

**OFFICIAL PRESS RELEASE****19 August 2019****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 15th August 2019, approved to maintain its current monetary policy measures outlined below. This is to encourage the utilization of the excess liquidity in the banking system, through further lending 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 activities continued to reflect mixed performance in the month of June 2019. Partial available data indicates mixed sectoral performance in the primary sector. The total volume of agricultural exports decreased due to lower exports of squash and cassava following an offseason squash shipment on the previous month. Fish exports, however, more than doubled over the month owing mostly to exports of tuna, although exported aquarium products dropped. Export receipts from exports of both agricultural and marine products declined during the month. Construction activities slowed during the month, corresponding to the decline in lending to the industry. However, road improvement projects continue to support the mining & quarrying sector. The number of electricity consumers has steadily increased throughout the year, reflecting new houses constructed as well as the Tonga Power Ltd network upgrade projects. The tertiary sector was quite busy in June with the annual general conference of the Free Wesleyan Church and Heilala Festivities. Container registrations rose by 270 containers over the month, the majority of the containers were for businesses indicating a thriving consumption and active trade sector. International air arrivals also increased with more international flights as visitors attended the June events, further contributing to the tourism, transport and communications sectors.

The banking system remained sound as banks continued to maintain a strong capital position backed by adequate profits. The banks' total loans to deposit ratio fell over the month to 77.9% from 78.7% in the previous month, reflecting declining loans against increasing deposits. This ratio remains below the 80% minimum loan to deposit ratio indicating the capacity available for further lending. The weighted average interest rate spread widened in June to 6.09% driven mainly by a decline in weighted average deposit rates outweighing the decline in weighted average lending rates.

Official foreign reserves rose by \$16.0 million in June 2019 to \$484.3 million, equivalent to 8.1 months of imports cover, as expected funds for budgetary support were received before the closing of the fiscal year.

The annual headline inflation was 1.8% in June, compared to 3.0% in the same month last year. Both imported and domestic prices rose over the year by 1.9% and 1.7%, respectively. Imported inflation contributed 1.0% to the annual headline inflation and was due to higher prices of imported food, tobacco, alcohol, maintenance & repair, and fuel. Domestic inflation contributed 0.8% to the annual headline inflation as higher prices were noted for food, tobacco, and restaurant services.

Tonga's economic performance continues to remain positive in the medium term. However, weather uncertainty and global oil price movements pose a risk to the outlook. The level of foreign reserves is projected to remain at a comfortable level, and inflation is expected to remain below the reference rate of 5%. The banking system is anticipated to continue to remain sound.

In consideration of 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. 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.

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