



Governor's Foreword

I am pleased to present the National Reserve Bank of Tonga Annual Report for the financial year 2016/17 which attests to the Reserve Banks' work and provides an overview of the policies and operations in-line with the principal objectives and the functions outlined in the NRBT Act, as well as the audited Financial Statements for the year ended 30th June, 2017.

Macroeconomic activity continued to improve as the year progressed. The Tongan economy continued to grow for the fourth consecutive year. The Statistics Department recently released Tonga's 2016-17 Real Gross Domestic Product (GDP) of 5.0% reaching its highest growth since 1998-99. The growth was mainly driven by strong growths in the construction, trade, transport, communication and agricultural sectors.

At the end of June 2017, annual inflation was at 10.3% aided by the rise in imported food prices which also reflected the new government excise tax. Global oil prices also increased which transpired to higher domestic fuel and electricity prices. At the time of writing, the Bank projected that in the short term, inflation would fall close to the Bank's 5% inflation reference rate. The foreign reserves also continued to increase to end at a high of T\$407.9M and 7.4 months of imports.

The financial system continued to remain safe and

sound during the financial year. The commercial banks remained well capitalized with reasonable profits coupled with the continued improvement to the quality of assets. During the year, the commercial banks credit increased to a new record high of \$404.5 million and non-performing loans declined to \$16.9 million. The annual credit growth was due mainly to the increase in housing loans to individuals and business loans mainly to the wholesale and retail, services and manufacturing sectors. Lending activities in the non-bank financial institutions also increased to \$140.4 million reflecting lending to households. To maintain financial stability, the Bank formulated and issued policies and drafted legislations and regulations to protect the integrity of the financial system and the interest of depositors. Following continuous enhanced supervision and monitoring of the commercial banks, the Bank revoked one commercial bank license and conducted the payout of their customers' deposits. Due to concerns on high interest rates charged by the commercial banks and non-bank lenders, the Bank drafted legislations to regulate the non-bank financial institutions and introduced the Annual Percentage Rate (APR) calculator which includes all interest rates and fees and charges related to a loan, to ensure borrowers can compare and are cognizant of the total loan cost.

One of the Banks new initiatives was to promote finan-

cial inclusion by ensuring access to finance, particularly small and medium enterprises (SMEs). This initiative would support inclusive economic growth and measures to provide affordable financial services to remote areas. During the year, the NRBT Act was amended to expand the functions of the Bank to manage and promote financial inclusion initiatives and related activities. In recognition of its financial inclusion efforts, the Bank was also awarded the Alliance for Financial Inclusion Maya declaration award for clearly defined measurable targets and dedicated progress reporting.

In efforts to assist the development of the domestic market operations in the near future to be more market oriented, amendments to the NRBT Act approved in February 2017 allows the utilization of the excess balance in the Revaluation Reserve Account, above \$10 million, to cover the Reserve Bank's monetary policy costs. This amendment also allowed the excess balance in the Revaluation Reserve Account to be paid to the Government upon the request of its Minister and approved by the Reserve Bank Board.

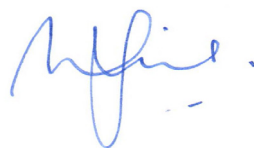
Against this background, of macroeconomic and financial stability and a favorable outlook, the Reserve Bank maintained its accommodative monetary policy stance for the eighth consecutive year. The Bank's policies were mainly focused on encouraging the utilization of excess liquidity in the banking system, promote prudent credit to support economic growth, and strengthen the monetary policy transmission mechanism. At the same time, the Bank also remained vigilant for any signs of overheating risks in the economy. In addition, the Bank eased the exchange control policies in view of the high level of foreign reserves and the outlook for the foreign reserves to remain at comfortable levels and the current monetary policy stance. This also assisted the business community and the general public in making their overseas payments.

On the financial performance and operations, in accordance with the NRBT Act, the Reserve Bank's audited financial accounts were submitted to the Minister of Finance together with a summary of the Reserve Bank's

operations during the year. Overall, the Reserve Bank's total income for the year was T\$10.41 Million and the net profit available for distribution was T\$2.853 million of which T\$1.997 million will be transferred to the Government. The main contributor to the Reserve Bank's profit was the interest income from the investment of foreign reserves. This income was offset by operational costs for capital investments, cost of issuing currency, administration and staff costs. These expenses were measures to maintain the quality of currency in circulation at a high standard, modernize the IT and communications infrastructure, as well as train and retain professional staff.

Throughout the year, there were changes to the Governance composition of the Bank, the Board members welcomed one director and were deeply saddened by the passing of the late Director 'Uhila moe Langi Liava'a. The Directors also reviewed the NRBT Corporate Plan 2015-2017, after the second year of implementation and endorsed the NRBT Corporate Plan 2017/18 – 2018/19.

At the end of the financial year 2016/2017, the Bank has achieved its functions outlined in the NRBT Act and I would like to thank the Board of Directors for their support and the Staff for their efforts and dedication during the year which are outlined in this Annual Report. I acknowledge the support of the Ministry of Finance, Government Ministries and the financial institutions in pursuing our common goal of promoting macroeconomic stability and economic growth. The assistance throughout the year from the international organizations, development partners of Tonga and other central banks in the region are also acknowledged with appreciation.



Dr. Sione Ngongo Kioa
Governor