NATIONAL RESERVE BANK OF TONGA

Private Bag No. 25
Post Office, Nuku'alofa, Tonga

NRBT Building
Salote Road
Nuku'alofa,

OFFICIAL PRESS RELEASE

22nd January 2019

Monetary Policy Decision

The National Reserve Bank of Tonga's Board of Directors at its first meeting of the year, on the 17th January 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 pointed to a positive trend in November, however growing at a slower pace compared to that in October. Total agricultural export volumes continue to increase in November by 87.7% compared to a 109.4% growth in October. This was due to higher export of squash and fruit produce such as watermelon and breadfruit contributed to the monthly rise in exports for November. Loans extended to the secondary sector rose which indicates that we can expect more activities and growth within the industry. Construction loans increased by 1.1% compared to 9.6% in October 2018. New commitment loans to the individual housing sector increased whilst loans extended to businesses for construction and manufacturing purposes also increased. Container registrations rose in November mainly private container registrations which indicates a busy informal sector and households preparing for the upcoming festive season. However, travel receipts declined in November coinciding with a decline in the number of flight arrivals although the number of international air arrivals remained the same. Consumption activities remained strong supported by a 14.8% increase in new commitments for personal loans though much lower than a (33.3%) increase last month. Remittances declined over the month by $0.6 million.

The banking system continued to remain sound over November 2018 as banks maintained a strong capital position, supported by adequate profits despite a slight decline. Non-performing loans improved over the month. Lower deposits by the commercial banks to the Reserve Bank's vault led to a decline in reserve money. The fall in deposits is reflected in the banks' total loans to deposit ratio which increased from 73.3% in the previous month to 74.9% in November. However, this ratio continues to remain below the 80% minimum loan to deposit ratio which indicates that there is capacity for further lending by the banks. The weighted average interest rate spread narrowed over the month due to a decline in the weighted average lending rate.

The foreign reserves increased over the month to $468.7 million as a result of increases in official receipts particularly directed to Government for budget support purposes and funded projects. This is sufficient to cover for 7.4 months of imports.

A monthly deflation was recorded over the month of November due to declines in domestic food, imported food, and imported fuel prices. The headline inflation, however, rose over the year by 6.5% compared to 6.2% in October 2018. Higher prices over the year were noted for domestic food, tobacco, alcoholic beverages, kava-Tonga, clothing and catering services and imported alcoholic beverages & tobacco, petroleum, clothing & footwear, and liquid petroleum gas.

Tonga's economic performance remains positive in the medium term, however weather uncertainty pose 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.

For further details please contact:
Economics Department

Telephone: (676) 24 057
Fax: (676) 24201
Email: nrbt@reservebank.to