NATIONAL RESERVE BANK OF TONGA

Private Bag No. 25
Post Office, Nuku'alofa, Tonga

NRBT Building
Salote Road
Nuku'alofa,

OFFICIAL PRESS RELEASE

7 March 2017

Monetary Policy Decision

The National Reserve Bank of Tonga's Board, at its monthly meeting on 3rd March 2017, maintained the current monetary policy measures as outlined below 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, announced that the Board noted that the overall domestic economic activities, which were generally favourable, continued to support the Reserve Bank's expectation of stronger growth for 2016/17. The foreign reserves rose to $378.8 million by the end of December, equivalent to 9.8 months of imports cover, which is well above the Reserve Bank's minimum range of 3-4 months, and is expected to remain comfortable. Inflation also remained high, rising by 6.7% over the year to December due mainly to the new customs duties and excise tax introduced in July 2016 and the short supply of kava and the seasonality in local produce driving the higher domestic prices. The Reserve Bank anticipates the annual headline inflation rate to be around 2% in the next financial year.

The banking system remained sound with strong capital position maintained, supported by comfortable profitability, and non-performing loans remained low. Excess liquidity remained as the continuous rise in deposits, coinciding with the higher foreign reserves, outweighed the strong credit growth. This resulted in total loans to deposit ratio declining to 74.5% in December 2016, which is below the 80% minimum target. The 17.1% annual credit growth was supported by the lower weighted average lending rate.

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.

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