

## **Terms of Reference (TOR)**

### **Statistical Advisor to the National Reserve Bank of Tonga (NRBT)**

#### **Introduction:**

The Economic & Research Department of the National Reserve Bank of Tonga (NRBT) seeks to enhance its analytical capacity to address the elevated cost structure in Tonga, particularly focusing on its linkage with the cost of living. Additionally, there is a need to examine the relevance of Consumer Price Index (CPI) weights for measuring inflation, conduct reliable labour market surveys, research, identify structural inefficiencies causal to the high unit costs of doing business in Tonga and analyze wage inflation trends to contribute effectively to NRBT's price stability responsibilities.

The department aims to develop well-researched data and information to inform decision-making processes of the Governor and the Board of Directors.

#### **Objective:**

The primary objective of the Advisor is to support and train the Economic & Research Department and NRBT in conducting comprehensive research, analysis, and data collection to address the elevated cost structure in Tonga and its implications for the cost of living. The Advisor will focus on examining CPI weights, conducting labour market surveys, analyzing wage inflation trends, related monetary policy tools (SRD, exchange rate movements and banks' lending data) and external factors in order to contribute to NRBT's efforts in ensuring price stability.

#### **Scope of Work:**

1. Analyze the current CPI methodology in the context of Tonga's high-cost structure.
2. Review and adjust CPI weights indicator to accurately represent consumer spending patterns and price movements as a more accurate indicator of the cost of living.
3. Conduct comprehensive sector surveys and research to identify factors contributing to Tonga's elevated cost structure focusing on components of final price of commodities and services (CIF values, taxation, margins):
4. Analysis of the unit costs of structural constraints contributing to the elevated cost structures and high costs in Tonga (petroleum and energy, internet and ICT, public utilities, outer islands transport, basic food items etc.).
5. Investigate weakening transmission mechanisms, including the statutory reserve deposit (SRD) and interest rate channels, the exchange rate channel, and bank lending practices.
6. Develop models to assess the impact of the elevated cost structure on the cost of living for various demographic groups in Tonga, comparing with other island economies and international benchmarks.
7. Analyze employment data to identify labor market trends, more regular unemployment data, wage growth trends relevant to NRBT's price stability objectives.
8. Conduct econometric modeling and scenario analysis to evaluate the potential effects of monetary policy changes on key macroeconomic variables.

9. Research best practices in monetary policy implementation and central banking operations.
10. Develop data to help assess the effectiveness of past monetary policy measures and suggest areas for improvement.

**Deliverables:**

- a. Report on the analysis of CPI methodology and recommendations for improvement.
- b. Updated CPI weights reflecting current consumer spending patterns.
- c. Report and framework for assessment of factors contributing to the elevated cost structure in Tonga's financial market, banking sector and monetary policy transmission mechanisms.
- d. Report and framework for analysis of structural unit costs for taxation, business mark-ups, and landing costs to Tonga and outer islands
- e. Models quantifying the impact of the elevated cost structure on the cost of living.
- f. Labor market survey instruments and datasets.
- g. Analysis of the financial and banking market data and trends.
- h. Regular progress reports and presentations.

**Duration:**

The duration of this engagement will be up to 24 months (extendable subject to performance), commencing July 2024.

**Qualifications:**

- a. Advanced degree in economics, statistics, or a related field.
- b. Demonstrated experience in economic research, data analysis, and modeling.
- c. Expertise in CPI methodology, labour market analysis, banking, monetary sector and macroeconomic trends.
- d. Strong analytical skills and proficiency in statistical software.
- e. Excellent written and verbal communication skills.
- f. Experience working in Pacific Island economies. Working in Tonga would be an advantage.

**Reporting:**

The Advisor will report directly to the Governor of NRBT.

**Budget:**

The budget for this engagement will be confirmed with the successful candidate, inclusive of all fees and expenses.

**Evaluation Criteria:**

Proposals will be evaluated based on qualifications, relevant experience, proposed methodology, and cost-effectiveness.