

**OFFICIAL PRESS RELEASE****26 March 2020****Monetary Policy Decision**

The National Reserve Bank of Tonga's Board of Directors at its board meeting on the 18th March 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 in order to support domestic economic activities and growth.

- 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%, and
- d. maintain the inflation reference rate at 5%.

The Governor of the Reserve Bank, Sione Ngongo Kioa, reported that domestic economic activities reflected mixed performances at the beginning of the year. In January 2020, the primary sector showed mixed movements over the month. The volume of agricultural exports continued to fall in January, although the yearly data reported positive growth reflecting better harvest of squash, taro and cassava. Most recent data on volumes of marine exports showed that marine exports significantly rose over the year to December 2019 due largely to exports of tuna. Both electricity consumption and production rose in January supporting the utility sector and indicating active economic activity. The road improvement projects is still expected to contribute favorably to the mining and quarrying sector. Both container and vehicle registrations declined over the month indicating a slowdown in wholesale & retail trade and consumption. International arrivals also declined reflecting a slow month for the tertiary sector.

The banking system remains sound supported by strong capital and adequate profits. The banks' total loans to deposit ratio increased from 80.7% to 81.1% over the month depicting a higher decline in deposits relative to the decline in loans. This is still above the 80% minimum loan to deposit ratio. However, banking system remain very liquid indicating that existing capacity is still available for further lending. The weighted average interest rate spread widened over the month by 0.79 basis points, however narrowed by 17.68 basis points over the year to 6.03%.

The official foreign reserves declined in January 2020 by \$4.6 million to \$482.9 million, equivalent to 7.5 months of imports. However, the foreign reserves rose by \$3.9 million over the year due to budget support receipts, grants, and project funds from development partners.

Inflation fell by 0.3% over the month as domestic prices declined by 0.6% while imported prices remained stable. Annually, inflation was recorded at 0.6% for January 2020 compared to 1.2% in December 2019 and 4.2% in January 2019. Domestic prices declined by 2.9% over the year partially offsetting the 3.6% rise for imported prices.

The Reserve Bank expect the economy to be negatively impacted by the global outbreak of the coronavirus contributing to a slowdown in economic activities both domestically and globally. However, foreign reserves is expected to remain at sufficient levels above the 3 months minimum threshold of imports cover. Inflation is also expected to remain below the 5% reference rate. The banking system is still very liquid and sound. The Reserve Bank remains alert, keeping a close watch on both its economic and financial indicators and standing ready to adjust its monetary policy settings if needed to maintain internal and external stability and support macroeconomic growth.

Given these latest developments, the Reserve Bank still maintains its current accommodative monetary policy stance. This is to encourage banks to utilize the excess liquidity in the banking system to lend out to growth sectors in order to support domestic economic activities and growth.

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