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January 21, 2021

Statement by Mr. Sylla and Mr. Bangrim Kibassim on Tonga
(Preliminary)
Executive Board Meeting
January 25, 2021

We thank Staff for their comprehensive reports and Ms. Mahasandana and Mr. Mochtar for their helpful Buff statement.

Tonga's economy has been battling the impact of the COVID-19 pandemic compounded by natural disasters. Cyclone Harold and the pandemic have thus compromised the recovery that was underway after the first shock of Cyclone Gita. We commend the authorities for their prompt response, which helped protect Tonga from the spread of the virus. This effort should be maintained going forward. As well, the authorities should step up actions to address the structural challenges that constrain growth potential. We support the authorities' request for a financial assistance under the Rapid Credit Facility (RCF) to meet financing and urgent balance of payment needs and pave the way for medium-term policies.

While closely monitoring the pandemic, easing borders closure measures may be warranted to allow the economic recovery to take place. We commend the authorities' success in limiting the spread of the virus. The Economic and Social Stimulus Package and the cancellation of international flight and cruise ships were effective respectively in mitigating the economic effects of the crisis and in preventing infections. The envisaged focus of the RCF resources on safeguarding the public health sector and supporting the economic recovery will further contribute to these achievements. Alongside these steps, the authorities may want to consider an earlier and partial reopening of international borders, to limit the projected widening of the financing gap and of the current account deficit. This measure could be paired with the strengthening of testing and health sector capacities.

Fiscal policy should be geared towards mitigating the impact of the pandemic and ensure debt sustainability afterwards. We support the authorities' ongoing efforts to mitigate the global impact of the pandemic and support economic recovery. Post-pandemic, there is a need to embark on fiscal consolidation to curb down high public debt. In this vein, we welcome the authorities' envisaged measures to boost domestic revenue, including by broadening the tax base and streamlining exemptions on the one hand, and strengthening spending efficiency on the other.

Further strengthening debt management and PFM will increase efficiency, credibility and confidence in policies. Tonga will face large debt payments from 2024. In this context, it is critical to elaborate a sound medium-term debt management strategy, which gives priority to grants. On PFM, we encourage the authorities to implement the conclusions of the Public Expenditure and Financial Accountability Assessment, notably regarding the public financial action plan, procurement, cash management and internal audits.

We agree that the monetary policy should remain accommodative to support the recovery and vulnerabilities in the banking system should be addressed to reinforce financial stability. The National Reserve Bank of Tonga should focus on preserving an appropriate provision of liquidity while improving monetary transmission by addressing structural impediments. Although the banking system is resilient, increasing NPLs, lower capital and profitability warrant close monitoring. Furthermore, efforts should be stepped up to expand credit, enhance financial inclusion, and strengthen financial supervision and risk management.

Finally, achieving an inclusive and private sector-led growth is essential to unleash Tonga's development potential. We encourage the authorities to exit from the low-growth equilibrium by expanding the production base, increasing the size of the private sector and strengthening female labor participation and capacity building. The authorities should also take advantage of Fund's technical assistance and peer learning to address the remaining structural issues including policy design, data provision and quality.