



Snapshot of the Tongan Economy

September 2026 Release

Overseas Economy



- The global economic conditions remain challenging, with the Asian Development Bank projecting Asia and the Pacific's economic growth to slow from 5.5% in 2025 to 4.9% in 2026, before recovering to 5.1% in 2027. The downward revision largely reflects higher energy costs, supply disruptions, and tighter financial conditions arising from the prolonged Middle East conflict.
- Inflation is projected to rise to 4.3% in 2026 before moderating to 3.4% in 2027, as elevated energy costs continue to pass through to food and other prices despite easing oil prices.

Domestic Economy



- Domestic activity moderated in July 2026 following the end of the festive season. Primary sector performance was mixed, with agricultural export volumes declining despite higher export proceeds.
- The industry sector remained active, supported by ongoing construction projects.
- Partial indicators for the tertiary sector pointed to a slowdown. However, tourism activity remained vibrant in July 2026, supported by the Heilala Week celebrations and the start of the whale watching season.

Domestic Inflation



- The annual headline inflation increased to 9.3% in July 2026 from 7.1% in June 2026 and higher than the 1.8% last year.
- Imported prices were the key driver of headline inflation, driven mainly by transport costs and energy prices. Domestic prices increased also reflecting higher prices in alcoholic beverages, housing utilities, and transportation.
- Core inflation marginally declined to 9.0% in July 2026 from 9.1% in June 2026, but lower than the 10.5% in July 2025.

Banking System



- Annual credit growth (with GDL) increased by 5.2% in July 2026, driven by higher lending to businesses and households. Total deposits rose over the year by 6.2% to \$1,055.9 million, driven by growth in demand and time deposits.
- Meanwhile, the non-performing loans (NPL) ratio remained high at 14.0%, with business loans continuing to account for the largest share of NPLs.

Liquidity & Interest Rates



- Liquidity in the banking system increased by 14.0% (\$88.4 million) to a new high of \$718.5 million, supported by higher deposits, Currency in Circulation and Statutory Required Deposits. Money supply also expanded over the year by 13.4% (\$127.6 million) to a new peak of \$1,078.0 million in July 2026, underpinned by increases in foreign and domestic assets.
- The weighted average interest rate spread widened to 6.1% in July 2026, as the increase in the weighted average lending rate outweighed the marginal increase in the weighted average deposit rate.

Exchange Rates



- The NEER declined in July 2026 by 0.7%, as the TOP depreciated against the AUD, NZD, JPY and GBP. Conversely, the REER increased by 4.1%, reflecting Tonga's higher inflation rate relative to trading partners.

Global Prices



- The average price of Brent crude oil eased to US\$83.23 per barrel in July 2026 from the US\$85.83 in June 2026, mainly reflecting improved expectations of global oil supply following the recovery of Gulf oil flows and increased OPEC production targets.
- Food prices on average increased in July 2026 by 0.6% from June 2026 and 1.0% higher than a year earlier. The annual increase was mainly driven by higher cereal and vegetable oil prices.

Foreign Reserves



- Foreign reserves declined by \$5.1 million (0.5%) to \$986.7 million in July 2026, due mainly to higher import payments. This level is sufficient to cover 10.3 months of imports, remaining above the desired thresholds.
- Remittance receipts increased by \$4.4 million (7.9%) in July 2026, mainly driven by higher private transfers and compensation of employees.

Labour Market



- Job vacancies advertised to the public rose in July 2026 by 33 to a total of 46 advertisements.
- Similarly, job advertisements increased over the year by 3 (0.4%) to 833.



Outlook

The ongoing conflicts in the Middle East and heightened global uncertainties continue to pose risks to trade, supply chains and activities in major trading partners. 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 reached double figures and is expected to remain elevated in the immediate future. However, it remains highly volatile and will depend on developments in the Middle East, global commodity markets, and domestic food production. Although the average price of Brent crude oil declined in July, renewed geopolitical tensions could result in further volatility and upward pressure on energy prices. Given Tonga's limited domestic production capacity and high dependence on imports, the risk of external cost pressures passing through to domestic prices remains elevated.

Official foreign reserves are expected to remain above 7.5 months of import cover in the near term, supported by continued external receipts. However, the medium-term outlook remains uncertain due to Tonga's import dependence, narrow economic base, and exposure to natural disasters and external shocks.

The financial system remains sound, underpinned by strong capital and liquidity positions. Credit growth is expected to remain positive supported by improved access to finance and Government initiatives to promote private sector activity. However, elevated non-performing loans highlight the need for continued prudence in lending and enhanced supervision.

Given these developments and outlook, the NRBT and Government will maintain close coordination to address emerging risks and support macroeconomic and financial stability. The NRBT will continue its notes issuance programme to absorb the excess liquidity and strengthen monetary policy transmission, while further enhancing liquidity management and supporting the development of the interbank market. Efforts will also continue to modernise the payment system and deepen financial markets to strengthen the effectiveness and resilience of the financial system.

Energy market disruptions persist, weakening global growth

The Asian Development Bank's July 2026 economic forecasts for Asia and the Pacific anticipate that regional growth will slow from 5.5% in 2025 to 4.9% in 2026, while 2027 forecasts remain at 5.1%. The downward revision largely reflects higher energy costs, supply disruptions, and tighter financial conditions resulting from the prolonged Middle East conflict.

Regional inflation is projected to rise to 4.3% in 2026 before moderating to 3.4% in 2027. The near-term increase reflects the continued pass-through of higher energy and transportation costs to food, utilities, and other consumer prices, alongside supply disruptions arising from the prolonged

Middle East conflict. While oil prices eased in July, earlier increases in energy cost are expected to continue feeding through to food and other prices, keeping inflation elevated in the near term before moderating in 2027 as cost pressures ease and supply conditions improve.

Australia's economy grew by 0.4% during the June 2026 quarter, supported by stronger private demand, including higher imports, while mining exports recorded only modest gains. Annual inflation also continued to ease, reaching 3.5% in July 2026. Meanwhile, the Reserve Bank of New Zealand expects economic activity to recover in the third quarter of 2026, although the recovery is likely to remain uneven across sectors and regions. Inflation is expected to remain elevated in 2026 before gradually easing to 2% by late 2027.

Domestic activity moderated in July 2026

Agricultural export volumes declined by 79.0 tonnes (11.8%) to 588.8 tonnes in July 2026, mainly reflecting lower exports of taro and yam. In contrast, export proceeds increased by \$0.15 million (20.5%) to \$0.9 million, supported by higher receipts from coconut, kava, and sweet potato. Over the year, agricultural export volumes increased by 723.4 tonnes (9.4%) to 8,415.7 tonnes, driven by higher exports of watermelon, yam, taro, and squash, which more than offset declines in cassava, sweet potato, coconut, and sandalwood. Annual export proceeds increased by \$2.6 million (41.5%) to \$9.0 million, reflecting higher receipts from root crops and watermelon.

In July 2026, industrial activity remained supported by ongoing public infrastructure projects, including construction of the new Parliament building and major road upgrades. Production cost pressures eased following the Tonga Energy Commission's approval of a 10.8% reduction in electricity tariffs effective 1 July 2026, partially reversing the sharp increases recorded in June 2026.

Services activity moderated following the end of the festive season. Container registrations fell by 370 (27.5%) to 976, reflecting declines in both business and private imports. Import payments excluding oil however, increased by \$1.1 million (1.9%) to \$56.7 million, while wholesale and retail payments rose by \$3.1 million (8.6%), reflecting the lagged effect of earlier imports. Annually, containers fell by 263 (2.2%) to 11,938, while import payments declined by \$7.9 million (1.4%). Vehicle registrations fell by 87 (21.8%) to 313, driven by fewer cars and rentals registered, though annual registrations increased by 483 (14.8%) to 3,743. Tourism activities eased slightly after the festive season, with arrivals declining by 143 (1.1%) to 12,684 compared to an increase in departures of 6,585 (77.0%) passengers to 15,133. Travel receipts increased by \$9.3 million (47.1%) to \$28.9 million. Over the year, arrivals rose by 8.1% to 131,356, departures increased by 15.3% to 130,257, and receipts grew by 22.4% to \$218.4 million, highlighting continued improvements in tourism activities.



Headline inflation increased to 9.3%

Annual headline inflation rose to 9.3% in July 2026 from 7.1% in June 2026 and 1.8% a year earlier. Imported prices increased by 10.6%, driven mainly by higher prices for transportation, housing and utilities, food and non-alcoholic beverages, and alcoholic beverages, tobacco and kava. Domestic prices rose by 8.2%, reflecting higher costs of food, beverages, housing utilities, catering services and transportation.

On a monthly basis, the Consumer Price Index rose by 0.1%, reflecting contrasting movements in imported and domestic prices. Imported prices fell by 2.1%, driven by declines in food, housing utilities, and transport, while domestic prices increased by 2.1%, underpinned by higher prices for alcoholic beverages, tobacco and kava, transportation, and catering services.

Core inflation eased slightly to 9.0% in July 2026, down from 9.1% in June 2026 and lower than the 10.5% a year earlier. The 10% trimmed mean remained high at 9.5%, signalling persistent broad-based price pressures.

Job advertisements rebounded

Labour demand increased in July 2026 as total vacancies increased by 33 to 46 vacancies. This reflects renewed recruitment activity following the fiscal year-end freeze. Over the year to July, job advertisements rose by 3 vacancies (0.4%) to 833, compared to 830 in July 2025, indicating modest expansion in labour demand relative to last year.

Effective exchange rates fell in July 2026

The Nominal Effective Exchange Rate (NEER) declined by 0.7% in July 2026, reflecting the depreciation of the TOP against the AUD, NZD, GBP and JPY. Over the year, NEER decreased by 0.3%, as the TOP depreciated against all the trading currencies except for the AUD, FJD and GBP. However, the Real Effective Exchange Rate increased over the month and year by 4.1% and 9.0%, respectively as Tonga's inflation came out higher compared to its trading partners.

Foreign reserves declined

In July 2026, foreign reserves decreased by \$5.1 million (0.5%) to \$986.7 million, due to higher import payments. This is equivalent to 10.3 months of import coverage, above the optimal threshold of 7.5 months. Over the year, foreign reserves increased by \$65.7 million (7.1%).

Remittances rose further

Remittance receipts grew by \$4.4 million (7.9%) in July 2026, driven mainly by a \$2.8 million rise in private transfer, followed by an increase of \$1.3 million (17%) in compensation of employees. Over the year, total remittances reached its highest record on the back of higher financial support from families abroad, increasing by \$75.2 million (13.8%) to \$619 million.

Monetary aggregates expanded further in July 2026

In July 2026, reserve money (liquidity) rose to a new record of \$718.5 million, increasing by \$5.0 million (0.7%) over the month and \$88.4 million (14.0%) compared to July 2025. Growth was broad-based driven mainly by other deposits (primarily Reserve Bank notes), Currency in Circulation, Statutory Required Deposits, which offset a decline in the Exchange Settlement Accounts.

Broad money also increased to a new peak of \$1,078.0 million in July 2026, rising by \$17.0 million (6.3%) over the month and \$287.9 million (11.6%) over the year. Net domestic assets expanded on both measures, reflecting lower government deposits and higher NRBT Notes holdings. Net foreign assets declined during the month corresponding to the movement in foreign reserves.

Lending reached a new high as credit growth gained momentum

In July 2026, total bank lending increased, both monthly and annually, rising by 0.4% (\$2.5 million) and 5.2% (\$31.4 million) to a new peak of \$637.0 million. Business lending expanded over the month and the year, while households lending recorded annual growth.

Business lending grew during the month, led by distribution, constructions and professional & other services. Annual growth was concentrated in agriculture, distribution, and constructions. In contrast, household loans declined over the month, mainly in housing and vehicles categories. However, annual growth was recorded in other personal loans and vehicle loans.

The Government Development Loans scheme saw little movement over the month but increased sharply over the year by 196.4% (\$19.6 million). The loan to deposit ratio climbed to 59.3%, as deposits declined and lending grew.

The non-performing loans to total loans (NPL) ratio slightly fell to 14.0% in July 2026, compared with 14.2% recorded last month. Majority of these NPLs are business loans.

Interest rate spread narrowed

The weighted average interest rate spread narrowed by 2.0 basis points (bp) over the month but widened by 6.2 bp annually, remaining steady at 6.1%. Monthly movements were driven by slightly higher deposit rates, particularly increases in time and demand deposit rates, which offset a modest rise in lending rates.

In year-ended terms, the weighted average lending rate rose offsetting the increase in the weighted average deposit rate. The rise in lending rates was driven by higher rates offered to businesses in utilities, manufacturing, and tourism sectors. Household loan rates mirrored the monthly pattern, with all categories increasing, led by vehicle loans.

KEY INDICATORS

		Jul-25	Apr-26	May-26	Jun-26	Jul-26
1. Sectoral Performance Indicators*						
(year-on-year % change)	Air visitor arrivals	-1.8	7.0	5.0	12.2	17.7
	Travel receipts	19.0	14.1	14.8	17.6	22.4
	Electricity production	7.8	11.8	11.7	10.5	9.7
	Agricultural exports ^{1/}	8.5	30.8	21.8	14.3	9.4
2. Consumption Indicators*						
(year-on-year % change)	New vehicle registrations	-1.4	7.1	12.9	15.0	14.8
	Container registrations	-1.3	-4.5	-0.7	-4.8	-2.2
	Electricity consumption	5.7	7.5	7.6	7.5	7.2
	Remittances	4.4	11.0	11.2	13.2	13.8
3. Consumer Prices**						
(year-on-year % change)	All items ^{2/}	1.8	5.5	7.9	7.1	9.3
	Domestic	0.1	2.5	4.5	2.1	8.2
	Imported	3.8	8.9	11.7	13.2	10.6
	Core inflation (ex energy & food)	10.5	9.5	9.4	9.1	9.0
4. Labour Market***						
(year-on-year % change)	NRBT Job Advertisement survey	-12.8	2.1	-0.4	1.6	0.4
5. Reserves***						
(end of period)	Foreign Reserves (\$m) ^{3/}	921.0	938.9	970.9	991.8	986.7
	Months of imports	10.7	10.9	11.3	11.5	10.3
6. Exchange Rates***						
(end of period, TOPS1 equals)	US dollar	0.4156	0.4216	0.4233	0.4157	0.4204
(index, Dec 2006=100)	Australian dollar	0.6464	0.592	0.5909	0.6033	0.598
	New Zealand dollar	0.7051	0.7229	0.7138	0.7351	0.7151
	Fijian dollar	0.9471	0.9311	0.9398	0.9435	0.9466
	Nominal effective exchange rate	95.1	95.2	94.8	95.5	94.8
	Real effective exchange rate	123.5	126.1	128.6	129.3	128.5
7. Liquidity***						
(end of period)	Reserve money (\$m) ^{3/}	630	656	684	714	719
	Currency in circulation (\$m) ^{3/}	136	137	149	152	155
	Exchange settlement account (\$m) ^{3/}	349	189	118	140	122
	Required reserve (\$m) ^{3/}	144	146	148	150	153
8. Money and Credit***						
(year-on-year % change)	Broad money	7.3	9.1	12.1	11.6	13.4
	Net foreign assets	2.1	7.1	11.3	7.1	7.1
	Net Domestic Asset	-227.8	49.7	23.3	247.5	240.9
	Narrow money	9.8	-0.7	2.8	2.9	5.6
	Total Lending	12.9	1.7	1.7	1.8	2.3
	Business lending	22.6	1.4	2.2	2.5	3.4
	Household lending	3.4	2.0	1.2	1.1	1.1
	Total Deposits	6.0	3.7	4.1	0.4	1.3
9. Interest Rates (%)***						
(monthly weighted average)	Lending rate	7.54	7.61	7.60	7.60	7.60
	Deposit rate	1.52	1.54	1.52	1.50	1.52
10. Commodity Prices****						
(end of period average)	Crude oil/barrel (US\$)	69.27	99.34	104.45	85.83	83.23

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