# NATIONAL RESERVE BANK OF TONGA

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## OFFICIAL PRESS RELEASE

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## Monetary Policy Decision

The National Reserve Bank of Tonga Board in its monthly meeting on the 7th June 2017 approved to maintain the current accommodative monetary policy stance. This is to encourage utilisation of the excess liquidity in the banking system through further lending in order to support economic growth and strengthen the monetary policy transmission mechanism. These accommodative monetary policy measures are:-

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, stated that in March the local partial indicators reflected mixed growth in the domestic economy. In terms of exports in the primary sector, the agricultural exports increased whilst marine exports declined. The on-going construction works signals continued strong growth in the secondary sector. However, the services sector indicated slow growth over month as container registrations decreased by 2.4%, international air arrivals declined by 3.7% although the arrival of two cruise ships may have supported the tourism sector.

The banking system remained sound maintaining strong capital position, supported by comfortable profitability, and continued low non-performing loans. Banking system liquidity declined over the month which was in line with the fall in the foreign reserves. The loans to deposit ratio of banks therefore rose over the month to 75.5% in March from 73.3% in February but still remained below the 80% minimum target which indicate that excess liquidity in the banking system remains and capacity for further lending by the banks exist. The foreign reserves fell by $11.6 million over the month to $366.0 million due mainly to higher payments for the import of oil and wholesale & retail goods which was partially offset by higher remittance receipts for family support. This is equivalent to 6.71 months[1] of import cover, which is still above the Reserve Bank's minimum range of 3 – 4 months.

Notably, the annual headline inflation rate rose significantly in the year ended March 2017 by 9.4%. This was due mainly to the new customs duty and excise tax introduced in July 2016 which largely drove the 13.2% rise in imported prices. Annual domestic inflation rate also increased by 4.9% due mainly to the continued short supply of kava-Tonga and volatile local food prices.

Nonetheless, the Reserve Bank's expectation for strong economic activity remains in the near term. The level of foreign reserves is also projected to remain adequate supported by estimated higher receipts of remittances and foreign aid and this will be partially offset by the expected increase in imports. Upward inflationary pressure remains in the near term due mainly to the impact of the amendments made to custom duty and excise tax effective on 1st July 2016, although it is expected to fall below the Reserve Bank's inflation reference rate of 5% per annum in 2017/18. However, adverse weather conditions and higher import prices poses a risk to these favorable projections.

The Governor concluded that 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.


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[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