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Statement by the Hon. **SIOSIUA T.T. 'UTOIKAMANU**,
Governor of the Bank for **TONGA**,
at the Joint Annual Discussion

**Statement by the Hon. Siosiua T.T. ‘Utoikamanu,
Governor of the Bank for Tonga,
at the Joint Annual Discussion**

Mr. Chairman

Managing Director Horst Kohler

President Wolfensohn

Fellow Governors

Distinguished Delegates

Ladies and Gentlemen

It is an honor and a great pleasure for me to address the Board of Governors of the International Monetary Fund and World Bank Group on behalf of the Government of the Kingdom of Tonga at the 58th Annual Meetings. I wish to extend my appreciation to the Government and the people of the United Arab Emirates for its hospitality and excellent arrangements.

On the outlook for the world economy, the macroeconomic policies in industrial countries will continue to support worldwide economic activity beneficial to all countries, including small island economies such as Tonga. The recent depreciation of the US dollar in an orderly fashion without triggering upward pressure on interest rates and the recent fiscal stimulus augurs well in terms of export competitiveness and growth for the US economy. In addition, we note that a modest rebound is projected for the Japanese economy. It is our hope that the Japanese authorities will continue on a clear and strong commitment to the policies needed to reverse deflation to enable improved support of future growth prospects for the world economy.

The focus by the Fund on surveillance will continue to be supportive of reducing countries' vulnerabilities to external shocks especially within the context of identifying a criterion for gauging the soundness of policies that could lead to a more objective basis for policy advice. Moreover, we welcome the formulation of new ways of providing for the quick disbursement of concessional finance to assist low income countries to deal with exogenous shocks.

For crisis prevention and management, the Bretton Woods Institutions affect millions of people with the Fund becoming a rule-making institution whose decisions encompasses international as well as national economic policy making. The legitimacy of such a process ought to be enhanced through a democratic framework for governance which requires the need for agreement on the fundamental reforms needed to strengthen developing country voting power, staffing, research and other constraints faced by developing countries. The diffusion of decision-making power would also improve the perception of the broad acceptance and application of universal models of macroeconomic management and a one size fits all approach. Furthermore, it is considered that there is need for a series of new indicators to provide a comprehensive perspective as the process of measuring inputs and outcomes are necessarily complex.

We support the view that, in addressing poverty, donors must assist in strengthening the capacity, technical and financial assistance of small state economies like Tonga to implement and achieve the objectives of poverty reduction. Such assistance is crucial in addressing issues such as the way in which basic services are failing the poor, alternative service delivery arrangements, and what can be done to improve access of the poor to basic services.

Although the outcome of the Cancun meeting is a disappointing setback, multilateral trade liberalization remains essential to achieving the Millennium Development Goals (MDG). We firmly believe that trade opportunities should benefit all people, and we therefore continue to encourage developed countries to show commitment

by focusing on the issues of open markets, fair access and the reduction of distortions to trade subsidies in all areas which should help millions of people in developing countries lift themselves out of poverty.

In Tonga, the economy continued to perform below expectations during the past year with higher than expected inflation, slow GDP growth, and fragile external and fiscal accounts. The key challenges for Tonga in the short term are to preserve external viability through strict fiscal and monetary policies. The key challenge in the medium term is to restructure the public sector in order to support private sector led growth. These challenges are exacerbated by the vulnerability of our country to exogenous factors such as El Nino, energy prices increases and the effects of the outbreak of SARs

However, this year will be the second year since the government embarked on a comprehensive economic and public sector reform program in order to respond to the short and medium term challenges which the country faces. Progress has been made in the introduction of necessary legislation that will provide the foundation and framework for this reform program.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the government and people of Tonga. The assistance continues to improve the standard of living of our people and we look forward to a continued partnership for the future. May I conclude by wishing the Bank and the Fund continued success in resolving the difficult challenges that lie ahead.

Thank you Mr. Chairman