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Statement by the Hon. **LISIATE 'ALOVEITA 'AKOLO**,
Governor of the Bank for **TONGA**

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**TONGA COUNTRY STATEMENT
WBG – IMF 2013 ANNUAL MEETINGS**

**HON. LISIATE 'ALOVEITA 'AKOLO, MINISTER FOR FINANCE AND
NATIONAL PLANNING, GOVERNOR, KINGDOM OF TONGA**

Washington, D.C., October 2013

Mr. Chairman, Mr. President of the World Bank Group, Madame Managing Director of the International Monetary Fund, Fellow Governors, Distinguished delegates, Ladies and Gentlemen.

2. I am honored to have the opportunity to address the World Bank Group (WBG) and International Monetary Fund (IMF) Board of Governors' 2013 Annual Meetings. On behalf of the Tongan delegation, I would like to express my appreciation to the WBG, IMF, and the Executive Office of the Southeast Asia Group for the excellent meeting arrangements.

3. This annual convention is always an ideal opportunity for members and constituents to reflect collectively on the development activities and institutional reforms that are underway, and those proposed strategic direction that set future global development pathway albeit uncertainties and volatility in global economic performances.

4. The global recovery path towards stability is strengthened by the developing countries' expansion of economic activities, and the high income countries economy beginning to consolidate. This is a critical stage in global growth though at a slow pace but provides encouraging outlook for continued improvements, hence build confidence for future stable growth path. The call for developing countries to focus on structural policies will help to mitigate any remaining global risks.

5. The proposed WBG's Strategy with its four priority areas of focus offered opportunities to member countries to chart future development direction through their respective new Country Partnership Frameworks (CPF). The IMF work in recognition of the Low-Income Countries Global Risks and Vulnerability Report, identified financing challenges and emerging work program that will also be helpful for Tonga's participation. Tonga supports these proposed strategic reforms and activities as they are critical to better align our development priorities with the WBG's and IMF's value proposition to assist member countries address development areas. The resourceful

capacity of both institutions will also help our focus on the most critical constraints to, and take advantage of the opportunities for reducing poverty more effectively.

6. We therefore urge the WBG and the IMF to pay particular attention and capacity to mobilize resources towards better and more stable response solutions. Such attention can also take into account the vulnerable small states that are often left behind in the implementation of most global solutions. In the case of the Southeast Asia Group, Tonga with Fiji and Brunei GDP growth for the period 2012-15 were recorded below the world average growth. These three states amongst the small and vulnerable states falls within the WBG specific policy objective that 'no state must be left behind' as Tonga appealed to the Southeast Asia Group and the WBG and IMF to mobilize collective assistance to bring back these three states to the world average growth.

7. The constructive global effort being made including the WBG call to end poverty and to promote shared prosperity are outstandingly overdue. The commitments of the international financial institutions are timely to adjust the basis of their strategy for engagement and implementation to be more relevant and helpful to small states including Tonga and the most vulnerable member countries.

Tongan Economy

8. Tonga's small island state economy continues to be trapped in its low growth at 1 percent annual average for over a decade now, well below the world growth average of 3 percent. The short-term growth projection also remains weak for fiscal year (FY) 2013/2014 from 0.5 percent in FY 2012/2013. The reflect weaknesses in remittance inflows and the serious injury to tourism from the unsubstantiated travel advice against Tonga by one of its principal source market will in turn affect the projected medium term growth beyond 2013/14 to remain low whereby the economy will continue to be trapped in its decade long low economic growth.

9. The risks to the Tongan economy near-term outlook reflect external risks that will continue to challenge business confidence to a greater extent. The Tongan economy high level of external debt and its changed Debt Sustainability Assessment (DSA) rating from high to moderate risk will require fiscal consolidation to be prudent. This will in turn further challenge Government's effort to strengthen its economic growth opportunities versus practical fiscal sustainability rules. The challenge is to balance fiscal consolidation with effective sustainable growth strategies. The monetary policy could consider shifting towards a more robust policy response framework to correct the excess liquidity and prevailing interests rates. Efforts to overcome obstacles to lower cost of, and access to, credit have progressed to support economic growth initiatives.

10. There are also emerging social matters to the economy with significant financial implication such as public health costs *inter alia* emerging non-communicable diseases, community focused development initiatives, social welfare, climate change, and environment related initiatives. These areas are beyond the budget affordability of Government and they will consistently challenge its fiscal position.

11. In this context, the Government is following through key initiatives and technical assistance acquired from the WBG expertise to stimulate stronger GDP growth from its prolonged low growth below world average growth. Boosting Tonga's long-term growth prospects requires strengthening of investor confidence (including foreign investors) including its potential admission to MIGA. Fundamental to its on-going commitments is the consolidated regulatory and business environment reform jointly managed through an agreed Development Partners tracked Policy Reform Matrix. In addition, Government is also implementing measures to boost the related economic variables in order to provide adequate finance to support Tonga's overall national development whilst at the same time ensure the economy is not worse off by the recent upgrading of Tonga DSA rating and debt implication. Government is also engaging the WBG to assist in reconciling the financing need for growth and development, sustainable debt management, and implementation of growth strategies with the aim to improve key economic variables sustainably pertinent to its growth initiatives.

12. Tonga also registered to the 46th Joint Annual Meeting of the Southeast Asia Group WBG-IMF Governors Meeting on 10 October 2013 to consider collective measures within the Group Constituent and the WBG and IMF implementation strategies to recognize Tonga's low growth including those small states below the world average growth, and those small states most vulnerable not only economically but also prone to natural disasters and other climatic shocks where Tonga is ranked as one of the most highest risk in the Pacific.

World Bank Group

13. The 2013 twin goals to guide WBG action are endorsed to build on the backdrop of a reported global growth of over 2 percent in 2012 whereby low and middle income countries are estimated to have grown 5.1 percent during the same period. In this regard, we strongly support the proposed WBG strategy to implement those activities that are underway, and new initiatives to include in the on-going transformational change process put-forth under the umbrella of its financial strategy. We commend the WBG for its strategic forward looking initiatives to improve the institution and better serve its clients. We urge the WBG to always include small island states in its particular development focus in the same level of attention and magnitude of recognition currently given to low income countries and fragile conflicted states (FCS).

14. Tonga also supports the identified four focus areas of the WBG strategy of becoming a 'solution WBG,' 'operationalizing the goals,' 'working as one WBG,' and 'working with partners towards goals'. These focus areas are also remarkable at making the institution more efficient, effective and accountable to addressing emerging global challenges. We particularly endorse the several areas where work had already advanced especially on implementing the strategy such as the work on expanding client engagement, measuring joint WBG results, instituting global practices, and the opportunities they present to the new Country Partnership Frameworks. We encourage WBG that, in implementing the strategy, selectivity should be based on the agreed Tonga

specific country diagnostic with expected development impacts that align to Tonga development priorities and the WBG twin goals.

15. We acknowledge the IDA review and we also note the current dialogue on IDA17. We reiterate our entreat for WBG to build more flexibility into the IDA allocation modalities for small island states like Tonga to enable us to build resilience to external shocks, and fully utilize allocated resources to enhance development effectiveness in such vulnerable small island states region.

International Monetary Fund

16. Tonga reiterates that small states and those vulnerable developing countries should be recognized from advanced economies in providing greater inclusiveness to the poverty reduction and promoting income growth objectives of the WBG. Tonga welcome the Fund's reassessing the role and modalities in advanced economies. In particular, the underscored importance of designing a medium-term budgetary support framework (MTBFs) to enhance the credibility of a country's fiscal policy. It is Tonga's experience since the aftermath of the global economic crises that a binding MTBF with frontloaded fiscal adjustment had undermined the growth potential of developing countries. This can explain Tonga's trapped in its over-decade long low economic growth. Tonga wishes to draw attention to the Southeast Asia Voting Group's shared view on this point of 'fiscal consolidation' to be mindful of the impact that the consolidation measures would have on growth to avoid a 'one size fits all' not fitting at all.

17. We also acknowledge the recognition of the debt restructure episodes in recent period and the drawn attention to the application of the Fund's policies and practices on sovereign debt restructuring. Its emphasis on a holistic approach to debt restructuring driving effort to establish not only conventional economic and financial indicators but also the '*new economics value*' of the culture, gender, socio political environment and belief of a country will greatly help the understanding of critical factors to small states member countries.

18. We welcome the IMF quota review and proposed governance reforms as these will strengthen the institution in carrying out its mandate and core competencies. We appreciate the Fund's provision of technical assistance and continuing engagement to Tonga. However, there are still capacity building opportunities that Tonga has not been given ample chance to participate. We encourage the Fund to continue allocating sufficient resources and provide capacity building opportunities to help small states including Tonga in strengthening its resilience against shocks.

What It Means: Our Constituent Group

19. With regards to impressive global growth of 2.3 percent in 2012 and over 5 percent for low and middle income countries for the same period, it may not continue for long in its present form without an effective and inclusive global response. A change in direction of program is bound to come as awareness have grown concerning the unsustainable effects of the way the WBG, IMF and International Financial Institutions

works to date. So have the criticism of its unaccountable and exploitative nature of member countries particularly small states and more vulnerable. The strategic changes in the WBG and the IMF can play an important part in this global shift but the real test will be on the impact of these changes in its operationalization.

20. The WBG and IMF support for Tonga has increased significantly in the past four years as Tonga was the first country to complete a full Country Partnership Strategy in 2010. The program has achieved good results and has enabled Government to complete responsibly key economic reform programs and change management systems. However, the economy's decade long 'low economic growth trap' remain the key challenge together with its newly rated DSA rating, fiscal implication and debt dynamics for its country assistance engagement. Government of Tonga is seeking fiscal sustainability within a medium term budget support framework together with key development partners not only to safeguard continuity of services but to also factor in critical emerging issues such as stronger economic growth, maintenance of key infrastructures, public health costs, and social welfare amongst others.

21. Governments and constituents must have to come to terms with these emerging issues including the Commonwealth Secretariat High Level Mission to the 2013 Annual Meetings. We will continue to engage with interest on what and how the IDA will benefit small states taking into account sustainable management of debt situation, the systematical concerns on the transfers of wealth from the poor to the rich. Tonga will be keen on how the WBG and IMF undertakings to make it work better and urge to pay particular attention and consideration of the specific proposals by the Commonwealth High Level Mission to mitigate the unsustainable effects of debt and its sustainable management.

22. We join other member states in urging donor countries to double their efforts to provide additional resources to IDA and strengthen its partnership and alignment with the newly adopted WBG dual goals and implementation strategies including its developed management framework. Tonga also endorses the WBG developing leadership and talent for a global workforce and recommendations to ensure that the right people are in the right place taking into account the capacity gaps existing in smaller and most vulnerable states to be supported at all level.

Looking Ahead

23. We thank both the WBG and the IMF for all the continued assistance and collaborative efforts to Tonga in the past year. We are encouraged by the proposed strategic reforms and activities of both institutions which should contribute to improve development in Tonga. We will continue our firm commitment to work cooperatively with the WBG and IMF in the future.