



Governor's Foreword

It is indeed my pleasure to present the National Reserve Bank of Tonga Annual Report and Financial Statements for the year ended 30th June, 2016. This Annual Report reviews the Reserve Bank's policies and operations during the financial year in-line with the principal objectives and the functions outlined in the NRBT Act.

During the 2015/16 financial year, the Tongan economy continued to grow at above 3% for the second consecutive year supported by the rebound in the agricultural and marine sectors, as well as growth in the trade, tourism and construction sector. Inflation remained low at 0.1% in the year ended June 2016 following two consecutive months of annual deflation. Total credit to businesses for construction and manufacturing as well as private individual housing loans grew by 14.5%, slightly exceeding the Reserve Bank's expectations of 14.4% growth and was supported by low interest rates and the persistently high liquidity in the banking system. Despite the challenges of de-risking by the foreign banks and the closing down of the foreign exchange dealers' accounts, remittances continued to remain above T\$200 million per annum, and the inflow of donor funds supported the increase in the foreign reserves to T\$354.9 million (9.4 months of imports) by the end of June 2016.

In terms of financial stability, the financial system remained strong and sound during the year. Levels of capital adequacy and liquidity in the banking system remained high, and earnings as well as non-performing loans improved. Due to major changes to the structure of the financial system during the year, the Reserve Bank ensured that the financial system continued to serve Tonga's financial needs and granted a new license to Bank South Pacific of Papua New Guinea on the 10th July 2015 as well as facilitate the de-licensing of Wespac Bank of Tonga which ceased its operations on the same day, closely monitored the Tonga Development Bank expansion of its services to include commercial banking and foreign exchange services, as well as address public concerns on banks' interest rates and fees and charges.

Against this background of a sound financial system, low inflation and high foreign reserves that is fundamental for macroeconomic stability, the Reserve Bank retained its accommodative monetary policy stance for the seventh consecutive year to maintain this positive trend in economic growth.

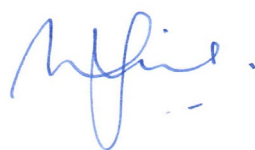
Similar to some economies in the region, the persistent high liquidity in the banking system reduced the effec-

tiveness of the monetary policy transmission mechanism and became the main concern for the Reserve Bank throughout the year. The Reserve Bank therefore pursued a mix of policies to strengthen the monetary policy transmission by implementing macro-prudential policies such as: setting a minimum loans to deposit ratio for banks; developing the financial markets to strengthen the monetary policy transmission mechanism; and drafted legislation to regulate non-banks to protect their customers and encourage access to finance. Acknowledging the contribution of the Micro, Small and Medium Enterprises (MSMEs) sector, to employment and inclusive economic growth, the Reserve Bank as a member of the Alliance for Financial Inclusion (AFI) network, committed to the Maputo Accord as well as other financial inclusion initiatives with the intention to formulate a national strategy to support access to finance particularly MSMEs for agriculture, fishing, tourism, youth and women.

On the financial performance and operations, in accordance with the NRBT Act, the Reserve Bank's financial accounts were audited by PricewaterhouseCoopers, Fiji and submitted to the Minister of Finance together with a summary of the Reserve Bank's operations during the year. Overall, the Reserve Bank's net profit available for distribution rose to T\$4.1 million of which T\$2.89 million will be transferred to the Government. The increase in net profit is attributed to interest income from the investment of foreign reserves as well as the gain on the sale of Reserve Bank assets. This income was offset by the increase in expenses for the issuing of the new currency to replace the currency that was recalled as well as administration and staff cost. These expenses were measures to maintain the quality of currency in circulation at a high standard, modernise the IT and communications infrastructure to prevent and manage operational risks, extensions to the Reserve Bank premises, as well as train and retain professional staff at the bank.

Throughout the year, there were changes to the Governance composition of the Reserve Bank, the longest serving Director of 19 years, HRH Princess Sālote Mafile'ō Pilolevu Tuita resigned from the Board in February and the Board members welcomed Director 'Uhila Liava'a as a new member. The Chairman and Directors acknowledge the invaluable contributions of HRH Princess Sālote Mafile'ō Pilolevu Tuita as a Director and former Chairperson of the Board. The Directors also reviewed the Reserve Bank's Corporate Plan 2015-2017, after the first year of implementation and noted that 70% of the targets were achieved, some of the targets that were not achieved were due to matters that were beyond the Reserve Bank's control. The Directors also endorsed the Reserve Bank Corporate Plan 2016/17 – 2018/19.

I would like to take this opportunity to thank the Board of Directors for their direction and support during the year. I acknowledge the support received from the Ministry of Finance, Government and the domestic banks, the non-bank financial institutions including the authorized foreign exchange dealers in pursuing our common goal of promoting macroeconomic stability and economic growth. The assistance from the international organisations, development partners of Tonga and other central banks in the region is acknowledged with appreciation. I would also like to thank the Reserve Bank staff for their commitment and hard work during the year which contributed to the Reserve Bank achieving its objectives in 2015/2016 which are presented in this Annual Report.



Dr. Sione Ngongo Kioa
Governor