

1 November 2011

**National Reserve Bank of Tonga:
Statement on Monetary Policy for September 2011**

The National Reserve Bank of Tonga (NRBT) Board of Directors at its meeting today, Tuesday 1st November, 2011 approved the release of its Monetary Policy Statement for September 2011. This Statement highlights the slow recovery in the global economy with the increase in the financial risks, the state of the domestic economy in the past six months and the outlook for the Tongan economy and monetary policy in the next six months.

In the past six months, the Reserve Bank's monetary policy continued to be accommodative. Domestic economic activity was mainly driven by foreign aid funded construction and infrastructure projects. The export sector remained low in the first half of 2011 despite the positive contribution from the proceeds of the sandalwood and sea cucumber exports. The level of foreign reserves continued to remain high, at 7.9 months of import coverage at the end of September 2011, underpinned by the receipts of aid funds from Tonga's development partners. Hence, the liquidity in the banking system increased. Remittances remained weak while tourism inflows improved. The private sector credit growth continued to contract due to the banks' balance sheet consolidation process, weak domestic demand and slow economic recovery. The annual headline inflation rate increased to 9.7 percent in the year ended May 2011 before it eased to 6.3 percent year on year to September 2011. The increase reflected the rise in the prices of imported food and fuel.

The growth prospect for the Tongan economy is expected to continue to remain slow in the next six months on the back of the uncertainty in the global economy, the volatility in world oil and food prices, and the country's vulnerability to natural disasters. Nevertheless, the ongoing and planned construction and infrastructure activities in the Kingdom, together with the expected increase in agricultural exports and the anticipated benefits from the completion of the new Vuna wharf will contribute positively to the economy. The level of foreign reserves is expected to remain at high levels in the next six months, above 7 months of imports. The high unemployment rate in the United States will continue to affect remittances to Tonga. Credit growth will continue to be subdued and inflation is expected to fall in the next six months on the basis of the IMF forecast that world oil prices will fall. Against this background, the current monetary policy stance will be maintained in the next six months.

The Reserve Bank will continue to closely monitor Tonga's economic and financial conditions in order to safeguard the foreign reserves at an adequate level, promote low and stable inflation and maintain a sound and efficient financial system.