

**OFFICIAL PRESS RELEASE****1 July 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 26th June 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 arrival of Tropical Cyclone (TC) Harold in April 2020 coupled with the continuing COVID-19 restrictions has worsened the conditions for the Tongan economy. This was evident in the slow down in primary production for April, with agricultural export volumes falling by 215.7 tonnes (28.7%) due to lower exports of taro and cassava. Projects are further delayed for the industry sector and tourism has come to a standstill affecting many businesses in the tertiary sector.

The banking system, however, continues to remain sound supported by strong capital and adequate profits. The banks' total loans to deposit ratio increased from 81.0% to 81.3% over the month as deposits decreased more than loans. This is still above the 80% minimum loan to deposit ratio. However, 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 April 2020 by 10.86 basis points and 32.27 basis points respectively to 5.84%.

The official foreign reserves increased over the month and year to April 2020 by \$17.7 million and by \$10.9 million respectively. The rises were mainly driven by the inflow of budget support, grants, and additional funds from donor partners to assist with Tonga's preparations for COVID-19.

Inflation fell in April 2020 to negative 0.8% due to lower domestic and imported prices which decreased by 1.7% and 0.1% respectively. Annual headline inflation for April 2020 was at 1.3% which is higher than the 0.4% in March 2020 and 0.2% in April 2019. The yearly price increase stemmed solely from imported prices particularly food and transportation. On the other hand, domestic prices fell in the year to April 2020 driven by lower Kava Tonga and electricity 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.

For further details, please contact:

Economics Department

Telephone: (676) 24 057

Fax: (676) 24201

Email: nrbt@reservebank.to