Pacific series: Tonga’s governor on putting the central bank back in driver’s seat

Tatafu Moeaki speaks about monetary policy modernisation and capacity building in a small economy with limited resources and external vulnerabilities





By Jono Thomson

16 Nov 2026

Listen to this article

27 min

*This article is part of Central Banking's Pacific series, and was published following the release of interviews with the governors of the central banks of **Fiji**, **Papua New Guinea** and the **Solomon Islands**.*

Tatafu Moeaki is governor of the National Reserve Bank of Tonga, the central bank for one of the smallest economies in the world, which is highly exposed to external shocks, the effects of climate change, and other challenges. The NRBT is now embarking on reforms that aim to give it the ability to use monetary policy to influence prices with the aim of establishing a functioning interbank market by mid-2027. Speaking to *Central Banking* in Papua New Guinea in early September, Moeaki shared progress on the reforms, capacity building, fiscal-monetary policy interaction, and maintaining resilience amid increasing volatility.

Tonga is the smallest economy to operate a standalone central bank and is the fifth smallest country by population. What insights can you share about the unique challenges and opportunities presented by running a central bank in such a position?

Tonga is a very small country. Its population is around 100,000. We heavily rely on imports, for remittances, and for our trade. External stability is critical for the economy and that's why we have a central bank, and we manage our own currency. And, over the years, I think some of the milestones the bank has achieved are related to our stability. For example, our exchange rate stability and foreign reserves management.

Because of our smallness, we are highly exposed to global shocks – for example, the US-Iran crisis. In January, inflation was around 2% and in July it was 9.3%, largely driven by petroleum price increases, as this is the main energy source for Tonga. And it shows why it's important to have a central bank that is focused on external conditions and price stability.

There is a threshold for foreign reserves that suggests about 7.5 months of import (MOI) cover is adequate. I note that the International Monetary Fund threshold of 3.5 months of import cover minimum for Tonga was adjusted to 7.5 months [that is considered a strong precautionary buffer targeted for vulnerable island/open economies], which the NRBT has met for some years to date. But from our insights on Tonga's exposure and frequency of both natural hazards and global shocks, 7.5 MOI may be inadequate for us. At the moment we have about 10 to 11 months to cover. But it's our view we can mobilise more.

External instability has been challenging on our reserves, and that's one of the drivers for monetary policy reform: to protect our exchange rate

Tatafu Moeaki, National Reserve Bank of Tonga

If you look at the last 10 years, natural disasters have been frequent – there has been a severe event almost once every two years. And then the global shocks – we were hit with the Ukraine-Russia war in 2024, the trade policies out of the US in 2025, and 2026 with the Iran-US war. So, it's no longer the case that there is a global shock every five years, it's now almost every year. And that's why, in our view, the global threshold of 7.5 months of imports may be appropriate, perhaps for mature economies, but for Tonga maybe not.

External instability has been challenging on our reserves, and that's one of the drivers for monetary policy reform: to protect our exchange rate. Because the exchange rate adjustment cost, say 15 years ago, was more than 10 times the cost of the same adjustment now. So, that's another key area we are trying to address in our policy reforms.

> **Tatafu Moeaki** was named governor of the National Reserve Bank of Tonga in December 2022 for a five-year term. He was previously the country's finance minister, trade and economic development minister, and revenue and customs minister. He also headed the Asian Development Bank's Tonga country office

> and has served as a member of the Tongan parliament. Moeaki has a bachelor's degree in economics from New Zealand's Victoria University of Wellington, and a master's in econometrics from the University of New England, Australia.

It's now been more than a year since the IMF recommended a "gradual process of monetary policy modernisation". In August 2025, the NRBT introduced a formal interest rate corridor, involving a policy rate of 2%, flanked by a 0% deposit floor and a 4% lending ceiling, and restarted open market operations for the first time since 2009. Has this been effective in improving monetary policy transmission, and will this be added to the NRBT's governing law as recommended by the IMF?

In terms of the reforms, it is very early days, and they will have to be gradual. That's because for about 18 years, we adopted a 0% policy rate to support growth objectives, and this came to an end last year because of the impacts on price stability – ie, we had no monetary policy tools for close to two decades, no sterilisation, no inter-banking, and no transmission. Consequently, our exchange rate was under pressure. The costs for our revaluation account fluctuated as the opportunity costs of adjustments escalated.

These reforms are independently carried out by the bank following biannual reviews of the policy stance, and we run a lot of our capacity building and tests supported by technical assistance. Some of this is provided by the IMF, some by the Asian Development Bank and some by the World Bank Group. It's critical to steadily manage the bank based on data and expert advice.

In Tonga, we lack expert capacity and this complicates our delivery [of policy outcomes], but we seek to engage with regional and international partners [to gain] support, advice, and second opinions to build confidence to support our monetary policy tools. These policy tools can often be difficult for our public to understand, and this

extends to counterpart institutions such as the Ministry of Finance and government, and even our [central bank] board at times.

It is important for the NRBT, as a central bank, to be able to send signals to the market. So, the most important thing is to inform the public about the fundamentals related to the financial sector. This is mainly inflation data, foreign reserves, and our forecasts and projections for the economy.

It is important for the NRBT, as a central bank, to be able to send signals to the market. So, the most important thing is to inform the public about the fundamentals related to the financial sector

Secondarily, is about how we build our capacity to influence the money market and behaviour of licensed banks as intermediaries to transmit their interest rates to prices. When we look at prices, we have not been in the driver's seat for a long time; there were essentially no signals from the central bank for almost 20 years.

In terms of inflation, during the Covid-19 pandemic, Tonga became one of the top three, most expensive of the 14 Pacific Island countries. The NRBT's monetary policies were prioritising growth at this time, though this was happening without an adequate policy response to rising prices. That was the main reason for our intervention [that began the process of monetary policy reforms].

The US-Iran conflict since the end of February 2026 has kept oil prices and supply-chain costs high. Tonga's annual headline inflation increased from 2% in February to 12% in August 2026, well above NRBT's 5% reference rate. Domestic demand has also added pressure. The NRBT's greatest concern is the risk of price escalation becoming embedded in domestic pricing behaviour and inflation expectations, while cumulative underlying pressures continuously erode both

households' purchasing power, and put further pressure on business operating costs.

But prices are very sticky and, ultimately, monetary policy transmission occurs via the banks. The lending rate was very expensive, the deposit rate was low, and there was no policy signal being transmitted. Now we have introduced an interest rate corridor of 0–4%. We started our note issues with the mid-point rate of 2%. We also have operational targets, the first of which is to introduce a fixed rate to achieve full allotment as a safeguard to ensure our four licensed banks follow and are responsive to our policy rate first, before we move towards a flexible rate. Our second objective is to establish an interbank market among Tonga's four commercial banks, because there hasn't been such a market for almost 20 years.



Tatafu Moeaki speaks at an Alliance for Financial Inclusion forum in Papua New Guinea in early September, 2026

Alliance For Financial Inclusion

For the first operational target, we are about 85% towards achieving it to date. We have mopped up about T$280 million ($116.3 million) of excess liquidity, which varies between T$300 and T$340 million, depending on the precautionary credit that each bank requires weekly. Additionally, one bank is asking us to implement a digital security

depository facility as a condition for them to supply pa'anga – so we are talking to Montran to try and put this in place by December.

The other area we are reforming is our liquidity forecasts and management. We have made improvements to our own work in these areas. We want to do this together with the Ministry of Finance and Treasury – but it has been challenging to get them on board. We're working with them because the government also has a large amount of liquidity in the system, and we would like to have first-hand control of that as the fiscal agent and bank for the government. We haven't achieved that yet, and it's a work in progress.

But for us, the full allotment is important as a safeguard. In the future we will have to [alter the policy rate] up or down, and we want the banks to go with us. That's why we want the full allotment first as a safeguard – and we have almost achieved that. We are also developing repurchase agreements with the banks. This has been circulated to them for their comments.

We monitor deposit rates weekly, and they're very stable. However, we haven't seen any obvious response to our NRBT's policy rate yet.

We have changed a lot of how we do things at the bank, and we're trying to build our resilience. For example, we put in place our first enterprise risk [framework] for the bank in 2024 and we just started implementing it – so the bank is becoming safer

Do you have a timeframe for each of the goals you just mentioned?

In our communication with the banks, we hear that our central bank interest rate is likely to start affecting commercial bank deposit rates within the next 12 months, and that's what I said to the board, because they asked me the same question when we recently published a monetary policy statement.

Your election to the Tongan Parliament was nullified by the courts in 2022 after a judge concluded that you had given around $40 to an elector and promised water tanks to others in exchange for their votes, in violation of Tonga's election law. After you were removed from Parliament, you were appointed as a government adviser before you became the NRBT governor. Do you accept wrongdoing in the case of the court's bribery finding, and what do you say to those for whom this would raise questions about your fitness to lead the NRBT?

It's a very important question because it's a question of integrity. This is something the bank takes seriously, and the NRBT has a specific prudential statement defining what constitutes fit and proper standards of management of banks. This was established before I came into the bank, and formalising this statement was the right thing to do. After joining the bank, I can confirm they solicited two separate legal counsels that confirmed my eligibility before I took on the role.

However, there have been obvious pre-judgments regarding what happened. In Tonga, an election petition is a civil matter, and the standard of proof is not "beyond reasonable doubt", as it would be in a criminal case. Before I applied for the governor's role at the NRBT, I employed my own private counsel who confirmed that I would be eligible for the job, given that an election petition is a civil case, and not criminal. However, there was a lot of pre-judgement that my case involved criminal matters. To answer your question, when I went to court, I denied it, and I still deny it. But the court saw it differently.

Reports last year stated that for the year ended June 30, 2025, the NRBT reported a profit of $32.5 million – down slightly from the year before but up significantly compared to 2023. To what do you attribute this growth, and how will you ensure it continues?

We have changed a lot of how we do things at the bank, and we're trying to build our resilience. For example, we put in place our first enterprise risk [framework] for the bank in 2024 and we just started

implementing it – so the bank is becoming safer. A large proportion of our profit comes from our foreign reserves and our reserve allocations – the US, Australian and New Zealand dollars have been appreciating.



The National Reserve Bank of Tonga headquarters in Nuku'alofa

National Reserve Bank of Tonga

However, our first aim is not to create a return. Our priority is safety, then providing liquidity for our payments, then the third priority is any returns. We don't appoint a fund manager, but we seek advice on our policies. We have engaged the World Bank's Ramp (Reserve Advisory & Management Partnership), we subscribe to their membership, and they are helping us to renew our structure and look at how we can progress.

The bank paid $22.8 million of the profit earned in the year ending June 30, 2025 to the government. Under what framework was this amount agreed, and is there a formal mechanism for profit-sharing between the NRBT and the government?

Under our statutory principles there is a provision for distribution of profit, so 70% of what the NRBT generates goes to the government, and then 30% goes to us. We've asked the government to consider revising this so that all of it will stay with us until we achieve the equivalent of 10% of our assets in reserve. It's now less than that. This would give us some more flexibility for monetary policy.

In early 2025, the board proposed an amendment to the statutory provision governing the NRBT's net profit distribution, introducing a two-stage approach. First, allocate 100% of net profit to the NRBT's general reserve until its net equity reaches at least 10% of total liabilities. Second, once the 10% capital threshold is achieved, the normal profit distribution arrangement applies, with 70% of profit

distributed to the government and the remaining 30% transferred to NRB's reserves.

At what stage is that proposal?

It has been with the finance minister since last year, but he hasn't taken it to cabinet. Obviously, it means less money for government. The previous minister of finance did not support it, and we now have a new minister who is also looking at it. When we introduced the monetary policy reforms, we had a budget of about T$4 million, which we expect over time will go down. However, now inflation is 9.3%, and we need to protect our exchange rate, we need to have enough depth and cover for this.

Tonga ran a large fiscal surplus of around 5.6% of GDP in FY2025, largely owing to record grant inflows from international aid partners (such as Australia, New Zealand and China) equivalent to 32% of GDP. The IMF projects a swing toward a significant deficit in FY2026 as those grants normalise. How does that fiscal volatility complicate your job as central bank governor, and how do you maintain monetary discipline when fiscal conditions are grant-driven?

The government has not entered new borrowing since the 2022 Hunga Tonga-Hunga Ha'apai eruption and tsunami, when I was finance minister

For me, a lot of the surplus was the result of implementation slippages, because the budget was originally a deficit budget indicative of Tonga's developing stage and the relative costs of development and provision of public goods. Things that [the government] planned to do were not done.

We are consulted monthly or every two months by the finance ministry, as we are also the government's agent for external borrowing. I think in terms of external borrowing, governments have

behaved rationally. And now you see the external debt-to-GDP ratio has reduced significantly to less than about 30% now.

And is that because of GDP growth or because of fiscal restraint?

The government has not entered new borrowing since the 2022 Hunga Tonga-Hunga Ha'apai eruption and tsunami, when I was finance minister.

Tonga manages the pa'anga exchange rate via a peg to a basket of currencies of its major trading partners – the US dollar, Australian dollar, New Zealand dollar, and Fijian dollar. Given increased trade with China – to a level that rivals that of Australia, New Zealand and the US – have you considered adding the renminbi to that basket and, if so, when might that occur, and under what conditions?

We review our basket annually. The last of these reviews was in February this year, at which time the renminbi was taken out. We aim to ensure that the value of the basket is broadly stable, so we look for deviations from the rate, and ensure these aren't persistent on either side of the peg and are kept to a minimum.



The staff of the National Reserve Bank of Tonga

National Reserve Bank of Tonga

When we do our reviews, we test the basket’s fitness over the last 12 months and compare this to the previous 10–15 years to look at how any deviations can be minimised. And then we take into account key fundamentals like the level of foreign reserves, our projections for where our reserves will be.

It made sense to remove the renminbi from the basket in the review because while our trade with China has escalated, a lot of that trade is denominated in US dollars, [and because] our peg is designed primarily to stabilise the exchange rate basket. We don’t hold any renminbi in reserve, but we are in talks with the Bank of China [in Auckland, New Zealand about it] and consider this against our foreign reserve policy.

Non-performing loans remain elevated in Tonga’s banking system, and access to affordable credit for small businesses is constrained. What does the NRBT’s supervisory framework look like in practice for a system with only a small number of active banks?

Banks file monthly returns and we have teams that can go in and supervise them any time. Now the level of non-performing loans (NPLs) is about 14%. Our threshold for a yellow warning light is 10%, but the NPLs are mainly concentrated within one lender's balance sheet, and this single institution is closely monitored. The other banks' NPL ratios are very low, but overall, for the system the ratio is quite high.

Tonga's long-run potential growth rate is estimated at only around 1.2% per year. This growth rate is constrained by outmigration, remoteness and exposure to climate risks. Can monetary policy or other central bank initiatives do anything meaningful to address structural challenges, or is the central bank ultimately a bystander to those deeper forces?

We have a hierarchical set of responsibilities, and at the top there is price stability. If we don't do that effectively, it will harm the economy, households, and businesses. So internal stability is our statutory priority. This is also part of the conversation we have with the government, because we are [limited in what we can do].

We are trying to work on the [monetary policy] transmission channel, but a lot of the pressure on prices, the second-round effects of inflation, may be created by domestic instability. When we discuss these things with the government, we look at their role. That's why they put in their budget a subsidy for electricity costs, and they also subsidised public transport to the outer islands.

How is the Reserve Bank seeking to improve access to financial products and their meaningful use in Tonga?

Financial inclusion is an area in which Tonga is not at the forefront, and this is disappointing for us. Our unbanked population is about 49%. But if you include informal microfinance, about 70% have some access to financial products and about 30% do not. So, we are a bit below the average for the Pacific.

For example, places like Fiji and the Melanesian countries have seen an aggressive uptake of mobile wallets. Tonga hasn't, and the problem is the internet – the cost of internet [access] in Tonga is roughly seven times that of Fiji. So, we have some of those structural issues. But my view is still that we've been focused more on our core objectives than we have been financial inclusion. For that reason, we started a department last year to oversee non-financial institutions, while we also opened a financial inclusion department last year and we appointed our head of the banking sector to it. The idea is for Tonga to be more proactive in this area.

Are there any goals, milestones or time frames that you're working with to advance financial inclusion?

We just launched our first national financial inclusion strategy in late 2023, and the Alliance for Financial Inclusion was there for the launch. This is more focused on providing education and financial literacy, and the commercial banks will be involved in that work.

Our next reform will be for our payment services. We launched a five-year strategy for this last year, and we have a bill before parliament. Once the bill is passed, our next operational target is to improve our real time gross settlement system (RTGS). We have some fast payments, but there are areas for improvement. If you are with ANZ Bank, for example, you have almost all payment services. But for others, they have to use our settlement system, which can take between one and three days.

Currently, we conduct daily settlements with a computer program at the NRBT. Before 2021, this was done manually, but now we use what's called the Domestic Electronic Payments System. With this, settlements occur every day from 4pm to 6pm electronically. But the idea of the reforms and the RTGS system is to bring this all under one platform. We're talking to Montran about this and the World Bank is advising us – they worked with us on the bill currently before parliament.



National Reserve Bank of Tonga governor Tatafu Moeaki

National Reserve Bank of Tonga

Central banks over the world take different approaches to adapting to climate risks. Some of them view it as not relevant to their remit at all, and some of them are quite progressive. Given that Tonga is one of the most climate-vulnerable nations on Earth – how do you incorporate the need for climate action into your work?

I explained earlier that the international threshold for foreign reserves holds that a country should have 7.5 months of import cover. But my view is that we need more than this, mainly because of our exposure to climate.

For us to assure the economy remains stable in the face of external challenges for an extended period, we need to have more of a buffer to be more resilient. And likewise, when it comes to capital adequacy requirements for the banking sector. When managing impaired assets for NPLs, you must ensure that when there's a disaster, they can provide some assistance and support the economy.

So, to me, building resilience is building space for more difficult times, that ensures the central bank and the banking system can still function and support the economy.

Do you see any central banks that are doing particularly well when it comes to boosting climate resilience?

I often talk to [governor] Ariff [Ali] at the Reserve Bank of Fiji. I think they are doing well. They do things like facilitating the provision of credit to small and medium-sized enterprises by financing it through the banking system with guarantees.

Even though they are more tourism-driven, we study peers such as New Zealand, Papua New Guinea, Samoa, the Solomon Islands and Vanuatu. We tend to look more at the Reserve Bank of New Zealand than we do the Reserve Bank of Australia, but we still talk to our Australian counterparts. We have two annual meetings of governors of the Pacific that both those countries attend also, so we do talk closely.

Our immediate priority is to have an instant payments system

Have you met RBNZ governor Anna Breman?

Yes, I met Anna Breman three weeks ago in New Zealand. We had a good chat – she's very friendly and I expect it to be easy to work with her.

An alleged investment scam involving a US entity was recently shut down by US law enforcement following warnings from the NRBT and the RBNZ about the potential for consumer losses. Why did this scam gain traction with Tongans and what advice have you received and shared with other Pacific Island central bankers about preventing fraud harm in your communities?

Our populace is exposed to fraud because of the way we live as a community. A person might ask a less educated friend or relative to put their money in a certain place while guaranteeing it's safe. For example, we've had members of our diaspora living in America coming to Tonga and asking people for investments of $40,000 while guaranteeing 20% returns in six months. This has been happening in

Australia and New Zealand as well. We've found out that this has been happening through Facebook, and we've taken them down.

They have genuine businesses, shops for example, but they offer investment opportunities without a licence, so there's no assurance or consumer protection in place. If they were licensed, their activities may be okay, but they're not.

What about the impact of central bank digital currency, stablecoins and other tokenised products in Tonga?

Our immediate priority is to have an instant payments system. Once that is done, then we can start looking at those things.

We are also working a lot on cyber security. Some banks have been hit [with cyber attacks] and the risk is difficult for us to deal with. We are advised that these attacks are mainly coming from New Zealand and Australia. We're following New Zealand's approach and, hopefully, they can offer some assistance in that regard.

Note

1. This bill passed the Tongan parliament late September.

Copyright Infopro Digital Limited. All rights reserved.

As outlined in our terms and conditions, **https://www.infopro-digital.com/terms-and-conditions/subscriptions/** (point 2.4), printing is limited to a single copy.

If you would like to purchase additional rights please email **info@centralbanking.com**