



GOVERNOR

NATIONAL RESERVE BANK OF TONGA

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Governor Kioa's Welcoming Speech on the 30th anniversary of the NRBT

NRBT Conference Centre, 11:00 am, 12th July 2019

'Oku ou kole keu hufanga he ngaahi fakatapu kuo 'aofaki he kamata 'etau polokalama kae 'ata keu fakaafonga'i atu e Poate mo e kau ngaue 'a e Pangike Pule ke 'oatu ha lea talitali mo fakamalo kiate kimoutolu 'I ho'o mou lava mai he pongipongi ni.

I wish to extend a special welcome to Lord Ma'afu, from His Majesty's Cabinet, as well as Lord Tu'iha'angana from the Legislative Assembly. Welcome Rev Dr Tali'ai Niumeitolu and thank you for starting our program with that beautiful prayer and for accepting to lead our Thanksgiving Service today. A special welcome is extended to the former Reserve Bank Governor, Mrs Siosi Mafi, and her husband Dr Maletino Mafi and I welcome also the friends and colleagues of the Reserve Bank, past and present, from the public and private sectors.

We agree that this is not an occasion to be broadcasted, but an opportunity for the current staff to celebrate with their former colleagues - a milestone to be proud of. Malo ho'omou ngaue pea mo hono fataki e fatongia.

Distinguished guests, our pearl jubilee gathering today cannot be concluded without a brief history of the Reserve Bank's set-up, and where we are today.

Prior to July 1989

- Central banking functions were fragmented in government and in the former Bank of Tonga;
- The Ministry of Finance administered the country's monetary policy;
- Former Bank of Tonga held and managed the official foreign exchange reserves;
- The Commissioner of Currency was the Minister of Finance;
- Ministry of Finance managed the currency issue using the Treasury accounting system and currency was stored and distributed from the Treasury vault;
- The financial system was unsupervised consisted of the BoT and the TDB and of course a lot of credit unions, money lenders and foreign exchange dealers;
- The exchange control was administered by the Ministry of Finance;
- The Tongan pa'anga was pegged to the Australian dollar; and
- Inflation rate during the 1980s and early 1990s was hovering at between 10% to 20%
- Real interest rates were mostly negative.

Thirty years ago, 1st July 1989 was an important crossroad in Tonga's financial history. It marked Government's timely recognition to rationalise its financial roles and functions by consolidating and hiving off the tasks of conducting monetary policy.

To support macro-economy stability, the prudential supervision of our very small, unsupervised financial intermediaries was also recognised.

The National Reserve Bank of Tonga was then set up, as Tonga's central bank, with the temporary office at the Royco Building, while this building was planned for construction.

The first members of the Board of Directors were:-

- i. The Late Prime Minister Baron Vaea, Chairman of the Board
- ii. Hon. Tevita P Tupou, Deputy Chairman of the Board
- iii. The Late R. Albin Johansson, Director
- iv. The Late S. Tsutomu Nakao, Director
- v. The Late Selwyn P Jones, Secretary for Finance (Ex-officio member)
- vi. The Late Alan E Gee, Governor of the Reserve Bank (Ex-officio member)
- vii. Mr. Siosuia TT Utoikamanu, Deputy Governor and Secretary of the Board

The members of the Board have changed from time to time but the institutional memories and strategic directions remained intact.

During the 30 years period, the Reserve Bank have had four Governors:-

- 1st Governor - the late Alan Gee (July 1989 - July 1991);
- 2nd Governor - Mr Siosuia TT 'Utoikamanu (July 1991 – May 2003)
- 3rd Governor – Mrs Siosi Mafi (May 2003 – July 2013)
- 4th Governor - Sione Ngongo Kioa (August 2013 – now)

The current members of the Board are:-

- i. Mr Steve Edwards (Chairman) – since February 2011
- ii. Richard Prema, Director and Deputy Chairman – Director since 2003
- iii. Sinai Tu'itahi, Director since February 2013
- iv. Mrs Balwyn Fa'otusia, Secretary for Finance (Ex-officio member) – Since January 2017
- v. Sione Ngongo Kioa, current Governor of the Reserve Bank (Ex-officio member) – since August 2013
- vi. Jessie Cocker, Deputy Governor and Secretary of the Board since 2014

On the legislative framework, the inherent independence of the reserve bank, its objectives, its functions have evolved over the past 30 years through various amendments to the Bank's principal legislations.

The main functions of the Reserve Bank, now, are:-

- a) Formulating and implementing monetary policy;
- b) Principal banker, fiscal agent and depository for the Government;
- c) Issuing currency;
- d) Prescribing the regime
for the determination of the external value of the Tongan currency;
- e) Determining the foreign exchange rate
and implementing foreign exchange policy;
- f) Exclusively holding
and managing the foreign exchange reserves of the country;
- g) Regulating the supply,
availability
and international exchange of money;

- h) Determining and implementing financial stability policy, and overseeing the maintenance of the stability of the financial system in the country;
- i) Regulating and supervising all banks and the non-bank financial institutions in the Kingdom – these include money transfer operators, foreign exchange dealers, insurance companies, retirement funds, credit unions, microfinances, money lenders, investment funds etc.;
- j) Overseeing and promoting the efficient, sound and safe functioning of the national payment system;
- k) Regulating and supervising capital markets development in Tonga;
- l) Managing and promoting financial inclusion initiatives and related activities;
- m) Providing advises to the Government on banking and monetary matters;

In carrying out these unique functions, we (the Board of Directors, management and staff) vow that we have advanced what we inherited from our competent predecessors.

We have taken the Reserve Bank forward as expected of us and we have greeted the Reserve Bank to its 30th anniversary with a 2019 central banking global standard.

In taking stock of what we have advanced to date, I wish to highlight the achievements of Reserve Bank with regards to the four main objectives as prescribed by the law:-

1. On maintaining internal and external monetary stability;

- which points to the stability in the value of pa'anga in terms of:
 - its purchasing power (*inflation rate*);
 - its opportunity cost (*interest rate*); and
 - its relative value to other currencies (*exchange rate*).
- On internal stability (i.e. low and stable inflation): The Board adopted a benchmark of 5% inflation rate. I can proudly say that the annual inflation rate as reported by the Statistics Department for May 2019 is 1.7%, way below the benchmark.
- On external stability (i.e. stable and comfortable level of foreign exchange reserves): The Board adopted a benchmark of 3 months equivalence of imports of goods and services. and I can proudly confirm that the level of official foreign exchange reserves was at a new historical record yesterday (11th July 2019), with \$491 million (8.1 months of imports of goods and services).

2. On promoting financial stability;

- I confirm that Tonga's financial system can consistently supply the credit intermediation and payment services that are needed by the country to continue on its economic growth path.

- Credit growth healthy and is currently at 9.3% per annum, which is a much desirable credit pace; a significant slow down from close to 20% in May 2017, - when the IMF was worried about an overheating Tongan economy that may repeat the financial struggles that took place during the Global Financial Crisis.
- Due to the continuing surge in private remittances (close to 40% of GDP) from the Tongan diaspora and government budget supports from donor partners There is excess liquidity in our financial system (estimated around \$100 million) looking for bankable projects.

3. On promoting a sound and efficient financial system;

- I wish to confirm that the Tongan financial system:-
 - is well capitalised with a risk weighted capital ratio of 31.4% compared to the 15% minimum capital requirements as set by the law.
 - The financial system is sound with an average lending rate of 8%, average deposit rate of 2% and an average interest rate spread of 6%.
 - Our financial system has low level of non-performing loans (only 3.8% of total loans in May 2019)
 - The banking system has been profitable on upward trend since September 2014. The banks' total net profit for year ended May 2019 is \$22 million, compared to \$20 million last year.

4. In supporting macroeconomic stability and economic growth.

- Tonga's current inflation rate is below 2%;
- Credit lending is close to 10% per annum;
- Banks are financially sound and stable;
- Interest rates in low;
- Non-performing loan is low;
- Exchange rate supports the macroeconomic fundamentals; and the business community is happy
- Economic growth is projected to be at 3.4% in 2018/19 and 3.5% in 2019/20

Lord Ma'afu and distinguished guests, I wish to also mention that the Reserve Bank's pre-audited net profit for 2018/19 is above \$6 million which is the highest ever.

We had a clean audit in 2017/18 and we expect the same in 2018/19, even with the implementation of IFRS9.

The Board of Directors have set an appropriate vision for the Reserve Bank:

"To be an effective and dynamic central bank in promoting Tonga's economic prosperity".

In pursuing our functions to get to our vision, we are guided by our corporate values:-

- Being professional and exercising sound judgment - **Integrity**;
- Continually improving what we do - **Innovative**;
- Working together for a more effective institution - **Team work**;
- and producing high quality work - **Excellence**.

With our pearl jubilee, 30 years old, the National Reserve Bank of Tonga has developed and is now officially a matured adult and independent and we are proud of it.

I therefore wish to thank our partners in the economic development of our Kingdom, the Government, the financial institutions, private sectors, the people of Tonga and our foreign stakeholders.

Lord Ma'afu

Thank you for your continued faith in the Reserve Bank, thank you for your continuing support in land issues relating to the mortgages in the banking system and we with the banks in Tonga shall continue to do our utmost to be worthy of His Majesty's trusts.

I would like to thank the members of the Banks Association, Daniel Hansen of BSP (Chairman), Leta Kami of Tonga Development Bank, Mr Yeoh of MBf Bank, and David Dudley of ANZ. I wish to acknowledge the presence of Ms Tessa Price, the Regional CEO of ANZ Pacific - who is here just for today's occasion to reassure Tonga that ANZ will remain and continue its business in Tonga for a long time.

To our partners in law enforcement who help us to ensure that Tonga meets international standards of AML/CFT during the current Mutual Evaluation of our framework thank you to you all.

To the Board of Directors, I wish to thank you all for your guidance, your strategic direction, but most importantly for your faith in us.

Lastly, but by no means the least, I wish to thank my staff, Deputy Governor Jessie Cocker, Assistant Governor Lata Tangimana and all the Reserve Bank staff. 'Oku ou fakamalo atu moe loto hounga mo'oni kia kimoutolu hono kotoa, malo si'o mou ngaue.

Lord Ma'afu, honoured Guests, Ladies and Gentlemen, thank you all for coming to be part of this celebration.

'Ofa atu.