

**OFFICIAL PRESS RELEASE****22 March 2019****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 21st March 2019, approved to maintain its current monetary policy measures outlined below. This accommodative monetary policy stance is to encourage utilisation of the excess liquidity in the banking system, through further lending 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 indicated a general slowdown reflecting the seasonality of domestic activity. The agricultural export volume declined mainly due to lower exports of squash. This decline also coincided with the fall in export proceeds for the month. On the other hand, construction activities continued to remain positive in January backed by higher loans extended to the construction sector as well as individual housing loans. Remittances dropped significantly over the month following the peak during the festive season last month. However, container registrations rose in January mainly due to more business containers. This increase indicates that businesses are restocking and preparing for the New Year activities such as the beginning of school. Travel receipts fell and coincided with the decline in total international air arrivals. International air departures, however, increased which indicates visitors returning home following the holiday season.

The banking system remained sound as banks continued to maintain a strong capital position supported by adequate profits. The banks' total loans to deposit ratio slightly declined to 74.8% over the month. The monthly movement reflects a higher increase in deposits than that of loans. 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 narrowed in January driven by a fall in the weighted average lending rate.

Net inflow from foreign exchange deals with commercial banks increased slightly which pushed foreign reserves to another record high in January 2019 of \$478.9 million equivalent to 8.1 months of imports cover.

The monthly inflation rose slightly by 0.3% which was due to movements mainly in domestic prices particularly local foods such as taro leaves and root crops. Moreover, the annual headline inflation slowed further to 4.2% in January 2019 after recording its highest level for the year in November at 6.5% and 6.1% in December 2017. As such, headline inflation has now stayed below the reference rate for two consecutive months (since December 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 stay below the reference rate of 5% per annum. 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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