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National Reserve Bank of Tonga imposes Minimum Loan to Deposit Ratio to encourage the utilization of the excess liquidity in the Banking System

The National Reserve Bank of Tonga continues to consider policy options in order to achieve its objectives of maintaining internal and external stability and promoting a sound and efficient financial system in order to support macroeconomic stability and economic growth. Against the background of low inflation, high foreign reserves, excess liquidity and narrowing interest rate spreads, and following the Reserve Bank's consultation with the Association of Banks in Tonga, the Reserve Bank's Board of Directors, at its meeting on 26th April 2016, approved the introduction of a measure to encourage the utilisation of the excess liquidity in the banking system.

Effective on 1st July 2016 all banks must work towards progressively achieving a minimum loan/deposit ratio of 80% and a maximum loan to deposit ratio of 90% within 18 months of the effective date. The Governor of the Reserve Bank announced that "it is anticipated that this will encourage further lending by the banks to the public particularly the growth sectors of the economy, which would assist with the country's economic development."

The NRBT has the discretion to approve any deviation from these targets to ensure the financial soundness of the banks is not jeopardized.

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