



**OFFICIAL PRESS RELEASE**

**29 March 2017**

**Monetary Policy Decision**

At its monthly meeting on 29<sup>th</sup> March 2017, the Reserve Bank of Tonga's Board maintained its accommodative monetary policy measures outlined below. This is to encourage the utilisation of the excess liquidity in the banking system, increase 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% effective in July 2017; and
- d. maintain the inflation reference rate at 5%.

The Governor of the Reserve Bank, Sione Ngongo Kioa, stated that the domestic economy somewhat slowed over the month of January 2017, a similar trend to previous years. The winding down of economic activity was due to seasonality in the agricultural products as well as the end of the festive and Christmas holiday season. However, the foreign reserves continued to rise over the month to \$380.8 million due mainly to receipt of government grant. This was equivalent to 10.4 months of import cover, which is well above the Reserve Bank's minimum range of 3 – 4 months. Annual inflation rate continued rising by 5.4% in the year ended January 2017 but has slowed from the annual inflation rate of 6.7% in December 2016. The rise in annual inflation was mainly due to the new customs duty and excise tax introduced in July 2016 and the continuous short supply of kava-Tonga.

The banking system remained sound with strong capital position maintained, supported by comfortable profitability, and non-performing loans remained low. Excess liquidity remained high due to continuous rise in deposits over the year by 18.7%, which was supported by the higher foreign reserves, outweighing the strong credit of 16.2%. Total loans to deposit ratio continued to fall in January 2017 to 72.4% from 74.1% in the previous month, and remained below the 80% minimum loan to deposit ratio. This indicated more capacity remains for further lending by the banks.

The Reserve Bank's expectation for strong economic activity remains in the medium term. The level of foreign reserves is also projected to remain adequate supported by estimated higher receipts of remittances and foreign aid, despite the expected increase in imports. Upward inflationary pressure is also expected in the near term, as a result of the new customs duty and excise tax introduced in July 2016, however the Reserve Bank forecasts the annual inflation rate to be well below the reference rate of 5% per annum in 2017/18.

The Reserve Bank will continue to closely monitor developments in the domestic and global economy, and update its monetary policy setting to maintain internal and external monetary stability, and to promote a sound and efficient financial system in order to support macroeconomic stability and economic growth.

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