

**OFFICIAL PRESS RELEASE****12 August 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 5th of August 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 May 2020 reflected slower than usual economic conditions as the month of May is normally a festive time with White Sunday, Mother's Day, and Father's Day. The local restrictions and closed international borders continue to keep economic activities at a minimum. The tertiary sector show negative growth yet again with no arrivals and weak consumption demand. However, indicators within the primary and secondary sectors indicate some growth with rising agricultural exports and increasing lending for construction.

The total banking system still indicate soundness supported by strong capital and adequate profits. The banks' total loans to deposit ratio declined from 81.3% to 80.5% over the month, reflecting a higher increase in deposits compared to that of loans. This is slightly above the 80% minimum loan to deposit ratio. Nonetheless, 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 both over the month and year to May 2020 by 13.57 basis points and 39.30 basis points respectively to 5.70%

The official foreign reserves recovered by \$14.5 million over the month and by \$21.3 million in the year to May 2020. The increase was mainly due to receipts of official funds as assistance for TC Harold and preparations for COVID-19.

Inflation fell by 0.4% over the month as imported prices declined by 1.2% outweighing the 0.7% increase in local prices. Annual inflation for May 2020 was 0.1% which is lower than the 1.6% in May 2019 and slightly below 1.3% in April 2020. Imported prices increased due to higher food prices whilst domestic prices declined in the year mainly resulting from the lower Kava Tonga prices.

The Reserve Bank's projection for Tonga's economy to contract in the current fiscal year remains, due to the negative impacts of COVID-19. However, the foreign reserves is still expected to remain at sufficient levels above the 3 months minimum threshold of import cover. Inflation is also expected to gradually increase yet remain below the 5% reference rate. The banking system is still sound supported by high liquidity. 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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