Snapshot of the Tongan Economy

August 2026 Release

Overseas Economy

- The global outlook remains challenging, with growth expected to slow to 2.5% in 2026 amid the prolonged Middle East conflict and higher energy prices, while inflationary pressures are projected to increase in developing economies. Inflation trends across major economies remain mixed, easing in the US and Australia but rising in New Zealand, largely due to higher energy costs.

Domestic Economy

- Domestic economic activity gained momentum in June 2026, supported mainly by the 200th Bicentenary Celebrations and annual festivities.
- The primary sector benefited from higher marine exports, while strong domestic demand associated with the celebrations supported robust growth in services and trading activities.
- The industrial sector maintained steady growth, driven by continued public infrastructure investments and construction activities.

Domestic Inflation

- The annual headline inflation eased to 7.1% in June 2026 from 7.9% in May 2026 but higher than the 1.0% last year.
- Imported prices was the key driver of headline inflation, driven mainly by housing utilities, fuels, and transport costs and other services. Domestic prices increased also reflecting higher prices in alcoholic beverages, tobacco and kava, housing utilities, and transportation.
- Core inflation slightly declined to 9.1% in June 2026 from 9.4% in May 2026, but marginally higher than the 9.6% in June 2025.

Banking System

- Annual credit growth (with GDL) increased by 4.9% in June 2026, driven by higher lending to businesses. Total deposits grew over the year by 6.0% to $1,062.4 million, driven by growth in demand and time deposits.
- Meanwhile, the banking system non-performing loans (NPL) ratio remained high at 14.2%, with business loans continuing to account for the largest share of NPLs.

Liquidity & Interest Rates

- Liquidity in the banking system increased by $82.6 million (13.1%) over the year to a new high in June 2026, underpinned by higher balances in Exchange Settlement Accounts, Currency in Circulation, Statutory Required Deposits and other deposits. Money supply also increased by $109.5 million (11.6%), supported by increases in foreign and domestic assets.
- The weighted average interest rate spread widened to 6.1% in June 2026, as the increase in the weighted average lending rate outweighed the marginal decline in the weighted average deposit rate.

Exchange Rates

- The NEER increased in June 2026 by 0.9%, reflecting by the appreciation of the TOP against the NZD, JPY, EUR and GBP. Similarly, the REER increased also by 3.4% as Tonga's inflation is higher compared to trading partners.

Global Prices

- The average price of Brent crude oil declined sharply to US$85.83 per barrel in June 2026 from the US$104.45 in May 2026, reflecting easing geopolitical tensions and reduced concerns over supply disruptions.
- Food prices on average fell in June 2026, declining by 0.3% from May 2026 but remaining 2.2% higher than a year earlier. The annual increase was mainly driven by lower cereal prices, which more than offset increases in vegetable oil prices.

Foreign Reserves

- Foreign reserves grew by $20.9 million (2.2%) to $991.8 million in June 2026, driven by higher inflows of Government budget support and remittances. This level is sufficient to cover 11.5 months of imports, remaining above the desired thresholds.
- Remittance receipts fell by $1.1 million (2.0%) in June 2026, underpinned mainly by a $1.3 million decline in compensation of employees.

Labour Market

- Job vacancies advertised to the public declined sharply in June 2026 by 55 (80.9%) to a total of 13 advertisements.
- Contrastingly, job advertisements increased over the year by 14 (1.6%) to 869.

NATIONAL RESERVE BANK OF TONGA
MONTHLY ECONOMIC UPDATE
Vol. 14 No. 8 August 2026 Report

Outlook

Amid ongoing geopolitical tensions in the Middle East and heightened global uncertainties, risks from disruptions in international markets, trade flows, and activity in major trading partners remain elevated. These developments are expected to weigh on Tonga's economic performance through increased market risks and volatility. In addition, prevailing El Niño conditions may further constrain agricultural production and heighten vulnerability to climate-related shocks.

Inflation remains highly uncertain and will depend on the evolution of the conflict and global commodity markets as well as local food production. Elevated global oil prices are expected to increase the cost of goods and services, with inflationary pressures potentially persisting if prices remain elevated. Given Tonga's limited domestic production capacity and import dependence, the risk of external cost pressures passing through to domestic prices remains high. El Niño conditions could further add to inflation risks through impacts on food supply and prices.

Official foreign reserves are expected to remain above the IMF's prescribed level of 7.5 months of import coverage in the near term, sustained by continued external receipts. While reserves are projected to remain adequate over the medium term, the outlook remains uncertain and tilted to the downside given Tonga's high import dependence, geopolitical tensions and global commodity prices, and supply-chain shocks.

The financial system remains sound, supported by strong capital positions and adequate liquidity conditions. Credit growth is expected to remain positive in the near term, supported by initiatives to improve access to finance and Government policies aimed at promoting private sector development. Vulnerabilities to asset quality will continue to be managed through effective oversight and prudent risk management.

Against this backdrop, the NRBT will seek close coordination with fiscal policy to address emerging risks and support macroeconomic stability. The NRBT will continue its notes issuance programme to absorb excess liquidity and improve monetary policy transmission, alongside efforts to strengthen liquidity management, revive the interbank market, modernise payment systems, and further develop financial markets.

Energy shocks continued to weigh on global growth

The Middle East conflict continues to weigh heavily on the global outlook, as energy shocks drive higher energy prices. Consequently, the World Economic Situation and Prospects as of mid-2026 projects global growth to slow to 2.5% in 2026 before edging up to 2.8% in 2027.

Global headline inflation in developing economies is expected to rise from 4.2% in 2025 to 5.2% in 2026. While energy prices in the US continued to surge, food prices helped drive a marginal decrease in inflation to 3.4% in July 2026 compared with 3.5% in the previous month. Australia's annual inflation eased to 3.8% in June 2026 while New Zealand's inflation edged up to 4.1% in June 2026, reflecting the continuing energy shock from the Middle East conflict. Market interest rates are pricing in possibilities of further hikes in official rates by these jurisdictions to address inflationary concerns. These decisions will have an impact on Tonga's inflation and foreign reserves.

Domestic activity gained momentum in June 2026

Agricultural export volumes fell by 92.7 tonnes (12.2%) to 667.8 tonnes in June 2026, mainly due to lower cassava and taro exports, partly offset by higher yam and kava exports. This coincided with a decline in export proceeds by $0.4 million (32.1%) to $0.7 million. Over the year, agricultural export volumes increased by 1,079.1 tonnes (14.3%) to 8,635.0 tonnes, led by higher watermelon, yam, taro, and other exports, while proceeds rose by $3.9 million (66.9%) to $9.8 million. Meanwhile, marine exports increased to 93.3 tonnes, supported by tuna and shark meat, while aquarium exports rebounded to 1,153 pieces (132.9%). This coincided with an increase in proceeds by $0.40 million (241.9%) to $0.56 million. Annually, marine exports fell by 43.4 tonnes (3.9%) to 1,059.9 tonnes, though aquarium exports increased by 50,903 pieces (81.8%). Proceeds rose by $0.3 million (14.3%) to $2.19 million. In the meantime, local market marine products declined by 0.3 tonnes (5.2%) to 5.1 tonnes in June 2026, although tuna catches increased by 184.4 tonnes (111.6%). Annually, local marine products fell by 19.8 tonnes (18.0%) to 89.9 tonnes, while tuna catches increased by 255.2 tonnes (16.1%) to 1,841.5 tonnes.

In June 2026, the secondary sector maintained momentum, supported by public infrastructure investments. Construction activity remained centred on the new Parliament building and upgrades to Vaiola Hospital. However, higher wholesale diesel costs contributed to a 2.8 percent increase in electricity tariffs, raising production costs and putting pressure on industrial margins. In response, the Government accelerated investments in renewable energy and grid infrastructure under TERM PLUS to strengthen energy resilience and reduce longer-term cost pressures.

Services sector activity gained momentum in June 2026, reflecting stronger domestic spending and tourism activity. Container registrations increased by 626 (86.9%) to 1,346, while non-oil import payments rose by $13.6 million (32.5%) to $55.6 million, indicating increased demand for goods and services associated with the 200th Bicentenary Celebrations and annual festivities. Vehicle registrations also increased by 144 (56.3%) to 400, further supporting higher domestic economic activity. In year-ended terms, container registrations declined by 599 (4.8%) to 11,944, while non-oil import payments fell by $12.2 million (2.1%) to $567.6 million. Tourism activity expanded in June 2026, with visitor arrivals increasing by 3,978 (45.0%) to 12,827, supported by the Bicentenary Celebrations, annual church conferences and the Heilala Week. Travel receipts rose by $1.1 million (6.0%) to $19.6 million in June 2026, while annual receipts increased by $31.2 million (17.6%) to $208.9 million, providing further support to services activity and overall economic growth.

Headline inflation eased to 7.1%

Annual headline inflation eased to 7.1% in June 2026, down from 7.9% in May 2026 but higher than the 1.0% a year earlier. Imported prices increased by 13.2%, driven mainly by housing, utilities, fuels, and transport costs, while domestic prices rose by 2.0%, reflecting higher costs for alcoholic beverages, tobacco and kava, housing utilities, and transportation.

On a monthly basis, the Consumer Price Index increased by 1.9%, stemmed by higher imported and domestic prices. Imported prices rose by 1.3%, led by food and non-alcoholic beverages, alcoholic beverages, tobacco and kava, while domestic prices increased by 2.4%, supported by food and non-alcoholic beverages, restaurants and hotels.

Core inflation eased to 9.1% in June 2026, from 9.4% in May 2026, but remained above at 9.6% a year earlier. The 10% trimmed mean also fell to 9.5% from 9.6% in May 2026 but remained higher at 5.3% a year earlier, indicating persistent underlying price pressures.

Job advertisements declined

Job advertisements fell sharply in June 2026, with 13 vacancies advertised compared to 68 in May, reflecting the public sector recruitment freeze at the end of the fiscal year. Over the year to June, job advertisements increased slightly by 14 vacancies (1.6%) to 869, indicating broadly stable labour demand despite the sharp monthly decline.

Effective exchange rates rose

The Nominal Effective Exchange Rate (NEER) increased by 0.7% in June 2026, reflecting the appreciation of the TOP against the NZD, AUD, FJD and EUR. Over the year, NEER recorded an increased by 0.9%, as the TOP appreciated against all the trading currencies except for the AUD, FJD, USD and CNY. However, the Real Effective Exchange Rate rose over the month and year by 0.5% and 3.4%, respectively.

Foreign reserves increased

In June 2026, foreign reserves increased by $20.9 million (2.2%) to $991.8 million, underpinned by higher net inflows of Government budget support and remittances. This is equivalent to 11.5 months of import coverage, above the optimal threshold of 7.5 months. Over the year, foreign reserve increased by $66.7 million (7.2%).

Remittances fell

Remittances receipts fell by $1.1 million (2.0%) in June 2026, driven by a $1.3 million decline in in compensation of employees, partly offset by a modest $0.2 million rise in private transfers. Private capital and social benefits remained unchanged. All three major currency sources recorded declines, with the largest decrease observed in NZD remittances, which fell by $1.1 million (2.0%). AUD remittances also declined by $0.4 million (1.6%), while USD remittances decreased by $0.2 million (1.0%).

Monetary aggregates climbed to new highs in June 2026

In June 2026, reserve money (liquidity) rose to its highest level, reaching $713. 6 million, an increase of $29.6 million (4.3%) over the month and $82.6 million (13.1%) compared to June 2025. Growth was broad-based across all categories, led by Exchange Settlement Accounts (ESA), followed by Currency in Circulation (CIC), Statutory Required Deposits (SRD) and other deposits, primarily reserve bank notes.

Broad money also increased to a record $1,055.5 million, rising by $11.2 million (1.1%) over the month and $109.5 million (11.6%) annually. Net foreign assets increased both monthly and annually in line with higher foreign reserves. Net domestic assets declined over the month but expanded annually, driven mainly by greater NRBT note holdings and reduced deposits with the central bank.

Total lending peaked again whilst credit growth strengthened

In June 2026, the total bank lending increased, both monthly and annually, rising by 3.1% ($19.3 million) and 4.9% ($29.6 million) to a new peak of $634.5 million. Lending to both businesses and households expanded over the month and over the year.

Business lending grew in agriculture, tourism, and distribution sectors during the month, while annual growth was concentrated in agriculture, distribution, and entertainment & catering. Household lending also rose, with other personal loans driving the monthly gains, and both vehicle and other personal loans contributing to annual growth.

The Government Development Loans scheme increased over the month by 192.5% ($19.4 million) and over the year by 183.7% ($19.1 million). Meanwhile, the loan to deposit ratio eased to 56.9%, as deposits growth outpaced lending increases, both monthly and annually.

The banking system Non-Performing Loans (NPLs) to total loans ratio slightly fell to 14.2% in June 2026, compared with 14.4% recorded last month. Majority of these NPLs are business loans.

Interest rate spread widened

The weighted average interest rate spread widened by 1.9 basis points (bp) over the month and 4.2 bp annually, but remained relatively unchanged at 6.1%. Monthly movements reflected declines in deposit rates, driven by lower savings and demand deposits, which offset slight decrease in lending rates.

In year-ended terms, weighted average lending rates increased slightly while deposit rates declined. The rise in lending rates was driven by higher rates offered to businesses in professional & other services, manufacturing, and tourism sectors. Household loan rates followed the same upward trend as the monthly pattern, with all categories increasing, led by vehicle loans.

TONGA: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Jun-25	Mar-26	Apr-26	May-26	Jun-26
1. Sectoral Performance Indicators*						
(year-on-year % change)	Air visitor arrivals	1.6	7.0	7.0	5.0	12.2
	Travel receipts	21.5	17.7	14.1	14.8	17.6
	Electricity production	7.7	12.3	11.8	11.7	10.5
	Agricultural exports[1/]	9.8	42.1	30.8	21.8	14.3
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	-1.5	1.2	7.1	12.9	15.0
	Container registrations	0.9	-7.3	-4.5	-0.7	-4.8
	Electicity consumption	6.4	7.0	7.5	7.6	7.5
	Remittances	3.7	10.4	11.0	11.2	13.2
3. Consumer Prices**						
(year-on-year % change)	All items[2/]	1.0	4.6	5.5	7.9	7.1
	Domestic	-0.6	2.5	2.5	4.5	2.1
	Imported	3.0	6.9	8.9	11.7	13.2
	Core inflation (ex energy & food)	9.6	9.5	9.5	9.4	9.1
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-8.5	5.2	2.1	-0.4	1.6
5. Reserves***						
(end of period)	Foreign Reserves ($m) [3/]	925.1	924.5	938.9	970.9	991.8
	Months of imports	10.6	10.8	10.9	11.3	11.5
6. Exchange Rates***						
(end of period, TOP$1 equals)	US dollar	0.4195	0.4165	0.4216	0.4233	0.4157
(index, Dec 2006=100)	Australian dollar	0.6421	0.6086	0.592	0.5909	0.6033
	New Zealand dollar	0.6941	0.7289	0.7229	0.7138	0.7351
	Fijian dollar	0.9495	0.9419	0.9311	0.9398	0.9435
	Nominal effective exchange rate	94.7	95.5	95.2	94.8	95.5
	Real effective exchange rate	125.0	127.8	126.1	128.6	129.3
7. Liquidity***						
(end of period)	Reserve money ($m) [3/]	631	651	656	684	714
	Currency in circulation ($m) [3/]	132	143	137	149	152
	Exchange settlement account ($m) [3/]	359	184	189	118	140
	Required reserve ($m) [3/]	140	143	146	148	150
8. Money and Credit***						
(year-on-year % change)	Broad money	4.4	9.8	9.1	12.1	11.6
	Net foreign assets	-0.4	9.3	7.1	11.3	7.1
	Net Domestic Asset	-173.5	15.9	49.7	23.3	247.5
	Narrow money	4.1	1.8	-0.7	2.8	2.9
	Total Lending	13.5	1.5	1.7	1.7	4.9
	Business lending	13.6	13.6	13.6	13.6	13.6
	Household lending	4.1	2.0	2.0	1.2	2.2
	Total Deposits	4.3	2.9	3.7	4.1	0.4
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.54	7.61	7.61	7.60	7.60
	Deposit rate	1.49	1.53	1.54	1.52	1.50
10. Commodity Prices****						
(end of period average)	Crude oil/barrel (US$)	69.83	96.91	99.34	104.45	85.83

Note

[1/] *Agricultural production shows the year on year change in terms of volume.*

[2/] *2021 rebase. Previous data had 2018 as its base.*

[3/] *TOP millions*

n.i.- not issued

n.a. - not available

Sources

*Various industry sources

**Tonga Department of Statistics

***National Reserve Bank of Tonga

****Reuters