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

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

Mr. Chairman

Managing Director Rodrigo de Rato y Figaredo

President Wolfowitz

Fellow Governors

Distinguished Delegates

Ladies and Gentlemen

It is indeed an honor for me to address the Board of Governors of the International Monetary Fund and the World Bank Group on behalf of the Government of the Kingdom of Tonga at the 2005 Annual meetings.

At the outset, I wish to express my government's sympathy and condolences to the Government and the people of the United States who have suffered from recent hurricanes in the Gulf Coast.

I would like to congratulate Mr. Paul Wolfowitz on his appointment as president of the World Bank Group. I also take this opportunity to thank his predecessor Mr James Wolfensohn for sterling performance in guiding the World Bank Group during his tenure in office.

World economic growth has been on an upward trajectory over the last three years, with strong growth projected again this year. At the same time, global imbalances and high and rising oil prices remain an important downside risk. Despite the increase in oil prices, growth in developed countries and major Asian countries has been robust stemming from sound macroeconomic policies.

The issue of debt relief approved by the G8 in Gleneagles is an important milestone for developing countries but will still require prudent implementation to protect the financial integrity of the multilateral institutions without diverting aid flows from other essential activities.

At the same time, we support the call for the international community to give further attention to the unsustainable debts of other poor countries excluded from the HIPC process, as well as those that have continued to service their debts. Special attention should also be focused on small and vulnerable countries facing growing debt burdens, and to domestic debt which is imposing a significant fiscal burden on some poor countries.

The Heads of State and Heads of Government at the conclusion of the historic High Level Summit in New York on the 16th September 2005 reaffirmed their commitment to achieving the Millennium Development Goals by the 2015. The Financing of Development Meeting held prior to the Summit also reaffirmed the commitments by the developed countries to achieving the 0.7% target of GNP for ODA by 2015.

Tonga has incorporated appropriate policy measures to put it on track to meeting the MDGs by 2015. The recent UN Human Development Report 2005 ranked Tonga at 54 among 177 countries.

Tonga supports efforts to reach a mutually acceptable resolution to the outstanding issues to the Doha Round during the forthcoming Hong Kong conference on international trade.

In order to support international efforts to combat money laundering and the financing of terrorism, Tonga has joined the Asian Pacific Group on Money Laundering as the 29th member in May 2005.

Turning to domestic issues, Tonga's economy has responded to prudent fiscal and monetary policy measures as evidenced by GDP growth of 2.5% in 2004/2005. Preliminary projections indicated that GDP would grow by 2.9% in 2005. Inflation fell from an average of over 10% in 2004 to 8% in July 2005 and the fiscal balance improved to a surplus of 0.1% of GDP in 2004/2005 after several years of deficits. At the same time, the Kingdom's external reserves improved significantly to above the minimum threshold of three months of import cover after having been under downward pressure for several years due to rapid expansion of Government spending on supporting certain public enterprises and the public service.

After having achieved these steady improvements in macroeconomic conditions, the Kingdom now faces serious challenges to maintaining these positive developments.

In September 2005, a significant increase in public service remuneration, which was not previously budgeted for, was approved. Preliminary estimates suggest that there is a high probability that this will exerting pressure on the

fiscal and external sector balances and inflationary forces which will have a destabilizing impact on the domestic economy. The Government has decided to reprioritize its spending and its fiscal and monetary policy settings in order to mitigate the adverse imbalances brought about by the new policy development. The fiscal pressure is projected to worsen in 2006/07 as a large portion of the approved pay structure will be backdated to July 1, 2005.

Therefore, the government plans to implement a comprehensive package of measures to regain macroeconomic stability over the medium term by accelerating its reform programme in areas such as corporatisation and privatisation of Government activities. Given this recent development, urgent technical and financial support will be required from the Fund and the Bank as well as Tonga's other development partners.

Finally, we would like to acknowledge with appreciation the technical and financial assistance that both institutions have provided to the Kingdom and people of Tonga. We look forward to a continued close working relationship with the Fund and the Bank in the future. May I conclude by wishing the Bank and the Fund continued success in resolving the many difficult challenges that lie ahead.