

**OFFICIAL PRESS RELEASE****18 June 2019****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 14th June 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, reported that the domestic economic activities were overall broadly positive in the month of April 2019. The total volume of agricultural exports doubled over the month to a total 642.3 tonnes and was driven by an increase in the export of root crops mainly yam, followed by taro and cassava. New data for the fisheries sector showed that exports of fish since the beginning of 2019 averaged at around 188 metric tons per month compared to an average of 67.2 metric tons per month in 2018. Majority of the exported fish were tuna which accounted for 96.6% of the total 164.0 metric tons exported in April. Additionally, the export of aquarium products also rose by 94.7% over the month. Receipts from exports of fish and other marine products also grew by 3.6% over the same month. Activities in the secondary sector may have slowed as reflected in loans extended to the industry. Loans to the construction and manufacturing sectors both declined by 5.7% and 15.3% respectively. On the other hand, container registrations rose by 7.7% largely to an increased volume of business containers reflecting active commercial trading. International air arrivals also rose by 23.7% and the arrival of two cruise ships during the month may have supported the tourism sector. Travel receipts also recorded a 1.9% increase, whereas receipts for other trade in services also increased by 19.2%, mostly transport and construction services.

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 fell over the month from 78.1% in the previous month to 77.5%, reflecting the growth in deposits compared to a decline in loans. This ratio is still below the 80% minimum loan to deposit ratio, however, 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 narrowed further in April due mainly to lower lending rates offsetting the increase in deposit rates.

Official foreign reserves slightly declined by \$0.8 million to \$464.2 million over the month of April, equivalent to 7.8 months of imports. The monthly movement was attributed mainly to repatriation of unspent project funds and net outflow from interbank foreign exchange deals.

The annual headline inflation slowed further to 0.2% in April 2019 compared to 2.0% in March 2019 and 4.7% in April 2018. This was mostly due to declining domestic prices which recorded a negative 0.1% over the year due to the annual decline in prices of local food, kava-Tonga, electricity and communication services. These outweighed the annual rise in prices of Tongan tobacco, alcoholic beverages, house maintenance and transport services. Contrastingly, imported inflation rose by 0.3% as higher prices were noted for tobacco, alcoholic & non-alcoholic beverages, and clothing & footwear. Meanwhile, lower prices were recorded for imported food, fuel, gas and stationery.

Tonga's economic growth prospects 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 anticipated to continue to remain sound.

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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