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's Board of Directors at its board meeting on the 8th of December 2020, approved to maintain its current monetary policy measures outlined below. This is to encourage utilization of the excess liquidity in the banking system, through further lending to growth sectors and to support the economy from the impacts of COVID-19.

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%.
d. Maintain the inflation reference rate at 5%.
e. Monitor the commercial banks' liquidity and adjust the SRD ratio if needed.
f. Monitoring the commercial banks' capital reserves and adjust further when required.
g. Ease the exchange control requirements when required.
h. Continue to issue Government Bonds.
i. Maintain clear channels of effective communications with the financial institutions for adequate preparedness.
j. Continue to be transparent and raise awareness of its monetary policy decisions through press releases to the public.
k. Closely monitor the impacts of the pandemic in the financial system for early detection of any signs of vulnerability.
l. Continue to ensure both commercial banks and non-bank financial institutions adheres to all Government declarations regarding COVID-19 in the workplace while delivering essential financial services to the public.

The Governor of the Reserve Bank, Sione Ngongo Kioa, reported that domestic activities for September 2020 was positive yet slow paced. The primary sector shared higher exports data particularly for agricultural and marine exports. The secondary sector noted more activity with completion of construction works such as school buildings and private housing. Higher lending also for related sectors were reflected in overall growth. The services sector remained stagnant with mostly negative growth recorded due to current situation with the borders. Container registrations declined coinciding with lower import payments also in September 2020, and local businesses are experiencing delayed shipments due to port congestions in overseas ports, additional quarantine measures and the replacement of crew members.

Prices rose slightly over the month yet declined in the year to September 2020 recording levels of 0.6% (monthly) and -0.9% (yearly). The monthly rise in inflation was driven solely by domestic food prices. The annual deflation rate is lower than the deflation rate of 1.6% last month and 0.4% in September 2019. Both domestic and imported items contributed to the annual deflation. In particular, lower prices for electricity, food, kava Tonga, and transport items.

Official foreign reserves rose over the month and in the year to September 2020 by $20.4 million and $85.7 million respectively to $576.5 million, and equivalent to 10.0 months of imports. Both the monthly and annual increase resulted from an increase in budget support receipts, project grant funds, and remittance receipts.

The total banking system still maintains its soundness supported by strong capital and adequate profits. The banks' total loans to deposit ratio declined again in September 2020 to 74.0% from 75.5% last month, below the 80% minimum. The result of higher increase in deposits than that of loans. The weighted average interest rate spread narrowed both over the month and year to September 2020 by 7.1 and 45.7 basis points respectively to 5.598%, largely driven by the declining lending rates.

In consideration of the above, the Reserve Bank continues to review its GDP forecasts and projects a moderate downturn in future economic growth. Foreign reserves is still expected to be well above the 3 months minimum threshold of import cover, while inflation is also expected to remain below the 5% reference rate. The banking system is still sound supported by high liquidity. Meanwhile, the Reserve Bank continues to be vigilant in closely monitoring its economic and financial indicators and stands ready to adjust its monetary policy settings if needed to maintain internal and external stability and support macroeconomic growth.

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