indicators.²
2. The Government is based on three established institutions: the Executive with the King as a constitutional monarch; the Legislative Assembly³; and the Judiciary. Legislation approved by the assembly requires the sanction of the King in order to become law, however a number of constitutional amendments have been proposed which will lead, for example, to the creation of a government comprising a majority of elected members of parliament. The Prime Minister will be elected by the Legislative Assembly.
3. Tonga's social structure is based on religious and family ties. Christianity is the largest religion in Tonga, and religious organizations (mostly the Free Wesleyan, Roman Catholic, and Church of the Latter Day Saints) are deeply involved in the provision of education and community development services. An elaborate system of extended family ties closely intertwined with religious practice has an important influence on household saving and consumption behavior.
4. Tonga's GDP stood at US\$ 328.4 million in 2008/09.⁴ This amounts to approximately US\$ 2,686.6 (2008) per capita which places it in the lower middle income category of countries.⁵ Tonga's economy is structured around agriculture with a 17 percent share, trade with 13 percent, public administration with 12 percent, finance with 10 percent share and tourism at 10 percent⁶. Agriculture consists mainly of the production of domestic food crops and a narrow range of cash crops (squash, vanilla, and water melons). The official unemployment rate based on the 2006 Census is 1.1 percent.⁷ However when the formal definition is refined and adjusted to include those in subsistence activities, the unemployment rate rises to 35.9 percent.

¹ Statistics Department (2007)

² See Environmental Vulnerability Index (EVI): http://www.vulnerabilityindex.net/EVI_2005.htm

³ The Legislative Assembly presently comprises 9 elected members, 9 members of the nobles (hereditary chiefs) and the cabinet of about 12 members. Under the new changes elected members will comprise 17 members with 9 members of the nobles.

⁴ International Monetary Fund (2010)

⁵ World Bank (2010)

⁶ Asian Development Bank (2010)

⁷ Statistics Department (2007)

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

5. There is no formal social protection policy and there are no social safety net programs. While the government provides basic health and education, in recent years more of these costs have been transferred to the public, through user fees. Most service delivery is left to non-governmental organizations (NGOs) and churches.
6. The Tongan economy is characterized by a high degree of openness and dependency on workers' remittances and Official Development Assistance (ODA). Migration has traditionally played – and continues to play – an enormous role in the country. It is estimated that ethnic Tongans residing overseas range from 60,000 to 100,000 with the majority in New Zealand, Australia, and the USA. Cash remittances from overseas residents have been estimated in the order of T\$175.2 million – or US\$84.1 million – equivalent to 26 percent of nominal GDP in 2008/09.⁸ These transfers have contributed towards a relatively high standard of living given limited economic opportunities available domestically, and have supported the government's revenue base through domestic taxation
7. Tonga is in the top 25 percent of Official Development Assistance (ODA) recipients on a per capita basis. Between 2000 and 2008, Tonga received annual average net ODA equivalent to US\$240 per capita, or 7.1 percent of estimated GDP.⁹ ODA flows have historically supported the development of economic infrastructure and human resources but have also led to upward wage pressure in the formal sector.

1.2 The Impact of the Global Economic Crisis

8. The recent global financial and economic crisis severely impacted Tonga's economy. GDP contracted by 1.2 percent in 2009/10¹⁰. By the end of August 2009, the budget outturn showed a fiscal deficit of US\$3.9 million (1.1 percent of GDP) with revenue collection at 22 percent lower than previously budgeted. The contraction resulted in a severe cash shortage and impacted the government's expenditure programs.
9. In Tonga's case, the major transmission channels of the crisis included:
 - Decline in trade taxes by 18.9 percent;
 - Decline in migrant remittances due to increased unemployment in the main source countries. Between July 2008 and 2009, remittances fell to around 22 percent of GDP from approximately 31 percent of GDP;
 - Decline in tourism receipts by 14.8 percent. This impacted retailers in urban areas with reported declines of 30 - 40 percent in sales in the first quarter of 2009;
 - Poor export performance. Merchandise exports in 2008/09 were 30 percent below the level in 2006/07. The decline in commodity prices as well as weak global demand lowered incomes for smallholders and plantations which led, in turn, to a decline in household spending as rural incomes weakened. This was further exacerbated by the decrease in

⁸ National Reserve Bank of Tonga (2010)

⁹ World Bank (2010)

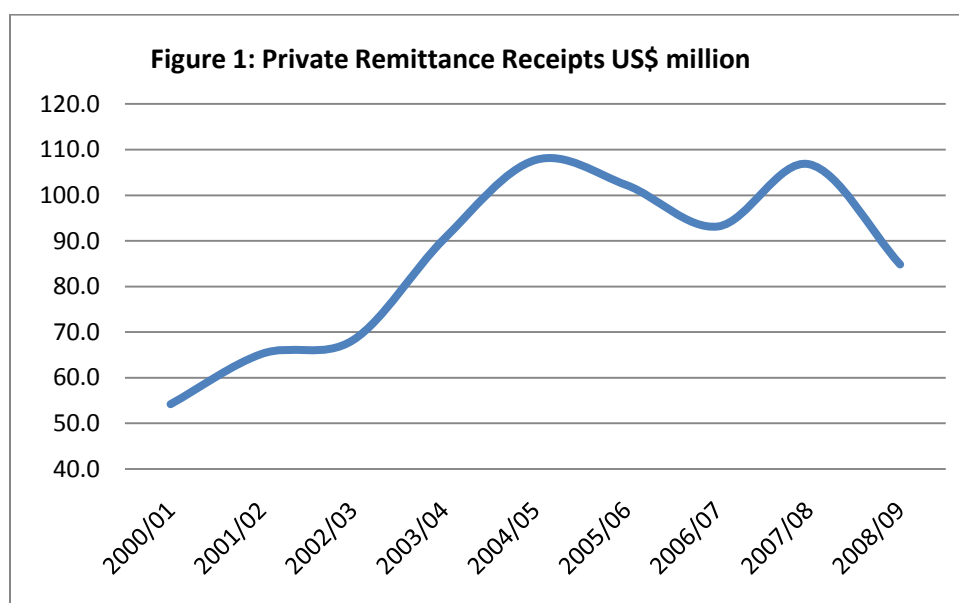
¹⁰ Ministry of Finance and National Planning (2010)

¹¹ This study uses data from Government of Tonga sources, which sometimes vary from estimates from other sources, such as the IMF. Annex 2 outlines a comparison of the differences in published data for comparative purposes.

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

migrant remittances which also boost many families' incomes. In 2009, import demand declined by around 35 percent;

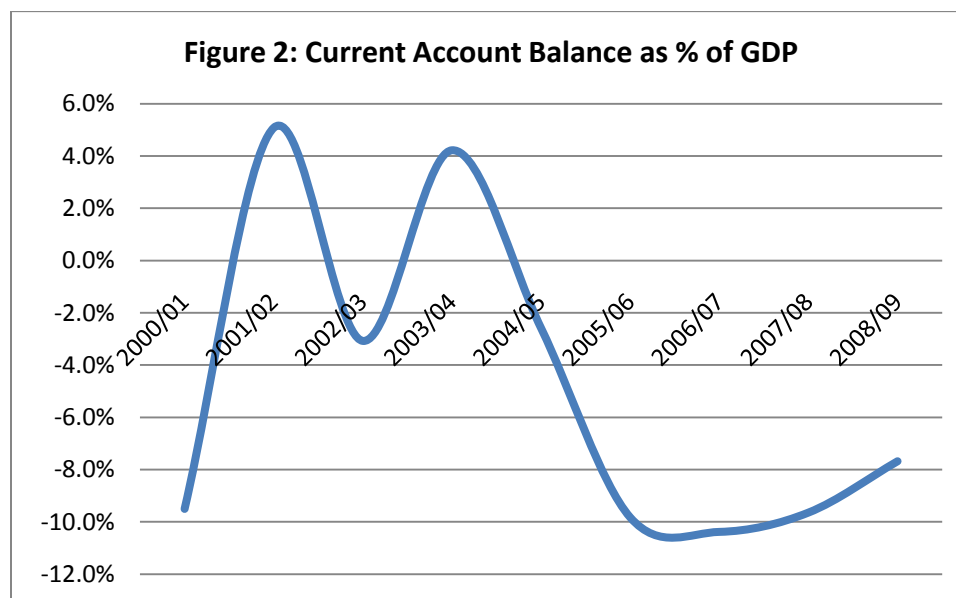
- Deterioration of the current account balance from on average –9.3 percent of GDP between 2004/05 and 2008/09 to –16.4 percent of GDP in 2008/09;
- Decline in domestic bank lending as banks consolidated their balance sheets after experiencing higher levels of loan defaults.



Source: National Reserve Bank of Tonga

10. In addition to the impacts of the crisis described above, the economy also experienced a rapid inflow of extraordinary external capital as a direct consequence of the crisis. This included the receipt of 6.5 million in the IMF's Special Drawing Rights (SDRs) in August and September 2009 to mitigate the impact of the global crisis as well as the disbursement of additional donor grants and loans. These inflows caused the level of international reserves to rise to unprecedented levels and in July 2010 the international reserves stood at the equivalent of 7.4 months of import cover. However, somewhat counter intuitively, high levels of foreign reserves reflected a relatively weak economy. The extraordinary receipts that bolstered the reserves were required to offset poor performing loans and the emerging global crisis. At the same time, demand for foreign exchange to pay for imports weakened due to falling remittances and consumer incomes.
11. In 2009/10 the government implemented a fiscal stimulus package in response to the global crisis. This comprised: local infrastructure investment (including roads and renewable energies); additional funding for community grants, targeted funding for vocational tertiary education, a 10 percent increase in public sector salaries and additional tourism marketing.

12. These measures contributed to a deterioration of the government's fiscal position. The 2009/10 budget had projected a fiscal surplus of approximately 2.7 percent of GDP. The preliminary outturn was a fiscal deficit of 0.5 percent of GDP. The fiscal deficit in 2010/11 is projected to rise further still to 1.5 percent of GDP.¹² Frontloaded donor assistance equivalent to approximately 3.5 percent of projected GDP in 2010/11 (for example from the Asian Development Bank which approved a programme grant of US\$10 million to be disbursed in 2009/2010 and 2010/2011 financial years) will finance some of the increased deficit. Nevertheless, the government has introduced an end-of-year cap on spending across line ministries and sought additional budget-support from donors.



Source: National Reserve Bank of Tonga

¹² Ministry of Finance and National Planning (2010)

2. Progress and Challenges to MDG Achievement in Tonga

The Kingdom of Tonga has made good progress towards achievement of the Millennium Development Goals. For instance, literacy rates stand at almost 100 percent as a result of the historical emphasis placed on education by the government. Women are almost equal to men in terms of enrolment in tertiary education. There is broad immunization coverage with more than 99 percent of children fully immunized against common infectious diseases in 2008. The proportion of births attended by skilled health personnel is high at 98 percent in 2007. The 2006 Census indicates that almost all Tongans have access to safe drinking water and to an adequate source of sanitation.

Nevertheless, important challenges remain. Gross National Income (GNI) per capita is estimated to have increased from US\$1650 in 2000 to US\$3260 in current prices in 2009. However indicative results of the 2009 National Household Income and Expenditure Survey (HIES) state that between 2001 and 2009, real per capita income declined by 18 per cent. While families in the outer islands may experience less economic hardship than those in the capital because they have greater access to own-produced food, households in the outer islands experience other forms of disadvantage which include high transport costs, fewer economic opportunities and poorer access to services.

While access to education has improved – and women are almost equal to men in terms of enrolment ratios at every level of the education system – economic opportunities beyond secondary school remain limited. Maternal mortality remains a concern particularly in rural areas although the maternal mortality rate is subject to substantial fluctuations because of small absolute numbers. There is only one woman representative in parliament and few women occupy senior public service positions. Women remain disadvantaged with regard to access to land, although reviews of the land tenure laws are currently underway.

The Ministry of Health also indicates that Tonga is undergoing a changing disease pattern. There are rising levels of non-communicable diseases, especially heart disease, obesity and alcohol abuse. At present the country's health care system (and resources) are mainly directed towards the urban population and focuses mostly on curative rather than preventive health care. These trends have implications for decisions over the future allocations of government resources.

While access to water and sanitation are universal, limited land resources combined with high urban population movement are placing increasing pressures on the country's natural resources. This is combined with a growing recognition that vulnerability to natural disasters and climate change need to be better addressed, especially in the aftermath of the tsunami of 29 September 2009 which affected the island of Niuatoputapu. The disaster led to the loss of nine lives and damaged around 60 percent of homes on the island. It is estimated to have cost T\$9.5 million (US\$4.9 million) or 1.5 percent of GDP. The predicted impacts of climate change are likely to exacerbate these vulnerabilities further. The government's Initial National Communication to the United Nations Framework Convention on Climate Change (UNFCCC) in 2005 concluded that all economic sectors were likely to be significantly affected by climate change with major adverse environmental, health, economic and social consequences. Of particular concern are the anticipated impacts on agricultural production, water supply and coastal resources.

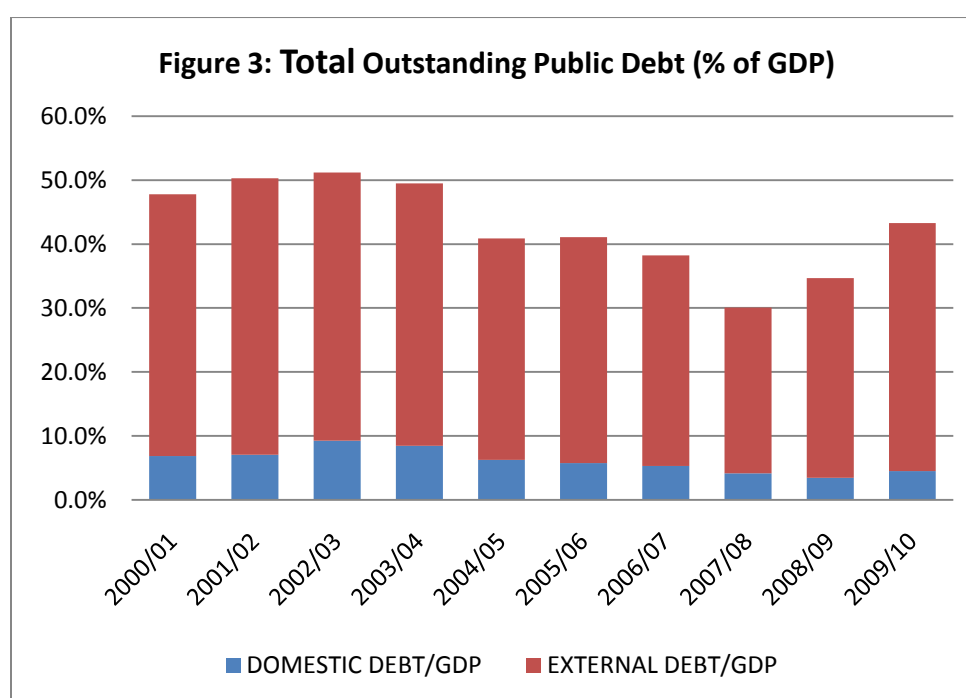
In the past, the government has been slow to recognize and respond to the challenges of climate change. Previous budget allocations for climate change activities were small (for example 0.4 percent of the total budget in 2008/09). Renewed efforts are now underway in this area with the creation in 2009 of a separate Minister for the Environment and Climate Change. The budget allocation for the new ministry, while still relatively small, and with most of its activities funded by donor agencies, is 1.2 percent of total allocations in 2010/11. Addressing climate change issues are being closely supported by development partners through bilateral and multilateral agencies. However, as in other fields, the government's ability to make good progress and access external resources in support of this work has been hampered by its capacity constraints in terms of skilled personnel. This is an issue that must be addressed as a matter of urgency.

Sources: 2009 National Household Income and Expenditure Survey (HIES), Ministry of Health, Statistics Department, World Bank, Department of Environment (2005)

3. Public Debt Trends – Background

3.1 Public Debt Stocks and Creditor Profile

4. Tonga's total public debt stood at an estimated 43.3 percent of GDP in 2010/11. This figure rises to almost 51 percent of GDP if committed but undisbursed loans are included. This represents a decrease in debt from a recent peak of 51.2 percent of GDP in 2002/03. Nevertheless, public debt levels have increased sharply over the last couple of years from a low of 30.1 percent in 2007/08.¹³



Source: National Reserve Bank of Tonga

¹³ Ministry of Finance and National Planning (2010). When compared to the other countries which are part of this project, Tonga's debt to GDP ratio appears fairly low. For instance, Grenada's debt to GDP ratio stood at almost 120 percent in 2010, the Maldives at 97 percent and St. Kitts and Nevis at 192 percent. However the rapid increase in Tonga's debt over the past two years give cause for concern, as do much higher debt service ratios over the next couple of years. Tonga's debt to GDP ratio has climbed 14 percent in just two years; the IMF suggests that annual increases of more than 5 percent of GDP require careful evaluation. Moreover, Tonga's external debt service to exports ratios will climb from 8.7 percent in 2009 to 11.6, 16.6 and 17.5 percent in 2013, 2014 and 2015 respectively (IMF, Tonga 2010 Article IV Consultation). The country's poor economic resilience to external shocks also reduce its capacities to carry debt.

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

14. The government of Tonga began to borrow internationally in the mid-1960s with a loan from the United Kingdom for the construction of a new wharf for the capital, Nuku'alofa. Its access to loans from multilateral agencies commenced when it became a member of the Asian Development Bank (ADB) in 1972.¹⁴ In 1978, the government's external debt increased markedly when it received an export credit from Kreditanstalt für Wiederaufbau (KfW) of Germany for the purchase of a regional freighter and a domestic ferry.¹⁵ As a member of the African, Caribbean and Pacific (ACP) group of nations since 1975, Tonga began to utilize credit made available by the European Investment Bank (EIB) in 1979. Tonga became a member of IMF and the World Bank Group in 1985 and took out its first loan from the International Development Association (IDA) in 1987. In 1998, Tonga began to access credit lines from the People's Republic of China with a loan from the Bank of China. This was followed by further credit in 2001 from the Export Import Bank of China for a hotel project. In 2007, the government received a loan from the Export Import Bank of China to support the reconstruction of the capital, Nuku'alofa, after sections of the central business district were destroyed by civil disorder in November 2006. In 2010, the government again borrowed from the same bank for infrastructure development. As such, public debt in Tonga is characterized by a diverse range of mostly official sector creditors.
15. Domestic debt levels are relatively small, averaging US\$13.2 million (6 percent of GDP) between 2000/01 and 2009/10. As a result of the government's recent policy efforts to limit domestic financing, domestic public debt declined substantially to 3.5 percent of GDP in 2008/09 from 9.2 percent in 2002/03. However domestic debt has risen once again recently in the context of the global economic crisis. It rose from US\$11.1 million in 2008/09, to US\$14.7 million in 2009/10 as the government issued bonds amounting to a net issuance of US\$4.1 million (1.2 percent of GDP) to partly cover its deficit.
16. Domestic debt is comprised of medium term bond issues with an average maturity of 4.5 years and average interest rates of 8 percent, reflecting the fact that the government borrows domestically on commercial terms.
17. Most of Tonga's public debt burden is comprised of external debt, as indicated by Figure 3. In June 2008, the Asian Development Bank was Tonga's largest creditor with 47.9 percent of total external debt, followed by the World Bank with 19.6 percent, KfW with 16.6 percent, International Fund for Agricultural Development (IFAD) with 6.7 percent, Export Import Bank of China with 4.7 percent, Bank of China with 3.1 percent and the European Investment Bank (EIB) with 1.5 percent.¹⁶ By June 2010, this has shifted dramatically and Export Import Bank of China became the largest creditor with 42.5 percent of debt, the ADB with 31.8 percent and the World Bank with 17.8 percent.¹⁷
18. The dramatic shift in creditor profile of the debt towards the Export Import Bank of China (from 4.7 percent of debt in 2008 to 42.5 percent in 2010) reflects two recent loans contracted from the bank for reconstruction and the development of new infrastructure. In November 2007, the Government of Tonga signed a loan for RMB 440 million (approximately US\$59.3 million or 19.5 percent of GDP) with the Export Import Bank of China for reconstruction of the capital Nuku'alofa after civil disorder in November 2006 led to the destruction of the central business district.

¹⁴ As of December 2009, Tonga had received US\$57.79 million in loans from the ADB.

¹⁵ This was leased to the Pacific Forum Line, a regional agency established to improve shipping services to the members of the Pacific Islands Forum.

¹⁶ Ministry of Finance and National Planning (2009)

¹⁷ Ministry of Finance and National Planning (2010)

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

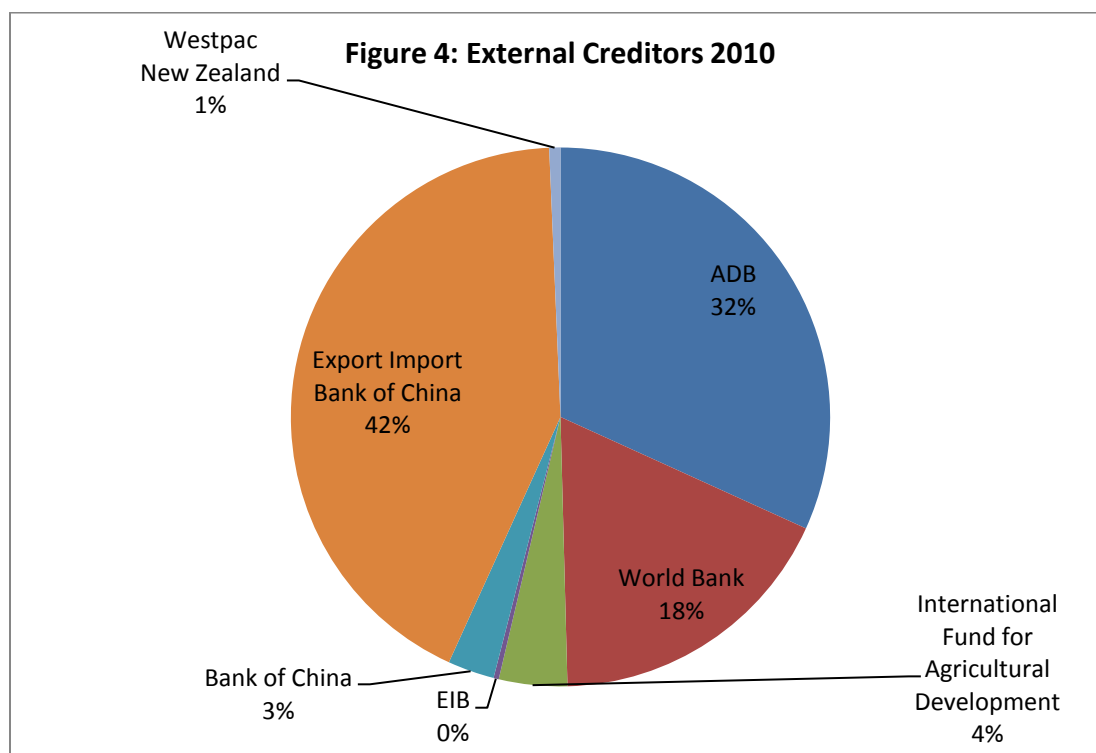
Property with an estimated value of more than 10 percent of GDP was destroyed by fire. Economic activity was briefly disrupted and economic growth contracted by 1.5 percent in 2006/07 due to the direct and indirect impacts of the unrest. Reconstruction costs were substantial and the government has played a leading role in the reconstruction effort. The first drawdown on the loan signed with Export Import Bank of China was made in April 2009 and the loan has been used to finance public works in the capital and to lend-on to the private sector for office and retail construction.¹⁸ In February 2010, a second loan agreement with Export Import Bank of China was concluded for US\$45 million (13.7 percent of GDP) for infrastructure investment.¹⁹

19. Alone, these two loans – with a combined face value of US\$104.3 million or 33.2 percent of GDP – have rapidly increased the country's total public sector debt stock to over 50 percent of GDP in 2010 when committed but undrawn balances are included.²⁰
20. The change in creditor composition of the debt also means that credit and currency risk have shifted with the largest share attributed to the Export Import Bank of China. With these two loans from a single bilateral lender, currency risk has become much less diversified. China, as a rapidly growing economy with a persistent trade surplus, is likely to experience medium-term appreciation of its currency in inflation-adjusted terms. Borrowers, such as Tonga, with large exposures to the Chinese currency may find it challenging in the future to hedge against the renminbi's long term real appreciation.
21. Post-crisis, the government has received increased amounts of grant finance from a range of multilateral and bilateral donors. For instance, the Asian Development Bank approved a programme grant of US\$10 million for financial years 2009/2010 and 2010/2011. As with other members of the IMF, Tonga also benefited from receipt of the IMF's Special Drawing Rights (SDRs) to mitigate the impacts of the global crisis (but in contrast to many other small island developing states, did not seek emergency financial support from the IMF). This assistance has offset to some degree, the government's recourse to new debt.

¹⁸ The loan bears a 2 percent interest rate to be repaid over 20 years with a 5 year grace period.

¹⁹ Sevele, Hon. F. V. (2009)

²⁰ This amount includes committed but undrawn balances.



Source: Ministry of Finance and National Planning

3.2 Debt Service Indicators

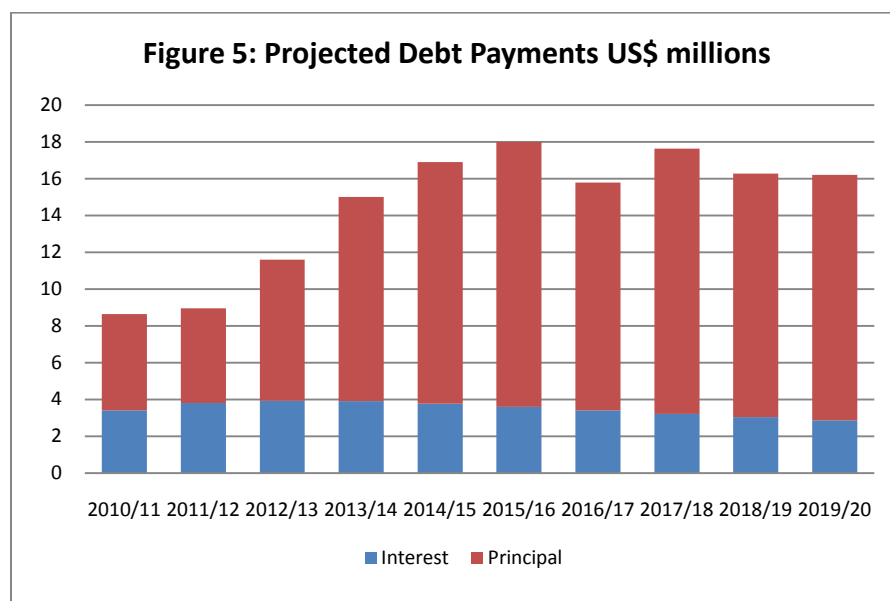
22. As indicated by Figure 5 overleaf, debt service is projected to increase markedly over the next few years. Debt repayments (principal and interest) are projected to increase from US\$8.6 million in 2010/11 to US\$17.9 million by 2015/16, or a doubling in terms of current prices, if we assume a constant exchange rate.²¹ Should the currencies of the major creditor countries experience a significant real appreciation over the next few years (with a resulting depreciation of the Tongan currency), this will increase the cost of external debt service. The fiscal burden of the public debt has been recognized by the government as placing an increased burden on the government's financial position during a period of crisis.
23. The sharp increase in debt service reflects primarily repayments on the two loans extended recently by the Export Import Bank of China. On average, Tonga's public debt is highly concessional. Average interest rates for external public debt are estimated at 1.17 percent and the average repayment period is 36.2 years. Both loans extended by the Export Import Bank of China are also on concessional terms but as a proportion of total debt and of GDP, the loans are significant. Indeed, the IMF has suggested that the recent loans with the Export Import Bank of China place Tonga at "high risk of debt distress."²² This assessment was based on the view that although Tonga benefits from stable remittance inflows, these are not adequate to limit the risks from the projected large increases in future debt

²¹ Ministry of Finance and National Planning (2010)

²² International Monetary Fund (2010)

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

service payments which will result from these loans. Tonga is also vulnerable to low and volatile economic growth, major external shocks, and more borrowing on less concessional terms.



Source: Ministry of Finance and National Planning

24. The rapid accumulation of government external debt in 2009/10 and 2010/11 has been acknowledged by the government as hard to justify under normal (non-crisis) circumstances.²³ The Prime Minister of Tonga in August 2009 stated that: “Because of the current economic climate, Government must consider extraordinary borrowing to stimulate the economy. Under normal circumstances it might be hard to justify increasing Tonga’s debt (now at 30 percent of GDP), but Government must put in place the necessary financing to maintain economic growth.”
25. Indeed, the government has now breached a range of debt sustainability thresholds that it recently set for itself in the Government of Tonga’s May 2009 ‘Sustainable Debt Policy for Tongan Sovereign Debt’. The aim of the government’s new sovereign debt policy is reported as the maintenance of sovereign debt within levels that are sustainable over time. To quantify this objective, explicit government debt targets were established based on the thresholds for sustainable levels of public debt outlined in the IMF and World Bank’s debt sustainability framework for low-income countries.²⁴ These targets were modified to reflect the unique aspects of the Tongan economy, namely the low formal export base and the large remittance flows. The table indicates the extent to which various indicators of debt sustainability have been met or exceeded.

²³ Sevele, Hon. F. V. (2009)

²⁴ World Bank and IMF, debt sustainability framework for low-income countries (2006)

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

External Public Debt Indicators	Government Target (%)	Actual – June 2010 (%)
NPV of external debt		
Total debt as a % of GDP	40	51.4
Total debt as a % of exports (including remittances)	100	135.7
Debt Service		
Total debt as a % of revenues	200	236.1
Interest as a % of exports (including remittances)	15	10
Interest as a % of revenues	25	13.5
External debt service as % of merchandise exports		63.4
Total public debt service as % of revenues		17.1

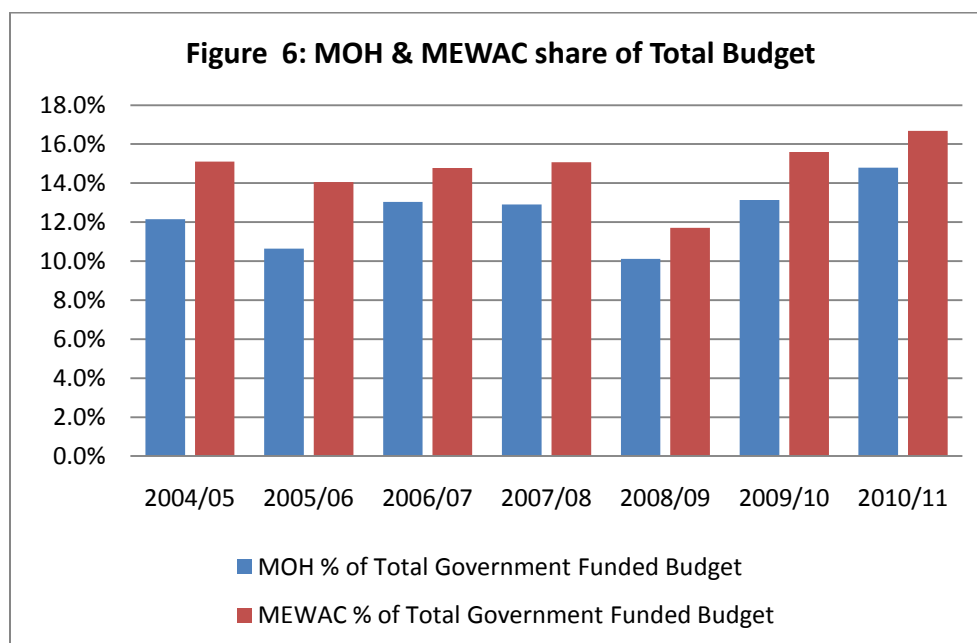
Source: Ministry of Finance and National Planning

26. A key consideration is whether the policy of increased debt financing will deliver the outcomes that the government is aiming for, namely economic growth. This remains unclear for a number of reasons.
27. First, a review of the debt financed economic stimulus package recently initiated by the government suggests that the outcomes targeted by the government may be more difficult to achieve than anticipated. A significant proportion of the fiscal stimulus programme focused on salary increases for civil servants (an increase of about 18 percent on the previous year). While this will strengthen domestic demand in the short-run, it will also place upward pressure on domestic prices and will worsen the current account deficit given the country's high propensity to import. In addition, given that vulnerable sections of the population have not been targeted directly for relief by the economic stimulus package, real price increases may contribute to a deterioration in their economic situation. The increase in public sector salaries, in an environment of lower than budgeted revenues (5.4 percent of GDP lower than expected in 2009/10), will place added pressure on government ministries to reduce other expenditures on services, activities and investments since a greater proportion of limited revenues are devoted to salaries. This may undermine progress towards the MDGs. It also creates a wider divergence in incomes between those in employment in the civil service and those who are not and who are dependent on reduced incomes from lower remittances and lower activities in the tourism and exports. It can therefore be argued that more vulnerable groups could have been better targeted for the government's recent economic stimulus programme.
28. Secondly, the impact of the recent loans contracted to fund reconstruction and infrastructure development also demonstrate a number of shortcomings. This is chiefly due to the 'tied-aid' nature of the project loans. Analysis of tied aid in general suggests that, depending on the conditions of the aid, it is not always an efficient form of aid delivery from the point of view of the recipient. While the Tongan government sought to increase domestic value added through the use of local sub contractors, the credits remain in the form of tied aid and the contractor must be a company registered in the country of origin of the lending institution (although the contractor has the option to utilize workers and materials sourced from the lending country). Additionally, investment in infrastructure projects may only provide a temporary boost to economic activity. It will be difficult to sustain because future sustained growth will be constrained by Tonga's geographic isolation, its narrow export base, the high cost of labor, and an inability to retain skilled labor. It is also noted that while the investment in

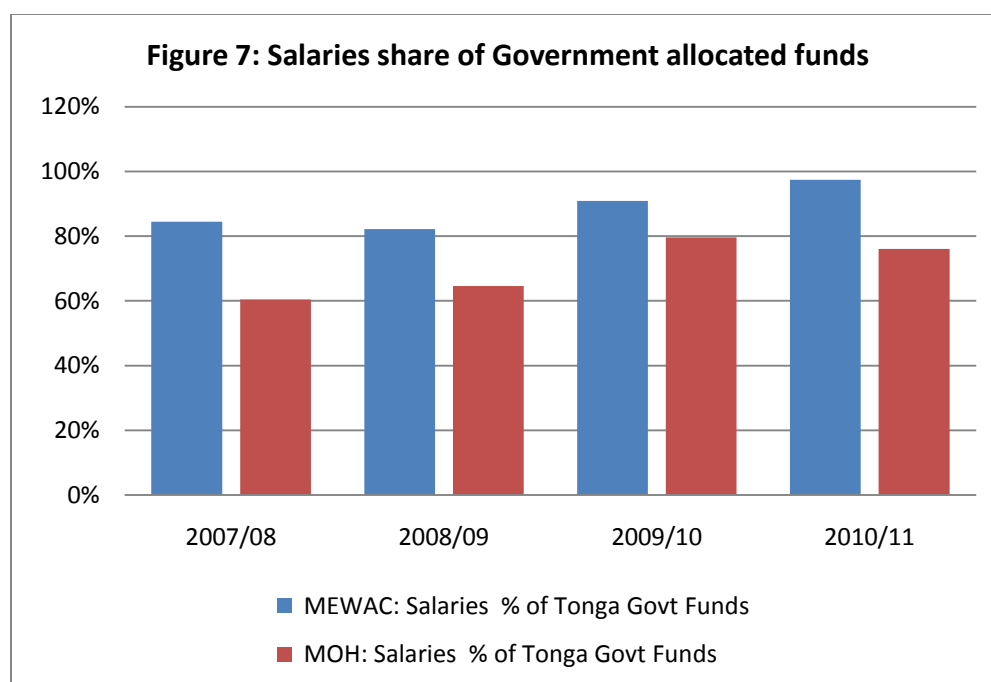
reconstruction and infrastructure will most likely boost demand for labor in the construction industry, vulnerable sections of the community are not targeted.

4. Public Expenditure Allocations on the MDG Activities

5. A number of trends are evident when the government's expenditures on key social and environmental ministries are analyzed. This includes important shifts from capital investments to recurrent expenditures, such as public sector salaries. The impacts of the recent economic crisis have also forced cuts on many government ministries.
6. Combined, the Ministry of Health (MOH) and Ministry of Education, Women's Affairs and Culture (MEWAC) were allocated on average 28.2 percent of the total government budget between 2004/05 and 2010/11 (the MOH with on average 12.4 percent of budget allocations and the MEWAC with on average 14.7 percent over the same period).
7. Aggregate numbers however mask several developments. First, a larger proportion of government funds are now allocated to wages and salaries. In the case of the MOH, in 2007/08 total salaries consumed 60.5 percent of government expenditures on health. This had increased to 79.6 percent in 2009/10. For the MEWAC, salaries consumed 84.5 percent of government expenditures on this sector, rising to 90.9 percent in 2009/10 and to an estimated 97.4 percent in 2010/11. This is in large part due to the increase in public sector salaries implemented as part of the government's recent economic stimulus programme. The Ministry of Environment and Climate Change (MECC) and the Disaster Relief and Reconstruction Programme of the Ministry of Works also demonstrate similar trends, with the MECC heavily dependent on donor funds to support staff salaries. These trends mean that the proportion of government funds which are allocated to infrastructure development and maintenance has been reduced, although to some extent this has been mitigated by inflows of foreign aid. It does raise issues as regards whether such trends are sustainable over the longer-term and whether salaries are squeezing out other operational spending for education and health. It also raises issues as to the extent of the government's commitment to ensuring that its budgetary allocations to key social ministries contribute to progress towards the MDGs.



Source: Ministry of Finance and National Planning



Source: Ministry of Finance and National Planning

8. Other shifts in the composition of public expenditures in the Ministry of Health and Ministry of Education, Women's Affairs and Culture are also evident. These include a decline in the funds allocated to primary education (to below 50 percent of total education expenditures) and a larger share attributed to tertiary education. Given the government's traditional emphasis on education, this shift may be appropriate but care needs to be taken to ensure that access to – and the quality of – primary education are not compromised. In parallel, a declining share of health

expenditures are attributed to primary health care and an increasing share spent on secondary/hospital based health care.

9. The global financial and economic crisis has led the government to reduce its budgetary allocations to many government ministries. In January 2010 it became clear that the government's projected budget revenue targets would not be met. This led the Ministry of Finance to propose that caps be placed on public expenditures by ministries in line with revised revenue projections. This implied across the board cuts of 18 percent for all ministries. The final outcome for 2009/10 was that total public expenditures were reduced by 16.6 percent. Both education and health expenditures from government resources (excluding aid) were scaled back in 2008/09. Other ministries also faced reductions. For instance, the Department for Women's Affairs saw its budget reduced by 18.3 percent in 2009/10 on the previous year. This gives cause for concern given that the Department is allocated less than 0.5 percent of MEWAC's total budget. Land, Environment and National Disaster Management agencies also saw important cuts. These were offset to a certain extent by donor aid inflows, but nevertheless led these agencies to implement cuts in expenditures in the short-term which could potentially undermine the MDGs in the long-term.

5. Domestic Resource Mobilization

10. The Government of Tonga's recourse to external and domestic forms of debt depends to a large extent on its capacities to mobilize sufficient domestic resources to meet essential government expenditures and fund development, in combination with export and tourism performance. While the government has undertaken some policy measures to strengthen and broaden the tax base, several taxes have also been reduced recently and the government faces the new challenge of revenue losses associated with trade liberalization through the Pacific Island Countries Trade Agreement (PICTA) and Pacific Agreement for Closer Economic Relations (PACER).
11. Nearly 73 percent of the government's total revenue comes from domestic taxes; non-tax revenue makes up 27.1 percent. Total tax revenue increased by 25 percent from 2004/05 to 2005/06. This was achieved through substantial taxation reforms which included, *inter alia*: the introduction of a new VAT-type tax (the consumption tax) in 2005; implementation of a new Income Tax and Customs Act in 2007, both self assessed; a post implementation review of the value-added tax (VAT) and substantial changes to the tax administration principally with the introduction of self assessment. The change to the Income Tax and Customs Acts complemented the introduction of the consumption tax in 2005 and has seen tax revenues increase steadily as a proportion of GDP in recent years. Efforts were also undertaken to improve efficiency in the collection of taxes. The regressive aspects of VAT-type tax were compensated by reductions in customs duties and the gradual reintroduction of a progressive income tax replacing a flat income tax of 10 percent. Tax collection peaked at more than 25 percent of GDP in 2005/06 before declining steeply from 2008/09 onwards in part due to the impacts of the recent economic crisis. The government also introduced some recent reductions in certain taxes. For instance, the corporate tax rate was reduced to 25 percent, down from 35 percent. Tax collection for 2008/09 declined to 19.6 percent of GDP from over 25 percent of GDP in 2005/06 which underscores the vulnerability of the government's domestic resource mobilization efforts

12. One key issue is whether the government is prepared to consider new revenue measures in light of the global economic recession. In discussions with the IMF in 2010, government officials indicated that there could be some room to boost revenues by rolling back some of the recent reductions in taxes. Under the policy changes, ad-valorem tariffs on vehicles, fuel, tobacco, and alcohol were converted into specific excises as part of the 2008 tax reform. Duty bands were lowered in line with World Trade Organisation (WTO) commitments and capital goods were exempted from trade tariffs. From a human development and MDG perspective, the proposed tax changes would need to be assessed in terms of their projected impact, including the impact on the vulnerable sections of the community, as well as any potential differentiated impact on women. The key issue is the political will to undertake such changes in an environment of uncertain political changes. On balance, tax increases may be difficult to implement given the political environment. A further consideration is that the current weak state of the economy may not generate sufficient additional revenue, especially given the small population and informal sector activities. This implies that the options available to the authorities must focus mainly on the expenditure side and would include revisiting the conditions of the loans.
13. Another significant challenge to the government on the revenue generation side is the projected revenue losses arising from trade liberalization through the Pacific Island Countries Trade Agreement (PICTA) and Pacific Agreement for Closer Economic Relations (PACER). These commitments bind the country to certain tax changes and revenue losses have been estimated as high as 27 percent of total revenue by external researchers.²⁵ The challenge to the government is to replace these substantial lost revenues both in the short and longer-term in order to maintain and also increase important human and economic development related expenditures. Some options are discussed in the next section to this discussion paper.

²⁵ See Scoullay & Gilbert (1998); Filmer & Lawson (1999), and Soni, Harries and Zinner-Toa (2007)

6. Policy Options

38. Tonga, like many of its neighbors in the Pacific, faces a range of structural constraints which include a small population and limited capacity, geographical fragmentation, a high unit cost of service provision, a narrow resource base, long distances from potential markets and a high degree of vulnerability to natural disasters and climate change. These factors mean the country lacks economic resilience and recent large increases in the level of public debt place the country at a higher risk of debt distress in the future. The government and the international community could take a range of policy measures to support the country to increase its expenditures on MDG-related programmes and to put its public debt burden on a sustainable trajectory over the medium to long-term. These are outlined below. Measures proposed for further discussion cover short, medium and long-term actions.

6.1 Economic Policymaking

39. **Build capacity and improve dialogue:** Like many Pacific economies, capacity constraints have impacted the formulation of economic policies which has led, in turn, to poor analysis and choice of economic policy options. A key lesson learned from countries which have been able to cope more effectively with the challenges of economic policy management is that more inclusive dialogue with all stakeholders (private sector, civil society, development partners etc.) can support the government's efforts to formulate economic policy. This can also lead to a greater demand from the population for improved policy-making. This is an area which could be given higher priority. Development partners can be asked to provide resources and personnel to support this task.

40. **Strengthen economic and debt management processes:** The Government of Tonga could strengthen its economic and debt management processes. This includes the introduction of a medium term budget framework, improvements in the efficiency of revenue administration, and strengthened institutional debt management capacities. Given that progress in this area is dependent to some extent on capacities, this is an area in which the government would benefit from increased donor support. Peer review mechanisms, such as those being conducted under the Cairns Compact, as well as the Public Expenditure and Financial Accountability (PEFA) reviews, should support the government to focus on key areas which need to be strengthened.

41. **Strengthen internal policy coordination:** The current structure has resulted in poor economic policy coordination between government agencies. Decisions on economic policy have been initiated by the Expenditure Review Committee and have not always included other economic agencies such as the Central Bank (the National Reserve Bank of Tonga), which, under its mandate, must be consulted on proposed new loans by the government. Given the importance of exchange rate movements on future debt repayments, it is important that the Ministry of Finance and National Planning and the National Reserve Bank of Tonga coordinate their work more closely.

42. **Strengthen Tonga's Debt Management Capacities:** There is the need to develop a comprehensive debt management strategy aimed at limiting the large credit and currency risks in the government's balance sheet, as well as improve debt management capacities at the national level. Prior to the recent concurrent food-fuel-financial crises the need for such a medium-term debt strategy did not appear urgent as debt levels were on the decline. Since 2008, debt levels have increased markedly, however the government has not been able to develop a

medium term roadmap on debt. This study will hopefully contribute to the development of this medium term roadmap. There is a strong case for strengthening institutional debt management capacities and the unit within the Ministry of Finance and National Planning which is responsible for Debt and Asset Management. At the moment the section focuses on existing debt management and has a limited role in advising policy makers on proposed new loans. The Ministry may wish to consider upgrading the responsibilities of the section and strengthen the staffing of the section with more senior officers reporting directly to the Minister via the Secretary for Finance. The government may also wish to consider resources from multilateral institutions, such as UNCTAD's technical cooperation and advisory services in the area of debt management or the World Bank's programmes for low income countries, which aim at strengthening debt management through the Debt Management Performance Assessment (DeMPA) process, debt management training and other outreach activities.

6.2 Review of Priority Expenditures

43. **Review budget allocations to key ministries:** There is a need to review the structure of government spending, given that a significant proportion is allocated to wages and salaries, i.e. recurrent expenditures. This must be rebalanced to devote a larger share towards capital, operational and maintenance expenditures. The direction of expenditure towards primary and preventative health care must also be rebalanced, given recent health trends within the country. There is also a need for the government to provide increased resources to the MECC and National Disaster Management Office to improve nation-wide preparedness for the impact of climate change and natural disasters. These measures are essential for preserving and increasing progress towards the MDGs, as well as helping to build economic resilience within the country.

6.3 Debt Relief and Debt Conversions

44. **Debt relief in various forms:** Tonga's vulnerability to the effects of climate change and natural disasters suggest the on-going need for unbudgeted expenditure allocations to address the impact of these events. The need to finance such occurrences, in light of high levels of indebtedness, limits the scope for government intervention. As a result, the government's ability to sustain its budget and development strategies are undermined, further impacting on MDG related activities. In this context, the Government of Tonga could explore two strategies:
45. **Debt relief:** The IMF's proposals to establish a Post-Catastrophe Debt Relief (PCDR) Trust Fund are welcome in order to address future catastrophic disasters in a way that does not lead to the accumulation of more (and potentially) unsustainable debt.²⁶ However this does not address the issue of countries' existing debt overhang. The Government of Tonga could explore debt relief, particularly from its bilateral lenders. Although the country was assessed as ineligible for multilateral debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative in March 2006, the country has benefited from several bilateral debt cancellations. In 2005, the UK cancelled the residual debt owed by the government on loans which were made between 1972 and 1977. In 2008, the German government cancelled the residual debt owed by the government to the KfW on the financing of a regional freighter and domestic ferry. Given the demonstrated fragility of Tonga's economy, it has a strong case for consideration by its creditors.

²⁶ IMF, Proposal for a Post-Catastrophe Debt Relief Trust Fund April 2010

46. **Debt conversions for climate change adaptation:** A second policy option for consideration is that of debt conversions for climate change adaptation. Tonga's need to invest in climate change adaptation is high, yet the capital investments required in this area are substantial and in all likelihood beyond the modest capacities of a small government. Tonga could explore the conversion of official sector debt repayments into climate change adaptation resources. Under such a proposal, a central trust account (or adaptation account) would be established into which official sector debt repayments (from several participating official creditors) are channelled. These resources would then be effectively 'recycled' to finance the Joint National Action Plan. The trust account could be tapped once every two, three or five years so that a critical mass of funds can accumulate which could support meaningful interventions. Such a scheme would be more ambitious than traditional debt-for-nature or debt-for-health swaps since it would involve the participation of multiple official creditors. Given Tonga's external fragility, it could make a strong case for such innovative mechanisms from its chief donors.

6.4 Improved Donor Support

47. **Improved Engagement with Development Partners:** Tonga is a recipient of significant flows of ODA. The government would benefit from being able to utilize these grants more effectively and needs to develop its capacities to engage more effectively with donors. This requires parallel efforts by donors to provide continued grant support in a predictable and transparent manner and which supports capacity development and national development priorities, including through direct budget support. Lower-than-expected grants can significantly affect the government's project spending plans, requiring further fiscal restraint and possibly redirecting part of the government spending programmed for higher priority projects. Given the country's high degree of macroeconomic fragility, grant rather than loan assistance is more appropriate. Grant assistance must also be subject to independent validation of its impact, in order to ensure that such resources are utilized effectively.

6.5 Revision of International Trade Commitments

48. **Review Tonga's international trade commitments:** The government faces several other challenges which also have implications for its future budget policies. These include the commitment to PICTA which will reduce the government's revenue base. These issues need to be addressed effectively in a timely fashion.
49. There have been various studies about the impact of PICTA on Tonga and other Pacific countries.²⁷ The various options which have been recommended for countries to off-set the revenue losses associated with PICTA cover several broad areas. Under taxation, the recommendations include: to introduce or consolidate the implementation of broad-based consumption tax; implement a significant increase in import tariff duties from alcohol, tobacco and related produce; seek external funding for a Tariff Revenue Offset Fund and continue to reform and develop more efficient tax collection systems to deal with avoidance and corruption. The recommendations also cover trade issues and include; development of strategies for the expansion of services and trade in services under PICTA; refine strategies to increase the flow of remittances; exploit all possible opportunities for increased exports particularly in

²⁷ See for example Pacific Islands Forum Secretariat (2007)

the fishing and services sectors; build on the existing Pacific Plan to develop a more detailed, integrated trade-related capacity building plan which supports the aims of a single, more integrated Pacific economy. The development of a regional financial trust fund to shore up regional financial stability and pool reserve funds for unexpected emergencies and difficulties experienced in the transition to a more open, single Pacific economy have also been tabled. These efforts need to be supplemented by long-term commitments from donors to increase levels of aid.

50. There are question marks however as to the capacities of governments in the region to implement some of the options discussed above and as such, the government may wish to revisit the terms of its membership to WTO, PICTA and PACER and possibly seek temporary relief given difficult international economic circumstances at the present time, and Tonga's limited capacities to cope.

Annex 1: Tonga's Progress towards the MDGs

Tonga's progress towards the MDGs has been uneven. Studies show that it is off-track in terms of achieving the following targets²⁸:

- Target 1.a: halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
- Target 1.b: achieve full and productive employment and decent work for all, including women and young people
- Target 3.a: eliminate by 2015 gender disparity (specifically the share of women in wage employment in the non-agriculture sector and the proportion of seats held by women in national parliament)
- Target 5.b: achieve by 2015, universal access to reproductive health (on-track for antenatal coverage)
- Target 6.c: have halted by 2015 and begun to reverse the incidence of NCDs
- Target 8.d: deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

The following targets are generally on track:

- Target 1.c: halve, between 1990 and 2015, the proportion of people who suffer from hunger
- Target 2.a: ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
- Target 3.a: eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
- Target 4.a: reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
- Target 5.a: reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
- Target 6.a: have halted by 2015 and begun to reverse the spread of HIV/aids
- Target 6.b: achieve, by 2010, universal access to treatment for HIV/aids for all those who need it
- Target 6.b: have halted by 2015 and begun to reverse the incidence of TB, and non-communicable diseases
- Target 7.a: integrate the principles of sustainable development into country policies and programs to reverse the loss of environmental resources (Scorecard: data gaps, but target generally on-track)
- Target 7.b: reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss (Scorecard: data gaps, but target generally on-track)
- Target 7.c: halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation
- Target 8.e: in cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- Target 8.f: in cooperation with the private sector, make available the benefits of new technologies, especially information and communication

The following targets cannot be accurately assessed due to data gaps:

- Target 8.a: develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction
- Target 8.c: address the special needs of small island developing states

²⁸ Ministry of Finance and National Planning (2010)

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

Annex 2: A note on data differences

The case study utilizes official data from the Government of Tonga, in preference to other sources, such as the IMF in order to maintain consistency.

Below, for reference, are examples of data differences:

	<u>IMF Data</u>				<u>Ministry of Finance and National Planning</u>			
	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u> <u>Prel.</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
<u>Output and prices (annual percent change)</u>								
Real GDP	0.5	-1.2	2.0	-0.4	0.5	-1.2	2.0	-0.2
Consumer prices (period average)	7.0	5.1	9.8	5.0	7.3	5.1	9.6	5.6
<u>Central government finance (percent of GDP)</u>								
Total revenue and grants	26.6	28.3	26.3	24.0	31.6	30.3	26.9	23.9
Grants	1.7	3.7	1.3	6.6	2.1	4.6	1.4	7.0
Overall balance	-2.8	1.1	1.5	-3.3	-4.8	1.6	1.8	1.3
External financing (net)	0.4	0.1	0.2	-0.7	2.1	--1.0	-0.8	-0.7
Domestic financing (net)	2.4	-1.2	-1.7	8.6	-0.3	-0.3	-0.8	0.3
<u>Money and credit (annual percent change)</u>								
<i>Of which:</i> Broad money (M2)	16.6	11.9	8.2	-1.8	14.4	14.0	8.4	-1.9
Domestic credit	25.8	11.6	11.6	-4.2	29.0	14.8	15.2	-7.1
<i>Of which:</i> Private sector credit	22.6	9.5	18.0	-2.9	23.2	11.4	19.7	-2.9
<u>Balance of payments</u>								
Current account balance								
(In percent of GDP)	-7.9	-8.4	--9.0	-14.3	-9.8	-10.4	-9.6	-7.7
<u>Gross official foreign reserves</u>								
In months of goods and services imports	3.1	3.9	3.2	4.7	4.3	4.4	3.5	5.3
<u>External debt (percent of GDP)</u>								
External debt	29.0	27.1	25.3	31.5	35.3%	33.4%	26.9%	31.3%
<u>Memorandum item:</u>								
Nominal GDP (millions of T\$)	580.1	604.1	652.2	685.0	468.8	490.3	608.8	648.6

Sources:

IMF (2010)

Ministry of Finance and National Planning
(2010)

7. References

- Asian Development Bank. 2003. *Priorities of the People: Hardship in Tonga*. Manila
- Asian Development Bank. 2010. *Key indicators 2010*. Available: <http://www.adb.org>
- Asian Development Bank. 2009. *Report and Recommendation of the President to the Board of Directors on a Proposed Asian Development Fund Grant. Kingdom of Tonga: Economic Support Program*. Manila
- Commonwealth Secretariat. 2010. *Marlborough House Small States Consensus*. London
- Department of Environment. 2005. *The Kingdom of Tonga's Initial National Communication*. Nuku'alofa
- Filmer, R J and Tony Lawson. 1999. *The Fiscal Implications for Forum Island Countries of Alternative Proposals for Regional Free Trade Areas*. Suva: Pacific Islands Forum Secretariat
- International Monetary Fund. 2010. *Tonga: Article IV Consultation – Staff Report, Staff Supplement, and Public Information Notice on the Executive Board Discussion*. Washington D.C. and reports for previous years
- International Monetary Fund. 2010. *Proposal for a Post-Catastrophe Debt Relief Trust Fund*. Washington D.C.
- Ministry of Environment and Climate Change. 2010. *Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management 2010–2015*. Nuku'alofa
- Ministry of Finance and National Planning. 2010. *At A Glance Fact Sheets*. Available: <http://www.finance.gov.to>
- Ministry of Finance and National Planning. 2010. *Budget Statement for Year Ending 30th June 2011 and Budget Papers*. Nuku'alofa and statements for previous years
- Ministry of Finance and National Planning. 2006. *Strategic Development Plan Eight: 2006/07-2008/09*, Nuku'alofa
- Ministry of Finance. 2005. *Tonga First National Status Report, Millennium Development Goals, Today and Tomorrow*. Nuku'alofa
- Ministry of Finance and National Planning. 2010. *Draft 2nd National MDG Report*. Nuku'alofa

ACHIEVING DEBT SUSTAINABILITY AND THE MDGS IN TONGA

Ministry of Finance and National Planning. 2009. *Government of the Kingdom of Tonga. Financial Statements for the Year Ended 30 June 2008*. Nuku'alofa

National Reserve Bank of Tonga. 2010. *Quarterly Bulletin*. Available: <http://www.resbank.to>

National Reserve Bank of Tonga. 2010. *Monetary Policy Statement*. Available: <http://www.resbank.to>

Pacific Islands Forum Secretariat. 2007. *The Potential Impact of PICTA on Smaller Forum Island Nations*. Suva

Prime Minister's Office. 2009. *National Strategic Planning Framework*. Nuku'alofa

Scolly, Robert, J. Gilbert and D. Collins, D. 1998. *Free Trade Options for the Forum Island Countries*. Suva: Pacific Islands Forum Secretariat

Sevele, Hon F. V. 2009. *Weathering the Global Storm – The Case of Tonga*. Lowy Institute for International Policy. Available: <http://www.lowyinstitute.org>

Soni, N, Belinda Harries and Betty Zinner-Toa. 2007. *Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries*. Suva: Pacific Islands Forum Secretariat

Statistics Department. 2002. *Report on the Household Income and Expenditure Survey 2000/01*. Nuku'alofa

Statistics Department. 2007. *Population Census 2006*. Nuku'alofa

Statistics Department. 2004. *Report on the Tonga Labour Force Survey 2003*. Nuku'alofa

Statistics Department. 2006. *Statistical Abstract 2006*. Available: <http://www.spc.int>

Statistics Department. 2010. *Household Income and Expenditure 2009 Report*. Nuku'alofa

World Bank. 2010. *WDI, GDF & ADI Online Databases*. Available: <http://www.econ.worldbank.org>



United Nations Development Programme

Bureau for Development Policy

Poverty Group

304 East 45th Street

New York, NY 10017

USA

For more information: www.undp.org/poverty

Email: poverty.reduction@undp.org