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 meeting on the 30th of April 2021, 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 yet again a domestic slowdown in February 2021. Most indicators indicated lower economic activity despite a few positive movements. The primary sector reported that total agricultural exports rose during the month owing to more exports of yams and cassava which coincided with higher agricultural export proceeds. Lending to the construction sector increased, yet, lending to utility and manufacturing sector over the month both fell. The total container registrations declined again in February 2021 as a result of both lower business and private container registrations indicating a slowdown in trading activities.

Inflation increased by 1.1% in February 2021 due to higher imported and domestic prices. In particular, electricity, fuel, and food. Headline annual inflation rose by 2.1%, driven by both higher imported and domestic prices. This owes to an increase in prices for food, tobacco and alcoholic beverages (imported prices) whilst higher prices for food, tobacco, and clothing & footwear drove domestic prices higher.

Official foreign reserves fell at the end of February 2021 by $12.9 million, equivalent to 11.7 month of imports. The monthly movement was driven mostly by an increase in business and government payments for goods and services. However, foreign reserves rose significantly in the year to February 2021 by $212.5 million. This attributed mostly to receipts of budget support, official grants, and remittances.

The total banking system continues to maintain its soundness supported by strong capital and excess liquidity. The decline in total deposits outweighed the decline in total lending which resulted in a higher loans to deposit ratio in February 2021 to 68.2% from 67.8% last month. This ratio continues to remain below the 80% minimum threshold despite the excess liquidity in the banking system. The weighted average interest rate spread narrowed by 1.6 basis points in the month of February 2021 and declined annually by 28.2 basis points to 5.693%.

The Reserve Bank's latest GDP forecast depicts a worse-than-expected outcome for 2019/20 and 2020/21 fiscal years. However, even with the revised forecasts, the level of foreign reserves is still expected to be above the 3 months minimum threshold of import cover, while inflation is to remain below the 5% reference rate. The banking system is still sound supported by high liquidity and capital positions. 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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