

Functions and Objectives

The National Reserve Bank of Tonga (Amendment) Act, 2014, Section 4 sets out the principal objectives of the Bank. It states:

Objectives of the Bank

- (1) The principal objectives of the Bank shall be to maintain internal and external monetary stability.
- (2) Without prejudice to its principal objective, the Bank shall-
 - (a) promote financial stability; and
 - (b) promote a sound and efficient financial system.
- (3) Subject to subsections (1) and (2), the Bank shall conduct its activities in a manner that supports macroeconomic stability and economic growth.

Maintaining internal monetary stability is pursued by the Reserve Bank through promoting low and stable inflation over the medium term. The Reserve Bank's inflation reference rate is 5% per annum.

Maintenance of external monetary stability is pursued through maintaining adequate amount of foreign currencies (foreign reserves) to meet the country's foreign currency demands to pay for imports, etc. As such, the Reserve Bank's monetary policies aim to ensure that Tonga always has foreign reserve holdings of at least three to four months of import cover.

The National Reserve Bank Act, Section 4A also sets out the Reserve Bank's functions:

"The principal functions of the Bank shall be, to:

- (a) issue currency;*
- (b) formulate and implement monetary policy;*
- (c) prescribe the regime for the determination of the external value of the Tongan currency in consultation with the Minister;*
- (d) determine the foreign exchange rate and implement foreign exchange policy;*
- (e) determine and implement financial stability policy, and oversee the maintenance of the stability of the financial system as a whole;*
- (f) regulate as required the supply, availability and international exchange of money;*
- (g) exclusively hold and manage the external reserves of the Kingdom;*
- (h) provide advisory services to the Minister on banking and monetary matters;*
- (i) be the principal banker, fiscal agent and depository of the Government;*
- (j) undertake banking business, in Tonga or elsewhere, subject to the provisions of this Act;*
- (k) regulate and supervise financial institutions, including non-bank financial institutions;*
- (l) oversee and promote the efficient, sound and safe functioning of the payment system;*
- (m) collect and produce statistics;*
- (n) cooperate with and participate in international councils and organisations, including public international financial institutions, and cooperate with domestic and foreign public entities, concerning matters related to its objectives and functions;*
- (o) regulate and supervise capital markets in Tonga;*
- (p) to manage and promote financial inclusion initiatives and related activities; and*
- (q) carry out any other function or any ancillary activities incidental to the exercise of its functions under this Act or any other Act;*

Details on how the Reserve Bank applied its functions to meet its objectives are outlined in this report and other publications.