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Statement by the Hon. **'OTENIFI AFU'ALO MATOTO**,
Governor of the Fund and the Bank for **TONGA**,
at the Joint Annual Discussion

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Governor of the Fund and the Bank for Tonga,
at the Joint Annual Discussion**

It is an honour to address the Boards of Governors of the International Monetary Fund and the World Bank Group on behalf of the Government of the Kingdom of Tonga.

I would like to congratulate and welcome Mr. Dominique Strauss-Kahn on his first Annual Meetings in his capacity as the Managing Director of the International Monetary Fund.

I acknowledge the work the IMF and the Bank are doing to help restore global macroeconomic and financial stability while bolstering growth and reducing poverty. It is at times of crisis many member countries look to these institutions for guidance and assistance.

Since the last Annual Meetings, the global economy continues to slow down markedly and the global economic prospects have split along two contrasting lines. The golden weather of economic growth that major industrialized countries enjoyed for several years has faded. The United States, the Euro zone and Japan are now experiencing major economic slowdowns because of the deepening financial crisis. By contrast, the emerging and developing economies are expected to remain resilient with growth slowing slightly to around 7 percent in 2008 and 6 percent in 2009. With forecasters predicting that the slowdown of global economic growth will continue through 2009, Tonga joins other member countries in echoing its concern over the impact of the current financial crisis. In this current situation, Tonga shares the Fund's view for strong and coordinated policies to mitigate the spilling effects of the global crisis on the rest of the world.

While addressing the challenges of the global financial turmoil and economic stagnation, it is imperative that other short and long term issues also receive attention. Global fuel and food prices have escalated sharply causing high inflation in many member countries. These price movements send important economic signals and we encourage continuing efforts by both the Fund and the Bank to soften the effects of these price movements on the most vulnerable member countries.

The determination by the Fund and the Bank not to lose sight of the long term objectives because of today's crisis is a move in the right direction. Given time, financial markets will recover and food and fuel prices will stabilize albeit at higher levels. In that respect,

I acknowledge the efforts from the Fund and the Bank to restore confidence and reduce the human cost of these adjustment processes.

Aid is another area where some coordination is occurring but much more action is needed. Effective aid occurs where needs are properly identified, and donors work together to complement each other in meeting the needs. Tonga notes the increasing coordination of aid activities between the Bank, Fund and other aid agencies in their operation programs. We support the Fund's proposed reforms to the Exogenous Shocks Facility which will provide more rapid and effective assistance to low income countries in the event of shocks.

The reforms undertaken by the Fund and the Bank are timely in order to respond more effectively to the global challenges now and in the future. The move to enhance the voice and participation of developing countries will help improve the alignment of aid efforts and national needs. We therefore strongly agree with these initiatives.

Domestic Economic Developments

Tonga's economy has shown resilience in the face of internal and external shocks. Preliminary projections indicated that economic growth is expected to expand by 2.6 percent in 2008/09 from 1.2 percent in 2007/08, with construction, transport and services providing the impetus. A number of tourism and agriculture initiatives are also in the pipeline. These initiatives allow Tonga to tap its unused economic potential and also bring some much needed diversity into the Tongan economy. This will help address the problem of a narrow economic base and reliance on a few key exports that has been a constraint in expanding the Tongan economy. This economic growth is underpinned by strong remittances, increasing foreign aid and recovery in private investments. These favorable economic developments have allowed the government to maintain a balanced budget for 2008/09 financial year.

Furthermore, the Government of Tonga continues to pursue its economic and public sector reforms to stimulate growth and promote private sector development. Major reforms include moving the taxation system from being heavily based on international trade towards an efficient low rate broad based taxation system. Public enterprises are being rationalized to improve financial performance and some are being privatized. Work is also continuing to ease and reduce the cost of doing business with good success. Having said that, I would like to acknowledge the ongoing technical and financial assistance from the Bank, the Fund and their agencies in supporting us in these reforms. Social and political reforms are ongoing and a fully democratic government is expected to be in place in 2010.

Tonga's relative high social development requires higher economic performance in order to achieve the Millennium Development Goals and sustain it at that level going forward. There is confidence that Tonga will be on target in areas such as gender equality, health and education. Continued collaboration with external agencies in achieving the remaining goals is vital.

Notwithstanding the achievements to date, Tonga, like other small island states, is affected by the same economic tides that shift the major players. The economy is facing challenges from global surge in food and fuel prices, posing risks to the external account balance and escalating inflation, and vulnerability to climate change and natural disasters such as cyclones and earthquakes. These challenges could easily undermine Tonga's economic growth. The current global financial turbulence raises the risk of a decline in remittances.

The Tongan Government is committed to maintain prudent fiscal and monetary policies to preserve macroeconomic stability and accelerate economic growth. The Government has given priority to climate change, which needs adaptation and mitigation measures with support from donor communities. Work is currently being done to explore alternative sources of energy, in addition to more efficient utilization of fuel. The financial and technical assistance towards this initiative from the Bank Global Facility for Climate Change will greatly assist.

Tonga is doing everything it can to manage these challenges. However, some of these are beyond our control. In this context, Tonga will continue to rely on the Fund, the Bank and other donors to assist the economy in addressing these challenges.

To improve aid effectiveness and coordination, Tonga has signed a joint Declaration of Aid Effectiveness with its development partners. To guide development, the Government of Tonga has also produced a Strategic Development Priorities framework. This framework is being reviewed for the next three years commencing July 2009. The Strategic Development Plan and Declaration of Aid Effectiveness are the first steps, however, much remains to be done to effectively align and integrate aid within Tonga. This ultimately will bring all donors into the Declaration of Aid Effectiveness.

The Government of Tonga is pleased with the decision by the Bank to establish an office in Tonga, which will strengthen our relationship and enable better coordination with other donor partners. The Tongan Government is always grateful to the Fund for the continued cooperation on the Article IV Consultations and other technical assistance received.

In conclusion, Tonga strongly supports the efforts by the Fund and the Bank to address the challenges before us and their efforts to reform their institutions so they can respond quickly and appropriately to the needs of member countries. I look forward to a continued close working relationship with both institutions. I wish the Bank and the Fund continued success in dealing with existing and emerging challenges going forward.