

**OFFICIAL PRESS RELEASE**

11 November 2020

Monetary Policy Decision

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 6th of November 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 August 2020 was mostly weak. The primary sector noted lower agricultural exports during the month yet higher than August 2019. The secondary sector recorded some activity as projects continued to reach completion phases such as classrooms and school buildings. Repatriation efforts continued in August 2020 providing minimal activity for the services sector. Negative implications were still felt across the tourism sector with the ongoing COVID-19 pandemic. Overall, weakening consumption activities reflect weakening aggregate demand across the economy.

Prices continued to decline over the month and year to August 2020 recording deflation levels of 0.1% (monthly) and 1.6% (yearly). The monthly decline in inflation was driven solely by lower food prices (specifically domestic food prices). The annual deflation rate is higher than the deflation rate of 1.1% last month and 0.1% in August 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 recorded yet again a new record high at a level of \$556.1 million. This increased slightly in the month by \$0.1 million and significantly in the year to August 2020 by \$64.3 million. This increase is owed to budget support receipts, grant and funds from donors and development partners, and financial assistance for COVID-19 preparations. Tonga's remittances slowed in August 2020 indicating the possibility of the COVID-19 pandemic beginning to impact remitting countries particularly our friends and families abroad.

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 August 2020 to 75.5% from 76.8% in the previous month, below the 80% minimum. This was due to lower credit growth and higher deposits. The weighted average interest rate spread narrowed both over the month and year to August 2020 by 1.3 and 45.0 basis points respectively to 5.66%. This stems from declines in both lending and deposit rates.

In light 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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