

**OFFICIAL PRESS RELEASE****26 March 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 25th February 2020, 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 domestic economic activities picked up during December 2019. The primary sector indicated mixed results during the month. The agricultural export volumes declined again and by 1,979.7 tonnes (68.8%). This was due mainly to lower squash exports. However, the volume exported rose over the year by 2,335.9 tonnes (24.1%). Both proceeds for agricultural and marine exports increased by \$0.2 million (40.1%) and \$0.2 million (20.6%), respectively. The secondary sector mostly showed positive movements as individual housing and business construction loans increased by \$1.1 million (0.5%) and \$1.1 million (11.1%) respectively indicating growth in construction activities. This is also supported by higher payments for imports of construction materials which rose by \$0.4 million (31.1%). The tertiary sector reported positive movements as the total international air arrivals increased by 2,329 passengers (27.0%) during the month. Container registrations increased by 331 (29.3%) whilst total vehicle registrations rose by 39 registrations (2.8%) due to more registrations of cars and other light vehicles.

The banking system remains sound supported by strong capital and adequate profits. The banks' total loans to deposit ratio decreased from 81.2% to 80.7% in December 2019, reflecting a greater decline in loans relative to the decline in deposits. This is also just above the 80% minimum loan to deposit ratio. However, the liquidity in the banking system still remains relatively high indicating that existing capacity is still available for further lending. The weighted average interest rate spread narrowed by 3.6 basis points to 6.03%. The monthly decline was mainly a result of lower housing loan rates.

The official foreign reserves fell by \$2.1 million to \$487.4 million (equivalent to 7.8 months of imports cover). Over the year, the foreign reserves increased by \$8.9 million as a result of higher receipts from budget support, grants, and project funds from development partners.

Inflation rose by 0.2% over the month as domestic prices increased by 0.7% while imported prices fell by 0.3%. The annual headline inflation was at 1.2% for December 2019 compared to 0.1% in November 2019 and 4.8% for December 2018. This resulted from the increase in both imported and domestic prices over the year.

Although there is an expected pick up in domestic economic activity in January 2020, the medium-term outlook on Tonga's economic performance is now expected to grow at a slower pace due to the impacts of Cyclone Tino on the outer islands. Rising global uncertainties especially with regards to the coronavirus outbreak and bushfires in Australia may also impact Tonga's tourism and trading sectors. Nevertheless, the level of foreign reserves is still projected to remain at a comfortable level, and inflation is expected to remain below the reference rate of 5%. The banking system is also anticipated to continue to remain sound.

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 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