



Governor's Foreword

The financial year 2014/15 was an important year for the Reserve Bank as we celebrated 25 years of service. This important milestone was commemorated on the 1st July 2014. The Reserve Bank's milestone achievements during the year included the launch of the new currency by His Majesty Tupou VI, the NRBT logo and the board approval of the first Corporate Plan for the Reserve Bank for 2015-2017. The Corporate plan articulates 4 key strategic priorities based on the mandate of the Bank outlined in the NRBT (Amendment) Act 2014.

The domestic economic activities were supported by the developments in Tonga's key trading partners. Unemployment fell over the year in the economies of our major remittance source countries mainly the US and New Zealand. World oil prices declined by more than 40% to US\$ 62 per barrel and the Tongan pa'anga strengthened against the Australian and the New Zealand dollar while it depreciated against the US dollar. The Reserve Bank estimated Tonga's Real Gross Domestic Product (GDP) growth of 2.2% in 2014/15 based on strong growth from the construction sector, trade, transportation and communication sector.

Strong economic growth was recorded during the 2014/15 year for all sectors except the Agricultural sector. The stronger domestic economic activities were boosted by preparations for festivities and special events scheduled for mid-2015, including the King's Coronation in July 2015. Agricultural export volumes mainly for the squash industry fell due to unfavourable weather conditions, despite efforts by the Government to improve access to finance for all sectors through the Government's managed funds loan scheme facilitated by the Tonga Development Bank. The trade and transportation sectors improved, supported by a combination of declining global oil prices and spill over effects of improved construction activities. Remittances remained above T\$200 million during the year despite the increasing trend of banks de-risking which resulted in the closure of some of the foreign exchange dealers' accounts. The banking system also increased its lending to businesses, particularly public enterprises, as well as private individuals during the year. Interest rates declined with the weight-

ed average interest rate spread narrowing to an all-time low of 5.95% in June 2015 compared to 6.54% in June 2014.

The Consumer Price Index (CPI) remained at low levels, recording four consecutive months of headline deflation, and well below the Reserve Bank's reference range. The foreign reserves rose to \$289.7 million in the year to June 2015, sufficient to cover 7.9 months of imports, and remained well above the Reserve Bank's minimum range. Given these outcomes of low inflation, high foreign reserves, stable and competitive exchange rates, improving monetary conditions with high liquidity, improving credit and deposit growth and narrowing interest rate spreads, the Reserve Bank's decision to maintain its accommodative monetary policy stance has supported macroeconomic stability and economic growth during the 2014/15 financial year.

During the year, the Reserve Bank continued its prudential supervision of banks and the financial system remained stable and strong, despite the Westpac Bank of Tonga decision to sell its operations to the Bank South Pacific. The banks remained well capitalized and above the prudential requirements, asset quality in the banking system improved and the banks' liquidity remained at excessive levels as banks cautiously built their loan portfolio. The Reserve Bank also carried out other important functions such as the supply of clean bank notes and coins for public usage as well as act as the fiscal agent and banker for Government which contributed to the operational expenses and income of the Reserve Bank.

On the Reserve Bank's financial performance, the easing of monetary policy in the global economies and the historically low interest rates around the world has contributed to lower investment income for the Reserve Bank during the year. In this regard, the Reserve Bank's net profit fell to \$1.261 million in 2014/15, from \$3.552 million in the previous year. In accordance with section 8(1) of the NRBT (Amendment) Act 2014, only 70% of the net profit shall be transferred to the Government of Tonga.

During the year, to modernise the operations of the bank, several projects were undertaken by the Reserve Bank to enhance its operational efficiency as well as ensuring the security of the Reserve Bank's assets are well protected. These included the automated data collection and recording as well as upgrading of the information systems and technology. Consistent with the strategic priority to become the employer of choice and to retain a professional team, the Reserve Bank reviewed its organisation structure and remuneration policy as well as built capacity through training, succession planning, and recruitment of professional staff to achieve the mandate of the Reserve Bank.

I wish to thank the Chairman and the Board of Directors for their valuable advice and contribution. I acknowledge the support received from the Ministry of Finance, Government, the domestic banks and the non-bank

financial institutions including authorised foreign exchange dealers in pursuing our common goal of promoting macroeconomic stability and economic growth. The assistance from the international organisations, Tonga's development partners and other central banks in the region is acknowledged with appreciation. I would also like to thank the staff for their hard work, professionalism and continued dedication which has achieved the outcomes detailed in this Annual Report.

Dr. Sione Ngongo Kioa
Governor



His Majesty King Tupou VI and the Prime Minister 'Akilisi Pohiva at the launch of the new currency.



Royal Australian Mint presenting a gift to His Majesty King Tupou VI