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Statement by the Hon. **'AISAKE VALU EKE,**
Governor of the Bank for **TONGA**

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

I am honored to have the opportunity to address the International Monetary Fund (IMF) and World Bank Group (WBG) Board of Governors' 2014 Annual Meetings.

This year's annual forum is very unique as it celebrates the 70th anniversary of establishing the Bretton Wood Institutions and also accord discussions of the post-2015 development agenda and its proposed Sustainable Development Goals (SDGs) including potential financing modalities. It is an ideal opportunity for members and constituents to share and interrelate on such critical global issues that set a strategic route and pave a future pathway for inclusive sustainable development.

Global Economy

The global economy recovery continues albeit uneven and slower pace with increased downside risks. The expected revival in economic activity of some advanced economies with potential increasing growth across emerging market countries, while generally buoyant in low-income countries, affords encouraging global growth prospect. However, the recognized downside risks would hinder recovery phase leading to the possibility of continued sluggish growth, triggering higher unemployment and low job opportunities. We call on both institutions to be vigor on their surveillance and assessment of global economy and pursue timely strategic measures and structural policy response to assist countries building resilient and sustainable socioeconomic structure.

Tongan Economy

Tonga's economy is rebounding after a significant slowed down. The short-term growth projection appears auspicious to wheel Tonga's economy back to its previous average growth rate of approximately 2 percent driving towards an average projected annual medium-term growth trajectory of 2.5 percent. Inflation is kept under control around 3 percent which is still well below the National Reserve Bank of Tonga reference range of 6 to 8 percent. The economy, however, remains highly vulnerable to external economic shocks and natural disasters.

The destructive impact of category 5 Tropical Cyclone Ian devastated parts of the Ha'apai group of islands in January 2014 with resultant damages and losses estimated at around 11 percent of GDP. Such effect magnifies other setbacks arising from global

economic crisis and natural disasters. These include a slowdown in remittances and a dip in tourism demand. While Tonga is recovering from these shocks, the impacts and losses linger well after the event, and manifest themselves in a lower rate of economic growth than we could otherwise have expected thereby increasing hardship amongst some of the population and a strain on the fiscal and human resources of government.

The development aspirations of Tonga are strongly reflected in the 2014-15 budget with the theme '*Partnership: Government and People together building the economy and society*'. It emphasizes reprioritizing expenditure within sustainable fiscal limits in order to achieve better service delivery while at the same time provides for the needs of the most vulnerable through an expansion of the social protection program and the institution of a targeted life-line tariff. Government is also providing additional financing through soft loans and grants to key economic and social sectors with a view to stimulate economic growth and promote educational opportunities. The Government is determined to take the necessary measures to maintain sound fiscal and monetary policy to respond to future economic shocks.

Social and environmental issues need critical attention given their potential hostile effects on our economy and society with significant fiscal implications. The growing crisis of non-communicable diseases (NCDs) threatens to reverse improvements with some evidence suggesting that life expectancy in Tonga is now dropping as a result. Material hardship remains a pressing problem for some. Climate change and environmental issues are real and will continue as menace. These issues can generate significant costs that if not managed well with appropriate preventative and resilient mechanisms will continue to consistently challenge the individual and government's fiscal position.

The government is progressing well with the structural reforms to modernize government processes, set in place the foundations for a more sustainable fiscal base, corporatize and improve the efficiency of Public Enterprises and delivers a series of business-friendly reforms to cut red tape and provide a more enabling environment for businesses. The reform programs also address key strategic areas in strengthening public financial management and fiscal policy including improving accountability and transparency, strengthening public private sector partnership, improving key infrastructures, and ensuring the provision of more affordable energy for the people of Tonga.

Despite the ongoing challenges and vulnerability, Government is committed to implement its medium reform programs. Strong collaboration and dedicated partnership between government, businesses and our communities are key components. These programs and initiatives warrant supplementary financial and technical assistance to ensure effective implementation with a robust monitoring mechanism. We therefore call upon the expertise of the two institutions in supporting Tonga to thrive these initiatives, and also their valued assistance in development and financing programs, and in coordinating and convincing other development partners to strengthen continued active engagement to support the reform process and ensure a resilience and sustainable socio-

economic structure.

World Bank Group

The revamp of the WBG with new approach to country engagement instituted a stronger strategic basis in accelerating sustainable progress towards reducing poverty and building shared prosperity. We welcome the emphasis on partnership and enhancing collaborations with countries through systematically evidence-based diagnostic supported by new global practices and cross cutting solutions areas. For these reform strategies to be effective, inclusive consultations with countries is most critical to transform into workable policy and program actions. The better understanding of behavioral dimensions can improve development policy, enhance targeted programs, and increase development impacts, hence we laud the approaches highlighted in the World Development Report (WDR) 2015. We urge the WBG to give more consideration to small states specific development issues and limited resource capacity in implementing its reform agenda.

The WBG catalytic role in the global development agenda is critical especially given the congruence with the WDG's goals and practices groups. We welcome the institution's involvement in the post-2015 global development discussion as some of these proposed strategic development goals are very relevant to Tonga and small island states. The universal relevance of shared prosperity and equitable growth is also crucial for Tonga hence we agree with the issues identified in the Macroeconomic Developments in Low Income Development countries and the findings highlighted in the Global Monitoring Report (GMR) 2014. These findings should make relevant to all countries to assist in their national policy formulation process. We encourage the WBG to continue providing sufficient and appropriate resources to meet the development challenges and work synergistically and effectively with other development partners.

Disaster and climate risks are critical development challenges given their potential crippling impacts on small economies with cumulative effect on GDP and compound levels of debt. Therefore, small island countries must be resilient to these shocks. Tonga is extremely grateful as the first country to benefit from the Pacific Catastrophic Risk Insurance Pilot scheme. We acknowledge the assistance of the Government of Japan in funding the second insurance pilot scheme. We welcome with full support the WBG Small Island States Resilience Initiative (SISRI) which should reduce climate and disaster risks to small island states like Tonga while building appropriate resilience modalities. We urge the bank to apply its convening power to coordinate other development partners for provision of adequate global climate and green fund to support initiative such as SISRI and to build resilience and adaptive capacity in small island states.

We commend the Bank for convening the record support to IDA 17 replenishment. It demonstrated the willingness and commitment of donor countries to support the WBG twin goals by mobilizing resources to make available to recipient

countries. We once again encourage the WBG to build more flexibility into the IDA allocation modalities for small island states such as Tonga to enable us to build our resilience to external shocks.

International Monetary Fund

We support the outcomes of the IMF 2014 Triennial Surveillance Review which should strengthen and ensure more effective implementation of its surveillance-enhancing policies. We support the key thematic areas on G.R.O.W.T.H. as they include critical areas in the Fund's surveillance and program-related that is most relevant for small states. The Fund should be more involved in dialogue with country authorities and also facilitating and coordinating assistance from other development partners. We call upon the IMF to be more vigorous and timely on giving expert advice on policy priorities that would lift actual and potential growth, build resilience and ensure financial stability, and enhance policy coherence and cooperation.

We commend the Fund's policy on Engagement with Small Developing States covering related macroeconomic issues and implications for Fund engagement. The related Staff Guidance Note should improve the policy dialogue and addressing their unique characteristics of small states such as Tonga.

The Fund's emphasis on Capacity Building is welcome to bridge capacity gaps and enhance knowledge and skills in small states such as Tonga. We recognize the assistance provided by PFTAC however we insist that the Fund should do more to enhance capacity building in Tonga and the region.

Looking Ahead

On behalf of the Tongan delegation, I would like to express my appreciation to the WBG, IMF, and the Executive Director's Offices of the Southeast Asia Group for another excellent meeting organization. We thank both the institutions for all the continued assistance and collaborative efforts to Tonga in the past year. We are heartened 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.

