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November 15, 1985

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

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

Mr. Bonvicini (ext. 8524) 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 Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by Tun Thin and Eduard Brau

November 15, 1985

In a communication received November 5, 1985 (Attachment I), the authorities of Tonga--in the form of clarification and confirmation of the contents of a previous communication from the Fund staff dated November 1, 1985 (Attachment II)--have notified the Fund of the exchange arrangements Tonga intends to apply under Article IV of the Articles of Agreement, as amended. Tonga became a member of the Fund on September 13, 1985.

The currency of Tonga is the pa'anga, which is pegged to the Australian dollar, the intervention currency, at the rate of T\$1 = \$A 1. The Bank of Tonga also quotes daily rates for seven other currencies on the basis of their respective values against the Australian dollar. On October 31, 1985 the buying and selling rates were T\$1.419 and T\$1.448, respectively, per U.S.\$1.

On this basis, Tonga has been classified by the staff within the group of countries whose currencies are pegged to a single currency other than the U.S. dollar.

Attachments

Mr. Tun Thin
Director,
Asian Department
Interfund

Regarding your telex of November 1, 1985 on exchange arrangements.
Suggest following amendments to paragraph 1.

A) As a transitional arrangement, the Bank of Tonga quotes daily the rates of the pa'anga against seven currencies (U.S. dollars, Fiji dollars, U.K. pounds, New Zealand dollars, yen, Hong Kong dollars, and deutsche marks) on the basis of their respective values in terms of the Australian dollar, the intervention currency.

B) The Bank of Tonga does apply a discount to export receipts. It buys foreign exchange at the midrate upon the production of satisfactory documentation that remittances were for sales of exports of produce. This has been effective since February 22, 1972.

C) On October 31, 1985, the buying and selling rates for the pa'anga (for telegraphic transfers) were pa'anga 1.419 = US\$1, and pa'anga 1.448 = US\$1, respectively.

D) Other statements correct.

Regards

S.P. Jones
Secretary for Finance
Tonga

Mr. James C. Cocker
Minister of Finance
Ministry of Finance
Nuku'Alofa
Tonga

On the basis of information available to the Fund, the exchange arrangements maintained by Tonga on September 13, 1985, were as follows: Since November 1976, the currency of Tonga, the pa'anga, has been pegged to the Australian dollar at the rate of one pa'anga equals one Australian dollar. Tonga has no central bank, and the authorities do not buy or sell foreign exchange. As a transitional arrangement, the Bank of Tonga quotes daily the rates of the pa'anga against currencies on the basis of their respective values in terms of the Australian dollar, the intervention currency. In its purchases and sales of pa'anga, the Bank of Tonga applies a margin of about 2 percent between the bank's buying and selling rates. Sales of foreign exchange are at a premium of 1.5 percent and purchases are at a discount of 0.5 percent. However, no discount applies to export receipts. On October 31, 1985 the buying and selling rates for the pa'anga (for telegraphic transfers) were pa'anga ... = US\$1, and pa'anga ... = US\$1, respectively. There are no taxes on subsidies on purchases or sales of foreign exchange.

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Regards

Tun Thin
Interfund

