Snapshot of the Tongan Economy

June 2026 Release

Overseas Economy

- The World Bank's Global Economic Prospects (June 2026) projects global growth to slow from 2.9% in 2025 to 2.5% in 2026, while global inflation is expected to increase to 4.0%. These projections reflect the prolonged Middle East conflict, which has kept global energy prices elevated, intensifying inflationary pressures and posing greater challenges for energy-importing economies.

Domestic Economy

- Domestic production slowed down in April 2026 following highs in the previous months.
- Agricultural exports declined from lower agricultural exports while growth in the tourism and trade sectors moderated following the peak in the previous month.
- The industrial sector maintained steady growth, supported by ongoing public infrastructure projects.

Domestic Inflation

- The annual headline inflation rose to 5.5% in April 2026, up from 4.6% in March 2026 and higher than the 2.1% a year ago.
- The increase was primarily driven by higher prices for transport, clothing and footwear, personal care, imported food items, kava, restaurants & hotels, and housing utilities.
- Core inflation remained unchanged at 9.5% in April 2026 from the previous month but higher than the 8.7% recorded a year earlier.

Banking System

- Total lending (with GDL) rose by 1.7% over the year to April 2026, supported by higher business lending. Total deposits increased over the year by 5.2% to $1,020.9 million, driven by growth in demand and time deposits.
- Meanwhile, the total banking non-performing loans (NPL) ratio eased slightly to 14.3% but remained above the internal benchmark of 10% with business loans continuing to account for the largest share.

Liquidity & Interest Rates

- Liquidity in the banking system increased by $55.7 million (9.3%) over the year to April 2026, due to higher balances in other deposits, Currency in Circulation, and Statutory Required Deposits. Money supply grew by $83.7 million (9.1%), driven by increases in foreign assets and domestic assets.
- The weighted average interest rate spread narrowed to 6.1% in April 2026, on the back of a higher increase in weighted average deposit rate relative to weighted average lending rate.

Exchange Rates

- The NEER declined by 0.2% in April 2026, reflecting the depreciation of the TOP against most major trading currencies. Meanwhile, the REER increased over the year by 1.2%, driven by higher domestic inflation relative to Tonga's trading partners.

Global Prices

- The average price of Brent crude oil continued to increase, rising to US$99.34 per barrel in April 2026 from US$96.91 in March 2026, reflecting ongoing supply concerns and ongoing geopolitical tensions stemming from the Middle East conflict.
- Food prices on average climbed in April 2026 to their highest level in more than three years, driven by increases in vegetable oil prices following the closure of the Strait of Hormuz.

Foreign Reserves

- Foreign reserves increased by $14.4 million (1.6%) to $938.9 million in April 2026, supported by higher inflows of project funds from donor partners and remittances. This level is sufficient to cover 10.9 months of imports, remaining above the desired thresholds.
- Remittance receipts declined by $0.3 million (0.6%) in April 2026, driven by decreases in private transfers of $1.6 million and social benefits of $1.2 million.

Labour Market

- Job vacancies advertised to the public declined further in April 2026 by 10.9% to a total of 57 advertisements.
- Contrastingly, job advertisements increased by 19 (2.1%) over the year to 919, reflecting a gradual improvement in labour demand.

NATIONAL RESERVE BANK OF TONGA

MONTHLY ECONOMIC UPDATE

Vol. 14 No. 6 June 2026 Report

Outlook

Amidst the ongoing geopolitical conflict in the Middle East and heightened global uncertainties, domestic economic activity is expected to be constrained by supply side disruptions and increasing cost of production. These developments are anticipated to exert a more immediate impact on Tonga's economic activities. In addition, the current El Niño phenomenon is likely to compound these pressures by disrupting agricultural output and increasing vulnerability to climate-related shocks.

Inflation remains uncertain and depends on how the conflict in the Middel East evolves. Rising global oil prices are expected to push up costs for goods and services, and these pressures could persist if oil prices stay elevated. With limited domestic production capacity to absorb external shocks, there is a higher risk of cost pass-through and sustained inflationary pressure. At the same time, El Niño conditions pose additional risks to price stability, amplifying inflationary pressures.

Official foreign reserves are expected to remain above the adequacy level of 7.5 months of import coverage in the near term. However, the medium-term outlook remains uncertain and it's expected to lower, particularly if the ongoing Middle East crisis continues.

The financial system remains sound, supported by strong capital buffers and adequate liquidity. However, credit growth and investment appetite may dampen given the escalating uncertainties in global markets leading to higher business costs and weaker demand.

Given these developments and the outlook, the NRBT and the Government will continue to coordinate closely to mitigate inflationary risks arising from the conflict. The NRBT remains committed to modernizing its monetary policy tools and strengthening transmission to ensure that it is better equipped to support financial stability and strengthen economic resilience.

Weaker Prospects for economies dependent on Energy imports

The prolonged Middle East conflict has continued to drive up energy prices, sustaining global inflationary pressures and increasing the likelihood of tighter monetary policy. Consequently, the World Bank's June 2026 Global Economic Prospects revised down its global growth forecast, projecting growth to slow from 2.9% in 2025 to 2.5% in 2026. Energy-importing economies are expected to be particularly affected, facing weaker growth prospects amid elevated fuel costs. At the same time, global headline inflation is projected to rise to 4.0% in 2026 from 2.9% in 2025, driven largely by higher energy prices.

U.S. inflation increased to 4.2% in May 2026, driven primarily by higher energy prices, while the unemployment rate remained unchanged at 4.3%. Meanwhile, Australia's economy expanded modestly by 0.3% in the first quarter of 2026, reflecting subdued household and government spending, alongside weather-related disruptions to mining and export activities. Similarly, New Zealand's economy grew by 0.8% over the same period, supported mainly by stronger manufacturing activity.

Domestic activity moderated

In April 2026, agricultural exports fell by 97.5 tonnes (14.7%) to 565.7 tonnes, mainly due to lower shipments of taro, yam, coconut, sweet potato, and other crops. This decline was partly offset by higher shipments of cassava, watermelon, and kava. Despite the lower export volume, agricultural export proceeds increased by $0.61 million (89.3%) to $1.3 million. On an annual basis, agricultural exports rose by 2,095.2 tonnes (30.8%) to 8,887.5 tonnes, underpinned by strong growth in exports of cassava, taro, yam, and watermelon. Annual export proceeds also increased by $3.8 million (70.7%) to $9.2 million, driven by higher receipts from root crops and watermelon exports.

Industrial sector activity maintained its momentum in April 2026, supported primarily by ongoing construction of the new Parliament Building and the Fanga'uta Lagoon Bridge. Progress on nationwide road safety upgrades and the construction of Free Wesleyan Church buildings in preparation for the national bicentennial also contributed to activity. Ground-level utility infrastructure works further reinforced this momentum, including water pipeline upgrades to Vaiola Hospital and electricity grid connections to the Popua Substation. Together, these major infrastructure projects with rising private construction works sustained domestic demand across the construction, quarrying, manufacturing, and related industries.

Activity in the services sector eased in April 2026. Imported containers declined by 211 (20.1%) to 840 containers, reflecting decreases in both business and private containers by 16.5% and 39.2%, respectively. This was accompanied by a $2.1 million decline in wholesale and retail import payments, indicating softer domestic spending during the month. Over the year, total imported containers fell by 556 (4.5%) to 11,931 containers, driven by lower business imports. Meanwhile, vehicle registrations remained firm, increasing by 56 (21.5%) over the month and by 239 (7.1%) over the year to 316 and 3,627 vehicles, respectively. Travel activity, however, softened during the month, with arrivals declining by 2,534 (22.1%) to 8,956 and departures falling by 1,838 (16.2%) to 9,483. Despite lower travel volumes, travel receipts increased by $0.6 million (3.7%) to $16.3 million.

Headline inflation rose markedly to 5.5%

Annual headline inflation increased to 5.5% in April 2026, up from 4.6% in March 2026 and higher than the 2.1% a year ago. The increase was primarily driven by imported prices, which

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surged by 8.9%, reflecting higher prices for transport, food, housing utilities, clothing and footwear, and personal care products. Domestic prices increased by 2.5%, unchanged from March 2026, supported by higher prices for restaurants and hotels, alcohol & tobacco and kava, and housing utilities.

On a monthly basis, the Consumer Price Index (CPI) increased by 1.2%, with imported prices rising by 2.2%, led by transportation and food prices. Domestic prices recorded a modest increase of 0.2%, mainly due to higher prices for alcohol, tobacco and kava and food.

Core inflation (excluding food and energy) remained high at 9.5% in April 2026, unchanged from March 2026 but above the 8.7% recorded a year earlier. Domestic core components contributed by 4.1 percentage points, driven by increases in alcohol, tobacco and kava, restaurants and hotels, and education costs. Imported core components contributed by 5.4 percentage points, reflecting higher prices for passenger transport services and miscellaneous goods and services.

Job advertisements fell

Job advertisements declined further in April 2026, falling by 7 (10.9%) vacancies to 57 positions. The decrease was broad-based, driven mainly by fewer vacancies in the utilities and real estate and business services sectors. On an annual basis, job advertisements increased by 19 vacancies (2.1%) to 919, supported by higher demand for labour in the public administration, utilities, and transport and communication sectors.

Effective exchange rate declined

The Nominal Effective Exchange Rate (NEER) declined by 0.4% in April 2026, reflecting the depreciation of the TOP against the NZD, AUD, FJD, GBP and EUR. Over the year, the NEER recorded a 0.2% increase, as the TOP appreciated against all the trading currencies except for the AUD and FJD. Similarly, the Real Effective Exchange Rate declined over the month by 0.8% but increased over the year by 1.2% as domestic inflation continues to be higher relative to that of Tonga's trading partners.

Foreign reserves remained above the optimal thresholds

In April 2026, foreign reserves increased by $14.4 million (1.6%) to $938.9 million, underpinned by inflows of project funds from donor partners. This level is sufficient to cover 10.9 months of imports, remaining above the desired thresholds. Over the year, foreign reserve increased by $71.4 million.

Remittances declined

Remittance receipts declined by $0.3 million (0.6%) in April 2026, driven by a $1.6 million decrease in private transfers and a $1.2 million decline in social benefits. These declines were partly offset by increases in compensation of employees and private capital transfers by $1.2 million and $0.1 million, respectively. By currency, NZD remittance receipts declined by $0.8 million, in contrast to increases in AUD and USD remittance receipts by $0.7 million and $0.1 million, respectively. Over the year, remittances increased by $59.0 million (11.0%) to $595.6 million, supported by higher financial supports from families abroad.

Reserve money rose while broad money declined

Reserve money (liquidity) increased over the month and over the year in April 2026, by $5.4 million (0.8%) and $55.7 million (9.3%) respectively. Over the month the Exchange Settlement Accounts (ESA), Other deposits which includes Reserve Bank notes and Statutory Required Deposits (SRD) increased and outweighed the lower Currency in Circulation (CIC). Annually, other deposits, CIC, and SRD increased and offset the decline in ESA.

Broad money contracted by $5.9 million (0.6%) over the month but expanded annually by $83.7 million (9.1%). The monthly decline reflected a $13.9 million decrease in net domestic assets. Annual growth was underpinned by a $61.7 million increase in net foreign assets together with a $21.7 million rise in net domestic assets. At the same time, total bank deposits increased by $8.2 million (0.8%) over the month to $1,020.9 million, as all categories of deposits rose.

Total lending increased

Total bank lending grew over the month and annually by $2.2 million (0.4%) and $10.1 million (1.7%) to $607.9 million, in April 2026. The monthly rise stemmed from increased lending to public enterprises and businesses such as professional services, entertainment & catering and utilities sectors. Household loans on the other hand fell, due to lower housing and vehicle loans. Annually, both businesses and household loans increased, mainly for businesses within the constructions, distributions and professional & other services sectors, along with all categories of household loans.

The Government Development Loans scheme increased over the month by 10.1% ($0.7 million) but declined annually by 2.1% ($1.9 million). At the same time, the loan to deposit ratio declined to 58.9%, reflecting deposits increasing more than the rise in loans both monthly and annually.

The non-performing loans (NPLs) ratio remained unchanged at 14.3% over the month and was marginally lower than the 14.4% recorded a year earlier. Business loans continued to account for the majority of NPLs.

Interest rate spread narrowed

The weighted average interest rate spread narrowed to 6.1%, declining on both a monthly and annual basis. These declines reflected higher deposit rates offsetting increases in lending rates. Movements in deposit rates were led by demand and time deposits, while lending rate changes were driven by shifts across major business sectors and household loans, particularly vehicle loans.

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TONGA: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Apr-25	Jan-26	Feb-26	Mar-26	Apr-26
1. Sectoral Performance Indicators*						
(year-on-year % change)	Air visitor arrivals	10.4	3.4	7.0	7.0	7.7
	Travel receipts	24.8	14.7	15.3	17.7	14.1
	Electricity production	7.7	10.3	11.6	12.3	11.8
	Agricultural exports[1/]	-7.1	52.4	61.0	42.1	30.8
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	9.1	-3.5	-0.3	1.2	7.1
	Container registrations	1.8	-8.4	-5.1	-7.3	-4.5
	Electicity consumption	7.1	6.1	6.7	7.0	7.5
	Remittances	1.3	9.2	9.7	10.4	11.0
3. Consumer Prices**						
(year-on-year % change)	All items[2/]	2.1	2.0	2.4	4.6	5.5
	Domestic	1.2	-2.0	0.5	2.5	2.5
	Imported	3.2	6.0	4.7	6.9	8.9
	Core inflation (ex energy & food)	8.7	8.5	6.9	9.5	9.5
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-6.3	-3.3	10.1	5.2	2.1
5. Reserves***						
(end of period)	Foreign Reserves ($m) [3/]	867.6	958.6	959.6	924.5	938.9
	Months of imports	10.0	11.1	11.2	10.8	10.8
6. Exchange Rates***						
(end of period, TOP$1 equals)	US dollar	0.4168	0.4240	0.4232	0.4165	0.4216
(index, Dec 2006=100)	Australian dollar	0.6529	0.6026	0.5964	0.6086	0.592
	New Zealand dollar	0.7018	0.6985	0.7084	0.7289	0.7229
	Fijian dollar	0.9512	0.9403	0.9367	0.9419	0.9311
	Nominal effective exchange rate	95.0	94.5	94.6	95.5	95.2
	Real effective exchange rate	123.6	127.2	124.9	127.8	126.1
7. Liquidity***						
(end of period)	Reserve money ($m) [3/]	601	651	639	651	656
	Currency in circulation ($m) [3/]	125	142	142	143	137
	Exchange settlement account ($m) [3/]	334	247	194	184	189
	Required reserve ($m) [3/]	142	145	144	143	146
8. Money and Credit***						
(year-on-year % change)	Broad money	7.6	7.2	8.6	9.8	9.1
	Net foreign assets	-1.4	8.8	10.0	9.3	7.1
	Net Domestic Asset	-229.2	-27.1	-16.8	15.9	49.7
	Narrow money	13.0	3.9	1.9	1.8	-0.7
	Total Lending	13.6	3.4	2.4	1.5	1.7
	Business lending	13.6	13.6	13.6	13.6	13.6
	Household lending	4.6	3.0	2.0	2.0	2.0
	Total Deposits	7.6	1.7	3.5	2.9	3.7
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.56	7.62	7.62	7.61	7.61
	Deposit rate	1.48	1.50	1.54	1.53	1.54
10. Commodity Prices****						
(end of period average)	Crude oil/barrel (US$)	66.96	64.11	69.32	96.91	99.34

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