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Statement by the Hon. **'OTENIFI AFU'ALO MATOTO,**
Governor of the Bank for **TONGA**

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Governor of the Bank for Tonga**

I am honored to have the opportunity to address today the 2010 International Monetary Fund (IMF) and World Bank Group (WB) Board of Governors' Annual Meetings. On behalf of the Tongan delegation, I would like to express my appreciation to the IMF and WB for the excellent arrangements of this important meeting. This is an opportunity for us to collectively reflect on what we have accomplished to date since the onset of the global crisis and chart our future direction in a changing world. I would also like to take this opportunity to welcome Tuvalu to their first Annual Meetings, as the latest member of the IMF and WB.

Two years ago, the world woke up to the worst financial crisis of our history that overwhelmed the fabric of the global economy, reverting progress of many countries toward achieving MDGs. Although the IMF and WB swiftly and responsibly responded to the unprecedented demand from client countries, the economic recovery remains fragile and uncertain, posing a worrisome situation to small economies such as Tonga who is yet to benefit from the recovery. However, we deem the uncertainty has underscored the reality of why we come together annually as responsible citizens of the Bretton-Woods Institutions. We are united with determination and with primary focus on overcoming the global economic crisis and to strategically lay-out the road map toward addressing the challenges that lie ahead. In this respect, we acknowledge the work already underway by the WB Group in implementing its five strategic post-crisis directions.

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The global economic crisis has left a trail of lessons that necessitates our world to take innovative actions in an era of continued uncertainty. In this regard, we strongly support the transformational effort put-forth towards robust global multilateral institutions. We laud the Bank for taking proactive actions to reform its operational instrument so that it continues to play a critical role in a post-crisis world, along with other international financial institutions. The ambitious internal reform agenda undertaken by the Bank aiming at making the institution more efficient, effective and accountable to addressing emerging global challenges is commendable. We particularly welcome the development of the knowledge strategy because it will strengthen the Bank's comparative advantage, while modernizing its operational instruments to meet each client's tailor-made needs, and support knowledge exchange and innovation between the Bank and member countries.

We acknowledge the assistance provided by the Bank to developing client states in the last 50 years through the International Development Association (IDA). We appreciate the work undertaken to increase country level aid effectiveness by improving its operational efficiency and strengthening the result-based focus of its programs. We support the call to align IDA programs with the country's priorities and emphasize the importance of coordination with other partners in order to deliver tangible developmental results. We urge the Bank to pay particular attention to small states economies as they are more susceptible to the impact of climate change, and hence will bear a bigger burden of adaptation and mitigation costs. Furthermore, we also urge donor countries to double their efforts to provide additional resources to IDA so that the small and vulnerable countries can regain the losses suffered from the waves of the global crises and sustain economic growth in order that economic resilience and pro-poor policies can be maintained. We welcome the establishment of the Crisis Response Window with the objective to help countries return to their long-term development paths. We endorse the enhancement efforts to IDA replenishment focusing on four critical cross-cutting areas namely, Gender, Fragile Situations, Climate Change and Crisis Response going forward.

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In the post-crisis world, the constructive and even-handed engagement by the Fund with all of its members, including its smallest, is crucial to sustain its legitimacy. In this regard, we look forward to the forthcoming review of quotas and fully expecting a substantial shift in shares towards emerging markets and developing countries as a whole, in line with their rising role and weight in the global economy. We reiterate that small and low-income countries should be protected in this exercise, by preserving their quota shares on an individual basis and providing greater inclusiveness to the Poverty Reduction and Growth Trust list of countries. We note the call to reform the quota formula and support a lower quota size increase that facilitates a targeted shift towards emerging markets and developing countries, as the quota increase can involve costly financial contributions for small and low-income countries.

We welcome the introduction of the Post Catastrophe Debt Relief Trust Fund and look forward to its productive use. We urge the Fund to continue examining options to further enhance financing options for small and low-income countries as well as explore innovative instruments to address the unique challenges that many small and low-income countries face, including commodity price hedging and the adverse effects of climate change.

Tonga Economy

The Tongan economy experienced the full extent of the global economic crisis and the last financial year 2009/10 estimated to have contracted by 1.2 percent. This was made worse by the tightening up of the bank credit as the banks went into a consolidation mode, and remittances and tourism receipts declined by 10.0 percent and 13.0 percent, respectively. In addition, the country was affected by drought, cyclone and the Ashika tragedy, inflicting more negative impact on economic activities. The northern island of Niuatoputapu was devastated by a tsunami, which also affected Samoa and American Samoa. The Government of Tonga is committed to continue implementing its reform programs stipulated in the National Strategic Planning Framework, which aim to raise economic performance while adopting a more cautious fiscal position, instituting a fully democratic government and continued improvement in government and regulatory framework.

The outlook appears encouraging with 1.4 percent growth projected for the current year financial year 2010/11 driven by increased construction and infrastructure activities. Nevertheless, Tonga remains highly vulnerable to economic shocks and natural disasters, which unquestionably hamper economic growth. Apparently, tourism and remittances will depend on the pace of economic recovery in larger economies, particularly in the United States of America, Australia and New Zealand. Therefore, we suggest that the Bank should assess the sustainability of remittances in times of crises and develop appropriate instruments that will put remittances into productive use in countries where remittances are a major source of income flow.

Tonga will elect its first fully democratic government on November 25, 2010. It is expected that new developments will arise from this change, which will have an impact on economic development. We are grateful for the continuous and increased assistance from the IMF, WB, and other development partners. In this respect, we are grateful for the development of the first Country Assistance Strategy for Tonga by the WB, which presents practical features towards improving development outcomes for the next five years. Increased representation in the Pacific region through the Sydney office and the country local offices have greatly increased the Bank's activities in the region and improved donor coordination. This is much appreciated by Tonga and the Pacific member countries.

In closing, I would like to convey our sincere appreciation to the management and staff of the Fund and the Bank for the efficient assistance provided to Tonga thus far. The full operation of the joint Asian Development Bank/ WB office in Tonga has provided efficiency gains in terms of improved communication with the Bank and better donor coordination. The Government of Tonga is very grateful to the Bank and the Fund

for the financial and technical assistance provided and we look forward to continuing and improved cooperation and support towards our economic, social and political development.