

**OFFICIAL PRESS RELEASE**

16 May 2019

Monetary Policy Decision

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 14th May 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 the monthly economic update for March which continued to indicate mixed growth. The total volume of agricultural exports increased by 2.7 tonnes and was driven by an increase in the export of root crops. More specifically, yam mainly led the increase reflecting the harvest season of late yams. This had offset the respective declines in the export of cassava and taro. Furthermore, lending for the agriculture sectors rose by 8.3% as farmers prepare for the squash planting season. Construction activities continued to slow as reflected in loans extended to the construction and mining & quarrying sectors which both declined. Housing loans declined as well as lending to the manufacturing sector. On the other hand, the number of container registrations rose by 161 registrations due solely to the increased volume of private containers by 237 registrations (offsetting a decline in business container registrations). International air arrivals also rose by 8.9% and the arrival of four cruise ships during the month may have supported the tourism sector.

The banking system remained sound as banks continued to maintain a strong capital position backed by adequate profits. The banks' total loans to deposit ratio increased over the month from 76.0% in the previous month to 78.1% reflecting the fall in deposits which outweighed the growth in loans. This ratio is still below the 80% minimum loan to deposit ratio. The weighted average interest rate spread narrowed in March due mainly to lower lending rates offsetting the increase in deposit rates.

Official foreign reserves declined by \$8.5 million over the month of March, equivalent to 7.8 months of imports. The monthly movement was attributed mainly to higher import payments and loan repayments.

The annual headline inflation was 2.0% in March. Local component of inflation contributed 2.3 percentage points to the overall headline inflation. This was attributed to the rise in prices of tobacco, restaurants and hotels, house equipment services, and the seasonality of local food whereas the imported prices contributed a -0.3 percentage points to the overall headline inflation mostly from lower prices for imported foods such as chicken legs, fruits, flour, and transport services.

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 remain below the reference rate of 5% per annum. The banking system is to continue to remain strong.

In light of 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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