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 10th of June 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, shared that domestic economic activities improved during March 2021. The primary sector reported more exports of agricultural products, particularly cassava, yam, and taro. Lending to the industries under the secondary sector increased, implying more activities for the construction and manufacturing sectors in particular. Total container registrations increased substantially in March 2021 as a result of mostly business container registrations indicating an active wholesale and retail industry. However, vehicle registrations declined in the month.

Inflation rose by 1.4% in March 2021 due yet again to higher imported and domestic prices. Similar to previous months, this resulted from higher prices for food, fuel, and electricity. Headline annual inflation rose by 3.3% as a result of an increase in both higher imported and domestic prices. This stemmed from higher prices for food, tobacco and alcoholic beverages (imported) whilst higher prices for food, tobacco, and clothing & footwear drove domestic prices higher.

In March 2021, the official foreign reserves continued its downward trend following last month's decline. It fell by $6.7 million to $685.7 million, equivalent to 11.7 months of imports. This was due to an increase in import payments during the month. However, annually, foreign reserves increased significantly by $228.2 million. This is mainly attributed to receipts of budget support, official grants, and remittances.

The total banking system continues to maintain its soundness supported by strong capital positions and excess liquidity. The increase in total deposits and the decline in total lending resulted in a lower loan to deposit ratio of 67.2% in March 2021, a fall from 68.2% last month and still below the 80% minimum. The weighted average interest rate spread narrowed by 1.2 basis points in the month of March 2021 and annually by 26.1 basis points to 5.7%.

The Reserve Bank's latest GDP outlook projects a deeper contraction in the economy for 2020/21. However, the level of foreign reserves is still expected to be above the 3 months minimum threshold of import cover. Inflation is expected to pick up above the 5% reference rate in the upcoming months in line with the rebound in global prices for food, oil, and commodities coupled with rising freight rates amidst the COVID-19 uncertainties. However, it is expected to fall back below the 5% reference range by the last quarter of 2021. 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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