



TONGA

June 29, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY— INFORMATIONAL ANNEX

Prepared By

The Asia and Pacific Department
(In consultation with other departments)

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FUND RELATIONS

(As of May 31, 2022)

Membership Status: Joined September 28, 1981; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	13.80	100.00
Fund holdings of currency	10.36	75.1
Reserves tranche position	3.44	24.9

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocations	19.81	100.00
Holdings	18.68	94.32

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
RCF Loans	6.90	50.00

Latest Financial Arrangements:

Outright Loans

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Jan 25, 2021	Jan 27, 2021	6.90	6.90

Projected Payments to the Fund ¹

(SDR million; based on existing use of resources and presenting holdings of SDRs)

	Forthcoming											
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Principal	0.0	0.0	0.0	0.0	0.0	1.4	2.1	2.8	2.8	2.8	1.4	0.7
Charges/Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.0	1.4	2.1	2.8	2.8	2.8	1.4	0.7

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative: Not applicable

Implementation of Catastrophe Containment and Relief: Not applicable

Exchange Arrangement

The currency of Tonga is the Tongan pa'anga. The de jure exchange rate arrangement is a pegged exchange rate within horizontal bands. The external value of the pa'anga is determined on the basis of a weighted currency basket comprising the U.S. dollar, Australian dollar, New Zealand dollar, and Fijian dollar. The basket weights are determined based on the proportions of trade with trading partners. The exchange rate of the pa'anga in terms of the U.S. dollar, the intervention currency, is fixed daily by the National Reserve Bank of Tonga within a band of ± 5 percent a month. Because the composite weights cannot be confirmed, the de facto exchange rate arrangement was reclassified to "other managed" from "pegged exchange rate with horizontal bands", effective January 1, 2019. Tonga has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment

A first-time safeguards assessment of the NRBT was completed in December 2021, in connection with Tonga's drawing under the Rapid Credit Facility in January 2021. The assessment found some key elements of the safeguards framework in place, which included a tailored legal framework, external audits by an international firm, transparent financial statements, and basic operational controls. However, the prolonged absence of an internal audit mechanism created a hiatus in the governance framework, the impact of which is exacerbated by weak independent oversight of the system of internal controls. As such, priority recommendations should be advanced by the NRBT, including drafting amendments to the NRBT Act to strengthen the autonomy of the NRBT, filling its Board vacancies, and outsourcing audits of high-risk areas.

Article IV Consultation

Tonga is on a 12-month consultation cycle. The previous Article IV consultation was concluded on January 25, 2021 (Country Report No. 21/26), reflecting discussions that took place during February 10-20, 2020.

Technical Assistance: APD, FAD, ICD, MCM, PFTAC, and STA have provided technical assistance on Climate Change Policy Assessments, Financial Stability, Monetary Policy Framework, Macroeconomic Frameworks, Internal Audit, Tax Policy, Revenue Administration, Public Financial Management, Insurance Regulations, Enhanced General Data Dissemination System (e-GDDS) and Statistics.

Resident Representative: The IMF Regional Resident Representative Office based in Suva, Fiji covers 12 IMF member countries in the Pacific, including Tonga. Mr. Neil Saker is the current Resident Representative.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS AND PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTER

Relations with other International Financial Institutions:

- Asian Development Bank:

<https://www.adb.org/countries/tonga/main>

- World Bank Group:

https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode_exact=TO

Relations with Pacific Financial Technical Assistance Center:

- Pacific Financial Technical Assistance Center:

https://www.pftac.org/content/PFTAC/en1/reports11.html#tab_5

STATISTICAL ISSUES

(As of June 16, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision is broadly adequate for surveillance, with some shortcomings in national accounts, prices statistics, fiscal, and external statistics.</p>
<p>National Accounts: While improving, GDP compilation capacity remains limited, leading to delays. The coverage of the national accounts data has widened in the past few years with technical assistance, but there is room for improvement. Annual national accounts are compiled using both the production and expenditure approaches, in both current and constant prices. A PFTAC technical assistance mission in November 2020 assisted the authorities in compiling new experimental estimates of quarterly national accounts.</p>
<p>Price Statistics: The Consumer Price Index (CPI) was updated in 2018 to reflect a basket of goods and services from the 2015–16 Household Income and Expenditure Survey (HIES). CPI is estimated monthly with lags in dissemination. Coverage was expanded to include the Vava’u Division in addition to the Tongatapu Division.</p>
<p>Government Finance Statistics (GFS): The MOF compiles and disseminates annual budgetary central government statistics aligned with the <i>Government Finance Statistics Manual 2014 (GFSM 2014)</i>, and a time series from 2013 to 2019 is available. A 2019 PFTAC mission assisted the authorities with the compilation and dissemination of GFS and public sector debt statistics (PSDS). The compilation and dissemination of GFS and PSDS has improved, but the timeliness, ease, and efficiency in reporting remain an issue. Source data are often available with a significant time lag and in-year sub-annual reporting requires considerable manual intervention. The integrated financial management information system (IFMIS) has not been upgraded and thus is not capable of capturing all transactions, with much of the government’s financial business processes and data collection completed manually. Debt management is conducted outside of the financial accounts, and aid revenue and expense data are not included in the financial accounts. Reconciliation with monetary and balance of payments data requires enhancement and published data are often subject to significant revisions. Reconciliation between IFMIS data and the annual public accounts is not systematically performed.</p>
<p>Monetary and Financial Statistics: The NRBT reports timely data for the central bank, other depository corporations, and monetary aggregates using standardized report forms (SRFs) in line with the methodology set out in the Monetary and Financial Statistics Manual and Compilation Guide. Tonga has reported data on some key series and indicators of the Financial Access Survey until 2018, including mobile money and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.</p>
<p>Financial Sector Surveillance: Tonga compiles financial soundness indicators for deposit takers and reports them to STA on a quarterly basis.</p>

I. Assessment of Data Adequacy for Surveillance (concluded)	
<p>External Sector Statistics: Source data have shortcomings in accuracy, completeness, timeliness, and classification, reflecting capacity constraints which affect the timely dissemination of quarterly balance of payments statistics. An October 2020 technical assistance mission assisted the authorities in reducing delays in the compilation of balance of payments data and helped improve the data on goods and services, current and capital transfers to the government, direct investment, and international reserves. Net errors and omissions were reduced but remain large. A 2021 mission assisted the authorities in developing international investment position statistics.</p>	
II. Data Standards and Quality	
Tonga participates in the Enhanced General Data Dissemination System (e-GDDS). An e-GDDS mission took place in October 2020 to assist the authorities in publishing key economic data through a National Summary Data Page (NSDP) which is yet to be launched, aiming to disseminate 13 of the 15 e-GDDS data categories according to a regular schedule.	No data ROSC is available.

Tonga. Table of Common Indicators Required for Surveillance

(As of June 14, 2022)

	Date of Latest Observation	Date Received	Data Frequency¹	Reporting Frequency¹	Frequency of Publication¹
Exchange Rates	3/2022	5/2022	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	3/2022	5/2022	M	M	M
Reserve/Base Money	3/2022	5/2022	M	M	M
Broad Money	3/2022	5/2022	M	M	M
Central Bank Balance Sheet	3/2022	5/2022	M	M	M
Consolidated Balance Sheet of the Banking System	3/2022	5/2022	M	M	M
Interest Rates ³	3/2022	5/2022	M	M	M
Consumer Price Index	3/2022	5/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government	2020/21	4/2022	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ^{4,5} —Central Government	2020/21	4/2022	A	A	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	2020/21	4/2022	A	A	A
External Current Account Balance	Q2/2021	4/2022	Q	Q	Q
Export and Import of Goods and Services	Q2/2021	4/2022	Q	Q	Q
GDP/GNP	2020/21	4/2022	A	A	A
Gross External Debt	2020/21	4/2022	A	A	A
International Investment Position	Q2/2021	4/2022	Q	Q	Q

¹ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), and Not Available (N/A).² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.⁴ Foreign and domestic financing.⁵ The central government is only the budgetary central government.⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.