**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 11th of November 2021, approved to maintain its current monetary policy measures outlined below. This is to encourage utilization of the excess liquidity in the banking system by further lending to growth sectors and supporting 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 assist the Government during COVID-19 with issuing 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 noticeable activity in the domestic economy. The primary sector recorded growth as the total agricultural export volumes rose over the month by 27.9 tonnes (3.9%), driven by higher exports of root crops. The secondary sector reported loans extended for manufacturing, utility, and mining & quarrying purposes, indicating positive activity across those industries. Meanwhile, the tertiary sector showed mixed outcomes in August 2021, with container registrations having substantially increased by 430 containers (86.3%), due to more business and private containers. This is mostly a result of delayed shipments due to rerouting of ships as Delta variant continues to break out in neighbouring countries. The tourism industry remains mostly stagnant.

Inflation increased by 0.2% during the month, mainly owing to higher imported prices. In the year to August 2021 it rose by 7.0%, driven by higher imported and domestic prices. The higher annual headline inflation is above the 5% reference rate. Higher prices for food items and electricity mainly led to the higher local prices, whilst higher imported prices were driven by higher prices for fuel, gas, and food items.

The level of official foreign reserves rose significantly over the month and in the year to August 2021 by $46.9 million and $195.6 million, respectively. This monthly rise was mostly due to an increase in capital inflow and remittances. Annually, foreign reserves increased, resulting from more receipts of budget support, project funds, and remittances.

The total banking system continues to maintain its soundness, supported by strong capital positions and excess liquidity. Total deposits increased by $7.7 million (1.0%) while total lending declined by $2.8 million (0.6%). The rise in total deposits and the decline in total lending resulted in a lower loans to deposit ratio of 58.9% in August 2021, compared to 59.8% last month and still below the 80% minimum. The weighted average interest rate spread widened over the month and year to August 2021 by 2.8 basis points and 24.7 basis points, respectively, to 5.90%.

The Reserve Bank's GDP outlook is more positive for the 2021/22 fiscal year as the global economy is expected to recover. Although there is expected inflationary pressure, it is projected to be transitory and will eventually fall below the 5% reference rate in the next 6 months. However, foreign reserves is still expected to remain at sufficient levels above the 3 months minimum threshold of import cover. 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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