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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. KINIKINILAU TUTOATASI FAKAFANUA ,  
Governor of the Bank for TONGA ,  
at the Joint Annual Discussion

1998 World Bank/IMF Annual Meeting  
Statement by the Hon. K. T. Fakafanua  
Governor for Tonga  
World Bank

It is an honour for me to represent the government of the Kingdom of Tonga at the 1998 Annual meetings of the Board of Governors of the World Bank and International Monetary Fund.

The year 1997/98 has been a very challenging year for most member countries. The financial turmoil in Asia that erupted in mid-1997 has left many Asian economies with currencies and asset values far below pre-crisis levels. Moreover, the crisis has resulted in a slow-down in global economic growth during the year. Among the advanced economies, the out-turn for Japan has deteriorated further. Fortunately, economic growth in North America and Western Europe has been sustained and appears likely to remain so in the period ahead. The robust domestic conditions in these economies should facilitate the adjustment of current accounts in those emerging Asian markets affected by the sharp declines in capital flows.

Turning to the Pacific region and, in particular, the Kingdom of Tonga, growth performance over the last decade has been mixed. Tonga experienced average GDP growth in excess of 4 percent during the early 1990s, but this has not been sustained since 1995/96. A combination of factors such as the slump on commodity prices of exports like vanilla, and adverse weather conditions affecting other exportable agricultural production have been the main causes. As a consequence we are now faced with a substantial trade deficit. The expansion of the banking system, has brought about a surge in domestic credit which is now approaching unsustainable levels, spiraling an acceleration in import demand and causing the gross official foreign reserves to deteriorate below acceptable levels. The overall level of inflation, however, continues to be about 3 percent.

Notwithstanding the above constraints, however, we are committed to our objective of stabilizing and restoring growth to our economy. On the fiscal front, we place priority on improving the overall incentive structure for exports, and hence the balance of payments. We are also pursuing a balanced (recurrent) budget by adopting a central strategy aimed at rationalising expenditures, while at the same time expanding the revenue base. Progress has now been made on the public sector review programme and greater emphasis is being placed on establishing tax and tariff structures that are less distortionary and at the same time inductive to productive activity. In particular, we are pursuing a more broad-based tax structure as the main source of revenue.

The rapid erosion of international reserves warrants further monetary tightening and our monetary authorities have taken measures to improve the supervision of the banking system to ensure its long-term viability and stability. We acknowledge the continued efforts by the Bank and the Fund in providing appropriate policy advice and we consider the annual Article IV consultations to be essential and important in supporting our efforts at economic stabilization.

Turning now to Bank and Fund matters – capital flows to our region, in terms of aid and concessional loan resources should not be affected by the financial crisis in Asia and the recent turmoil in Russia. We note that total flows of Official Development Assistance (ODA) to developing countries have continued to decline. In 1997 ODA flows averaged 0.22 percent of GNP for the OECD countries as a group, reflecting a long-term decline from 0.33 percent in 1992. The Bank and the Fund are therefore urged to ensure that the level of aid assistance to small member countries is maintained in real terms. The Bank's agreement to collaborate with the Commonwealth Expert Group in the development of an acceptable vulnerability index for use when considering the graduation of member countries from concessional sources of financing is commended.

We support the call by the Fund and the Bank for concerted efforts to respond to member countries in crisis. The effects of the Asian crisis, the recent turmoil in Russia, and their spillover to other markets, have imposed substantial costs on individual countries and on

the world economy as a whole. This underscores the need to address policy weaknesses at the national level at an early stage and the importance and urgency of the Fund's work on the proposed revised international architecture. We acknowledge that progress has been made on several fronts, including significant financial assistance to underpin stabilization measures, programmes of structural reform and technical assistance in key sectors. In this regard, we welcome the move to strengthen the Fund's surveillance activities. We would also like to endorse the call for involving the private sector in resolving and forestalling crises and welcome the initiative of the Bank to provide financial assistance to address the global problem of the millennium bug.

On the ESAF and the HIPC's Initiatives, it is important that we continue to respond to the needs of our poorest members who are adversely affected by the downturn in global economic conditions. On the IMF Quota increase, we endorse the need to increase the Fund's resources in order to cope with the difficult tasks ahead.

In conclusion, I believe that the lessons learnt from the recent events and the policy responses currently established will ensure a successful transition into the new millennium. I call on both the Bank and the Fund to accelerate efforts to restore global economic stability and growth and to ensure that all member countries are accorded appropriate assistance during times of increased uncertainty. Finally, I wish to thank the Managing Director of the Fund and the President of the Bank and their staff for their tireless efforts during the past year and to reaffirm our continued support during this difficult time.