

# Who We Are

## What we do

NRBT is an independent public authority and the central bank for Tonga. It has the following responsibilities amongst others:

- i. Formulate and implement monetary policy in such a way as to control inflation and maintain the value of the Pa'anga;
- ii. Determine and implement financial stability policy to ensure stability, soundness and efficiency of the financial system.
- iii. Act as fiscal agent and operate as the bank for government.

## Values

- i. We embrace Christian values and integrity
- ii. We are “One Team”, embracing excellence
- iii. We work to improve performance and to innovate
- iv. We work with respect and humility, aligned with the National culture of Tonga.

## Strategic Goals

- i. Ensure Sustainable and Inclusive Development for Tonga.
- ii. Safeguard the Financial Stability and Prosperity of Tonga
- iii. Embrace Transparency, Engagement, and Innovation.
- iv. Develop Well-Researched Data and information for Informed Decision-

# Monetary Policy

## Objective 1: Price Stability. Policy Tools for Inflation Control

- Policy rate adjustments
- Sterilized foreign exchange intervention
- Statutory Required Reserves (SRD)

If inflation rises:

- Raise policy rates
- Allow slight appreciation within the basket band
- Reduce domestic liquidity

If inflation falls:

- Lower policy rates
- Allow slight depreciation of exchange rates within the band
- Allow greater domestic liquidity

## Advantages of current system for Inflation Stability

- ✓ Reduced imported inflation volatility
- ✓ Protection from destabilizing capital flows
- ✓ More stable inflation expectations

## Risks and Trade-Offs

- ✗ Still limited monetary freedom (exchange rate must be defended)
- ✗ Large foreign reserves required
- ✗ Risk of black markets if capital controls are strict
- ✗ Inflation can still be imported if all basket currencies inflate

If all major basket currencies experience inflation, domestic inflation may rise despite policy efforts. Monetary policy impacts aggregate demand and NOT supply side



# National Reserve Bank of Tonga



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# Exchange Rate Channel

## Exchange Rate Regime

The NRBT employs a currency basket peg to determine the value of the pa'anga. It serves as the nominal anchor.

The Tongan Pa'anga is pegged to a basket of our top 4 trading currencies:

- USD
- NZD
- AUD
- FJD

## How the Basket Peg Affects Inflation

- The exchange rate is stabilized against major trading partners.
- Imported inflation is reduced because exchange rate volatility is lower.
- If one currency (e.g., the United States Dollar) strengthens sharply, the basket spreads the impact across other currencies like the NZ or Australian Dollar.

## Exchange Rate Channel of Inflation

A stable currency:

- Lowers import price volatility
- Reduces pass-through into domestic prices

Anchors inflation expectations

# Interest Rate Channel

## Monetary Policy Rate

The NRBT signals to the market what it expects short-term interest rate should be through its policy rate. The NRBT anchors the rate by issuing NRBT Notes at the policy rate while reducing excess liquidity.

The NRBT reduction of excess liquidity would stimulate the interbank lending market. In turn, this would influence the price of money in the financial market (deposits, lending, bond etc.)

## How Interest Rates Affects Inflation

### When Interest Rates Go Up

- ⇒ Borrowing Becomes More Expensive
  - \* Higher mortgage rates and credit interest
  - \* Businesses face higher financing costs
- ⇒ Spending Slows Down
  - \* Consumers buy fewer homes, and goods
  - \* Businesses reduce expansion and hiring
- ⇒ Demand Falls

When demand decreases, businesses have less power to raise prices.

**Result:** Inflation Tends to Decrease

This is why central banks raise their policy rates when inflation is too high.

### When Interest Rates Go Down

- ⇒ Borrowing Becomes More Affordable
- ⇒ Spending Increases
- ⇒ Demand Increases

When demand increases, companies have more power to raise prices.

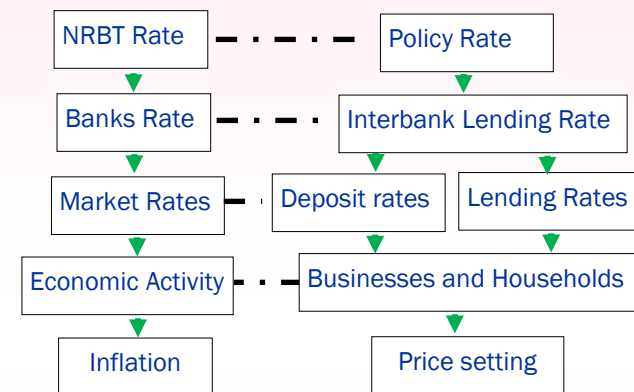
**Result:** Inflation Tends to Increase

This is why central banks cut their policy rates when inflation is low.

# How Monetary Policy Works

## To achieve price stability, NRBT uses:

1. Basket Peg for its exchange rate regime. Serves as the nominal anchor.
2. Conduct Open Market Operations using announced Policy Rates to manage liquidity and influence short term interest rates.



## How Long for Monetary Policy to Transmit

- Exchange Rate Adjustments may have an immediate impact on prices though quite small.
- SRD and interest rates have lagged effects and normally take 6-12 months. However, in an underdeveloped country like Tonga, it can be longer

## Challenges for Monetary Policy

- Weak Transmission of Monetary Policy due to:
  - i. Excess Liquidity in the system from
    - Unsterilized reserves
    - Government term deposits
  - ii. Inactive Interbank market
  - iii. Underdeveloped Money and Capital markets
- Exchange rate adjustments very costly due to high reserves.

# Ko Hai Kimautolu

## Ko 'emau ngāue 'oku fakahoko

Ko e Pangikē Pule Fakafonua 'o Tonga ko ha sino tau'atāina ia pea ko e pangikē pule ia 'a Tonga.

'Oku kau 'i hono ngaahi fatongia 'a e ngaahi me'a ni:

i. Fa'u pea mo fakahoko 'a e fokotu'utu'u ngāue fakapa'anga ke mapule'i 'aki 'a e hikihiki 'a e totongi 'o e koloa pea mo tauhi ma'u 'a e mahu'inga 'o e Pa'anga;

ii. Fokotu'u pea fakahoko 'a e tu'utu'uni ngāue ki he ma'uma'uluta 'o e tu'unga fakapa'anga, koe'uhi ke pukepuke 'a e tu'unga ma'uma'uluta, malu, vave mo lelei 'a e ngaahi ngaue fakapa'anga;

iii. Hoko ko e fakafongia fakapa'anga pea mo e pangike 'a e pule'angá .

## Ngaahi Tefito'i Tui

i. 'Oku mau pukepuke 'emau ngaahi tefito'i tui Fakakalisitiane pea mo e faitotonu

ii. 'Oku mau ngāue fakataha mo fakahoko e ngaahi fatongia' ki he lelei taha

iii. 'Oku mau ngāue ke fakalalaka 'emau fua fatongia' pea mo ngāue'aki ha ngaahi fakakaukau fo'ou

iv. 'Oku fakahoko 'emau ngāue' 'i he faka'apa'apa mo e anga fakatōkilalo, 'o fenāpasi mo e tala tukufakaholo fakafonua 'a Tonga

## Fokotu'utu'u Fakangāue

i. Fakapapau'i ha Fakalalaka 'oku kau katoa pea Tu'uloa ma'a Tonga.

ii. Malu'i e tu'unga Ma'uma'uluta Fakapa'anga 'a Tonga

iii. Eakahoko ngāue 'oku 'Ata Kitu'a, Fengāue'aki Fakataha, mo ngāue'aki 'a e Fakakaukau Fo'ou

iv. Fakatupulaki ke toe lelei ange 'a e Fakatotolo ki he Ngaahi Fakamatala' ke falala'anga 'a e ngaahi Fai Tu'utu'uni'

# Fokotu'utu'u Ngaue Fakapa'anga

## Taumu'a 1: Ke ta'ota'ofi 'a e hikihiki 'i he tu'unga 'o e totongi koloa. Ngaahi tu'utu'uni ngāue kiai

- Fakatonutonu 'a e tu'unga 'oku 'i ai e totongi tupu
- Fefakatau'aki 'o e pa'anga muli 'i he maketi
- Tu'utu'uni ki he ahi 'o e pa'anga 'oku fakahū mei he Pangikē 'o tauhi 'i he Pangikē Pule 'o talifaki ki he kaha'u

Kapau 'e hiki hake 'a e totongi koloa:

- Hiki 'a e totongi tupu faka'ofisiale
- Faka'atā ke hiki māmalie hake 'a e mahu'inga 'o e pa'anga 'i loto pē 'i he lēvolo kuo fokotu'u ki he ngaahi pa'anga muli 'oku fua ki ai 'a e mahu'inga 'o e pa'anga fakalotofonua.
- Fakasi'isi'i 'a e hulu 'i he pa'anga ngāue 'a e ngaahi pangikē

Kapau 'e holo 'a e totongi koloa:

- Holoki 'a e totongi tupu faka'ofisiale
- Faka'atā ke holoki hifo 'a e mahu'inga 'o e fetongi pa'anga 'i loto 'i he lēvolo kuo fokotu'u ki he ngaahi pa'anga muli 'oku fua ki ai 'a e mahu'inga 'o e pa'anga fakalotofonua.
- Faka'atā ke hiki hake 'a e hulu 'i he pa'anga ngāue 'a e ngaahi pangikē

## Ngaahi lelei 'o e fa'unga lolotonga ki hono ta'ota'ofi 'a e hiki 'o e Totongi Koloa

- Fakasi'isi'i 'a e feliuliaki 'i he hikihiki 'a e totongi koloa hū mai
- Fakakapapau'i 'a e malu 'o e fe'ave'aki 'o e sino'i pa'anga tefito
- Tauhi 'a e 'amanaki ki ha feliuliaki 'i he totongi koloa

## Ngaahi fakatamaki 'e ala hoko mo liliu

X 'Oku kei 'i ai pē 'a e ngaahi fakangatanga 'i he ngāue fakapa'anga (kuo pau foki ke toe tokanga'i mo e mahu'inga 'o e pa'anga Tonga 'i hono fakafetongi mo e ngaahi pa'anga muli)

X Fiema'u ke lahi 'a e pa'anga talifaki 'i muli 'a e fonua

X 'E malava ke hoko ha ngaahi fefakatau'aki ta'efakalao tupu mei he malu hono pule'i 'o e sino'i pa'anga tefito 'a e fonua

X 'E kei malava pē ke hū mai 'a e hikihiki 'i he totongi koloa kapau 'e hiki hake e totongi koloa hū mai mei he ngaahi fonua 'oku tau fefakatau'aki koloa lahi mo ia.

Neongo 'a e ngaahi fokotu'utu'u ngāue 'oku fakahoko 'e kei malava pe ke ma'olunga 'a e totongi koloa 'i he maketi fakalotofonua' kapau 'e kei hikihiki ai pē 'a e totongi koloa 'i he ngaahi feitu'u kotoa 'oku tau fefakatau'aki lahi taha mo ia. 'Oku uesia 'e he tu'utu'uni ngāue fakapa'anga 'a e ngaahi fiema'u fakalotofonua'o 'IKAI ko e lahi 'o e koloa 'oku tuku mai.



# Pangikē Pule Fakafonua 'o Tonga



## 'A'ahi mai

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# Halanga 'o e Fakafetongi Pa'anga

## Fa'unga Pule ki he Fakafetongi Pa'anga

'Oku fika'i 'e he Pangikē Pule Fakafonua 'a Tonga' 'a e mahu'inga 'o e pa'anga Tonga' fakatatau ki he fe'unuaki 'a e pa'anga 'o e ngaahi fonua lalahi fefakatau'aki, 'a ia 'oku fa'o 'i he loto kato fakafetongi pa'anga muli'. 'Oku hoko ia ko e ta'anga fakapa'anga.

'Oku fakafuofua'i 'a e mahu'inga 'o e Pa'anga Tonga ki he kato fakafetongi pa'anga 'oku fa'o ai 'a e pa'anga 'o e ngaahi fonua lalahi fefakatau'aki tefito 'e 4:

- Pa'anga 'Amelika
- Pa'anga Nu'usila
- Pa'anga 'Aositelēlia
- Pa'anga Fisi

## Founga hono Liliu 'e he Kato Fakafetongi Pa'anga 'a e Tu'unga Hikihiki 'o e Totongi Koloa

- 'Oku ta'ota'ofi 'a e mahu'inga 'o e fakafetongi pa'anga fakatatau ki he ngaahi fonua lalahi fefakatau'aki.
- 'Oku holoki hifo 'a e hikihiki e totongi koloa hū mai mei tu'apule'anga koe'uhi ko e si'isi'i 'a e feliuliaki 'i he mahu'inga 'o e fakafetongi pa'anga.
- Ka mālohi 'aupito ha pa'anga (hangē ko e pa'anga 'Amelika), 'oku vahevahe leva 'e he kato fakafetongi pa'anga' 'a e uesia ko ia 'i he toenga 'o e ngaahi pa'anga 'i he kato fakafetongi pa'anga hangē ko e pa'anga Nu'usila pe 'Aositelēlia.

## Halanga mei he Fakafetongi Pa'anga ki he Hikihiki 'o e Totongi Koloa

Tu'unga ma'uma'uluta 'i he mahu'inga 'o e fakafetongi pa'anga:

- Fakasi'isi'i 'a e feliuliaki 'i he totongi 'o e koloa hū mai mei tu'apule'anga
- Ta'ota'ofi 'a e tafe atu 'a e ngaahi hikihiki 'i he totongi koloa hū mai mei tu'apule'anga ki he totongi koloa fakalotofonua

Mapule'i 'a e ngaahi fakafuofua ki he hikihiki 'o e totongi koloa

# Halanga 'o e Totongi Tupu

## Totongi Tupu Tu'utu'uni Faka'ofisiale

'Oku faka'ilonga mai 'e he Pangikē Pule ki he maketi 'a e ngaahi fiema'u ki he totongi tupu taimi nounou 'o fakafou 'i he'ene totongi tupu tu'utu'uni. 'Oku fakama'u 'e he Pangikē Pule 'a e totongi tupu 'aki hono tuku atu 'a e Nouti 'a e Pangikē Pule 'i he totongi tu'utu'uni 'o fakasi'isi'i ai pe 'a e hulu 'i he pa'anga ngāue 'a e ngaahi pangikē .

Ko hono fakasi'isi'i ko 'eni 'e he Pangikē Pule 'a e hulu 'i he pa'anga ngāue 'a e ngaahi pangikē 'e tokoni ia ki hono faka'ai'ai 'a e ngaahi nō fakapangikē. 'I he tafa'aki 'e taha, 'e tokoni eni ki he mahu'inga 'o e pa'anga 'i he maketi fakapa'anga (fakahū pa'anga, noo, pōnite , etc.)

## Founga hono uesia 'e he ngaahi totongi tupu 'a 'a e hikihiki 'i he totongi koloa

### 'I he taimi 'oku hiki ai 'a e totongi tupu

⇒ 'Oku Toe Mamafa Ange 'a e Nō

- \* Ma'olunga ange 'a e totongi tupu ki he nō fale mo e totongi tupu 'i he nō
  - \* Ma'olunga ange mo e ngaahi fakamole fakapa'anga 'a e ngaahi pisinisi
- ⇒ Holo 'a e ngaahi fakatau mo e fakamole
- \* Si'isi'i ange 'a e koloa 'oku fakatau 'e he ngaahi 'api
  - \* Fakasi'isi'i 'e he ngaahi pisinisi 'enau ngaahi palani ke fakalahi mo fakangaue'i 'o ha kakai fo'ou
- ⇒ Holo e ngaahi fiema'u

'I he taimi 'oku holo ai 'a e fiema'u, 'oku si'isi'i ai 'a e mafai 'o e ngaahi pisinisi ke hiki hake e totongi koloa.

**Ola:** Holo e hikihiki e totongi koloa Ko e 'uhinga 'eni 'oku hiki ai 'e he ngaahi pangikē pule 'enau ngaahi totongi tupu tu'utu'uni 'i he taimi 'oku fu'u ma'olunga ai 'a e hikihiki 'i he totongi koloa.

### 'I he taimi 'oku holo ai 'a e totongi tupu

⇒ Ma'ama'a leva 'a e nō

⇒ Lahi e ngaahi fakamole

⇒ Hiki hake mo e ngaahi fiema'u

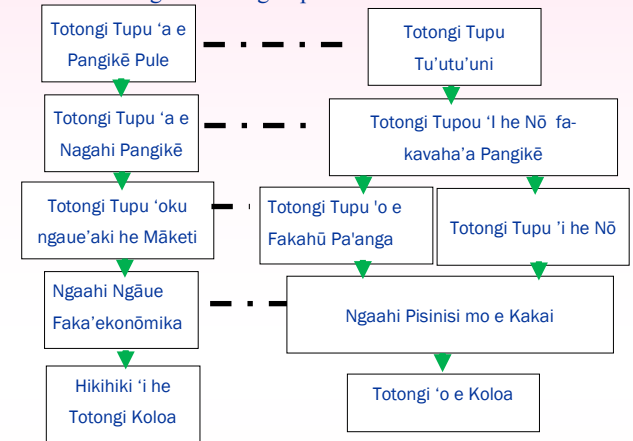
'I he taimi 'oku lahi ai e ngaahi fiema'u, 'oku toe lahi ange mafai e ngaahi pisinisi ke hiki hiki hake e totongi e koloa.

**Ola:** 'Alu hake leva e totongi koloa ki 'olunga Ko e 'uhinga leva eni 'oku hanga ai 'e he Pangikē Pule 'o holoki e totongi tupu 'i he taimi 'oku ma'ulalo ai 'a e hikihiki 'i he totongi koloa.

# Founga ngaue 'a e Tu'utu'uni Ngaue Fakapa'anga

'Oku ngaue'aki 'e he Pangikē Pule 'a e ngaahi founga koeni ke malava ai 'o a'usia 'a hono ta'ota'ofi 'a e hikihiki 'i he totongi koloa':

1. Fakatatau 'a e mahu'inga 'o e pa'anga ki he fe'unu'aki 'a e pa'anga 'o e ngaahi fonua lalahi 'oku fefakatau'aki mo ia'. Koe ta'anga fakapa'anga ia.
2. Fakahoko 'a e ngaahi ngāue 'a e pangike' 'o ngaue'aki 'a e ngaahi totongi tupu tu'utu'uni ke malava 'o leva'i lelei ai 'a e pa'anga ngāue 'a e ngaahi pangike' pea pehē foki ki he ngaahi totongi tupu he taimi nounou.



## Ko e hā hono loloa pea fakahoko 'a e ngaahi ngāue fakapa'anga

- Ko e liliu 'i he fakafetongi pa'anga muli 'e malava ke hā vave hono ola 'i he totongi koloa', ka 'oku si'isi'i i pē.
- 'Oku fakafuofua ke 'i he māhina 'e 6 ki he 12' pea toki hā mai 'a e ola' hono ngaue'aki 'a e tu'utu'uni ki he pa'anga mohe 'oku fiema'u mei he pangike' pea pehē foki ki he ngaahi totongi tupu'. 'I he ngaahi fonua 'oku kei langa fakalalalaka' 'o kau ai 'a Tonga, 'e toe loloa ange.

## Ko e Ngaahi Pole ki he Ngaahi Ngāue Fakapa'anga

- 'Oku vaivai 'a hono fakahoko 'a e ngaahi ngāue fakapa'anga tupu mei he:
  - i. Hulu 'a e pa'anga ngāue 'a e ngaahi pangikē tupu mei he
    - Pa'anga talifaki 'oku 'ikai ngaue'i
    - Fakahū pa'anga Taimi Loloa 'a e Pule'anga
  - ii. 'Ikai mālohi fe'unga 'a e nō 'i he vaha'a 'o e ngaahi pangikē
  - iii. 'Ikai ha langa fakalalalaka 'i he ngaahi kautaha pa'anga mo e ngaahi kautaha kehekehe pē
- To e mamafa ange 'a hono liliu 'a e fakafetongi pa'anga tupu mei he hulu 'a e pa'anga talifaki'.