

**OFFICIAL PRESS RELEASE****18 June 2018****Monetary Policy Decision**

The National Reserve Bank of Tonga's board of directors at its meeting on the 15th June 2018 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, particularly to the growth sectors, in order to support economic growth and the recovery from Tropical Cyclone Gita, 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 economic activities within the primary and secondary industries proved to be largely favourable. This was reflected in the higher total agricultural export volume due to higher exports of yam and taro. Additionally, loans to the construction sector increased as well as individual housing loans reflecting the consistently high demand for housing and buildings. Meanwhile, activities within the tertiary industry varied with container registrations declining over the month as a result of respective decreases in private and business containers whilst activities in the tourism sector are supported by the further rise in international air arrivals in April.

The banking system remained sound and maintained strong capital position, supported by comfortable profitability, and non-performing loans continued to remain low. Liquidity in the banking system (reserve money) decreased over April due mainly to the settlement of maturing government bonds at the end of April. The banks' total loan to deposit ratio (including Government Development Loan (GDL) scheme) increased from last month and similarly, total loans to deposit ratio (excluding GDL) also increased in April. This ratio continued to remain below the 80% minimum loan to deposit ratio which indicates excess liquidity in the banking system remains and that there is capacity for further lending by banks. The weighted average interest rate spread widened over April, due to an increase in the weighted average lending rate and a decline in the weighted average deposit rate.

The foreign reserves slightly declined to \$445.9 million in April 2018 due mainly to higher interbank payments during the month. This is equivalent to 7.9 months¹ of import cover, which is still above the Reserve Bank's minimum range of 3 – 4 months.

The official headline inflation rate for April 2018 is yet to be released by the Statistics Department. However, impacts of TC Gita in February weighed on domestic inflation (particularly food items) in March 2018 bringing the annual headline inflation rate to 9.8%. The Reserve Bank projects headline inflation for April 2018 to be above the 5% reference rate due to higher expectations in the prices of food, transportation, tobacco, alcohol, and Kava-Tonga, continuing to put pressure on inflation. Domestic food supply is projected to recover before end of the year after the impact of the cyclone hence inflation is anticipated to fall below the 5% reference rate per annum by the end of 2018.

Tonga's economic growth prospects remains positive in the medium term. The level of foreign reserves is expected to remain at comfortable levels and inflation is anticipated to fall below the Reserve Bank's inflation reference rate of 5% per annum by the end of 2018. The banking system continued to remain strong. Against this background, the Reserve Bank's current accommodative monetary policy measures are maintained. Nevertheless, the Reserve Bank will continue to remain vigilant, closely monitor developments in the domestic and global economies and the implications on the monetary policy objectives, and for early signs of vulnerabilities which may indicate overheating of the economy.

For further details please contact:
Economics Department
Telephone: (676) 24 057
Fax: (676) 24201
Email: nrbt@reservebank.to

¹ Methodology used for this calculation has changed to include both imports of goods and services whilst the calculation used in previous reports used import of goods only