

**OFFICIAL PRESS RELEASE****24 September 2019****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 23rd September 2019, approved to maintain its current monetary policy measures outlined below. This is to encourage utilization 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, reported that positive domestic activities were observed in July 2019. Agricultural exports improved in July particularly for root crops and fruits, coinciding with improved inflow of proceeds. Launching of the pathway to sustainable ocean project, together with receipt of cash and in-kind donations to the Government is expected to further support the growth of the agricultural and fisheries sectors. Additionally, government renewable energy projects contribute to the development of the utility sector. Construction activities continue to be positive underpinned by growing housing and manufacturing loans, and higher estimated values of approved building permits. The tourism sector benefitted from the July festivities such as the celebration of His Majesty's 60th Birthday, Heilala Week Festival and Tonga High School 72nd Anniversary which attracted many international visitors to Tonga, thus both international arrivals and travel receipts grew in July. Vehicle registration also increased, although container registrations declined.

The banking system continues to be sound supported by strong capital positions and adequate profits. The banks' total loans to deposit ratio rose over the month to 78.4% from 77.9% in the previous month reflecting more loans relative to the increase in deposits. Although this is near the 80% minimum loan to deposit ratio the liquidity in the banking system is still high indicating that there is still capacity available for further lending. The weighted average interest rate spread remained at 6.09% as lower lending rates were mostly offset by the decrease in deposit rates.

Official foreign reserves rose by \$8.6 million in July 2019 to \$492.9 million, equivalent to 8.2 months of imports cover and a new high record. Inflow of budget support and grants from development partners, and remittances contribute to the high level of foreign reserves.

In terms of inflation, Tonga recorded a 0.5% deflation in July, compared to 5.8% in July of last year. The annual deflation was driven mostly by declining domestic prices of 2.4% specifically for kava Tonga, local food and communication services. Imported prices however, continued to rise by 1.1% as prices for most groups rises except for petroleum, personal care services and medical products. New custom duties and excises taxes introduced by the Ministry of Revenues and Customs on imported eggs, vehicles and local tobacco is expected to contribute to higher inflation rates commencing in September 2019.

Tonga's economic performance continues to remain positive in the medium term. However, weather uncertainty and global uncertainties pose a risk to the outlook. The level of foreign reserves is projected to remain at a comfortable level and inflation is expected to remain below the reference rate of 5%. The banking system is anticipated to continue to remain sound with sufficient provisions as a prudent approach to credit risk.

In consideration 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 utilization of the excess liquidity in the banking system to increase lending, support domestic economic activities, and strengthen the monetary policy transmission mechanism. Meanwhile 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.

For further details please contact:
Economics Department
Telephone: (676) 24 057
Fax: (676) 24201
Email: nrbt@reservebank.to