

**OFFICIAL PRESS RELEASE****19 February 2019****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its first meeting, on the 18<sup>th</sup> February 2019, approved to maintain its current monetary policy measures outlined below. This is to encourage utilisation of the excess liquidity in the banking system, through further lending in order to support economic growth and strengthen the monetary policy transmission mechanism.

- a. maintain the monetary policy rate at 0% (zero interest rate policy);
- b. maintain the minimum loans/deposit ratio of 80%;
- c. maintain the Statutory Reserve Deposit ratio at 10%, and
- d. maintain the inflation reference rate at 5%.

The Governor of the Reserve Bank, Sione Ngongo Kioa, presented an update on the status of the economy which showed that performances of various sectors within the domestic economy indicated stronger growth than the previous month. Marine exports volumes more than doubled in December as a result of more exports of tuna. The agricultural export proceeds rose mainly from squash export. The on-going construction activities continued in December and reflected a stronger performance of the secondary sector supported by growth in business construction and individual housing loans. Remittances increased in December following a decline in the previous month. This is expected to impact positively on consumption activities and further reflected in the consumption tax (CT) collected which also increased. Container registrations declined due mainly to a fall in private containers coinciding with the lower number of cargo ships that arrived in Tonga. However, the high number of container registrations for the previous months indicates that businesses were already well stocked for the month of December. Travel receipts also rose and coincided with total international air arrivals which reached its highest for the year. This reflects December being the month where we expect the most visitors for the festive season.

The banking system remained sound throughout December 2018 as banks continued to maintain a strong capital position supported by adequate profits. The banks' total loans to deposit ratio rose from 74.9% in November to 75.1% reflecting the increase in loans for December. Despite this ratio being below the 80% minimum loan to deposit ratio, the commercial banks have respectively improved on this ratio over the year due to the active lending activities utilizing the capacity available for further lending. The weighted average interest rate spread widened in December due to a rise in the weighted average lending rate.

Net inflow from foreign exchange deals with commercial banks due to excess fund receipts from remittances, and budget support receipts pushed foreign reserves to another record high in December 2018 of \$478.5 million equivalent to 7.6 months of imports cover.

The monthly deflation continued to December 2018, where the overall price level declined by 0.9% due to favorable movements in both local and imported commodity prices. Additionally, the annual headline inflation slowed to 4.8% in December 2018 after recording its highest level for the year in November at 6.5% and 6.1% in December 2017. Headline inflation is now below the reference rate after being consistently above the reference rate since July 2018.

Tonga's economic performance remains positive in the medium term, however weather uncertainty poses a risk to the outlook. The foreign reserves are projected to remain at a comfortable level and inflation is likely to decline further. The banking system is to continue to remain strong.

Given the above developments and outlook, the current monetary policy stance is considered appropriate in the medium term. The Reserve Bank continues to adopt measures to encourage the utilisation of the excess liquidity in the banking system to increase lending to support domestic economic activities and strengthen the monetary policy transmission mechanism. The Reserve Bank will continue to remain vigilant and closely monitor external and domestic developments and may change its monetary policy setting to support its monetary policy objectives.

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