

**OFFICIAL PRESS RELEASE****3 June 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 29th 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, stated that the Tongan economy continued to generally show a slower performance on the back of fewer activities evident in the secondary and tertiary sectors. This resulting to COVID-19 restrictions on the tourism, travel, trade and employment areas. However, the agricultural exports volumes reflected an increase in March 2020.

The banking system continued to remain sound supported by strong capital and adequate profits. The banks' total loans to deposit ratio fell from 82.2% in the previous month to 81.0% in March 2020. This, however, 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 4.2 basis points over the month and 28.4 basis points over the year to 5.94%.

The official foreign reserves declined significantly in March 2020 by \$22.4 million to \$457.5 million and equivalent to 6.8 months of imports. Further, the foreign reserves decreased by \$7.5 million over the year and was largely due to higher payments for offshore investments, loan repayments, and imports of goods and services.

Inflation rose by 0.2% over the month due to rises in both imported and domestic prices. Annual inflation recorded an increase of 0.4% compared to 0.8% in February 2020 and 2.0% in March 2019. Higher prices in the year resulted mainly to higher imported prices for food, transportation, 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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