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 30th of November 2021, approved to maintain its current monetary policy measures outlined below. This is to encourage utilization of the excess liquidity in the banking system for further lending to growth sectors and supporting the economic recovery 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. Monitor the commercial banks' capital reserves and adjust further when required.
g. Ease the exchange control requirements when required.
h. Continue to assist the Government with issuing 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 on the financial system for early detection of any signs of vulnerability.
l. Continue to ensure both commercial banks and non-bank financial institutions adhere 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, shared that the domestic economy experienced mostly negative growth during September 2021. The primary sector reported that the agricultural export volumes fell by 240.7 tonnes (32.0%) due to lower exports of root crops and coincided with the monthly decline in agricultural export proceeds of $0.2 million (19.9%). The secondary sector showed mixed outcomes during the month as reflected in loans extended to each industry, whilst further progress were made in Government projects such as the wharves in smaller outer islands. The slowdown in the services sector continued with a significant decline in container registrations by 635 containers (68.4%). This was due to lower business and private containers, reflecting supply disruptions affecting trading activities.

Inflation increased by 0.1% during the month, mainly owing to higher imported prices (0.4%), and in the year to August 2021 by 6.5% driven by both higher imported and domestic prices. The annual headline inflation remains above the 5% reference rate. Higher for food and electricity prices primarily contributed to the higher local prices. Meanwhile, the rise in imported prices was driven by higher prices for fuel, gas and other fuels, and food items.

The level of official foreign reserves rose over the month and in the year to September 2021 by $5.3 million and $180.5 million respectively. The monthly rise was mostly due to government project funds and remittances. In year ended terms, foreign reserves increased due to more receipts of budget support, external financing, project funds, and remittances.

The total banking system continues to remain sound, supported by strong capital position and excess liquidity. Total deposits increased by $6.3 million (0.8%) as saving and demand deposits increased during the month. Meanwhile total lending declined by $2.7 million (0.6%) mostly reflecting public enterprises loan repayments. The increase in total deposits coupled with the decline in total lending resulted in the loan to deposit ratio slipping further to 58.2% in September 2021 from 59.0% last month. This remains below the 80% minimum.

The Reserve Bank's GDP outlook projects a moderate recovery for the 2021/22 fiscal year. However, risks to the outlook are tilted to the downside as uncertainties remain on the evolution of the global pandemic. Although there is expected inflationary pressure in the near term, it is projected to be transitory and inflation will eventually fall below the 5% reference rate by the first quarter of 2022. However, foreign reserves is still expected to remain at sufficient levels above the 3 months minimum threshold of import cover. The financial system is expected to remain sound supported by high liquidity, adequate capital positions, and subdued credit growth. 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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