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February 13, 1991

To: Members of the Executive Board
From: The Secretary
Subject: Tonga - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on the exchange arrangements of Tonga.

Mr. Itam (ext. 7306) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

TONGA

Exchange Arrangements

Prepared by the Asian and Exchange
and Trade Relations Departments

(In consultation with the Legal Department)

Approved by Kunio Saito and Michael Edo

February 13, 1991

In the attached communication dated February 8, 1991, the authorities of Tonga have notified the Fund of a change in its exchange arrangements.

Effective from the close of business on February 8, 1991 the link between the pa'anga and the Australian dollar which had existed since November 1976 was terminated. The pa'anga is now pegged to a weighted basket of currencies of Tonga's most important partners in trade and payments transactions.

Tonga is heavily dependent on trade, tourism and remittances from many countries other than Australia and, for some time, the authorities have been concerned that the exchange rate for the pa'anga had been determined mainly by developments in the Australian economy, which frequently were unrelated to developments in the Tongan economy. The new exchange arrangements would, inter alia, reduce the variability of both the nominal and real effective exchange rates for the pa'anga.

The staff will discuss the new arrangements in the report on the 1990 interim Article IV consultation discussions, which will be scheduled for Executive Board consideration in early April. No action by the Executive Board is required.

Attachment

ATTACHMENT

IMF WASHINGTON

FOR TREASURERS DEPT.

IN ACCORDANCE WITH ARTICLE IV SECTION 2(A) OF THE ARTICLES OF AGREEMENT NOTICE IS GIVEN THAT THE FIXED LINK AT PAR OF THE TONGAN PA'ANGA TO THE AUSTRALIAN DOLLAR IS TO BE DISCONTINUED EFFECTIVE FROM CLOSE OF BUSINESS TODAY 8 FEBRUARY 1991.

COMMENCING 11 FEBRUARY 1991 THE EXTERNAL VALUE OF THE PA'ANGA WILL BE DETERMINED DAILY BY REFERENCE TO A WEIGHTED BASKET OF CURRENCIES OF TONGA'S MOST IMPORTANT PARTNERS IN TRADE AND PAYMENTS TRANSACTIONS. THE EXCHANGE RATE OF THE PA'ANGA WILL BE EXPRESSED IN TERMS OF THE U.S. DOLLAR WHICH HENCE FORTH WILL BE THE INTERVENTION CURRENCY. THE NATIONAL RESERVE BANK OF TONGA WILL PROVIDE OFFICIAL QUOTATIONS ONLY FOR THE U.S. DOLLAR IN FUTURE.

ALAN GEE

GOVERNOR

NATIONAL RESERVE BANK OF TONGA