

**FANONGONGO****30 August 2024****Reserve Bank's August 2024 Monetary Policy Will Promote Greater Access to Finance**

The National Reserve Bank of Tonga (NRBT) released its Monetary Policy Statement (MPS) for August 2024 following its approval by the Board of Directors.

The August 2024 MPS maintains the current monetary policy that keeps a watchful eye against inflation threats and supports economic recovery through maintaining the statutory required deposit at 15% and the zero-percent monetary policy rate while considering easing exchange control requirements and maintaining an exchange rate regime that supports greater macroeconomic stability. In collaboration with Government and other relevant stakeholders, the NRBT is introducing new financing instruments such as a concessional credit facility and a partial credit guarantee scheme to boost private sector financing towards stronger growth recovery in 2025, particularly fostering access to financing for underserved and climate change-vulnerable sectors.

Governor Moeaki stated that "Tonga's economic growth for FY2024 has been revised downward to 1.6% from the previously projected 2.2% primarily due to underperformance in the primary and secondary sectors. This follows moderate growth in FY 2023 following the double disasters in 2022 and reflects the need for the financial sector to be more responsive to the growth sectors and the private sector growth with a watchful eye on inflation."

Headline inflation has eased from the past year's high levels, and despite exceeding the 5% reference rate in June 2024, it is considered transitory as core inflation remains low at 1.7%. The uptick in headline inflation in June 2024 was mainly driven by ever increasing local food prices. Domestic food prices increased annually by 23.9% in June 2024 after having grown by 22.7% in June 2023. This is a reflection of the supply shortages experienced by the agriculture sector due to natural disasters and the recent El Nino. The Reserve Bank expects inflation to revert below the reference rate as supply improves. Nevertheless, Tonga remains vulnerable to local food price volatility due to its susceptibility to natural disasters, labour market mismatches, rising energy prices, and external shocks. To alleviate Tonga's high cost structure and address supply constraints, closer collaboration between the Reserve Bank and Government on necessary reforms is crucial for maintaining price stability.

Foreign reserves remains robust exceeding the 7.5 months of import cover standing at \$909.1 million by July 2024, equivalent to 10.5 months of import cover. The banking system is supportive of economic growth, with annual credit growth of 4.1% in June 2024. However, non-performing loans remains elevated to 11.2%. Enhanced supervision of banks and non-bank financial institutions are ongoing to mitigate financial stability risks. The NRBT will continue to closely monitor both global and domestic economic developments and align its monetary policy as needed.

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