NATIONAL RESERVE BANK OF TONGA

Monetary Policy Statement

August 2019

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List of abbreviations

AUD	Australian Dollar
EXIM	Export-Import
FEDs	Foreign Exchange Dealers
GDP	Gross Domestic Product
IMF	International Monetary Fund
MAFF	Ministry of Agriculture, Food & Forests
MPS	Monetary Policy Statement
NBFIs	Non-Bank Financial Institutions
NEER	Nominal Effective Exchange Rate
NRBT	National Reserve Bank of Tonga
NZD	New Zealand Dollar
OET	Overseas Exchange Transactions
OPEC	Organization of the Petroleum Exporting Countries
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
REER	Real Effective Exchange Rate
RFB	Retirement Fund Board
ROA	Return on Assets
ROE	Return on Equity
RSE	Regional Seasonal Employees
TC	Tropical Cyclone
TOP	Tongan Pa’anga
UK	United Kingdom
US	United States
USD	United States Dollar
WEO	World Economic Outlook

Overview

Recent Development

The Reserve Bank maintained its current accommodative monetary policy stance over the six months to August 2019. This was to ensure that it achieves its monetary policy objectives for maintaining internal and external stability, promoting a sound and stable financial system, and supporting economic growth.

The accommodative stance continues to encourage banks to utilize excess liquidity in the banking system for further lending to growth sectors to support economic growth. Internal stability was maintained with inflation remaining below the 5% reference rate during the review period. External stability was also achieved with foreign reserves at comfortable levels above the minimum 3 months of imports cover, and supported by competitive exchange rates. At the same time, the financial system remained sound and stable with no signs of overheating, supported by strong capital, adequate profitability, and high liquidity positions.

Following the latest national accounts rebase from the Tonga Statistics Department, Real GDP growth of 0.3% was recorded for 2017/18 following strong growth of 3.3% in 2016/17. However, indicators of domestic activity generally point to a recovery in 2018/19 for all sectors of the economy from the impacts of Tropical Cyclone Gita (TC Gita).

The annual headline inflation remained below the Reserve Bank's reference rate of 5% throughout February to August 2019 averaging at 3.0% over the year. This was mostly driven by declining domestic prices reflecting the recovery in local food items from the impacts of TC Gita. Imported inflation was also relatively low during the six months to August 2019 as lower fuel prices partially offset the rise in other imported goods.

The Balance of the Overseas Exchange Transactions (OET) recorded a surplus of $18.3 million over the six months to August 2019. This stems from a higher inflow of official transfers mostly budget support, project grants, relief funds for TC Gita, and private remittances. Consequently, the official foreign reserves rose to $491.8 million in August 2019 from $473.5 million in February 2019 equivalent to 8.1 months of import cover. This is well above the minimum level of 3 months of imports cover.

The banking system continued to remain sound supported by strong capital position, adequate profitability, high liquidity, and low levels of non-performing loans. Over the six months to August 2019, the total banks' lending continued to rise to a new record high of $496.8 million while deposits slightly declined. The rise in lending was mainly for businesses in the professional & other services, transport, tourism, and wholesale & retail sectors. This reflected growth in private sector activities and business confidence. Total banks' loans to deposit ratio also rose from 76.0% in February to 79.0% in August 2019. This is still lower than the 80% minimum threshold indicating there is still capacity for further lending by commercial banks. Non-performing loans however fell to 3.0% from 3.6% in February 2019. The weighted average interest rate spread narrowed during these 6 months as weighted average lending rates declined coupled with an increase in weighted average deposit rates.

Liquidity in the banking system (reserve money) declined by 2.9% to $311.3 million in August 2019 attributing to lower deposits by the commercial banks to the Reserve Banks vault. The Reserve Bank continues to maintain its policy rate at 0%, and the Statutory Reserves Deposit Ratio at 10%, while encouraging commercial banks to utilize the excess liquidity for further lending. Broad Money however rose to $602.3 million mostly in line with the movement in foreign reserves.

Government deposits continued to rise by 5.8% over the past six months to August 2019, resulting in a slight decline in net credit to Government. The inflow of budget support, project grants, and relief funds from development partners for the fiscal year 2018/19 drove the rise in Government deposits. This was further supported by revenues reforms and improved revenue collections by Government ministries.

Outlook

The Reserve Bank anticipates a stronger growth of 3.2% and 3.0% for the 2018/19 and 2019/20 fiscal years. This is largely based on the expected recovery of domestic performances from TC Gita specifically agriculture and fisheries, supported by an expected pick-up in economic activities in the industry and tertiary sectors owing to reconstruction and rehabilitation works from the damages of TC Gita. This is in addition to other donor-funded projects on the pipeline to be implemented such as the Road and infrastructure development project, the E-government project, and the Tonga Renewable Energy Project.

The annual inflation rate is projected to remain below the Reserve Bank's reference rate of 5% in the near to medium term. This stems from expected lower domestic prices reflecting the recovery in the primary sector from TC Gita. Additionally, the global fuel and commodity prices are also expected to remain low.

The upcoming principal loan repayments to EXIM Bank of China projected offshore investments and expected to pick up in the import bill for the implementation of infrastructure and development projects is expected to put pressure on the level of foreign reserves. However, the Reserve Bank projects that foreign reserves will remain comfortably above the 3 months of imports cover in the near to medium term supported by on-going receipts of budgetary support and grants funds from development partners, in addition to private remittances from our overseas diaspora.

Credit growth is expected to wind down for the year 2019/20 specifically with lending to private households, easing the concerns for overheating in the economy. However, there is still excess liquidity in the banking system indicating an available capacity for further lending by banks which the Reserve Bank is encouraging them to continue lending to growth sectors thus supporting economic growth. Non-performing loans are also expected to remain low.

Net credit to the Government may continue to decline on the back of higher deposits from budget support and grants from development partners, in addition to an expected higher revenue collection. The Reserve Bank continues to observe the current fiscal policy measures and its implication on the monetary policy objectives.

Tonga remains very vulnerable to natural disasters and external shocks. Tonga's resilience to tropical cyclones is low as they become more severe and more frequent over the years. Movements in global prices are expected to pass through imported prices and are potential sources of higher inflation. Nevertheless, the Reserve Bank will continue to update and review its forecasts regularly for the assessment of its monetary policy tools and instruments.

Given the recent developments and the outlook on the monetary policy targets, the Reserve Bank considers its current accommodative monetary policy stance to be appropriate in the medium term. The Reserve Bank will maintain its current monetary policy measures in the medium term to encourage the utilization of the excess liquidity in the banking system to increase lending, particularly to the growth sectors, to support domestic economic growth, the recovery from TC Gita, and strengthen the monetary policy transmission mechanism. Furthermore, the Reserve Bank will continue to monitor developments in the domestic and global economy closely, and adjust its monetary policy setting where necessary to maintain internal and external monetary stability and to promote a sound and efficient financial system that supports macroeconomic stability and economic growth.

Sione Ngongo Kioa

Governor

1. Global Developments

World Growth

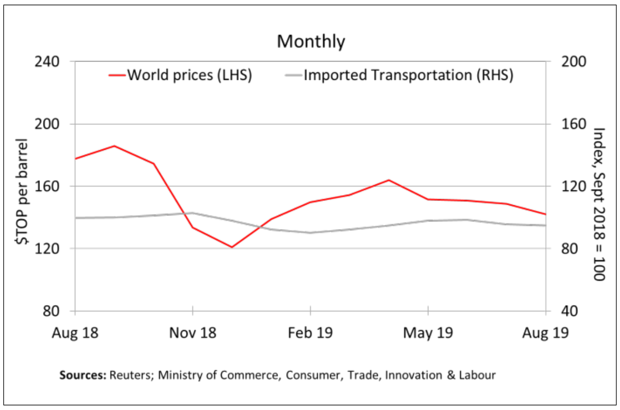
The IMF's World Economic Outlook (WEO) released in October 2019 showed that global growth performed at its slowest pace since the Global Financial Crisis. As such, growth for 2019 was downgraded to 3.0% compared to 3.3% in the last WEO report (April 2019). The downward revision resulted mainly from rising trade uncertainties thus affect global manufacturing activity and aging demographics in advanced economies. Furthermore, growth in 2020 is also revised downwards to 3.4% from 3.6% from the previous WEO report.

Growth weakened across advanced economies and is expected to continue slowing down in the near term. Additionally, a slowdown in activity was evident in emerging markets and developing economies including China. Commodity prices also declined and projected to be lower in 2020 than in 2019. This was reflected in the IMF's primary commodity price index which declined by 5.5% since February 2019 and was largely due to falling energy prices (particularly oil prices) by 13.1%.

World Oil Prices

According to Reuters, world oil prices averaged around US$59.72 per barrel in August 2019 which is considerably lower compared to USD$64.19 per barrel in February 2019 and US$73.76 per barrel a year ago.

Figure 1: World Oil prices



The IMF October 2019 WEO states that oil prices are expected to average at US$61.8 in 2019 and US$57.9 in 2020 (lower than the April 2019 WEO respective prices of US$59.2 and US$59.0). Oil prices are further projected to decline to about USD$55 per barrel by 2023. These forecasts are consistent with subdued demand projected for the medium-term. However, the Organization for the Petroleum Exporting Countries (OPEC) and non-OPEC oil exporters (including Russia) have agreed to cut production until March 2020.

Advanced Economies

The IMF October 2019 WEO slightly revised the 2019 growth for advanced economies downwards from 1.8% to 1.7%, while the projection for 2020 remains unchanged. This largely results from the performances of advanced economies such as the United States (US) and the Euro Area.

The US economy maintained growth in the first half of 2019 particularly driven by higher consumption and employment. Growth is now expected to be 2.4% for 2019 and 2.1% for 2020 (revised up from 2.3% in 2019 and 1.9% in 2020 in April 2019). Inflation is projected to record at 2.2% for 2019 and 2.4% in 2020 (compared to previous projections of 2.0% for 2019 and 2.7% for 2020). The US Federal Reserve had cut the Federal Funds rate in July and September 2019 to minimize downside risks from the global economy. The rate is currently in the 1.75–2.0% range and will be monitored given continuing developments on the international scene.

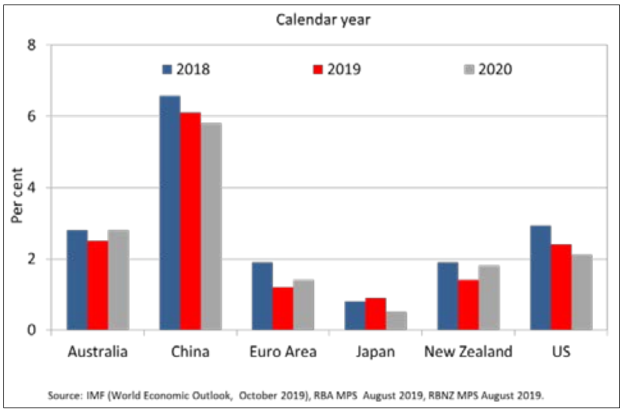
The Reserve Bank of Australia (RBA) reported in its August 2019 MPS that the Reserve Bank Board reduced the cash rate in both its June and July meetings to a new low of 1.0%. This is down from 1.5% in the February 2019 MPS. This was driven largely by slow growth in the Australia economy owing to softened growth in household income weighing on consumption growth. GDP growth is expected to reach 2.5% for 2019 (revised downwards from 3.0% in February 2019 MPS) and pick up to 2.8% over 2020 (unchanged from previous MPS). These projections stem from lower interest rates and recent tax measures expected to influence growth in the economy accordingly. Inflation remains low and recorded 1.6% over the year to June 2019. However, inflation is now expected to record at 1.8% at the end of both 2019 and 2020. This remains low due to the recent decline in oil prices.

The Reserve Bank of New Zealand (RBNZ) reported in its August 2019 MPS that the official cash rate (OCR) was reduced to 1.0% (down from 1.75% in the February 2019 MPS). This was due to slow GDP growth on the back of weakening global economic activity affecting demand for New Zealand's goods and services. Additionally, inflation and employment indicators were impacted hence the lower OCR was necessary. The latest GDP growth recorded was 2.5% over the year to March 2019 and is expected to be 2.7% by the end of 2019 and slowing to 2.4% in 2020 (compared to the previous projection of 3.0% in February 2019 MPS for both 2019 and 2020). The downward revisions are in line with global growth projections and potential implications on the economy's growth. Inflation is below the 2.0% which is RBNZ's mid-point target and recorded at 1.7% over the year to June 2019 and is expected to be at 1.9% at the end of 2019 and 1.7% for 2020 (compared to 1.4% and 2.0% respectively in February 2019 MPS). This is largely due to movements in oil prices and low house price inflation. Regardless, inflation is expected to remain within the RBNZ's target range of 1-3%.

The United Kingdom (UK) as reported by the IMF WEO October 2019 has slowed due to recent developments politically and geographically. However, projected growth is unchanged since the previous WEO and is expected to be 1.2% for 2019 and 1.4% for 2020. The unchanged projections reflect combined on-going issues such as the negative impact from weaker global growth, uncertainty around Brexit, and a forecasted positive impact due to higher public spending. Inflation is still forecasted to remain at 1.8% for 2019, but 2020 is slightly revised down to 1.9% from 2.0% in previous MPS.

The Euro Area recognized weaker growth stemming from low foreign demand as reflected by declining industrial production (particularly for France and Germany). Therefore, growth is projected to be 1.2% in 2019 (slightly revised up from 1.1% in April WEO) whilst expecting a growth of 1.4% for 2020. Inflation across the Euro Area economies is anticipated to slow to 1.2% in 2019 and 1.4% in 2020 (compared to 1.3% and 1.6% respectively in the previous WEO). This is driven by the declining energy prices and softening growth amongst the economies.

Figure 2: Growth Projection in the Advanced Economies



China experienced a slowdown in GDP growth due to the heightened tariffs with the United States thus weakening external demand. GDP growth has been revised downwards for 2019 and 2020 respectively to 6.1% and 5.8% (from 6.3% and 6.1% in previous WEO). The policy stimulus is expected to encourage economic activity despite the adverse external shocks. Headline inflation is projected to remain unchanged since the last WEO for 2019 at 2.3% however dropping slightly to 2.4% for 2020 (from 2.5%). Slowing domestic demand also contributed to the slightly downward revised projections. However, the monetary policy stance is expected to be on hold until further developments arise deeming any necessary changes.

Japan's economy is expected to notice a growth of 0.9% in 2019 and 0.5% in 2020 (compared to 1.0% for 2019 in the last WEO whilst 2020 projection remains unchanged). Despite strong consumption and higher public spending noticed in the first half of 2019, they were partially offset by the weakening external sector. Temporary fiscal measures are anticipated to assist with the growth of 2020. However, the consumption tax rate increase in October 2019 is expected to affect domestic demand. Inflation is projected to be 1.0% at the end of 2019 and 1.3% for 2020 (this is revised downwards from 1.1% and 1.5% respectively in the previous WEO). This is due to the impact of the consumption tax rate increase on prices as well as other fiscal measures announced by the government. Consequently the central bank's monetary policy will remain accommodative with its target of 2.0% inflation.

South Pacific Economies

The South Pacific region performed better than expected at a regional average of 3.5% in 2019 (with the latest data available). This is compared to the last recorded average GDP growth for the region of about

2.0% in 2018. For Papua New Guinea (PNG), they recorded a recovery in the mineral and primary sector (agriculture and fisheries) which positively influenced growth. Exporting of LNG, crude oil, and gold is expected to further drive growth in the medium term. The Central Bank of Samoa reported a recovery following negative growth in 2017/18. In 2018/19, the rebound in GDP growth was driven by preparations for the South Pacific Games held in July 2019 and the completion of the Faleolo International Airport.

Figure 3: Growth Projections in the Pacific

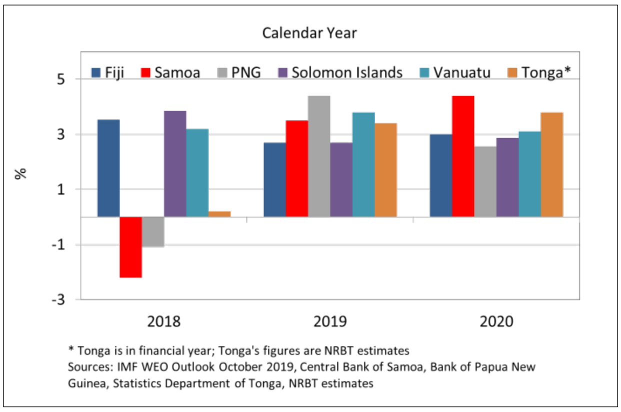


Table 1: World Data (Real GDP Growth, Inflation, and Unemployment)

	Real GDP growth (%)			Inflation (%)			Unemployment* (%)		
	2018	2019f	2020f	2018	2019f	2020f	2018	2019f	2020f
World Growth	3.6	3.3	3.6						
Australia	2.8	2.5	2.8	1.8	1.8	1.8	5.0	5.3	5.3
China	6.6	6.1	5.8	2.1	2.3	2.4	3.8	3.8	3.8
Euro Area	1.9	1.2	1.4	1.8	1.2	1.4	8.2	7.7	7.5
Japan	0.8	0.9	0.5	1.0	1.0	1.3	2.4	2.4	2.4
New Zealand	1.9	1.4	1.8	1.1	1.5	1.7	4.4	4.2	4.3
United Kingdom	1.4	1.2	1.4	2.5	1.8	1.9	4.1	3.8	3.8
United States	2.9	2.4	2.1	2.4	1.8	2.3	3.9	3.7	3.5

Note: f – forecast
Source: IMF (World Economic Outlook, October 2019), NRBT , RBA Aug 2019 MPS, RBNZ Aug 2019 MPS

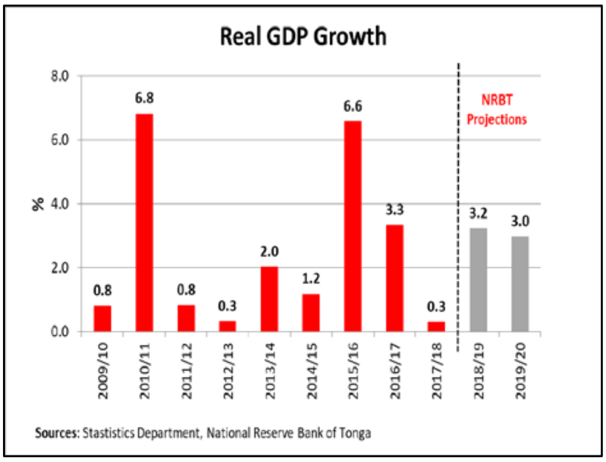
2. Tonga's Economic Growth

Real GDP Growth

The Statistics Department conducted a rebasing exercise in October 2019 for its National Accounts from 2010-11 prices to 2016-17 prices. In addition to this rebase, the System of National Accounts was also upgraded in accordance with the United Nations System of National Accounts 2008 (UN_SNA 2008). Other methodological revisions included the update of the International Standard Industrial Classifications (ISIC) from Rev.3 to Rev.4, the introduction of Financial Intermediation Services Indirectly Measured (FISIM), and other improvements in data coverage and quality. As a result, the real GDP growth for 2017/18 edged up to 0.3% from the 0.2% that was previously published. The historical movements in real GDP for previous years were also revised.

Consequently, the Reserve Bank also revised its outlook based on these newly rebased GDP figures and the few changes in the sectorial classifications. The Reserve Bank now projects a 3.2% growth (revised down from 3.4% in February 2019 MPS) for 2018/19. This forecast is largely based on an expected rebound in the industrial sector due to the reconstruction and recovery works from Tropical Cyclone Gita. For 2019/20, the Reserve Bank projects positive growth to continue by 3.0% (revised down from 3.5% in the February 2019 MPS) driven mostly by an active industry sector. The forecast is revised down due to some delays in the implementation of a few major infrastructural projects funded by donor partners.

Figure 4: Real GDP Growth



Primary Production

The new estimates released from the Statistics Department showed positive growth in the primary sector of 0.4% in 2017/18 compared to a negative growth of 1.0% in its previous publication. Adjustments were made to the agricultural sector resulting in higher growth of 2.3% in 2017/18 compared to only 0.6% growth in the last publication. The fisheries sector however, was revised down from -9.3% in the last publication to -14.6 after the rebase.

Given the latest developments so far, the Reserve Bank revised its outlook for the primary sector growth for 2018/19 from a growth of 0.6% in its February 2019 MPS to a slight downturn of negative 0.1%. The outlook for 2019/20 is also revised down to 1.6% from 2.1%. This mostly reflects the impacts of TC Gita on the primary sector production.

Under the new industry classifications, the agricultural sector is combined with the forestry sector. Over the year to June 2019, the total volume of agricultural exports decreased by 4,034.3 tonnes (30.7%) particularly for squash, coconuts, and cassava. The domestic market survey shows that agricultural products sold locally also declined by 1,062.5 tonnes (24.6%). This may reflect the impact of TC Gita on agricultural harvests later on in the year. Export proceeds for agricultural products also declined over the year to June 2019 by $1.1 million (10.1%). Some root crops and squash growers also shifted to growing kava-Tonga as kava prices hiked due to the rise in demand. However, kava takes a much longer-term before it is ready to be harvested. The Reserve Bank estimates a negative growth for the agricultural sector in 2018/19 of 0.2% mostly reflecting the impact of TC Gita on agricultural products.

The agricultural sector is expected to improve its performance in 2019/20 with a forecasted growth of 2.0% reflecting a slow recovery from the impacts of TC Gita, supported by more favourable weather conditions. Replanting efforts and relief packages from TC Gita allocated by the Government to the agricultural sector such as free field plough hours and seedlings are also expected to benefit farmers. Squash growers also expect better returns from

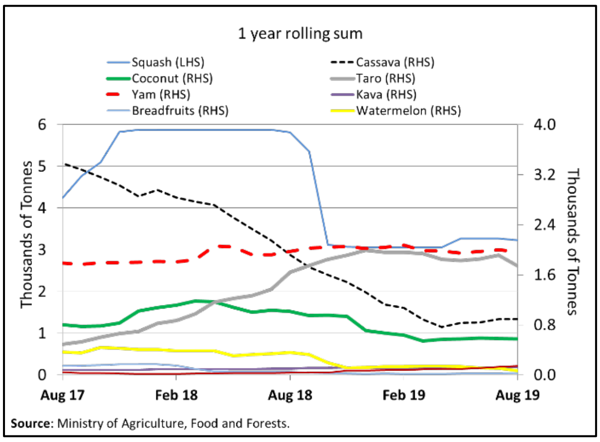
Table 2: Real GDP Forecast

	Rebased Official 2016/17	Preliminary 2017/18	Rebased Official 2017/18	FY 2018/19 Revised	FY 2018/19 Revised	FY 2019/20 (Feb-19 MPS)	FY 2019/20 Revised
GDP	3.3	0.2	0.3	3.4	3.2	3.5	3.0
Primary production	-2.5	-1.0	0.4	0.6	-0.1	2.1	1.6
Agriculture and Forestry	1.7	0.6	2.3	0.5	-0.2	2.0	2.0
Fisheries	-26.7	-9.3	-14.6	1.0	1.0	3.0	3.0
Secondary production	9.7	-5.8	-14.4	7.6	7.4	4.4	4.4
Mining and quarrying	3.2	8.6	14.2	6.0	6.0	8.0	8.0
Manufacturing	1.5	0.2	-0.8	2.0	3.0	4.0	3.0
Electricity, water, and waste	9.9	0.3	0.0	8.0	8.0	5.0	6.0
Construction	18.0	-11.8	-32.4	11.0	12.0	10.0	7.0
Tertiary production	1.8	2.7	3.3	3.2	3.1	2.9	2.6
Wholesale and retail trade	2.5	4.2	6.3	4.0	6.0	4.0	3.0
Transport and storage	19.6	7.0	1.8	4.5	4.0	5.0	4.0
Accommodation and food service activities	8.6	-0.2	7.5	1.0	3.0	2.0	2.0
Information and communication	-0.8		9.5		4.0		5.0
Financial and insurance activities	-4.3	3.9	4.5	7.0	4.0	5.0	4.0
Real estate activities	1.2	1.6	-1.7	2.0	2.0	2.0	2.0
Professional, scientific and technical activities	-15.0		25.2		2.0		2.0
Administrative and support service activities	-8.3		1.2		2.0		2.0
Public administration and defense	-1.5	2.8	2.8	1.0	1.5	1.0	1.5
Education	-0.1	-1.3	0.0	2.0	1.0	2.0	2.0
Human health and social work activities	8.6	0.0	5.4	1.5	1.5	3.0	2.0
Arts, entertainment and recreation	2.1	0.0	-12.1	2.0	2.0	2.0	2.0
Other service activities	-3.4	-1.5	3.5	1.5	1.0	1.5	1.0
Other*	8.6	0.0	5.9	1.0	1.0	1.0	1.0

* Includes taxes minus subsidies and imputed bank service charges
Source: Department of Statistics, NRBT

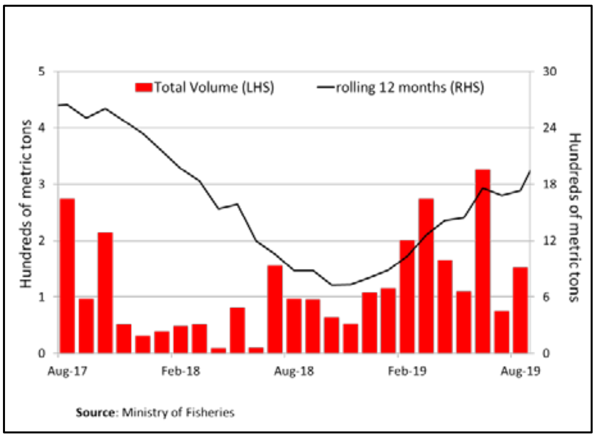
exports this year as some offseason shipments during the year yielded good proceeds. From the Reserve Bank's liaison program, growers in general remain optimistic for a recovery in growth over the coming year. However, natural disasters remains a downside risk for this sector.

Figure 5: Major Agricultural Exports (tonnes)



Fish exports have been growing strongly over the year to June 2019 by 47.0% (561.8 metric tons) especially in the exports of tuna. Additionally the volume of exported aquarium products also rose by 28.8% (56,082 pieces). Proceeds for exports of fish and marine products also rose for the same period by 42.6% ($2.4 million). Fresh fish and marine product exports benefit from more international flights arriving in Tonga with more cargo space available. It is also reported that fishing vessels recorded higher trips this year in line with the higher exported volumes. The Reserve Bank still expects a positive growth from the fishing sector in 2018/19 of 1.0%.

Figure 6: Fish Exports (metric tons)



The Ministry of Fisheries continues its initiatives to develop the fishing sector in accordance with its Tonga's Fisheries Sector Plan. The Ministry also launched the Pathway to Sustainable Oceans project in July 2019. Other initiatives to provide affordable fish for the local markets include offloading up to 5 tonnes from the catch of each foreign fishing vessel to be sold locally at a cheaper price than the market prices. Although the 5-year ban on harvesting and exporting of sea cucumbers will be due in October 2020, the Ministry indicates that it is unlikely to lift this ban. Meanwhile, government subsidies for the fishing sector such as duty exemptions on fuel for fishing vessels and imports of fishing gear aim to support the sector's growth. The Reserve Bank expects a stronger growth of 3.0% from the fishing sector for the year 2019/20.

While the Government Development Loan Scheme continues to provide low-interest credit for the primary sector, there seems to be a rising concern for labour shortages due to a growing number of people joining the seasonal working schemes to New Zealand and Australia. These schemes provide much higher wages which local businesses are unable to compete with. The loss of labour leads to lower production volumes for export which makes it difficult to meet overseas demand. Some businesses such as the local fishing vessels resort to even hiring crew members from overseas at a higher cost to operate the fishing vessels. Nevertheless, the private sector continues to seek out new market opportunities and to improve the quality and quantity of production.

Secondary Production

Following the National Accounts rebase exercise, the secondary sector recorded a much higher downturn in 2017/18 of -14.4% than the -5.8% in the previous estimate. This is mostly in line with the downward revision of the construction sector growth from -11.8% to -32.4%.

The Reserve Bank expects a rebound in the secondary sector for 2018/19 by 7.4% (slightly revised down from 7.6% in the February 2019 MPS), largely driven by the reconstruction works from TC Gita and other constructions projects. These will also spill over to the manufacturing, mining, and quarry sectors. This will support the overall GDP growth for 2018/19. These projects are expected to continue to the next financial year, 2019/20 hence the secondary sector is still expected to grow strongly by 4.4%.

An anticipated growth in the construction sector by 12% (revised up from 11% in the February 2019 MPS) is expected to drive the growth in secondary production for 2018/19. The rising number of building permits over the year to June and the growing balance of the housing loans indicates an active construction sector. The reconstruction of damaged infrastructures from TC Gita and other new projects also supports the forecast. The majority of the reconstruction work for TC Gita includes the rebuilding of schools, hospitals, government offices, and private households. These were mostly funded by donor partners. Other projects both public and private includes upgrading of airports and wharves, building and expansion of warehouses, supermarkets, business offices, church buildings, church halls, and community halls.

The construction sector is projected to continue its positive growth in 2019/20 by 7.0% (revised down from 10% in the February 2019 MPS). This owes to on-going projects from 2018/19 and other new ones on the pipeline such as few schools, hospital wards, and wharf in the outer islands. Higher commitment loans for businesses and public enterprises also indicate prospective investment projects.

The mining & quarrying sector largely benefitted from the Government Road Improvement projects and has been recorded a strong growth of 14.2% in 2017/18. The road improvement project along with other initiatives to beautify Tonga is expected to drive the growth in the mining and quarrying sector for 2018/19 by 6.0%. This is also in line with the projected growth in the construction sector.

In addition to the growth in construction and other infrastructure projects, the mining and quarrying sector is expected to remain vibrant in 2019/20 with an estimated growth of 0.8%. New entrants to this sector in 2019 also support the forecasted rise in production.

The manufacturing sector slightly declined by -0.8% in 2017/18. Meanwhile, the Reserve Bank projects a recovery in the manufacturing sector for 2018/19 and 2020/21 with a forecasted growth of 3.0% for both fiscal years. This projection is in line with the expected pick-up in demand from the construction sector, and the on-going demand for the processing of kava roots to kava powder for both local consumption and exports. There has been some indication of new manufacturing businesses for the processing of Tongan tobacco which also supports the forecast.

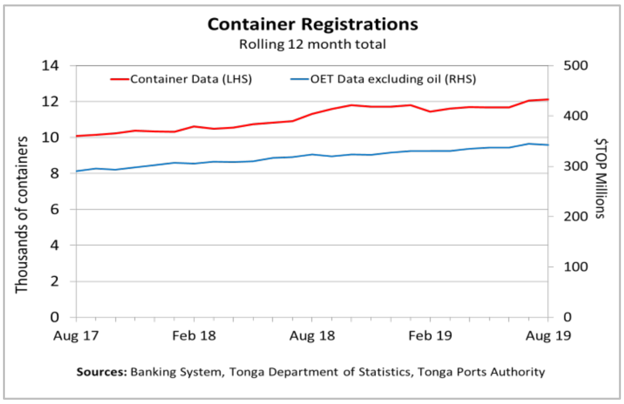
Based on the latest official estimates, there was no growth in the utility sector for 2017/18. However, the Reserve Bank projects the utility sector to grow strongly in 2018/19 by 8.0% and 6.0% in 2019/20. Electricity production and consumption continue to grow over the year to June 2019 in line with the growing numbers of electricity consumers. Tonga Power Ltd also reduced its electricity tariff in 2019 on the back of lower fuel prices. Meanwhile, the Tonga Village Upgrade Network Project and the Nuku'alofa Network Upgrade further supports the utility sector. Other projects on climate change and renewable energy mostly involve the utility sector further supporting the forecast. Developments in the Tonga Water Board smart meter project and the Waste Authority Ltd clean, green, and healthy initiatives also support activities in this sector.

Tertiary Production

The tertiary sector recorded a modest growth of 3.3% in 2017/18 reflecting positive performance from almost all the services sector except for the real estate activities and entertainment services reflecting the impact of TC Gita on the tourism sector. The Reserve Bank's outlook for positive growth in the tertiary sector remains for 2018/19 and 2019/20 by 3.1% and 2.6% respectively.

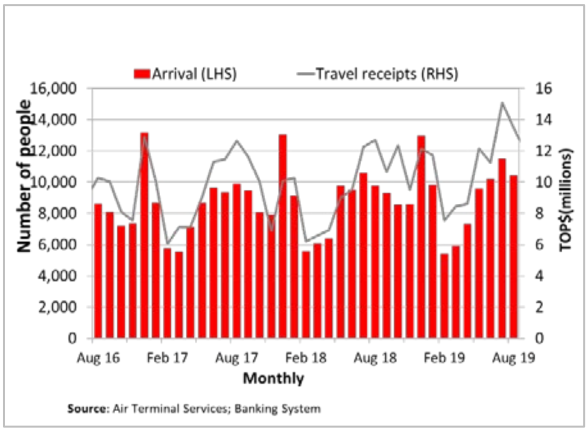
Wholesale and retail activities are expected to pick up alongside the pace of economic activities. Over the year to June 2019, imports grew by 9.1% ($37.2 million) for all major categories. Business container registrations also grew over the same period by 32.6% (2,012 containers) depicting active commercial trading activities. Lending to the distribution sector also rose by 10.4% ($5.0 million) as business investments and confidence grows. Remittances remain at high levels supporting demand and consumption. Other initiatives by the government in establishing society grocery stores across the villages aim to support retail distribution. At the same time, existing retail stores in the villages underwent renovation and expansion work transforming their stores to a supermarket setting allowing for more goods to be traded such as clothing, kitchen utensils, household appliances, and even hardware supplies. The wholesale and retail trade sector is forecasted to grow in both 2018/19 and 2019/20 by 6.0% and 3.0% respectively.

Figure 7: Import Indicators



Indicator for the tourism sector depicts a recovery from the damages of TC Gita leading to positive growth in accommodation and food services, real estate, support services, and entertainment services for 2018/19 and 2019/20. Lending to the tourism sector grew over the year to June 2019 by 12.5% ($2.2 million) indicating further investments in the sector. International air arrivals also grew over the year by 3.7% (3,844 passengers) while travel receipts rose by 16.3% ($18.2 million). Tourism businesses also expect stronger growth over the coming years supported by a higher number of cruise ship arrivals, higher demand for whale watching, and other business and regional events scheduled to be hosted in Tonga. Additionally, many of the Tongan diaspora residing overseas also visit Tonga for events and festivities such as the annual church conferences, school and family reunions, weddings, and birthday celebrations. The renovation and upgrade of the Airport allow for more international flights to Tonga thus bringing in more visitors.

Figure 8: International Air Arrivals & Travel Receipts



The financial and insurance sector is also expected to grow strongly in 2018/19 and 2019/20 by 4.0% mostly in line with credit growth, growing volumes of foreign exchange transactions, more financial products available, and the growing demand for insurance covers. Excess liquidity remains in the banking system which can be utilized for further lending.

The remaining service sectors are also expected to perform positively over the coming years. Upgrades to the wharf and airport support activities in the transport sector, while they benefit from lower fuel prices. This is in addition to more vessels and flights servicing Tonga's people locally. The information and communication sector remains active as Tonga slowly picks up on more utilization of technology and the internet for business operations, financials, and communications. Government budgeted expenditures drive the growth of the public administration sector, health, and education.

Unemployment

Results from the Labour Force Survey conducted by the Statistics Department in 2018 estimates that Tonga's Labour Force is around 63.4% of its total population. The labour force participation rate is 46.7% of which the majority is mostly on the main island of Tongatapu. The share of employment by economic sector accounts for 4.8% in the service sector, 30.4% in the industry sector and the remaining 19.8% in the primary sector. The unemployment rate is 3.1% while youth unemployment stood at 8.9%. About 77.9% of the labour force is under informal employment.

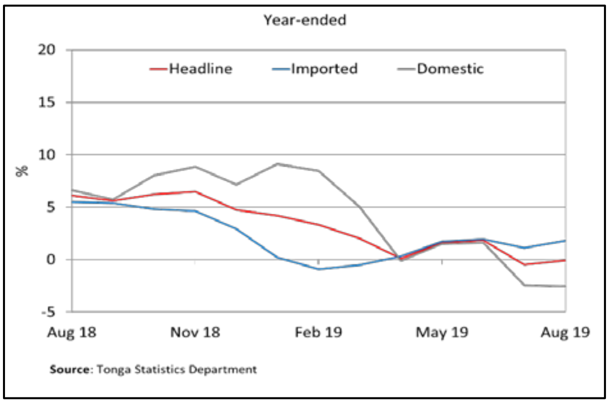
According to the Reserve Bank's survey on job advertisements for 2018/19, the number of vacant positions advertised rose mostly for public administration. However, most businesses from the liaison programs indicate shortages in labour due to people leaving for the seasonal working schemes which offer better compensation. Recruiting skilled labour is difficult and the training of new staff is costly. The availability of technical and vocational studies locally assists in preparing the younger generation for the task force.

3. Promoting Low and Stable Inflation

Recent Developments

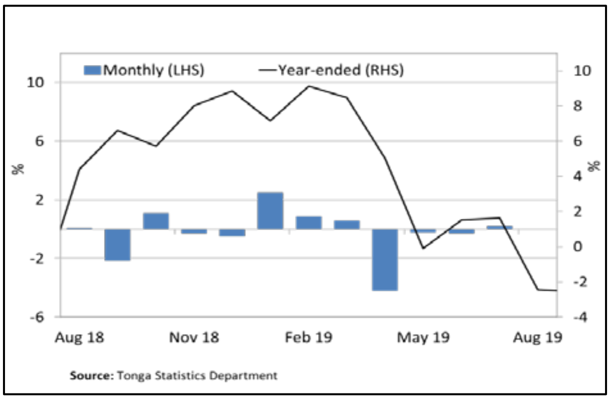
Over the past six months to August 2019, Tonga's inflation rate largely moderated and remained below the 5% reference rate. For the months of July and August 2019, headline inflation dipped below 0% recording a negative 0.1% growth in August compared to positive growth of 3.3% in February 2019, and 6.1% in the same month last year. The lower inflation rates were largely driven by lower domestic prices, supported by low fuel prices.

Figure 9: Inflation



Domestic prices have been declining sharply since February 2019, recording a negative growth of -2.5% in August 2019. Significant declines were recorded for local food products and kava-Tonga attributing to the lower domestic prices. This was further supported by the lower electricity prices that effective in March 2019. The lower domestic prices also reflect the recovery of the agricultural sector from the impacts of TC Gita, with many growers enjoying better harvests than the previous year.

Figure 10: Domestic Inflation



Local food prices declined over the year by 4.7% in August 2019 due to a decline in prices for local root crops, fruits, and vegetables as outlined the Table 3 below. Additionally, the price of kava-Tonga also decreased by 20.7% along with communication services by 8.5% and housing and utility prices by 0.7%. These declines outweighed the rise in prices of the remaining sectors.

Table 3: Food items contributing to domestic inflation

		($ per kg)		YOY	
Domestic	Unit	**Aug 19**	**Aug 18**	**Annual changes $**	**% growth**
Kava	1 kg	$112.50	$150.00	-$37.50	-25.00
Lu	1 kg	$4.34	$6.88	-$2.54	-36.92
Carrots	1 kg	$2.45	$3.72	-$1.27	-34.14
Yams-late	1kg	$2.47	$3.39	-$0.92	-27.14
Kumala	1 kg	$1.96	$2.52	-$0.56	-22.22
Cockles (to'o)	1kg	$5.81	$6.27	-$0.46	-7.34
Eggs	1 tray	$17.33	$17.63	-$0.30	-1.70
Talo-Futuna	1 kg	$1.52	$1.77	-$0.25	-14.12
Talo-Tonga	1 kg	$1.68	$1.84	-$0.16	-8.70
Sausages	1 kg	$8.19	$8.29	-$0.10	-1.21
Manioke	1 kg	$1.03	$1.11	-$0.08	-7.21
Yams-early	1kg	$6.33	$6.28	$0.05	0.80
Head cabbage	1 kg	$2.09	$1.90	$0.19	10.00
stringed fish (mixed)	1kg	$9.00	$8.49	$0.51	6.01
Octobus	1kg	$15.29	$14.72	$0.57	3.87
Tuna	1kg	$17.56	$16.00	$1.56	9.75
Tomatoes	1kg	$6.55	$4.80	$1.75	36.46
Capsicum	1 kg	$15.45	$9.48	$5.97	62.97

Source: Statistics Department

Imported prices recorded over the 6 months to August 2019 were much lower than the 6 months to February 2019. By the end of August 2019 imported prices recorded a rise of 1.9% compared to -0.9% in February 2019 and 5.5% in the same month last year. The majority of the imported categories recorded a rise in its annual prices for August 2019, particularly for food prices (5.4%), alcohol and beverages (2.2%), clothing and footwear (3.0%), and household maintenance (1.9%). Meanwhile, imported prices for transport fell by 4.7% and partially offset the rise in the other categories. This decline mostly reflects lower global fuel prices.

The continuation of taxes and duties imposed on unhealthy food and drinks further contributes to the higher imported prices. Given that around 55.1% of total inflation accounts for import prices, Tonga continues to be dependent on imported goods and remains vulnerable to external shocks and global prices.

Figure 11: Imported Inflation

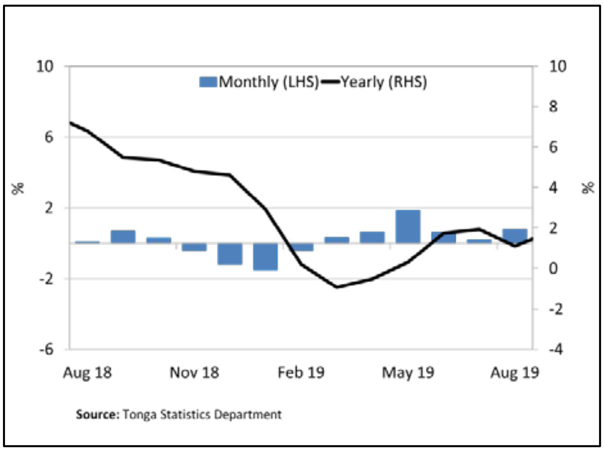
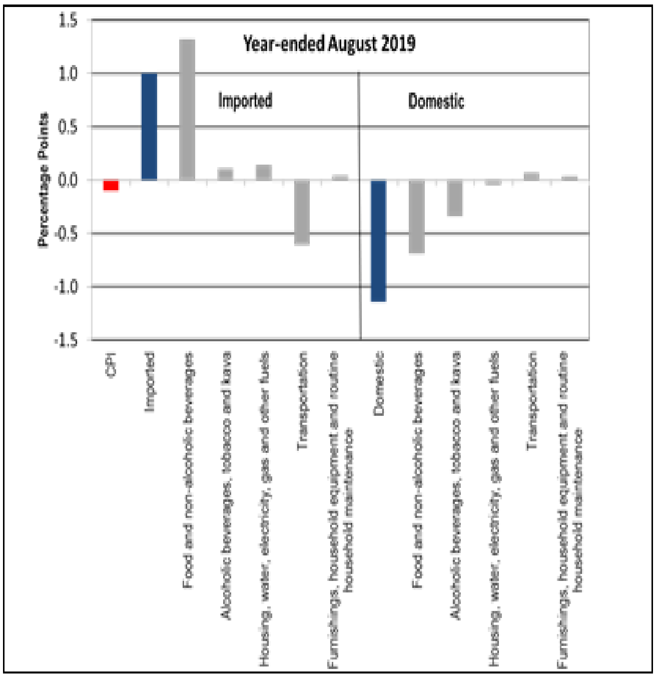


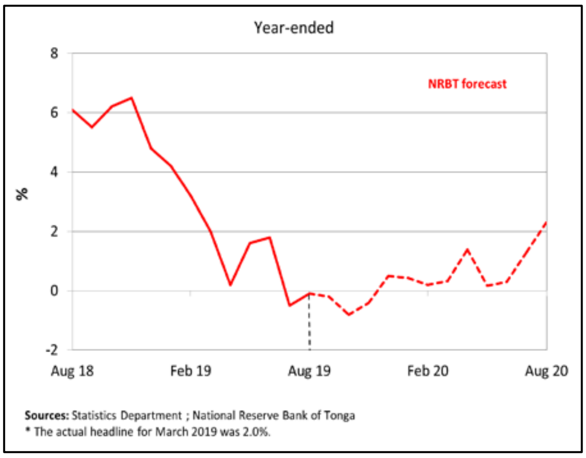
Figure 12: Contributions to Inflation



Outlook

The Reserve Bank envisions the yearly headline inflation to remain below the reference rate of 5% per annum in the medium term. However, Tonga's vulnerability to external shocks, global prices, and natural disasters are downside risks to the forecast.

Figure 13: Headline Inflation Forecast



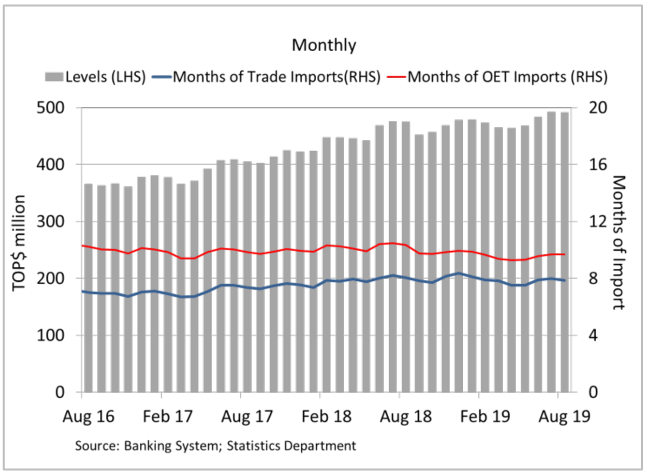
4. Maintaining an Adequate Level of Foreign Reserves

The Reserve Bank has continued to carefully monitor the country's external monetary position to ensure it maintains an adequate level of foreign reserves above 3 months of import cover. Hence, the Reserve Bank has calculated an estimate of the balance of payments using the Overseas Exchange Transactions (OET) data collected from banks and authorized restricted foreign exchange dealers (FEDs).

Official Foreign Reserves

The official foreign reserves remained high recording a level of $491.8 million in August 2019, compared to $473.5 million in February 2019. This was sufficient to cover 8.1 months of import of merchandise goods and services, which remained above the Reserve Bank's minimum of 3 months of import cover. In the year ended terms, gross official foreign reserves rose by $16.8 million (3.5%). The annual growth resulted mainly from higher receipts of budget support, grants, and Government project funds for line ministries. Furthermore, remittance receipts also contributed to the annual increase in foreign reserves.

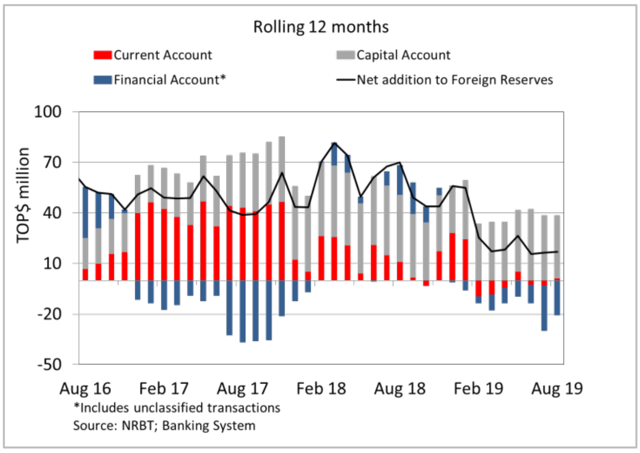
Figure 14: Gross Official Foreign Reserves



Balance of Overseas Exchange Transactions

Over the past six months to August 2019, the overall OET balance recorded a surplus of $18.3 million compared to a $1.5 million deficit for the last six months to February 2019, corresponding to the overall increase in the foreign reserves. The capital account recorded the highest surplus, followed by the surpluses in the financial account and the current account.

Figure 15: Balance of Overseas Exchange Transactions



In the year ended terms, the overall OET balance recorded a surplus of $16.8 million which is lower than the $70.0 million to the year ended August 2018. The lower surplus in the current account attributes to the widening of the trade deficit and lower private transfers, coupled with lower surpluses in the capital and financial accounts.

Current Account

The balance of the current account over the six months to August 2019 improved and recorded a surplus of $11.8 million, compared to a deficit of $10.7 million in the last six months to February 2019. This was largely driven by the inflow of official transfer receipts in June 2019.

Annually, the current account balance surplus lowered to $1.2 million compared to a surplus of $11.1 million in the year ended August 2018. The current account payments mostly imports and private transfers payments increased at a faster rate than the rise in the current account receipts for private remittances, travel receipts, and exports.

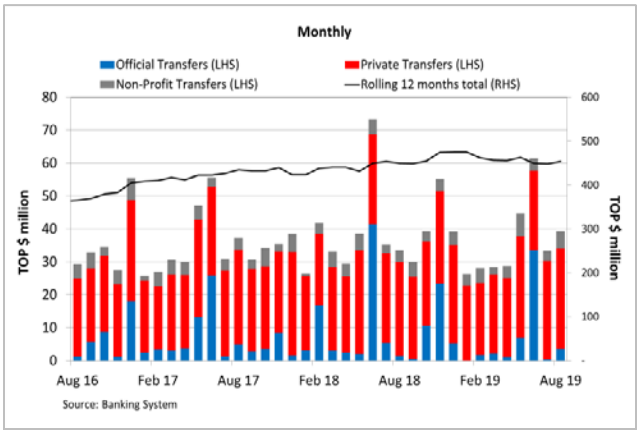
i. Current Account Receipts

a. Transfer receipts

Transfer receipts played a major role in the performance of the current account which accounted for 64.5% of total current account receipts. Over the six months to August 2019, transfer receipts increased by $17.7 million (8.1%) due to increases in all categories. The $6.0 million (14.6%) increase in the official transfer receipts stemmed from receipts of budgetary support and project funds from development partners. Private transfer receipts also increased by $10.2 million (6.7%) due to the increase in receipts for family support and gifts. The non-profit transfer receipts rose by $1.4 million (6.2%), mainly due to higher inflows of grants received by non-profit organizations mostly churches and schools for technical assistance and other current expenditure.

In year ended terms, the total transfer receipts slightly rose by $3.8 million (0.8%) to $453.8 million. The receipts from private transfers and non-profit transfers rose by $2.7 million (9.6%) and $3.6 million (8.1%) respectively which outweighed the $2.5 million (2.8%) decline in official receipts.

Figure 16: Transfer Receipts

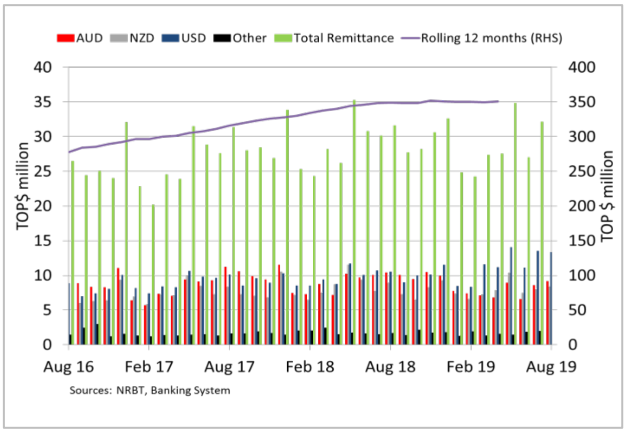


Total remittances increased over the six months to August 2019 by $13.5 million (8.0%) to $181.7 million and accounted for 42.2% of the total OET receipts in the past six months to August 2019, which is slightly above the 42.1% share in the six months to February 2019.

Receipts of private transfers continued to be the main purpose of remittances which accounted for 89.9% ($163.4 million) of the total remittance receipts. This was mainly gifts and family support funds from relatives abroad. The total compensation of employees receipts (from seasonal workers in Australia and New Zealand and other wages and salaries) was $13.8 million and accounted for 7.6% of the total remittance received over the past six months. Private capital transfer receipts by individuals followed with a total of $3.6 million and accounted for 2.0% whilst social benefits totaled to $0.8 million and represented 0.5% of total remittance receipts.

Total remittances marginally rose over the year by $1.1 million (0.3%) to $349.9 million and represented 42.2% of the total OET receipts. It is estimated that remittances as a share of GDP is around 40%. Total remittances over the year is attributed to the continued transfer of funds from families and friends abroad to support their families, as well as funding major celebrations throughout the year such as family reunions, school anniversaries celebration, annual church conferences, and renovation and repair work for private households.

Figure 17: Remittances by Currency



The strengthening of the USD against the TOP over the six months to August 2019 also benefitted recipients of foreign currency. Foreign Exchange Dealers (FEDs) continued to be the preferred channel for receipt of remittances with a total share of 85.7%. Most of the remittance receipts are denominated in US dollars.

b. Export proceeds

Total export proceeds for the past six months to August 2019 declined by $2.5 million (22.0%) to $9.0 million. This resulted from lower proceeds from the export of agricultural products, which declined by $2.7 million (41.3%). This follows the completion of the squash harvesting season in the previous six months to February 2019. Proceeds for other exported goods also fell by $0.4 million reflecting lower exports of recycled metals and jewelry within the past six months. On the other hand, other marine exports (excluding fish) increased by $1.0 million (92.9%) whilst export proceeds from fish decreased by $0.5 million (17.8%). Over the year, the total export proceeds rose by $1.1 million (5.9%) to $20.6 million. This attribute mainly to the rise in marine export proceeds which rose by $2.7 million.

c. Service receipts

In the six months to August 2019, service receipts increased by $8.7 million (9.0%). Travel receipts rose by $5.1 million (7.9%) and supported by the occasions that took place over the past few months and the slight increase in international arrivals by 0.3%. Receipts for construction services also rose by $3.1 million (53.0%) mostly for projects that are currently underway such as Tonga International Airport renovations and the Nuku'alofa network upgrade projects. Other services receipts which also increased during the six months to August 2019 included telecommunication, freight, and postal & courier services. These have outweighed the decline in receipts for services such as insurance claims and professional services. Over the year to August 2019, total service receipts also rose by $9.6 million (5.0%) to $203.8 million owing mostly to higher travel, construction, transport, and professional services receipts.

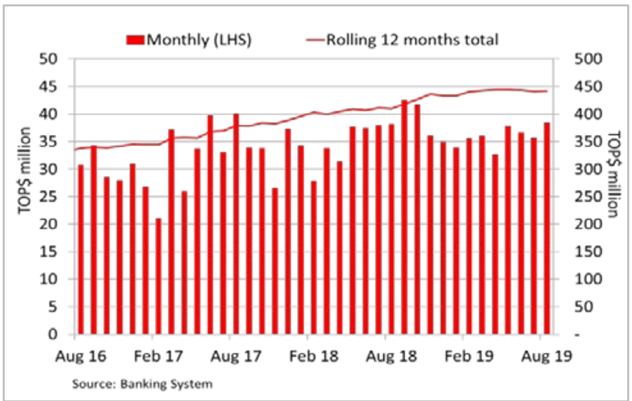
ii. Current Account Payments

Over the six months to August 2019, the total current account payments increased by $4.8 million (1.4%) to $353.9 million largely due to higher income payments followed by transfers and services payments.

a. Import payments

Total import payments in the six months to August 2019 declined by $7.5 million (3.3%) to $217.1 million, led by a decline in payments for imports of oil, followed by government imports, construction imports, motor vehicles, and wholesale & retail imports.

Figure 18: Import payments



However, import payments continued to rise over the year by $32.1 million (7.8%) to $441.7 million. Government imports increased the most by $12.6 million (35.2%), followed by wholesale & retail import payments increased by $9.6 million (3.8%), oil imports by $8.8 million (13.1%), and motor vehicle imports by $2.7 million (12.9%). These offset a $1.4 million (4.3%) decline in payments for construction materials imports. Nonetheless, the improved growth in the distribution sector contributed to the increase in wholesale and retail trade import payments, which coincided with the 25.7% increase in business container registrations.

b. Services & Transfer payments

Services and transfer payments both increased over the six months to August 2019. Service payments rose by $1.2 million (1.4%) due to more payments for sea freight, travel allowance, computer & information services, telecommunication, and maintenance and repair services payments.

Transfer payments increased over the six months to August 2019 by $2.1 million (6.1%) due to an increase in transfers to own accounts and official contributions and subscriptions to international organizations.

Over the year to August 2019, both service and transfer payments slightly increased and by $0.1 million (0.05%) and $1.2 million (1.7%) respectively. Higher service payments were attributed to higher payments for sea and air freight (transport) services coupled with higher personal travel payments and payments for other private services. The increase in private transfers are mainly gifts and family support send abroad and individuals funding their own accounts.

c. Primary Income payments

In the six months to August 2019, primary income payments rose by $9.1 million (186.4%) mainly for dividends and interest income paid out to non-resident shareholders. However, income payments fell over the year by $8.1 million (29.9%) as a result of a decline in dividends being paid out to non-resident shareholders, and wages and salaries to expatriates overseas.

Capital Account

Over the six months to August 2019, the capital account balance increased by $2.8 million (16.5%) to $20.1 million, driven by a $7.5 million (132.4%) rise in official capital receipts for investment projects or capital expenditures for construction purposes. This was partly offset by a $5.4 million (40.9%) decline in private capital transfer receipts. Capital account payments slightly fell by $0.8 million (44.8%) during the six months to August 2019.

In year ended terms, the capital account continued to record a surplus of $37.3 million, slightly lower than the surplus of $39.8 million in the year ended August 2018. A lower surplus was recorded in the private capital account declining by $3.5 million, outweighed a $1.0 million rise in the official capital account. Although the payments from both the official and private capital accounts declined over the year, the total capital receipts also fell by $3.9 million (8.8%) due to less private capital receipts. Official capital receipts however rose by $0.7 million (3.9%) to a total of $18.8 million for Government investment projects and capital expenditures.

Financial Account

Over the six months to August 2019, the balance in the financial account recorded a surplus of $14.1 million, declining by $3.8 million (21.2%) from a surplus of $17.8 million in the past six months to February 2019. This was attributed mainly to higher payments for offshore investments outweighing a slight rise in foreign direct investment receipts.

Over the year ended August 2019, the financial account recorded a lower surplus of $31.9 million from $68.0 million in the year ended August 2018. This reflects an increase in investments abroad and inter-bank payments whilst receipts into the financial account decreased.

The balance of unclassified transactions recorded an average outflow of $4.5 million per month over the year to August 2019, compared to $4.1 million in the previous year. This was due to higher financial claims by non-residents, which involves foreign exchange dealings between commercial banks and their overseas correspondent banks.

Exchange Rates

The Nominal Effective Exchange Rate (NEER) index rose by 1.4% over the six months to August 2019 indicating that imports are less expensive relative to the last six months. This was due to the depreciation of NZD, AUD, CNY, and FJD against the TOP.

The Real Effective Exchange Rate (REER) index rose by 1.2%, reflecting the impact of Tonga's moderating inflation rate relative to its major trading partners.

In year ended terms, the NEER index slightly increased by 1.4% whilst the REER index fell marginally by 0.1% indicating an improvement in Tonga's trade competitiveness.

Outlook

The Reserve Bank expects the level of foreign reserves to remain comfortably above the minimum range of 3 months of imports cover up to June 2020 based on the following key factors:

- Remittances are expected to remain at high levels over the coming months due to upcoming festivities and scheduled events for the remainder of 2019 leading up to the Christmas holidays. The rising number of people joining the RSE & SWP schemes also contributes to the expectation of higher remittance receipts.
- Banks and foreign exchange dealers are expanding their coverage and range of products and services offered to their customers such as the TDB Ave Pa'anga Pau product. It also includes the expansion of the payment infrastructure as banks open new agents in the outer islands, as well as extending services in their overseas agents, further supporting the flow of remittances and other financial receipts.
- An expected recovery in the agricultural and fisheries activities is expected to boost export proceeds, yet the anticipated rise in import payments will likely offset this.
- Tourism activities such as whale watching, proceeds from artisanal handicrafts, sea cruises, and more airline routes are expected to support travel receipts.
- Expected receipt of budgetary support and donor funds for the current fiscal year. This also includes receipt of project funds and other assistance from donor partners for re-construction projects and recovery from damages caused by TC Gita.

Nevertheless, downside risks to the outlook still exist particularly for the following factors:

- Delays to the inflow of aid and budget support from development partners combined with the pace of development in domestic economic activities.

- The significant rise in external debt service to Export-Import (EXIM) Bank of China as the principal repayment of the Tonga National Road Improvement Project loan commences in the financial year 2019/20.
- Placement of large investments offshore.
- Uncertainty in the global commodity prices may have negative implications on Tonga's external position as a net importer and price taker.
- De-risking by banks resulting in the closure of Money transfer operators' accounts. This would hurt remittance flows and increase the cost of money transfer.
- Vulnerability to external shocks and natural disasters.

5. Promoting a Stable Financial System

The banking system remained sound over the six months to August 2019, supported by strong capital positions, adequate profits, high liquidity, and low non-performing loans. Total banks' lending continues to grow over the same period, yet remains below the minimum 80% loans to deposit ratio. Weighted average interest rate spread narrowed owing mostly to lower lending rates.

Money Supply

Over the six months to August 2019, broad money rose to $602.3 million by $13.3 million (2.3%) from February 2019. This was largely driven by an $18.3 million (3.7%) increase in net foreign assets, mainly on the receipt of the budgetary support and donor-funded grants for the fiscal year 2018/19. This offsets a $5.1 million (5.2%) decrease in net domestic assets mostly in line with lower capital accounts.

Over the year to August 2019, broad money fell by $3.8 million (0.6%), this time attributing to lower net domestic assets offsetting the rise in net foreign assets. The lower net domestic assets stem from higher government deposits, while the higher net foreign assets are mostly in line with the annual rise in foreign reserves.

The Reserve Bank reissued its new 5 and 10 cents coins in July 2019 as part of its efforts to improve the quality of banknotes and coins in circulation, and at the same time meet the public and the commercial banks' demand for currency. The Reserve Bank's Currency Department continues to undertake direct deposits of mint quality notes to the Reserve Bank's note trust depots in the outer islands for the interchanging and replacing of mutilated notes with good quality currency notes on a timely manner.

Over the six months to August 2019, liquidity in the banking system (reserve money) fell by $9.3 million (2.9%) to $311.3 million. Both the commercial banks' Exchange Settlement Account (ESA) balances and Statutory Required Deposits (SRD) declined by $14.8 million (8.0%) and $1.6 million (2.8%) respectively and outweighed the increase in currency in circulation by $7.1 million (9.2%). The movements in ESA and currency in circulation reflect the movements in demand for money from the main festivities that took place during this period.

In year ended terms, liquidity in the banking system further declined by $22.9 million (6.9%) as a result of

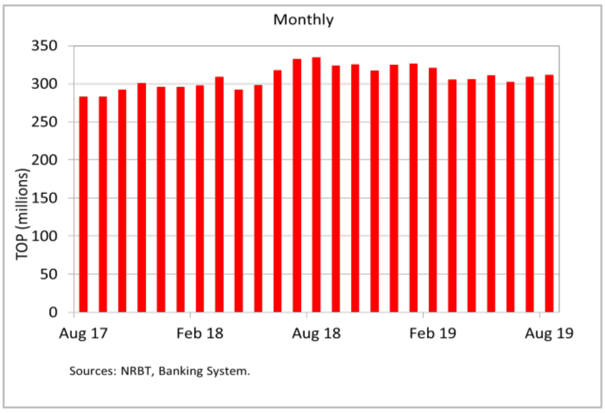
Table 4: Consolidated Balance Sheet of Depository Corporations

	Level			YoY Change	
	Aug 18	Feb 19	Aug 19	Aug 19	
	$TOPm	$TOPm	$TOPm	$TOPm	%
Broad money liabilities	606.0	589.0	602.3	-3.8	-0.6
Currency in circulation	69.0	60.5	68.8	-0.2	-0.2
Demand deposits	212.2	217.4	209.0	-3.2	-1.5
Savings and term deposits*	324.8	311.1	324.4	-0.4	-0.1
equals					
Net foreign assets	494.1	492.6	510.9	16.8	3.4
plus					
Net domestic assets	111.9	96.5	91.4	-20.5	-18.3
Gross bank lending**	461.3	490.0	498.1	36.8	8.0
Public enterprises	56.2	58.3	65.0	8.8	15.6
Private Sector	402.5	429.3	429.8	27.2	6.8
Other financial corporations	2.6	2.3	3.3	0.8	29.8
Other***	-349.4	-393.5	-406.6	-57.2	16.4

* Also includes very minor amounts for securities other than shares.
** Differs slightly from standard measures of bank lending by amounts classified as accrued interest.
*** Includes mostly capital accounts of the banks and NRBT, and their net claims on the central government.
Sources: Banking system; NRBT

the decline in ESA by $23.6 million (13.5%) and SRD by $1.5 million (2.6%).

Figure 19: Banking system liquidity

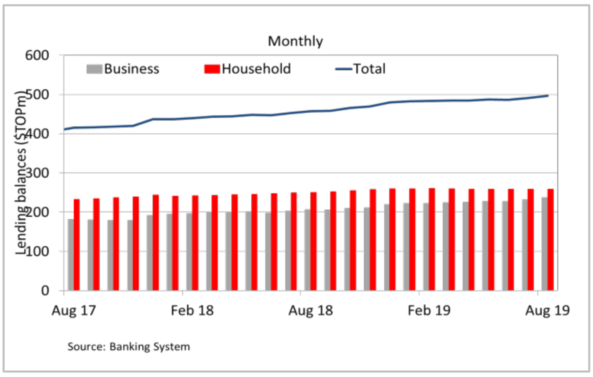


Lending

Over the six months to August 2019, the total banks' lending (including Government Development Loans - GDL) grew by $13.1 million (2.7%) from $483.7 million recorded in February 2019 to a new high record of $496.8 million. GDL accounted for 1.7% of total loans, compared to a 1.5% share in February 2019 and a 1.9% share in August 2018.

Over the year to August 2019, the total banks' lending also expanded by $39.3 million (8.6%).

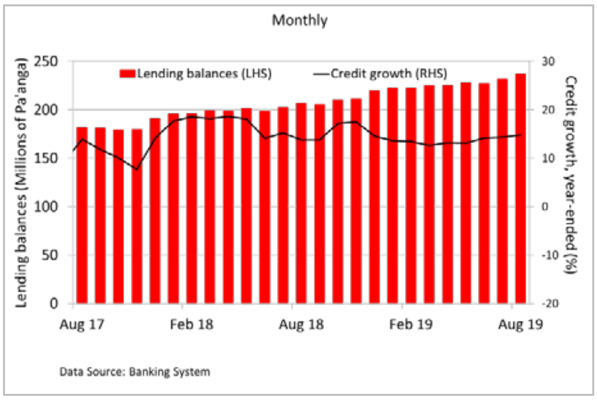
Figure 20: Bank's lending



Lending to businesses climbed to a new record high of $237.4 million by $14.5 million (6.6%). This was mostly driven by higher lending to state-owned enterprises coupled with the growth in lending to private businesses mainly to the professional & other services, agriculture, and transport and fisheries sectors. This reflected growth in private sector activities and business confidence.

Over the year to August 2019, business loans grew by $23.1 million (16.6%). There were mostly lending to state-owned enterprises and private businesses mainly professional & other services, transport, tourism, and wholesale & retail sectors indicating growths in these sectors. The lower interest rates from the GDL scheme also supported these sectors' developments.

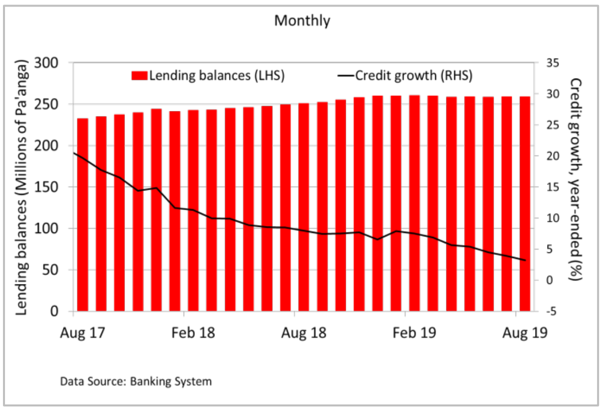
Figure 21: Business Lending



On the other hand, lending to households fell by $1.6 million (0.6%) over the six months to August 2019 to $259.2 million, due mainly to lower other personal and vehicles loans by $2.6 million (4.4%) and $0.2 million (21.8%) respectively. Housing loans however, continued to grow by $1.1 million (0.6%) $202.2 million (0.6%) reflecting on-going demand for housing loans by private households.

Over the year to August 2019, household lending grew by $8.1 million (3.2%). This was driven mostly by housing loans which rose by $8.7 million (4.5%) offsetting the decline in both vehicles and other personal loans

Figure 22: Household Lending



The banks' new loan commitments slightly declined over the six months to August 2019 by 1.9% and over the year by yet rose over the year by 11.8% to

$13.6 million indicating future prospective investments.

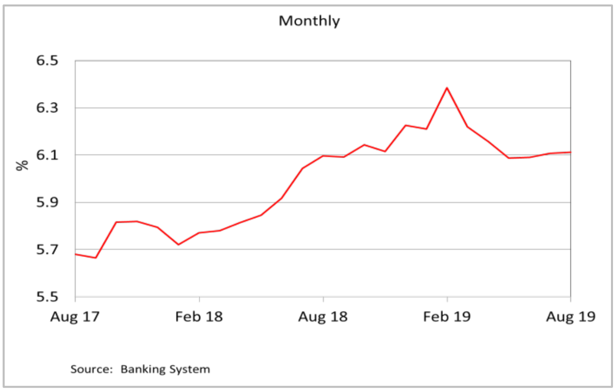
The banks' total loans to deposit ratio rose from 76.0% in February 2019 and 71.6% in August 2018 to 79.0% in August 2019. The six months rise was due mainly to the growth in lending coupled with the decline in deposits. The annual movement however, attributes to loans rising at a faster pace than the growth in deposits. At the end of August 2019, the loans to deposit ratio is still lower than the 80% minimum threshold, indicating excess space for further lending.

The Reserve Bank continues to closely monitor the pace of credit growth for any signs of overheating and any potential threat to financial stability.

Interest Rates

The banks' weighted average interest rate spread narrowed by 9.5 basis points to 6.11% over the six months to August 2019. This was solely driven by a 7.3 basis points decline in weighted average lending rates coupled with the slight increase in weighted average deposit rates by 2.2 basis points. The lower weighted average lending rate was largely driven by lower rates offered on lending to state-owned enterprises and private businesses such as the fisheries, tourism, and construction sectors. This was further supported by lower rates for household housing and other personal loans. The higher saving deposit rates drove the increase in weighted average deposit rates. This outweighed the lower demand and time deposit interest rates.

Figure 23: Weighted Average Interest Rates Spread



Over the year, the weighted average interest rates spread widened by 1.56 basis points as a result of a decline in the weighted average deposit rates by 5.56 basis points, offsetting the decline in weighted average lending rates of 4.00 basis points. Both demand and time deposits fell and outweighed the increase in saving deposits rates. This was mostly in line with the lower volumes of demand and time deposits. The decline in weighted average lending rates owes mostly to lower rates for private business loans such as tourism, agriculture, construction, and transport businesses.

Figure 24: Deposit Rates

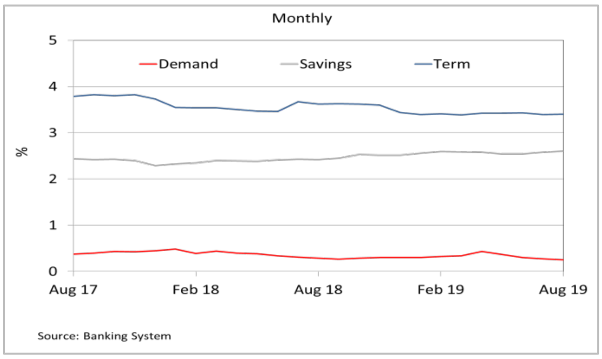


Table 5: Lending Rates
Weighted average of all banks

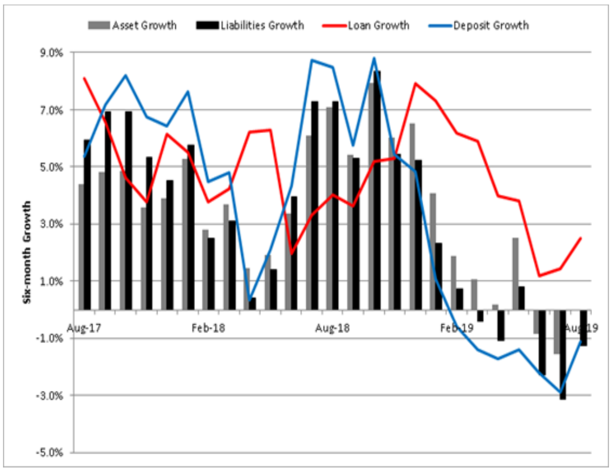
	Month ended			Change over 6 months to	Change over 12 months to	Loan Share	
	Aug 19 %p.a.	Feb 19 %p.a.	Aug 18 %p.a.	Aug 19 Bps	Aug 19 Bps	Aug 19 %	Feb 19 %
Loans all	8.04	8.11	8.08	-7.33	-4.00	100	100
Housing	8.20	8.24	8.19	-4.44	0.96	38	42
Other personal	11.43	11.45	11.39	-1.49	4.53	15	12
Business*	7.69	7.83	7.74	-13.29	-4.85	29	29
Other	6.53	6.25	6.25	28.09	28.09	19	17

*Included Statutory Non-financial Corporation and Other Financial Corporations

Banking System Performance

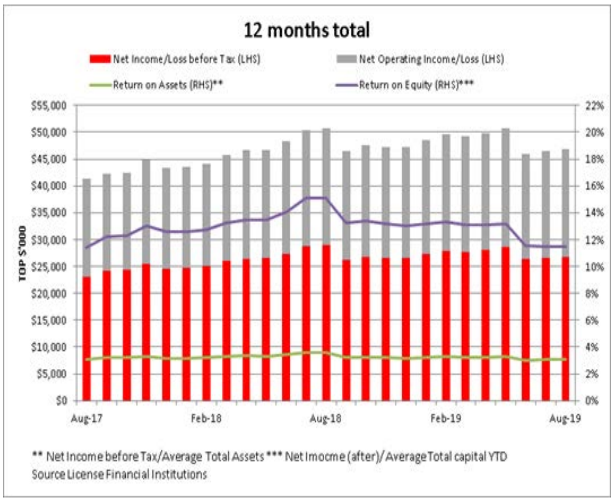
The banking system remains sound during the six months to August 2019. Total assets remained relatively stable at $882.8 million over the six months from February 2019. The stable trend in asset growth reflected the increase in loan and advances by $11.8 million (2.5%) followed by $4.2 million (19.5%) growth in Government bonds. This was offset by the decline in the ESA and Accrued interest receivable for loans and advances by $14.0 million (7.6%) and $4.6 million (33.2%) respectively. On the other hand, total liabilities declined in August 2019 by $9.0 million (1.3%) to $699.9 million. This was attributed mainly to the fall in deposits by $7.0 million (1.1%) driven by a fall in demand and time deposit by $18.5 million (6.6%) and $5.5 (2.3%). The decline in deposits is attributed mainly to the offshore investments of one of the top depositors in the banking system. Interest in suspense on loans and advances also fell by $4.7 million (54.3%) over the six months from February 2019.

Figure 25: Total Banking System Balance Sheet Development



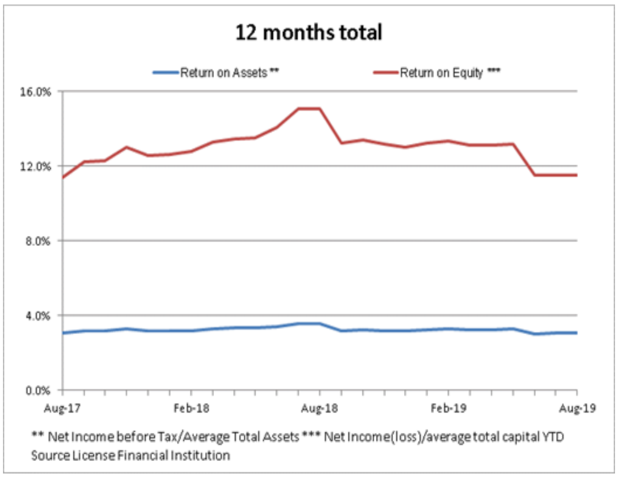
The total banking system remained profitable over the year to August 2019. The Net Profit after Tax was $20.0 million which was lower than $21.6 million in February 2019 and the same period last year, which was at $21.7 million. The lower profitability was attributed to one of the banks' ongoing quarterly review of provisions expenses to fully comply with the IFRS 9 provisioning requirements followed by some loan write-offs over the six months to August 2019.

Figure 26: Total Banking System's Profitability



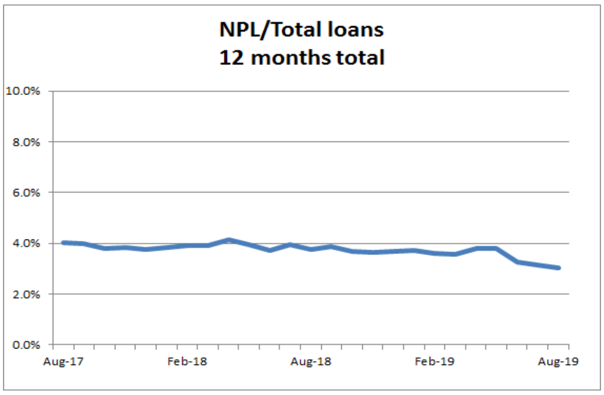
Return on Assets (ROA) and Return on Equity (ROE) continued to decrease over the past six months. ROA fell to 3.1% from 3.3% in February 2019. Similarly ROE decreased to 11.5% from 13.4% in February 2019 driven by the lower profitability over the six months to August 2019. The banking system's capital position remained strong as the risk-weighted capital ratio was at 30.1% in August 2019 decreasing from 30.9% in February 2019, but continued to stay well above the Reserve Bank's minimum requirement of 15%. The higher risk-weighted capital ratio reflected the decrease in the capital as some banks continued to repatriate their retained earnings back to their head offices. The banks' net interest margin increased to 3.9% in August 2019 from 3.8% in February 2019. This continued to reflect an increase in interest income which is consistent with the credit growth mainly to the public enterprises and private sector (construction).

Figure 27: Total Banking System's ROE & ROA



The overall quality of the banks' assets slightly improved over the past six months to August 2019. Total non-performing loans fell to $14.8 million from $17.2 million, which represents only 3.0% of total loans compared to 3.6% in February 2019. Loan write-offs and some loan upgrades and loan recoveries over the six months to August 2019 contributed to the improvement in asset quality.

Figure 28: Total Banking System Asset Quality Indicators



The non-performing private individual loans rose to 71.6% ($10.6 million) of total non-performing loans, from 61.0% six months ago, and 60.2% around the same time last year. Non-performing private individual loans comprised mainly of housing loans which represent 52% of total non-performing loans increasing from 45% in February 2019, and 46% in August 2018.

Provisions against loan losses are sufficient as it rose over the last six months from $16.0 million to $17.6 million in August 2019 due mainly to the ongoing quarterly review of the banks' provisions to ensure compliance with the IFRS 9 provisioning requirements.

The Reserve Bank continued to monitor and manage the payment and settlement system to ensure it is functioning in an efficient, sound, and safe manner. Work is currently in progress on automating the current national payment system to improve the efficiency of the settlement of banks' transactions at a reasonable cost.

Supervision of Non-Bank Financial Institutions (NBFIs)

Given that promoting access to finance and protecting the interest of financial customers are priorities to the Reserve Bank, the development of NBFIs continues. NBFIs account for a small portion of the total financial system but they assist in serving the people of Tonga and the development of the economy. On the other hand, there is still a possibility that they pose a systemic risk to the total financial system, especially with the large NBFIs such as retirement funds and insurance companies. Therefore, the development of regulations for the supervision of NBFIs is vital to mitigate those potential risks and to achieve the two priorities mentioned above through effective supervision under an approved robust supervisory framework.

The supervision and regulation of Foreign Exchange Dealers (FEDs) continues under the Foreign Exchange Control Act 2018, whereby the Reserve Bank has licensed 12 FEDs. Since de-risking began, Tonga has been affected mainly by the money transfer service industry in terms of maintaining its bank account overseas. Given that remittances play a significant role in the Tongan economy, the Reserve Bank continues to assist FEDs with possible solutions in maintaining their business operations. This includes upgrading of license types from Type B (Inward remittance only) to license Type A (Inward and outward remittance) to facilitate the flow of remittance. At the same time this also increases their compliance obligations to ensure that these remittance flows complies with all legal and regulatory requirements. The importance of strengthening and improving the Anti-Money Laundering/ Counter-Terrorist Financing (AML/CFT) compliance status by FEDs are well communicated through technical meetings, training, and discussions with them in order for the banks to retain their accounts. Furthermore, the Reserve Bank continues to liaise with the banks, encouraging them to offer alternative products for de-risking to maintain and reduce the cost of remittances to Tonga.

The regulation and supervision of Microfinance are now under the new Microfinance Institutions Act

2018 which came into effect on the 21st June 2019. There is only one microfinance institution in Tonga and they had lodged their license application which is currently being processed for approval. Preparation for the implementation of the Moneylenders Act 2018 is also underway to be implemented by the next financial year. The legislation for the supervision of insurance companies and retirement funds are also being drafted.

Although the legislation is not yet in place, the Reserve Bank has obtained monthly reports from the 2 retirement funds, and quarterly monthly reports from the 4 insurance companies. The purpose of these reporting templates is to understand the type of business that these NBFIs are conducting and also to monitor their financial positions and performance to ensure they remain solvent.

Financial Inclusion Initiatives

The Reserve Bank continues to encourage financial inclusion to promote inclusive economic growth and macroeconomic stability. The financial inclusion's key objectives are to enhance access to finance by creating a conducive environment including establishing an efficient system to monitor the access, usage, and quality of financial products; strengthen and develop the Micro, Small and Medium Enterprises (MSMEs); and improve access to a broader range of affordable and appropriate financial products; as well as promote a reliable, sound and affordable digital financial services (DFS). The Reserve Bank's Financial Access Unit has three main policy areas that focus on Individuals, MSMEs, and DFS.

During the year, a comprehensive database was developed and updated to establish a national baseline and to monitor the financial inclusion indicators and guide policies to improve access to finance of individuals, MSMEs, and Digital Financial Services. This baseline will provide the benchmark to assist in measuring the effectiveness of any policies that will be developed later on. On the other hand, the database was expanded to capture access points for non-bank financial institutions which include FEDs, insurance companies, and microfinance. In addition, the database also includes data on local money transfer collected by FEDs. The access to finance data flash has been released on the website for public awareness and relevant stakeholders. The challenges in updating the database were the timeliness of the reporting data in the 3 focus areas, as well as the lack of sex-disaggregated data which is a common challenge in the region and is part of the unit's work plan to address.

According to the financial inclusion indicators in Table 6 below, access to finance in terms of access points by financial service providers which include non-banks financial institutions rose over the year. This increase was mainly due to an increase in the number of branches and agents, attributed to the inclusion of FEDs and South Pacific Business Development (SPBD) access points. The increase supported the financial consumer's accessibility to financial services in the outer islands and remote areas.

Table 6: Access Indicators of Tonga

Access Indicators	2019	2018	2017	2016[2]	2015[1]
1.0 Number of cash-in and cash-out access points per 10,000 adults[3]	152	97	93	84	78
1.1 Number of branches per 10,000 adults	10	3	3	3	2
1.2 Number of ATMs per 10,000 adults	4	4	4	4	3
1.3 Number of EFTPOS per 10,000 adults	86	86	83	74	69
1.4 Number of Agents per 10,000 adults	51	4	3	3	3

[1] Tonga's financial inclusion benchmark

[2] Adult population (15yrs old +) - 64,076 use Census report 2016

[3] Total access points including Non-Banks access points

Over the year to June 2019, the banking system's number of financial access points increased by 22 points (4%) compared to June 2018. The increase was attributed to the increase in the number of agents, ATMs and EFTPOS terminals. The activities that are carried out in the Agent access points are mainly financial transactions such as deposit and withdrawal of cash from accounts, the printing of mini bank account statements as well as payment for goods which are all done through EFTPOS. All agents are retail stores and they charge a fee of T$1.00 to customers for every withdrawal conducted through them. BSP was the main contributor to the increase in the total access points which reflected BSP continuous effort with their outreach program to remote and rural locations through their agent networks. The increase in the number of agents was driven by the Bank of South Pacific (BSP) given that they are the only commercial bank that conducts in-store banking in Tonga. In terms of the location of the access points, BSP increased its agents in Tongatapu and the outer islands particularly in Vava'u and Ha'apai. In March 2019, BSP established an agent in remote areas mainly at Ha'apai 13 particularly in Nomuka to enable access to finance for the people at Lulunga district. BSP also increased their EFTPOS terminal access points throughout Tongatapu and Vava'u. This supported the financial consumer's accessibility to financial services in these outer islands and remote areas (refer to Table 7 below).

Table 7: Summary of Banks' Access Points in Tonga by Constituency

Constituency	Jun-19					Jun-18				
	Total Access Points	No. of branches	No. of Agents	No. of EFTPOS	No. ATMs	Total Access Points	No. of branches	No. of Agents	No. of EFTPOS	No. ATMs
Tongatapu 1	**47**	0	2	43	2	**42**	0	1	39	2
Tongatapu 2	**309**	5	2	288	14	**305**	5	2	285	13
Tongatapu 3	**26**	0	0	25	1	**26**	0	0	25	1
Tongatapu 4	**30**	0	0	27	3	**29**	0	0	26	3
Tongatapu 5	**15**	0	1	14	0	**12**	0	1	11	0
Tongatapu 6	**8**	1	1	6	0	**8**	1	1	6	0
Tongatapu 7	**7**	0	0	7	0	**7**	0	0	7	0
Tongatapu 8	**35**	0	6	28	1	**32**	0	4	27	1
Tongatapu 9	**29**	2	5	21	1	**29**	2	5	21	1
Tongatapu 10	**6**	0	2	4	0	**4**	0	2	2	0
'Eua 11	**8**	2	1	4	1	**8**	2	1	4	1
Ha'apai 12	**17**	2	1	13	1	**18**	2	2	13	1
Ha'apai 13	**2**	0	1	1	0	**0**	0	0	0	0
Vava'u 14	**5**	0	1	4	0	**4**	0	1	3	0
Vava'u 15	**73**	4	2	63	4	**71**	4	2	62	3
Vava'u 16	**2**	0	0	2	0	**2**	0	0	2	0
Ongo Niuas 17	**2**	2	0	0	0	**2**	2	0	0	0
TOTAL	**621**	**18**	**25**	**550**	**28**	**599**	**18**	**22**	**533**	**26**

Source: Banks

The Non-Bank financial institutions' access points complement the commercial banks' financial access points. There are 350 access points in Tonga as of June 2019 with 51 access points from FEDs and 299 from South Pacific Business Development (SPBD) including Village Meeting Centres. About 83% (295 access points) of the total are access points via village meeting centres followed by 14% (51 access points) which are branches/agents access points. The village meeting centres are where SPBD members make deposits to their savings accounts and repay their loans whilst loan drawn down are conducted at SPBD main branches (Head office e.g. Nuku'alofa or Neiafu etc.). On FEDs access points, Fexco and Manatu 'Ofa have the most access points, with Fexco the only FED that has a branch in all the outer islands, including the Niuas. The high number of Fexco's access points is supported by its network in the market compared to other FEDs. Island Flexi and Manatu 'Ofa are the only two FEDs that have an agent located at Ha'afeva and Nomuka (Ha'apai 13).

Outlook

The Reserve Bank will continue to closely monitor activities in the financial system through the supervision of banks and non-bank financial institutions to ensure financial stability through various policy measures outlined below:

- The Reserve Bank projects on-going credit growth for 2019/20 at 9.6%.
- Broad money is expected to wind down in 2019/20 due to expected outflows of offshore investment and import payments for the implementation of infrastructural projects.
- Although non-performing loans remain at low levels, the household sector non-performing loans are slowly rising. Close monitoring of these developments in the financial system for any sign of overheating in the economy is part of the Bank Supervision team's on-site and off-site monitoring.
- Formalizing the non-bank financial institutions and the informal financial sector by developing the legal framework to supervise insurance companies, retirement funds, and microfinance institutions.
- The Reserve Bank's initiatives to develop an enabling financial infrastructure would further support credit growth. However, structural reforms to improve the credit environment, such as improvement to the land administration system and a bankruptcy law would further improve the confidence level of the banks to continue lending out prudently.

- Ensure compliance with the disclosure requirements under prudential and regulatory requirements for banks' and foreign exchange dealer's customers. The Reserve Bank also requires that the Annual Percentage Rates (APR) is stated in the loan agreement and this loan agreement is to be translated into Tongan. This will enhance transparency and the disclosure of fees and charges, Annual Percentage Rates (APR) on loan products, and foreign exchange rates.
- Continue to develop an enabling financial infrastructure to license and supervise the existing credit bureau (Data Bureau (Tonga) Limited) under the Reserve Bank's Credit Bureau Licensing Guideline that was issued in July 2017. The credit bureau will contribute to the mandate of maintaining financial stability. It would also assist with prudential supervision to monitor systemic risks and the quality of banks assets as well as enhance access to loans.
- Modernize the payments system by automating the daily bank's cheque settlement system to improve the efficiency of the financial system further.
- Continue to work together with Pacific Central banks and other stakeholders as well as the authorized restricted foreign exchange dealers to strengthen their Anti-Money Laundering / Counter Financing Terrorism (AML/CFT) compliance status for the banks to retain their accounts.
- Support new digital and innovative products in the financial system such as the TDB 'Ave Pa'anga Pau product and its expansion to Australia
- Encourage the development of technological solutions (FinTech) that would facilitate the low-cost remittance of funds and at the same time, still comply with the AML/CFT requirements.

Risks to this outlook and the stability of the financial system include:

- The rate of growth in credit and nonperforming loans as well as broad money.
- The banks' de-risking decisions which have resulted in the closing of some of the foreign exchange dealers' accounts as well as the termination of correspondent banking relationships of some of the banks.

6. Fiscal Indicators

Fiscal indicators mostly improved over the six months to August 2019. Net credit to Government in the banking system for the six months to August 2019, decreased by $1.1 million (0.6%) compared to a $24.8 million (16.0%) decline in the previous 6 months to February 2019. Government deposits increased over the six months to August 2019 by $11.1 million (5.8%), reflecting the receipt of most of the budgetary support, grants, and cyclone relief funds from development partners for the fiscal year 2018/19.

Similarly, net credit to Government decreased by $32.3 million (20.8%) over the year, as a result of a $35.0 million (21.0%) rise in Government deposits. This again reflects the receipt of budgetary support, project grants relief funds for TC Gita from development partners. Improved revenue collection during the fiscal year also contributed to the rise in Government deposits.

The revised Government budget estimate for 2018/19 projected a total of $43.5 million in budget support from development partners, whereby a total of $39.9 million has been received before the closing of June 2019. The 2019/20 Government Budget also estimates a Government Finance Statistics (GFS) fiscal balance of $10.2 million in net lending. The total budget support for 2019/20 is estimated at $34.4 million in which $4.1 million has been received to date.

The total public debt position for June 2020 is estimated to represent 49% of GDP, of which 44% is external debt and 5% is domestic debt. This is in line with one of the three fiscal targets in the Government of Tonga Fiscal Strategy for 2019/20, which is to maintain the external debt portfolio below 50% of GDP. The other two fiscal anchors are to raise domestic revenue collections to at least 22% of GDP, and to maintain the compensation of employees at no more than 53% of domestic revenues and to gradually decline to 50% over time.

The estimated total debt service for 2019/20 is around $20 million, marking the commencement of the first principal repayment for the Tonga National Road Improvement Project loan due in March 2020 to EXIM Bank of China. The main repayment months for the loans to the EXIM Bank of China are September and March of every year. The EXIM Bank of China remains the main external debt creditor, hence the Chinese Renminbi has the highest share of the total external debt portfolio.

On the outlook, Government receipts are expected to rise in the near term due to the receipt of budget supports for the year 2019/20. Revenue reforms are also expected to continue improving revenue collection. New excise taxes being introduced include TOP$200 per kg on locally manufactured Tapaka – Tonga products, the 15% on imported eggs (excluding fertilized eggs for incubation), and the amendment for imported motor vehicles of tariff heading 8703 that have a model year of more than 10 years. Other taxes for unhealthy food and drinks continues which may contribute to higher inflation rates. These inflows will increase government deposits hence reducing net credit to Government.

However, this will be partially offset by the scheduled debt repayments to EXIM Bank of China and the expected drawdowns for the implementation of infrastructural projects funded by donor partners. The Reserve Bank will closely monitor the implications of the fiscal policy measures on the monetary policy objectives.

7. Monetary Policy Stance

The Reserve Bank's monetary policy stance remained accommodative during the past six months to August 2019. Inflation remained below the 5% reference rate, while foreign reserves continue to be comfortable above the minimum of 3 months of import cover. Exchange rates remained competitive, and the financial system remained sound supported by strong capital, adequate profits, and high liquidity position. The domestic economic indicators are also suggesting a recovery in domestic activities. Credit growth is modest with no signs of overheating, although the banks' loans/deposit ratio is still below the 80% minimum threshold. The existing excess liquidity in the banking system indicates that there is still room for further lending to support economic growth.

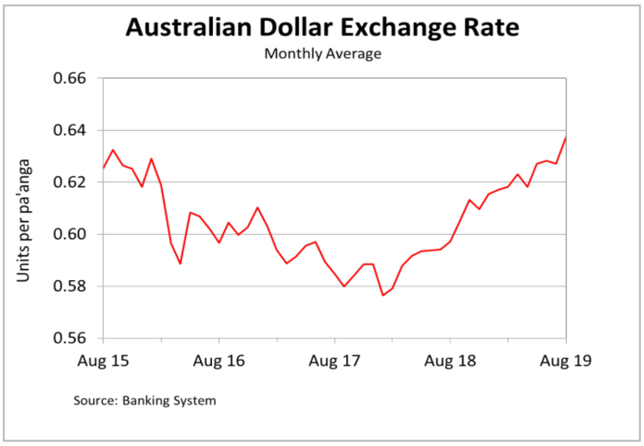
The Reserve Banks' outlook for a pick up in domestic economic activity remains for the medium term. The level of foreign reserves is expected to remain at comfortable levels well above the minimum of 3 months of import cover, supported by expected receipts of budgetary support, grant funds from development partners, and remittances. These will be partially offset by the projected rise in imports and the Government's external loan repayments. Inflation is expected to remain below the reference rate of 5% per annum throughout the remainder of 2019.

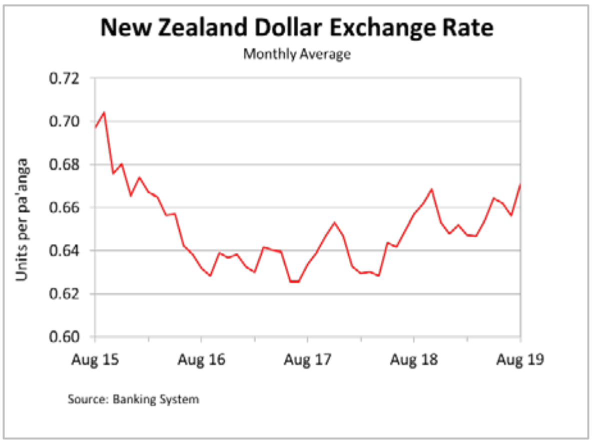
Given the recent developments and outlook, the Reserve Bank considers the current accommodative monetary policy stance appropriate for the medium term. The following monetary policy measures remained unchanged in order to encourage the utilization of the excess liquidity in the banking system to increase lending, particularly to growth sectors, to support domestic economic growth and strengthen the monetary policy transmission mechanism.

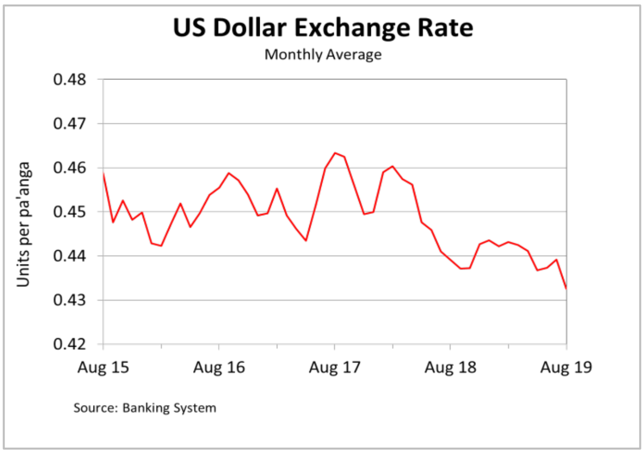
- ✓ Maintain the monetary policy rate (interest rate on banks' exchange settlement accounts or excess reserves) at 0% (zero interest rate policy);
- ✓ Maintain the minimum loans/deposit ratio at 80%;
- ✓ Maintain the Statutory Reserve Deposit ratio at 10%;
- ✓ Maintain the inflation reference rate at 5%;

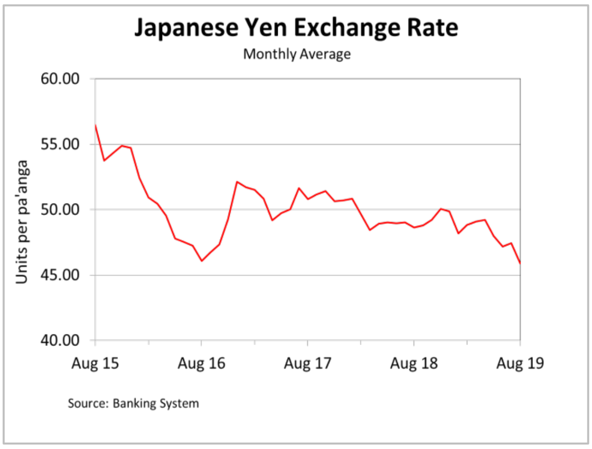
The Reserve Bank remains vigilant and will continue to closely monitor developments in the domestic and global economy, and update its monetary policy settings where necessary to maintain internal and external monetary stability while supporting macroeconomic stability and economic growth.

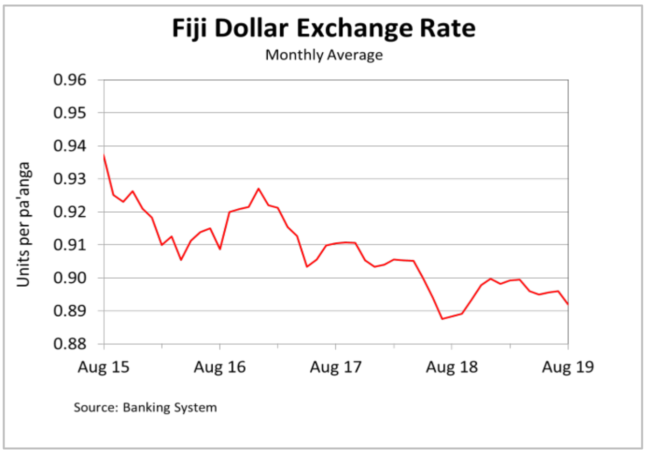
Appendix 1: Tongan Pa‘anga Exchange Rates

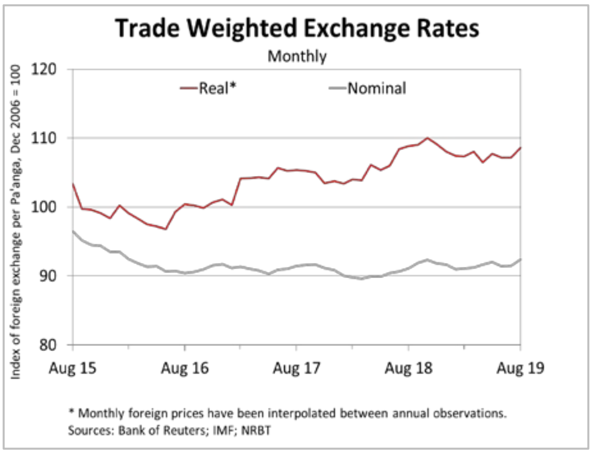












Appendix 2: Monetary Policy Objectives

The NRBT's obligations with respect to monetary policy are laid out in Section 4(1) of the National Reserve Bank of Tonga (Amendment) Act 2014, which state that the principal objectives of the Bank shall be to:

1) 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.

In addition, Section 30(2) of the NRBT (Amendment) Act, states the Bank shall exclusively hold and manage the official international reserves of the Kingdom and maintaining an adequate level of foreign exchange reserves.

Under the Act, the NRBT shall maintain internal and external monetary stability by maintaining official foreign exchange reserves and promoting price stability.

Maintaining an adequate level of foreign reserves is vital for a small open economy such as Tonga. It is dependent on imports for the supply of most of its goods, which needs to be paid for in foreign currency. Given Tonga's vulnerability to external shocks and natural disasters, its small size, narrow export base, and dependence on imports, it is imperative that foreign reserves are maintained at an adequate level to meet individuals' needs for basic essentials and support economic growth. The Foreign Exchange Act 2018 enhances the Reserve Bank's ability to safeguard the country's foreign reserves.

An adequate level of foreign reserves also minimizes volatility in the exchange rate and provides confidence that businesses and individuals in Tonga are able to meet their foreign currency obligations. The Reserve Bank targets a level of foreign reserves equivalent to 3 to 4 months of imports.

Imported goods account for 55% of the CPI basket, so changes in the prices of imported goods and the exchange rate have a significant influence on the overall level of domestic prices.

Price stability contributes to economic welfare, better economic performance, and sustainable economic development. When inflation is low and stable it is easier for people to distinguish changes in relative prices and to adjust their decisions regarding consumption, saving, and investment accordingly. Importantly, an environment of stable prices also reduces the risk in long-term financial agreements, as lenders and investors will be less likely to demand a high inflation risk premium to compensate for the loss of purchasing power. This reduces the costs to borrowers and increases the incentives for businesses to invest.

The high proportion of Tonga's exports and imports as a share of production means that domestic prices are likely to move closely with the prices of traded goods, which in turn depends closely on the value of the exchange rate. Vulnerability to external shocks, such as oil price increases, adverse weather conditions, and high dependence on remittances and imports, heighten the importance of promoting external stability, exchange rate stability, and therefore overall price stability.

By promoting external stability through maintaining an adequate level of foreign reserves and promoting price stability, the NRBT through its conduct of monetary policy can most effectively contribute towards macroeconomic stability, sustained economic growth, and raised prosperity for Tonga.