MONETARY POLICY STATEMENT

August 2023

National Reserve Bank of Tonga

Contents

Executive Summary

Tonga's economy has successfully rebounded in FY 2022-23 after consecutive contractions in the last two years. The Reserve Bank estimates growth at 2.4% for FY 2022-23 and the IMF in its Article IV assessment in July 2023 estimates it at 2.6%. The Reserve Bank forecasts the economy will further grow by 2.6% in the FY 2023-24. Recovery from the double shock in 2022 is ongoing but several supply side constraints remain which are hampering a faster recovery, while also adding to the inflationary pressure. To sustain the ongoing recovery, prudent macroeconomic management and effective implementation of structural reforms will be critical.

- Headline inflation has eased from its peak of 14% in September 2022 to 4.8% in July 2023 for the first time since May 2021, in line with forecast to be below the 5% reference rate in the second half of 2023. Although imported inflation has eased to 1.9% in July 2023, domestic inflation has surprised on the upside and has remained relatively high at 8.8%.
- Price stability remains at risk if domestic inflation at 8.8% becomes entrenched and will contribute towards persistently high inflation affecting the purchasing power of both households and businesses especially those who are poorer and more vulnerable.
- External stability is maintained with the foreign reserves remaining well above the optimum level of 7.5 months of imports.
- Financial conditions are sound. Credit growth continue to increase and is expected to be in line with the projected economic recovery. At the same time, the excess liquidity in the banking system remains high which weakens monetary policy transmission.
- The outlook is subject to large uncertainties in both the global and domestic economy weighing on growth and inflation. Domestic economic recovery could be hindered by capacity constraints, rising domestic inflation, and adverse and extreme weather conditions. Vulnerabilities to financial stability are therefore on the rise, and should be vigilantly managed.

Over the next six months, the Reserve Bank's monetary policy will continue to focus on reducing domestic inflation to make sure headline inflation stays within the reference rate for a longer period of time, and managing the risks of another sharp resurgence in inflation. At the same time, targeted support for accessing financing by vulnerable businesses, households and needed private sector investments will continue, to support economic recovery, address supply-side shortages and contribute towards a stronger economic outlook in the short term.

Monetary Policy Decision

Reducing domestic inflation remains a priority for the Reserve Bank's monetary policy

1. The Monetary Policy stance over the next six months will continue to focus on reducing inflation in the short term, while promoting targeted support for the vulnerable sectors, address supply-side shortages and promote business investments. Headline inflation has eased from a peak of 14.0% in September 2022 to below the 5% reference rate in July 2023 at 4.8%, but domestic inflation remains relatively high at 8.8% owing mainly to supply-side disruptions, with imminent prospects to resurge above 10%. Credit growth has improved since the February 2023 MPS and excess liquidity has been reduced by the Reserve Bank's mopping through the increase in the SRD requirement from 10% to 15% and taking in deposits of the retirement funds. Nonetheless, excess liquidity at over $330 million and the level of foreign reserves at over 13 months of imports provide space to continue to support reducing inflation sustainably and promoting targeted measures for the economic recovery efforts.

2. As the foreign reserves remain adequate, promoting price stability remains a priority in the near term as the Reserve Bank continues to safeguard internal and external monetary stability and more importantly contribute to easing pressure on households and businesses' purchasing power stemming from high inflation. Ongoing efforts to build the resilience of the financial sector are equally important to sustain support for economic growth and thereby promote macroeconomic stability. The Reserve Bank's monetary policy considerations is against the following background:

- The economy has successfully rebounded and economic growth is expected to continue to pick up in FY 2023-24, supported by the reconstruction works and the Government's construction projects as well as an anticipated recovery in the agriculture sector and improvement in tourism-related sectors from the resumption of international travel. With the modest economic growth outlook and low growth potential, the financial sector's support to boost private sector growth is warranted.
- The decline in headline inflation from its 14% peak in September 2022 to 4.8% in July 2023 is in line with the Reserve Bank's projections and reflects mainly the impact of the monetary policy tightening by the central banks of Tonga's trading partners, on imported inflation.
- While imported inflation has eased to 1.9%, the persistent high domestic inflation of 8.8% remains concerning. This has contributed to core inflation holding up at around 10%. This is driven mainly by supply-side bottlenecks pressuring domestic food prices with spillover effects to related prices. Higher demand in the peak month of June fuelled by remittances also contributed to the higher prices.
- The possibility of high-for-longer inflation remains significant. Global oil and commodity prices continue to be affected by geopolitical tensions and developments in large economies such as the US and China. Inflationary pressure also stem from exposure to adverse weather conditions and labour supply shortages. The lower inflation in July 2023 is expected to reverse in the coming months if not addressed by the Reserve Bank with close collaboration with the Government.
- Meanwhile, the foreign reserves remain comfortable although it is anticipated to trend downward on higher import payments as the economy recovers, as well as external debt repayments. Government receipts, and remittance and travel receipts help to hold up the foreign reserves.
- Excess liquidity of over $330 million remains and is expected to be supported by the foreign reserves holding up.
- The banking system remains sound with adequate capital and ample liquidity, although the rise in non-performing loans may pressure banks' profitability and their capacity to finance large investment projects. Enhanced supervision of banks is crucial while also stepping up the supervision of non-bank financial institutions to ensure risks to financial stability are moderated.

- Labour supply and skills shortage remains a major challenge to economic activities with spillover effects to wages inflation.
- Collaboration between the Reserve Bank and Government agencies is essential to align monetary policy, in particular measures to reduce inflation, with fiscal policies. Costs of education, public transportation, basic goods (agriculture, fisheries), price control and consumer protection policies require an all-Government coordination to help prevent conflicting policies that could exacerbate inflationary pressures and basic cost of living.

3. Monetary policy actions need to be augmented by targeted supply side policy actions in coordination with the Government and relevant stakeholders to support reducing inflation while working towards improving economic growth potential.

4. The Reserve Bank will consider the following policy instruments:

I. Further mop excess liquidity by:
   i. Issuing NRBT notes; and
   ii. Offering deposits

II. Maintain the Statutory Reserve Deposit ratio at 15%.

III. Maintain the monetary policy rate at 0%.

IV. Maintain the exchange rate policy that links to movements in energy prices.

V. Issue monthly communications to the public.

VI. Coordinate with the Government on fiscal policy initiatives and Government wide actions to reduce inflation.

VII. Promote access to finance of vulnerable growth sectors (e.g. agriculture, tourism, manufacturing) to support economic recovery and resilience building.

5. The Reserve Bank will review the monetary policy on a monthly basis and determine appropriate changes to the Kingdom's monetary policies.

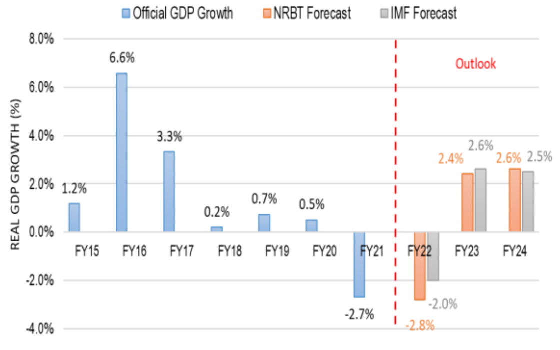
Annex

1. Annex 1 - **Economic and Financial Developments**

a. GDP Growth

Tonga's economy has rebounded by 2.4% in FY 2022-23, a downward revision from 3.4% in the February 2023 Monetary Policy Statement (MPS), but largely in line with the IMF 2023 Article IV Mission's estimated growth of 2.6%. The downgrade is largely owed to weaker than expected performance in the agriculture and marine sectors, given the lingering adverse effects from the Hunga Tonga Hunga Ha'apai (HTHH) disaster, elevated input costs, and unfavourable weather conditions in late 2022. Real GDP growth is expected to grow further by 2.6% in FY2023-24 (revised from 3.7% in February 2023 MPS) due to slower than anticipated reconstruction of damaged tourist facilities and resorts, coupled with the impending impacts of El Nino on the agricultural sector.

Figure 1: **Tonga's GDP growth**



Source: Tonga Statistics Department; NRBT; IMF

The primary sector is facing strong demands from businesses and households, both domestic and international. However, the slow recovery in the sector that is exacerbated by the lingering high costs of production is contributing further to the supply-demand imbalances. Global shipping logistics have gradually normalized; however, freight charges have shown only slight declines. The recovery efforts and assistances from the Government and development partners continue to support sectoral growth, along with the ongoing Government Development Loan scheme and investments through Public-Private Partnerships (PPP). The PHAMA Plus program continues to facilitate the accessibility of agricultural exports to overseas markets. At the same time, the scope for the new pack house project has now changed due to the impacts of inflation and is to be implemented on a smaller scale directly to the exporters' facilities. On the other hand, sectoral activities remain highly susceptible to natural disasters and unfavourable weather conditions.

The Government Budget for FY2023-24 remains committed to the implementation of development projects to further boost activities in the construction and mining & quarrying industries. This includes infrastructure projects such as the Tonga Climate Resilience Transport Project, Upgrade of Queen Salote Ports, Fanga'uta Bridge, Aged Care Service centers, Tonga High School Sports Complex, and the ongoing reconstruction housing program. Over the year to June 2023, the construction import payments recorded an increase of 27.0% ($11.2 million), which may also indicate the elevated cost of construction materials over the year. While global energy prices have come down in recent months, the utilities and manufacturing industries are looking forward to the progress of the Nuku'alofa Network Upgrade and Wind Power projects. Reopening of the international borders further allowed the inflow of experts and technical assistances for the implementation of the large-scale infrastructure projects, and movement of construction materials resumed. Contrarily, the domestic labour and skill shortages pose a risk to the projects' timelines, along with uncertainties associated with the global energy markets.

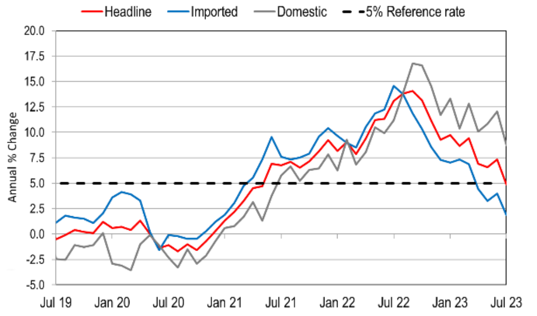
Growth in the service sector trends in line with the strong pick-up within the tourism-related industries and trade. While tourism businesses are recovering from the HTHH disaster, the capacity to further accelerate and invest is limited by the persistent inflationary pressures, drain in labour supply, and the minimal creative incentives here in Tonga for tourists. Distribution centers are still facing high prices from their suppliers and freight charges, which also pass through to the households' purchasing power. Travel receipts significantly rose over the year by $80.3 million (354.3%) in June 2023, reflective of the borders reopening in late 2022 and the gradual removal of health requirements. Additionally, the Tongan diaspora overseas are now able to visit families and private projects resume, along with the return of domestic national events and celebrations. In the first half of 2023, these activities significantly fueled demand and spending on accommodation and food, wholesale and retail, entertainment and recreational, and transportation services, further aggravating supply-demand mismatches. Business containers increased in May 2023 at an annual rate of 9.8% (732 containers), indicating the ease of the container bottlenecks at overseas ports given the removal of lockdown restrictions. On that note, the level of imported containers is expected to stabilise in the near term.

As domestic economic activities rebound, labour market conditions continue to be under pressure with the reopening of borders and the increasing outflow of labour force via the labour mobility schemes and emigration. Laid-off workers from the pandemic and HTHH disaster were recalled back to work, however staff recruitment remains a major challenge given the limited labour supply and skills shortage. More relevant technical and vocational education is necessary to fill this gap. Pressure on inflation is also reflected in several businesses increasing their employees' compensation rate to attract and retain workers. Some employers have recruited workers from overseas but are still restricted by the work visa requirements and process.

b. Inflation

Tonga's annual headline inflation peaked in September 2022 at 14.0% and has slowed to 4.8% in July 2023. This compares to 13.1% in July last year. Since the peak of September 2022, imported inflation has eased significantly from 11.9% to 1.9% over the year to July 2023 while a more moderate easing was recorded for domestic inflation, slowing from 16.7% to 8.8%.

Figure 2: **Inflation**
Year-ended

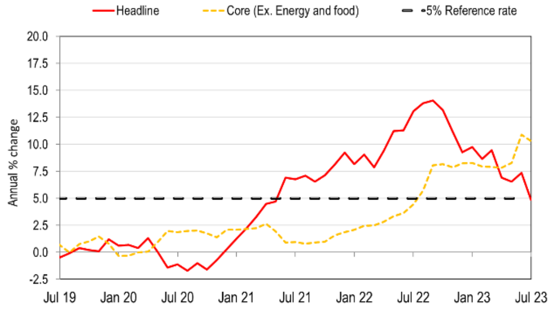


Source: Tonga Statistics Department; National Reserve Bank of Tonga

Both the imported food and transportation components carry the most weight in the basket of goods for imported items. Since September 2022, average global oil prices have been steadily declining from US$90/barrel to US$75/barrel in June 2023. As such, local fuel products (petrol, diesel and kerosene) have also slowed over this period with a month lag. Imported food prices has been mixed over the same period with improvements in global freight prices being outweighed by rising food prices especially in New Zealand due to impacts of Cyclone Gabrielle.

The slowdown in global oil prices passed through into domestic prices, particularly the electricity prices easing, which was further supported by the Government's ongoing electricity consumption subsidies in the past three quarters. However, the rise in prices of domestic food was more than enough to offset the slowdown in energy prices. Over the year to July 2023, domestic inflation contributed 3.8 percentage points to headline inflation compared to the 1.0 percentage point contribution by imported inflation. Domestic food items carry the heaviest weight in the domestic items in the basket of goods. Discussions with local farmers indicated that unfavourable weather conditions in late 2022 led to lower crop yields driving up domestic food prices. The high demand for food from the resumptions of national celebrations and other festivities also created a supply and demand mismatch. There were indications of prices being driven also by higher cost of production from elevated fuel prices, fertilizers and rising labour costs.

Figure 3: **Core Inflation vs. Headline Inflation**
Year-ended



Sources: Tonga Statistics Department ; National Reserve Bank of Tonga.

Core inflation, which removes the most volatile components in the CPI basket (energy and food), picked up to 10.3% over the year to July 2023 after being relatively stable at around 8% since September 2022. The uptick from 8% was largely due to a significant rise in international airfares by 29.2% in the month of June and persisted to July. Other contributors to the high core inflation are prices of construction materials, catering services and education fees.

Tackling inflation requires comprehensive joint policy initiatives and actions by the Government, the Reserve Bank, and related stakeholders to delve further into the causes of the supply bottlenecks and develop practical and relevant solutions. Policy actions for consideration include:

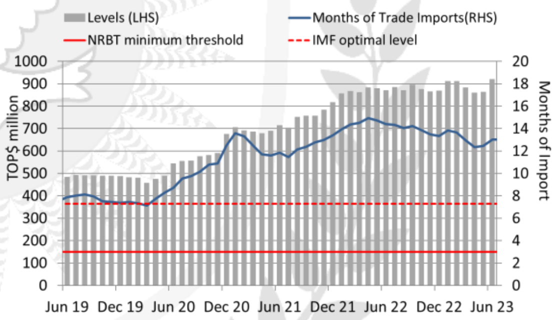
- Continuation of temporary subsidies for electricity prices while reviewing the potential for further temporary tax relief such as reduced consumption tax on selected essential goods, or reduced excise tax imposed on inputs for agricultural production such as pesticides and fertilizers.
- Reviewing of price-controlled goods by the Tonga Competent Authority (TCA), including the scope for inclusion of any other essential goods.
- Expediting the upskilling of the existing labour supply to minimize skills mismatch, while exploring ways to better manage the availability of labour supply for critical sectors.
- Encouraging investments and production of import food substitutions to reduce reliance and shocks on imported food.
- Accelerating measures to meet targets on renewable energy transition to mitigate impacts of global oil price volatility.

For the next six months, the Reserve Bank projects inflation to average at around 5%, with the risk of being higher than the 5% reference rate. This outlook is based on supply-side factors such as high costs of agricultural production for growers, including costs of inputs (fertilizers and pesticides), and capital costs (ploughing services and utilities), and the continued high global commodity prices. These will be mirrored by an expected increase in demand stemming from upcoming festivities including annual church tithing in the lead up to Christmas.

This outlook for higher inflation is also driven by risks posed by another increase in global commodity prices, which could further intensify inflationary pressures. Uncertain weather conditions would impact crop yields, and labour shortages from an increase in demand from seasonal worker programs abroad would also put pressure on local prices.

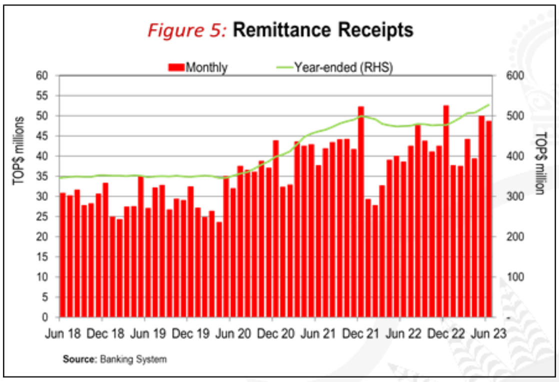
c. Foreign Reserves

Figure 4: **Gross Official Foreign Reserves**

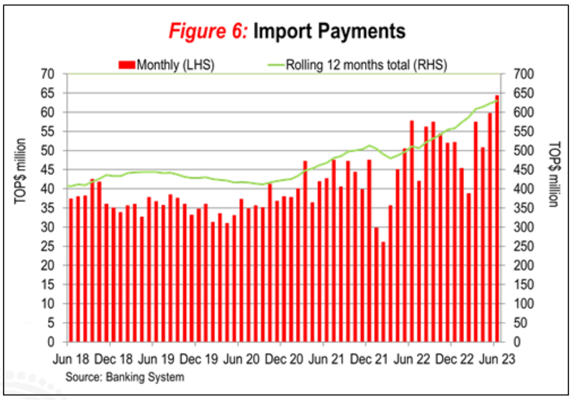


Source: Banking System; Statistics Department

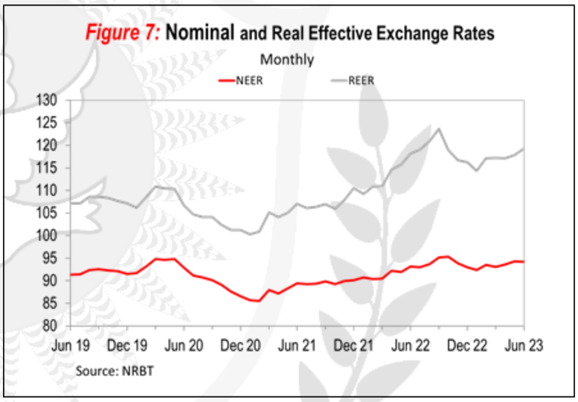
Tonga's foreign reserves continued to remain comfortable at 13 months of imports as at the end of June 2023, which is higher than the optimum level of 7.5 months. Foreign reserves was 5.8% (T$50.3 million) higher over the year to June 2023, reaching a record high of $921.4 million due to inflows from development partners for budget support and development projects, coupled with increasing remittances and travel receipts outweighing the outflows for import and debt repayments. Private transfers and employee's compensations continue to drive private remittances growth over the year to June 2023 by 11.0% ($52.4 million). Other activities such as the annual church conferences, school anniversary celebrations and preparations for the Heilala festival also contributed to the rise in remittances. Travel receipts surged over the year by 354.3% ($80.3 million) in line with the recovery in the tourism industry following the re-opening of borders in August 2022. Foreign exchange outflows also remained high over the year to June 2023, supported by the ongoing rise in the payments for import of goods and services, which rose by 23.3% and 52.5% respectively, coinciding with the rising imported inflation.



Foreign reserves is projected to still remain comfortable at around 11 months of import cover by the end of 2023, sustained by large inflows of donor funds for development projects in the near term. However, import outflows are projected to continue to increase in line with the domestic economic recovery such as the expected implementation of major infrastructure projects. Remittances is projected to return to pre-COVID levels in the near to medium term, partially offset by the increase in travel receipts in line with the recovery in the tourism industry. Tonga is at high risk of debt distress as assessed by the IMF with around 87% of total public debt from external sources. Debt servicing is expected to increase substantially in FY 2023-24 as the principal repayment of the major Export – Import Bank of China loan commences (68% of external debt), putting pressure on foreign reserves in the near to medium term.



Safeguarding foreign reserves remains a top priority for the Reserve Bank for maintaining external stability. In consideration of the anticipated pressure on the foreign reserves identified above and the weak foreign investment and export proceeds inflows, prudent management of the foreign reserves, including adopting measures to manage any further capital outflows if needed, will continue.



The Nominal Effective Exchange Rate (NEER) continued to increase by 2.0% over the last six months to June 2023 indicating a general strengthening of the TOP against most of its major trading partner currencies, except for the GBP, EUR and the USD. The Reserve Bank had also utilized the exchange rate flexibility to maintain the strength of the TOP as indicated in the February 2023 MPS. The Real Effective Exchange Rate (REER) also increased by 4.3% during the same period, underpinned by Tonga's higher inflation rates compared to that of its major trading partners. This implies a loss in Tonga's trade competitiveness. Over the year, both the NEER and REER increased by 1.7% and 2.2% respectively.

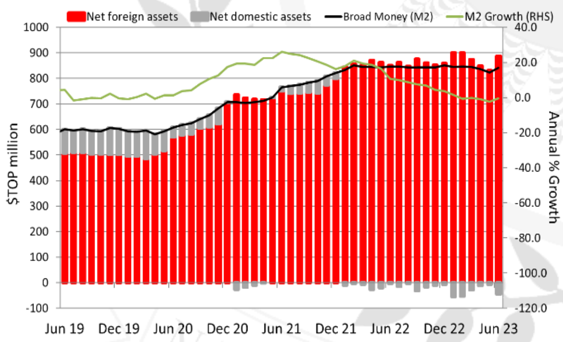
The IMF in its Article IV mission in July 2023 assessed the current currency-basket regime has served Tonga well, helping to preserve exchange rate stability. The

IMF stated that the NEER's appreciation over the year to June 2023, helped partially offset the impact of higher import prices denominated in trading-partner currencies on domestic inflation. Meanwhile, the appreciation of the REER over the same period appears to have had relatively limited impacts on Tonga's exports due to the HTHH-induced disruption to crop production and border closures. Thus, the Reserve Bank views the current exchange rate setting appropriate for the near term and will continue to monitor the overseas transaction patterns and the latest economic trends to ensure exchange rate stability is maintained to compliment the measures set out to control inflation.

d. Monetary Sector

The financial system remained sound during the review period, supported by the banks' strong capital position. Credit growth rebounded to pre-COVID levels, indicating recovery in economic activities, and the weighted average interest rate spread has gradually narrowed on the back of lower lending rates outweighing the decline in the weighted average deposit rate.

Figure 8: **Money Supply**

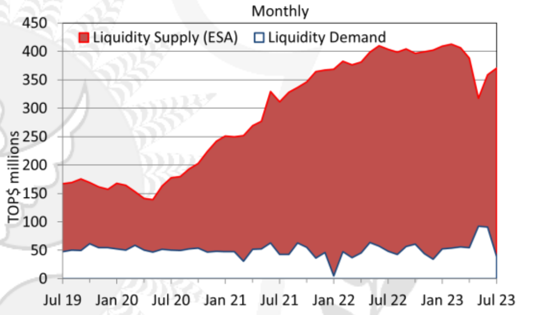


Sources: National Reserve Bank of Tonga, Banking System

In June 2023, money supply was at $841.8 million, which was 0.2% ($1.6 million) lower compared to October 2022, and also declined by 0.6% ($4.8 million) over the year. The decline over the year was mostly driven by lower net domestic assets and net credit to the central government mainly on higher government deposits. Net foreign assets, on the other hand, rose in line with the growing foreign reserves. Reserve Money also fell over the year by 4.6% to $600.7 million, which is attributed to a decrease in the Exchange Settlement Accounts, and lower demand for currency.

The Reserve Bank estimates excess liquidity of $330 million in the banking system in July 2023, lower than $350 million reported in the February 2023 MPS. Despite the mopping of excess liquidity through the increase in the SRD ratio and the offering of deposits to the retirement funds by the Reserve Bank, the continued build-up of excess liquidity was fueled by the incoming Government receipts and remittances. The still abundant banking system liquidity therefore has limited the transmission of the February 2023 MPS measures on the bank-lending channel and consequently the level of aggregate demand. In this regard, the scope for further mopping of excess liquidity remains.

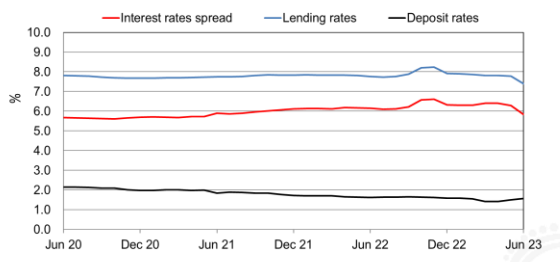
Figure 9: **Excess Liquidity**
Monthly



Source: NRBT; Banking System

The weighted average interest rate spread significantly narrowed over the year to June 2023 by 32.2 basis points to 5.8%, and also from the last MPS in February 2023 by 75.5 basis points, notwithstanding the mopping of excess liquidity by the Reserve Bank. Annually, the weighted average lending rate declined by 37.7 basis points and outweighed the 5.5 basis points fall in the weighted average deposit rate. The lower weighted average lending rate is attributed mostly to lower rates offered to businesses within the agricultural, construction, fisheries and manufacturing sectors, as well as household vehicle and other personal loan rates. Moreover, the lower lending rates supported the growth in credit reflecting active investment activities in these sectors. Similarly, the lower weighted average deposit rate was solely driven by a decline in demand deposit rates. The volume of deposits rose by $32.7 million (3.8%) underpinned by higher demand and term deposits despite their lower deposit rates.

Figure 10: **Weighted Average Interest Rate Spread**



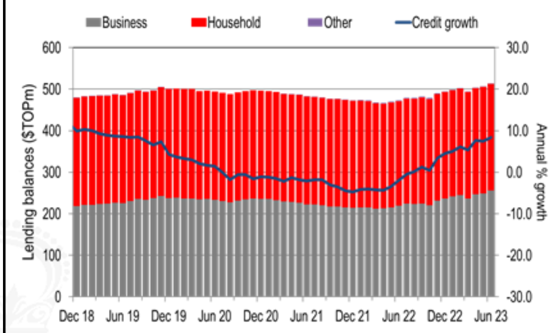
Source: Banking System

In June 2023, credit growth has rebounded to pre-COVID levels, with total lending reaching also a new high level of $513.0 million. An annual growth of 8.4% was recorded in June 2023, compared to 0.4% in October 2022 and a contraction of 1.9% in June 2022. Lending to businesses increased significantly over the year, by 16.5% mostly from the professional & other services, distribution, and manufacturing sectors. Household loans also rose by 2.2%, mainly for other personal and vehicle loans. Both rises, reflect the improved capacity of both businesses and households for more loans and the continuation of the recovery works from the HTHH disaster and COVID-19, as well as the reopening of the international borders. Greater demand for credit and the increasing competition among financial institutions for lending is driving lending interest rates down. The lower interest rates offered on the Government Development Loans (GDL) scheme also supported the improved credit growth.

While the lower lending interest rates is supporting credit growth, investments and aggregate demand, this also has the potential of prolonging inflationary pressures. In spite of this, the NRBT remains vigilant in managing excess liquidity and its knock-off effects on inflation and financial stability, given its importance to strengthening the monetary policy transmission mechanism.

Meanwhile, loans offered by non-bank financial institutions such as the Retirement Fund Board, South Pacific Business Development (SPBD), and Government on-lent fell by 2.2% over the year to June 2023, mainly on loan runoffs. These loans are mostly for the informal sector and Medium, Small, and Micro Enterprises (MSMEs), and more recently to public enterprises.

Figure 11: **Banks' Lending**



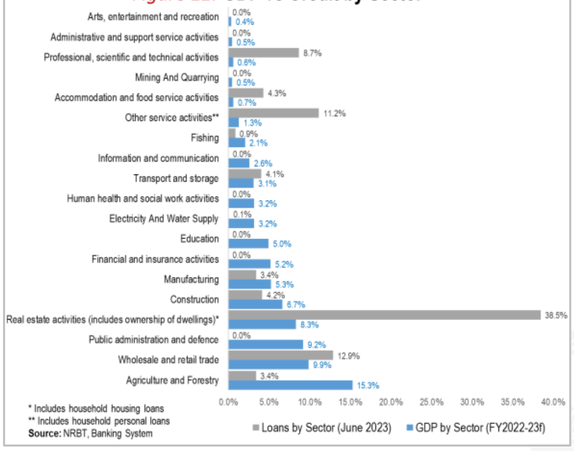
Source: Banking System

Non-performing loans to total loans increased from 6.0% in June 2022 and 6.5% in October 2022 to 9.0% in June 2023. This reflects the downgrading of loans mainly in the distribution and agricultural sectors, which have led to higher non-performing business loans.

Credit growth is expected to be at 14.0% over the year to June 2024. Stronger demand for credit is anticipated as the economy continues to recover, improving business confidence and investment appetite, thereby creating more employment opportunities. Commercial banks are rolling out a number of loan campaigns which also supports the positive outlook.

Major sectors of the economy such as agriculture, manufacturing, fishing, and construction, are under-served in terms of accessing bank financing, as reflected on Figure 12. The Reserve Bank continues to explore means of facilitating loans to these sectors in order to support growth-enhancing efforts, supported by its financial inclusion initiatives.

Figure 12: **GDP vs Credit by Sector**



* Includes household housing loans
** Includes household personal loans
Source: NRBT, Banking System

Banks' profitability over the year to June 2023 was slightly higher compared to the previous year. The return on equity was 11.8% (9.4% in June 2022 and 8.7 in October 2022), and the return on asset was 2.7% (2.3% in June 2022 and 2.1% in October 2022). Higher profitability was driven by the write back of loan loss provisions on recovery of loans, as well as a rise in the non-interest income, mostly from foreign exchange revaluations reflecting the increase in remittances and foreign exchange over the year. Going forward, banks' profitability are subject to the risk of a further deterioration in asset quality. Nonetheless, the capital position of the banking system is strong with the consolidated risk-weighted capital ratio at 32.2% in June 2023, remaining above the 15% minimum requirement.

e. Key Challenges

The Reserve Bank will continue its efforts to reduce domestic inflation in the short term while closely monitoring global and domestic developments and their impact on the monetary policy objectives, including the following factors beyond its control:

- Narrow-based and geographically isolated economy that is highly vulnerable to domestic and external shocks such as global financial market volatility and global commodity prices developments, impacting the Tongan pa'anga exchange rate, inflation, as well as returns on foreign investments.
- Impediments to growth and growth potential such as the high vulnerability to natural hazards and climate change, labour supply shortage and skills mismatch taking a toll on the implementation of the reconstruction and donor-funded infrastructure projects and inflation.
- Data quality and limited data availability such as lack of timely employment data.

2. Annex 2 - Monetary Policy Objectives

The Reserve Bank's principal objectives as laid out in Section 4(1) of the National Reserve Bank of Tonga (Amendment) Act 2014, shall be to:

1) Maintain internal and external monetary stability.
2) Without prejudice to its principal objective, the Bank shall:
    a) Promote financial stability, and
    b) Promote a sound and efficient financial system.

Subject to subsections (1) and (2), the Bank shall conduct its activities in a manner that supports macroeconomic stability and economic growth. Safeguarding macroeconomic stability requires addressing the imbalances in key macroeconomic variables in a sustainable manner, such as the foreign reserves and current account deficit, inflation, fiscal deficit and debt levels, and risks to employment, economic growth, and financial stability. This warrants policy trade-offs that must be carefully weighed to ensure the imbalances are manageable.

The Reserve Bank's monetary policy objectives are, therefore to maintain an adequate level of foreign exchange reserves and promote price stability in order to ensure internal and external monetary stability. Price stability entails low and stable inflation, which contributes to economic welfare, better economic performance, and sustainable economic development. Given Tonga's high dependence on imports, narrow export base, its small size, and vulnerability to external shocks and natural disasters, it is crucial to maintain the foreign reserves at an adequate level to meet the country's foreign currency needs such as payments for imports and the Government's external debt obligations.

In meeting the monetary policy objectives, the Reserve Bank can most effectively contribute towards macroeconomic stability, sustained economic growth, and raised prosperity for Tonga.

In accordance with Section 50(A) of the National Reserve Bank of Tonga (Amendment) Act 2014; The Bank shall, at least every six months, publish a Monetary Policy Statement and submit a copy to the Minister. The Statement shall contain:

a. review of economic developments and the conduct of monetary policy in the period since the previous Statement;
b. a statement of how the Bank intends to conduct monetary policy over the coming six months to achieve its objectives specified under the Act; and
c. a statement of any other development outside its control, which are adversely affecting, or may adversely affect in future, the successful pursuit of the Bank's objectives under the Act.