

**OFFICIAL PRESS RELEASE****5 May 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 1st May 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 the Tongan economy showed a slowdown in domestic activities. The agricultural exports volumes rose in February 2020 while proceeds changed little over the month. Partial indicators signal a downturn in the industry sector while the tertiary sector starts to show impacts of COVID-19 on tourism, travel, trade and employment. Remittance is also slowing down as more of our remittance source countries goes into lockdowns.

The banking system remains sound supported by strong capital and adequate profits. The banks' total loans to deposit ratio rose from 81.1% in the previous month to 82.2% this month. This is still above the 80% minimum loan to deposit ratio. Nevertheless, the liquidity in the banking system remains relatively high, indicating that existing capacity is still available for further lending. The weighted average interest rate spread narrowed by 5.72 basis points over the month and 23.0 basis points over the year to 5.98%.

The official foreign reserves declined by \$3.0 million in February 2020 to \$479.8 million and equivalent to 7.4 months of imports. However, the foreign reserves increased by \$6.4 million over the year resulting in more receipts of budget support, grants, and project funds from development partners.

Inflation rose by 0.3% over the month as domestic prices increased by 0.7% while imported prices remained stable. Annual inflation recorded an increase of 0.8% compared to 0.6% in January 2020 and 3.2% in February 2019. Higher imported prices resulted in higher prices for food, transport, and alcoholic beverages.

The Reserve Bank projects that the negative impacts of COVID-19 on the Tongan economy will eventuate to a contraction in economic growth for the current fiscal year. However, the foreign reserves is still expected to remain at sufficient levels above the 3 months minimum threshold of imports cover. Inflation is also expected to increase but still remain below the 5% reference rate. The banking system is still sound with high liquidity. The Reserve Bank continues to be vigilant by 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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