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**Joint Statement by Mr. Trabinski, Mr. Chikada, Mr. Imashov, and Ms. Kikuchi on  
Tonga  
(Preliminary)  
Executive Board Meeting  
January 25, 2021**

We thank staff for the reports, which integrate well bilateral surveillance with the authorities' request for emergency lending, and Ms. Mahasandana and Mr. Mochtar for their informative Buff statement. We take positive note of the fact that no cases of COVID-19 have been recorded so far in Tonga, thanks to the timely actions taken by the government. At the same time, the sharp drop in tourism and lower remittances due to the lockdown, as well as post-cyclone reconstruction efforts are expected to generate a large financing gap. Against this backdrop, we support the Tongan authorities' request to access 50 percent of quota under the RCF with the aim of meeting the country's urgent external and fiscal financing needs. We broadly agree with the main conclusions and thrust of the staff report, taking note of the elevated risks to the outlook, and would like to offer the following points for emphasis.

**Fiscal reforms will be critical to maintain medium-term debt sustainability and ensure stable revenue flows needed for addressing the country's spending needs.** We commend the authorities for strengthening revenue collection over the last few years. However, given the increasing public debt, it is essential to implement measures on the expenditure as well as on the revenue side to improve resilience and to build buffers for the future. Also, it is crucial to improve spending efficiency, public financial management practices, and domestic revenue mobilization. We welcome the authorities' commitment to ensure the effectiveness of the policy response to COVID-19 with targeted assistance programs, as well as strong governance and transparency measures. Nevertheless, we encourage the authorities to make every effort to implement these commitments by identifying and publishing the beneficial owners of the companies awarded with the contracts. Temporary fiscal loosening should be used to support the vulnerable and improve the healthcare system, testing and tracing abilities, essential public investment and climate resilience. After the pandemic, appropriate fiscal consolidation is encouraged to achieve debt sustainability while meeting climate and

development goals. We also echo staff's view that financing should ideally be restricted to grants if possible, given that the country is assessed to be at a high risk of external and overall debt distress.

**Strengthening financial stability and improving governance are vital.** Enhancing the financial stability framework and proactively managing risks in the financial sector will be important going forward. In this context, we urge the authorities to accelerate the legislation to expand the responsibility of the NRBT for financial stability and to strengthen its macroprudential authority. Given existing capacity constraints, *we would appreciate it if staff could elaborate on the potential timeframe for implementing such reforms.* Tonga's vulnerability to a partial withdrawal of CBRs could be reduced by amending the AML/CFT framework, and we strongly encourage the authorities to step up their efforts in this regard. Actions aimed at improving enforcement through increased awareness, adequate resources, and better information sharing would be welcome. This is specifically important in the context of the role remittances play in the Tongan economy.

**It is critical for Tonga to strengthen its resilience to shocks from climate change and natural disasters.** Tonga is a country vulnerable to natural disasters. We urge the authorities to persevere in their efforts to strengthen the country's resilience to climate change and undertake substantial measures to boost national disaster preparedness.

**Keeping the momentum in implementing the reform agenda would be important to increase confidence in the economy.** Given the medium-term outlook for the country, an acceleration of structural reforms is vital. Enhancement of the private sector potential and the diversification of the economy would be key to escape a low-growth trap and boost productivity as well as build the necessary capacity to improve the utilization of donor funds and reduce dependence on remittances and aid. It will also be important for the authorities to introduce necessary structural reforms that could foster the objectives laid out in the Tonga Strategic Development Framework (TSDF II). This includes policies aimed at improving the business climate, strengthening the labor market, facilitating infrastructure development, and enhancing the effectiveness of public enterprise operations.