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

**Statement by the Hon. Dr. 'Aisake Valu Eke,**  
Governor of the Bank for Tonga

Mr. Chairman,  
Mr. President of the World Bank Group,  
Madam Managing Director of the International Monetary Fund,  
Governors, and  
Distinguished Delegates.

I have the honour, on behalf of the Government of Tonga, to address the Board of Governors of the International Monetary Fund (IMF) and the World Bank Group (WBG) at the 2015 Joint Annual Meetings. I wish to convey my sincere appreciation and gratitude to the Government and people of Peru for the excellent hospitality and outstanding arrangements of this important meeting in Lima.

Mr. Chairman,

**GLOBAL DEVELOPMENT LANDSCAPE**

The global economy has been growing but at a weaker tempo than projected. The recovery has been uneven and driven mainly by the leading economies. The prospect for 2016 is for a modest growth, overshadowed by uncertainty over the implications of the downside risks on the commodities and financial markets in response to the normalisation and rebalancing of the existing policies and the extent of deleveraging across the globe. It is therefore important to continue the global collaboration in crafting the necessary policies and implementing them in a coordinated manner to manage the risks for a smooth transition and gaining a stronger and broad base growth. In this regard, both IMF and WBG are required to take a leading role.

The global policy adjustments will spill over to the Small Islands Developing States (SIDS) including Tonga. The capacity of the economies of the SIDS to respond appropriately to mitigate the downside risks from this external developments is limited, and further complicated by the frequency and intensity of natural disasters induced by climate change. SIDS need technical and financial assistance to cope with these externalities.

The devastating effect of the natural disasters is the most pressing challenge for the existence and socioeconomic development of SIDS. The recognition by the international community of this challenge is applauded. The S.A.M.O.A Pathway has set out the special case for SIDS as a distinct group with compelling development challenges and special needs that deserve special consideration and assistance. The joint efforts of the IMF and WBG to consider transforming and simplifying their existing policies, especially in regard to the eligibility criteria for accessing development and concessional finances, and their

commitments for designing of new financial architecture to provide appropriate financial instruments and adequate finance to meet the needs of SIDS, taking into account their vulnerability and capacity constraints is appreciated. This is vital for positioning these multilateral institutions to respond effectively to the implementation of the global agenda for sustainable development goals for the next fifteen years.

## **GLOBAL AGENDA FOR SUSTANABLE DEVELOPMENT GOALS (SDGs)**

Mr. Chairman,

The adoption of the SDGs for the post 2015 development agenda by the United Nations Summit last month has become the new blueprint for global development. The Bretton Woods Institutions will play a central role in this effort. Their experiences from MDGs will inform the new strategies and policies that are suitable and relevant for SDGs, focusing on sustainable development, social inclusion and protection of the planet. The Financing for Development Addis Ababa Action Document (AAA) has contained the specific policy issues and estimated financial envelope that are central and required for SDGs. SIDS and developing countries have stated the priorities for development in the AAA together with accompanying remedial strategies. The vulnerability of SIDS to the adverse effect of climate change is one of the issues highlighted in AAA, and supports the move to adopt a more comprehensive index rather than GDP per capita for measuring development outcomes and determining access to development finance.

The progress with pledging of financial commitment by the development partners for meeting the target of US\$100 billion set in Copenhagen for Climate Global Fund is welcomed. The IMF and WBG announcement during the annual meeting of their financial contribution to this global fund is vital for preparation for the upcoming meeting of the COP21 in Paris this year. The successful outcome of this meeting will be an important factor for addressing the special needs of SIDS for building resilient economies from natural disasters, and creating fiscal space from domestic and other external sources to cater frothier social and economic development and servicing of national debts.

## **TONGA ECONOMY**

Mr. Chairman,

The Tongan economy is estimated to have grown slightly stronger at 2.4 per cent in 2014/15, compared to 2.0 percent in 2013/14. The projection for 2015/16 will be a further growth of 3.5 per cent due to better performance in all sectors, with 2.9 per cent from primary sector, 6.8 per cent from secondary sector, and 2.1 per cent from tertiary sector.

The Tonga Strategic Development Framework (TSDF) 2015-2025 that the new government launched early this year has set out the vision for ***“A more progressive Tonga supporting a higher quality of life for all”***. TSDF is a product of national consultations with key stakeholders, including development partners. This vision is grounded on seven

building blocks for attaining inclusive and sustainable growth and development: poverty alleviation; safer and better public infrastructure; good governance; knowledge economy; effective land and environment management and adaptation to climate change, security and sovereignty; and balanced urban and rural development. The budget strategy for 2015/16 focuses on the first four priorities, with equal focus on the climate change adaptation.

Prudent fiscal management has been established and whilst risk remains, Government budget for 2015/16 has been closely managed and monitored to ensure maintaining a sound fiscal position. Despite a 17.5 percent increase between the 2015/16 and 2014/15, this is needed to cater for a number of important one off additions and implementation of a whole of Government public finance management roadmap to improve efficiency of spending. One-off spending relate to supporting the Pacific Games, further expanding of the low interest loan scheme being managed by Tonga Development Bank, and paying off of Government obligation to the retirement fund. A series of measures to improve resilience of budget revenue and administration over the last few years saw improved collections since 2014/15 with a simplified corporate tax, arrangement for small businesses tax, tighten taxes on most unhealthy goods have set the foundations for increasing revenue and strengthening the budget position. The fiscal monitoring capacity including medium to long term planning is part of the Budget Support reform matrix partnership between Government and key development partners developed and implemented to manage the fiscal risk.

Domestic and external concessional credits have partially funded the budget for 2015/16. The loan financing has been made on the basis of the government policy framework for sustainable debt. Tonga's external debt sustainability risk ratings are assessed every year by IMF and consequently has upgraded level of debt distress from "high" to "moderate" risk in the IMF Article IV Consultation in 2014. However, the improvement in risk rating concerns Government as it shifts the mix of IDA flows from all grants- to half grants and half concessional loans. Tonga will continue to seek only concessional borrowing as may be required from abroad, and to also raise finance domestically where needed. Tonga is also assessing the cost and risk aspects of its current debt portfolio with a focus on the foreign exchange risks that will continue to be a challenge, depending largely on developments in cross exchange rates between the TOP and the Chinese yuan, and to a lesser degree vis-à-vis the US dollar. Government had also implemented refinancing of domestic debt to manage domestic risks whereas the larger concern regarding external repayments.

Fiscal policy has been developed and implemented in close coordination with the monetary policy to ensure their complementarity in directing the economy for the desired outcome and building the resilience to external shocks especially the natural calamities which has become one of the greatest risks to the management of the economy.

The macro economic conditions have been stable and closely monitored to ensure that the macro stability is continuously maintained and business confident are held intact. In addition, the financial conditions remain conducive for economic growth, with high

banking system liquidity creating space for driving interest rates lower and support a stronger credit growth. Broad money has increased by the rising net domestic credit and higher net foreign assets, particularly the rising foreign reserves. Financial inclusion initiatives, coupled with the Government's managed funds loan scheme, are expected to improve access to affordable finance, particularly for the micro and small to medium enterprises, and the rest of the private sector development. The extension of the regulatory framework to all non-bank financial institutions and the focus on improving consumer protection and financial literacy will also support economic growth.

The exchange rates remain relatively stable and competitive as reflected in the higher exports and remittances and tourist receipts, and at the same time, contributed to lower imported inflation. Moreover, the 2014 Article IV Consultations assessed Tonga's exchange rate in 2014 and confirmed to be in line with medium term fundamentals.

The banking system remains sound but continue to enhance supervision to maintain a sound financial system that is vital for enhancing its capacity to withstand the vulnerabilities of Tonga's economic growth. Credit growth is also being closely monitored in light of its impact on the monetary policy targets and financial stability.

Mr. Chairman,

In moving toward implementing the SDGs, Tonga would like to acknowledge with gratitude the invaluable technical and financial assistance received from IMF and the WBG together with development partners in implementing the MDGs. Tonga has made good progress. However, there is still much to be done. In particular, NCDs remain a great challenge to our development. Preventative policy initiatives have been initiated in the new fiscal year through increasing tariff rates for unhealthy foods and lowering tariff rates for healthy foods. This is accompanied by the promotion of healthy eating and physical exercise led by the Tonga Health Office, as an advocacy agent for this promotion initiative.

As mentioned above, climate change presents the biggest threat to the existence of ocean-locked small developing island states, including Tonga. Tonga has had tsunami and category 5 cyclone that hit part of Ha'apai Island in early 2014. The tremendous assistance extended by WBG for the cyclone recovery and reconstruction, and the receipt of US\$1.27m for relief from the catastrophic insurance facility are greatly acknowledged. However, the existing policy for treating 50 percent of the WBG funding toward this cyclone reconstruction and other projects for adaptation have increased our debt and that is a great concern to us. Notwithstanding this, Tonga welcomes the WBG undertaking to consider reviewing the current eligibility policy and criteria for accessing development fund, taking into account the devastating effects of natural disasters to reverse development gains overnight, and capacity constraint.

The effective collaboration with the IMF and the WBG since the last Annual Meetings is greatly appreciated.

Mr. Chairman,

## **PARTNERSHIP WITH THE WORLD BANK GROUP (WBG)**

Tonga welcomes the adoption of the WBG new operating model which complements the new effort embarked two years ago for improving the ability to provide development solutions and high quality services to clients. This consequential shift will certainly improve the understanding of the behavioural changes at the country level and the policy development and increase development impact desired by concerned citizens. And with these operational improvements, there is confidence that the WBG will continue playing an instrumental role in providing technical expertise in formulating realistic and relevant developmental targets so that tangible outcomes can be realized. In this connection, WBG is requested to support the developing countries, particularly SIDS, using the new operational model to develop synergies and complementary solutions tailored to individual country contexts to address their development challenges.

The WBG is requested to consider building more flexibility into the IDA18 negotiation with the action to change the existing allocation modalities that recognizes the SIDS compelling special case of vulnerability to disasters. This will enable them including Tonga to build resilient economies to withstand external shocks, and enhance their development effectiveness and prospects. In addition, Tonga, as a party to the Pacific Resilience Project, welcomes the WBG commitment for leveraging concessional finances for building of national strategic programs for climate resilience through pilot programs that shifts the focus from project-based interventions to a broader programmatic approach.

The issue of Financing for Development is in the heart of SIDS, and that Tonga commends the WBG's intensive involvement in raising the importance of this global effort to strengthen the framework to finance sustainable development. Tonga shares the WBG assessment that in order to mobilize enough resources to meet the new ambitious SDGs, a business-as usual approach to development finance is inadequate. In this context, it is noted with concern the existing rules that have been adopted to increase availability of IDA resources to SIDS with debt distress, which without a doubt leading to further accumulation of debt in opposition of building fiscal buffers in the face of a risky external environment.

While acknowledging the development role being played by the ODA which will continue to form a critical source of development transfer, especially for the most fragile and vulnerable countries, it is insufficient to address development gaps if there will be no progress in meeting their commitment to provide the 0.7 per cent target of ODA/GNI. However, Tonga thanks those countries who have met their commitments which will encourage further financial contributions.

Further, climate change remains the biggest risk for human survival. Dealing with the implications of climate change, adapting to climate events and managing disaster risks, is beyond the financial ability of many countries, particularly those of the small island developing states. Tonga therefore welcomes the establishment of the Small Island States

Resilient Initiative (SISRI) as it will facilitate the provision of assistance for building resilience in order to withstand the devastating effects caused by exogenous shocks.

Recognizing the continuous development challenges being faced by the Pacific Island States, Tonga embraces the WBG initiative for developing the Pacific Possible (PP) which is a crucial complement to the regional vision and strategic direction for the Pacific, as articulated in the Framework for Pacific Regionalism, and also for the achievement of the development goals in the TSDF 2015-25. The WBG can also use PP as a platform to leverage additional finances for the implementation phase of the exercise, and also to raise the profile of the region in international debates on financial accessibility to the newly established global funding sources for climate change adaptation.

Government is continuing the effort to grow the economy through continuous improvements of the business environment conducive for the expansion of the private sector. Part of this strategy is the development of the business-enabling structural reforms to promote private sector development and enhanced public sector performance. Since 2007, Tonga has been one of the leading reformers of the business environment in the Pacific region. Tonga's slippage in the WBG Ease of Doing Business Index from its ranked 39<sup>th</sup> in 2006 to 67<sup>th</sup> in 2015 is a concern that requires improvements. In that regard, government is continuing the business environment reforms under its budget support improvements program.

Tonga wishes to acknowledge the value of the IFC technical assistance that had facilitated the successful conclusion of the private transaction in the tourism industry, and similar assistance will be vital for promoting of potential private partnership with the public sector in other sectors, including infrastructure developments.

Mr. Chairman,

### **PARTERSHIP WITH INTERNATIONAL MONETARY FUND (IMF)**

Tonga is appreciative of the invaluable service rendered by IMF in conducting the Annual Article IV Consultations. The same goes for the timely establishment of the Small States Working Group (SSWG) to work closely with IMF which will help strengthen their relationship and trust going forward. This process will address their three common issues namely, natural disasters, financial inclusion and tailoring of IMF standards to small states.

The IMF's response is also appreciated as part of the global effort to increase the financial support for natural disaster by endorsing a 50% increase in access to all concessional lending facilities and to maintain a zero interest rate on lending for low-income countries that are struggling with disaster and conflicts. Tonga encourages the Fund to consider having dedicated facilities for SIDS as well.

Furthermore, the IMF is requested to assist with the development of the domestic financial markets to improve the monetary policy transmission mechanism, provide investment

opportunities for locals thereby reducing pressure on offshore investments and negative implication on the foreign reserves, and enhance the ability to finance the fiscal policy, where necessary. Additionally, the IMF's assistance is also invited to work alongside with the small island developing states to review and fine-tune their taxation and macro-fiscal policy instruments to enable effective and efficient domestic resources mobilization.

Tonga, among other SIDS, is seriously concerned with the unilateral decisions of the commercial corresponding banks in the Pacific to close down their accounts with the money transfer operators. This has prompted the activation of the AML requirements and associated de-risking strategies. In Tonga, money transfer operators process about 85 percent of the annual total amount of remittance transactions and closing down of their accounts imposes a serious barrier to the inflow and access to remittances. The IMF is invited to review this serious situation to facilitate the transmission of the legitimate transactions needed for national development.

## **CONCLUSION**

I would like to express, on behalf of the Government of Tonga, our sincere appreciation to the WBG and IMF, and the South East Asia Group Executive Director Offices for the assistance provided during the year and what has been planned for the future.

Thank you very much for your attention.