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Statement by the Hon. **AISAKE VALU EKE,**
Governor of the IBRD and the Fund 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.

It is a privilege and an honour to address this distinguished gathering today as the Governor of Tonga, on behalf of His Majesty Government and people of the Kingdom of Tonga, at this prestigious World Bank and IMF Annual Meeting in 2025.

Today, as we gather to discuss the pressing economic conditions that challenge our world, I would like to take a moment to reflect on the performance of the Tongan economy in this context, as well as the vital role that the World Bank and IMF play in supporting our development objectives and addressing challenges that we face.

As we navigate the complexities of 2025, the global economy faces compounded challenges. Geopolitical tensions, economic and trade policy shifts, the aftermath of the COVID-19 pandemic, persistent price volatility, and climate change are creating an uncertain landscape that affects every nation, particularly small island developing states (SIDS) like Tonga.

The recovery from the pandemic continues to be uneven. While some economies have rebounded robustly, many others, especially those reliant on tourism and external trade, still grapple with the lingering effects of disrupted supply chains and reduced demand. Inflation has tightened the fiscal space for many governments, leading to heightened costs for basic goods and services and unsustainable increase in public debts which in turn impacts the most vulnerable members of society.

As we all know, small island states are at the frontline of the climate crisis, experiencing the most severe impacts despite having contributed the least to greenhouse gas emissions. From rising sea levels that threaten our very existence to increasing frequency and intensity of natural disasters, the reality is that climate change is not a distant threat; it is an ongoing emergency that requires immediate and comprehensive action.

In the discussions on the future of our global economy, I would like to draw your attention to a pressing issue that weighs heavily on the shoulders of small island developing states (SIDS) like Tonga—the challenges we face in accessing climate finance for adaptation, mitigation, and addressing loss and damage.

In Tonga, we have made significant strides toward climate resilience, focusing on adaptation projects that protect our communities and ecosystems. We have initiated programs that enhance the sustainability of our fisheries, safeguard our freshwater resources, and improve infrastructure to withstand natural disasters. However, these efforts are continuously undermined by the significant barriers we face in accessing climate finance.

One of the most pressing challenges is the complexity of existing funding mechanisms. SIDS often find themselves navigating a labyrinth of applications, guidelines, and government-level approvals that can be overwhelming, especially for small administrations like ours that may have limited resources and expertise. The result is a frustrating misalignment between urgent needs on the ground and the cumbersome processes of obtaining necessary funds.

Moreover, many climate finance mechanisms prioritize large infrastructure projects, often overlooking smaller-scale, community-based initiatives that are crucial for our survival. There is a genuine need for a more inclusive approach to funding that not only addresses the scale of projects but also recognizes the value of grassroots efforts that build resilience at the community level.

Another significant challenge is the issue of financing for loss and damage. Small island states face devastating impacts that result in irreversible loss of livelihoods, cultural heritage, and ecosystem services. Yet, the conversation around loss and damage is often relegated to the sidelines in favor of adaptation and mitigation. It is imperative that we create and operationalize financing mechanisms specifically designed to address these losses and support affected populations in recovery and rebuilding efforts.

In this challenging global environment, Tonga has demonstrated resilience. We have worked diligently to stabilize our economy through prudent fiscal measures and strategic investments in essential sectors. Despite these efforts, our nation still faces significant vulnerabilities. Our economy, which relies heavily on tourism, fisheries, and remittances, remains susceptible to external shocks and climatic events.

Tonga has one of the highest migration rates in the world relative to its population, with labor emigration continuing to rise in recent years. This dynamic brings both opportunities and challenges, while remittances provide a vital source of household income and help sustain foreign reserves.

The outflow of workers places pressure on domestic labor supply and human capital development. In response, the Government is prioritizing measures to strengthen the supply of local workforce, skills training, and labor productivity, ensuring that migration continues to complement rather than constrain Tonga’s long-term sustainable development.

As we reflect on our economic journey, the past few years have been marked by both challenges and resilience. The impact of the COVID-19 pandemic significantly affected our economy, primarily through disruptions in tourism—a vital sector for our people and livelihoods. Nevertheless, with our steadfast commitment to recovery and adaptation, Tonga has demonstrated resilience in navigating these turbulent waters.

The recovery effort faced further setback from the Hunga Tonga–Hunga Haʻapai volcanic eruption together with tsunami in 2021. But the Tonga’s economy has recovered in 2024 and again in 2025, supported by reconstruction, robust remittances, and a rebound in tourism.

In terms of cost of living, the headline inflation eased to 2.8 percent in August 2025, though core inflation remains persistently high above 7 percent throughout 2025, requiring close monitoring and coordinated action.

The Government’s fiscal position has remained strong, supported by increased development assistance from our partners, resulting in a surplus of 2 percent of GDP in FY2025. With the recovery now stronger than long term average growth of 1.7 percent, the policy focus now shifts to promoting investments, domestic capital formation and private sector development, rebuilding contingency financing, fiscal buffers and enhancing resilience to future shocks.

Looking ahead the Government is committed in its budget strategy for 2025/26 to address key challenges while seizing opportunities for development of Tonga's long-term growth potential through reforms that enhance productivity, investment, and resilience across the economy. Key priorities include:

(i) Expanding skills development and workforce training to offset the impact of emigration and strengthen local labor capacity,
(ii) Streamlining business reforms and investment incentives to stimulate private-sector growth and attract sustainable investment in tourism, emerging women handicrafts and manufacturing,
(iii) Upgrading climate-resilient key infrastructures, expanding contingent financing, and strengthening disaster-risk management to protect public assets, businesses, productive sectors, communities,
(iv) Advancing digital transformation through e-Government systems, modernization of national payment infrastructure, rollout of a national digital ID system to improve service delivery and expedite financial inclusive.
(v) Diversifying of the economy through promotion of sectors such as tourism, renewable energy, fisheries, and technology to create jobs, enhance food security, and foster sustainable livelihoods. This diversification will provide greater stability and reduce our vulnerability to external shocks.
(vi) Strengthening health and education through increased funding for healthcare infrastructure and services will improve the well-being of our communities, while investments in education and vocational training are vital to empower our youth and equip them for the evolving job market.
(vii) Supporting financial inclusion and local businesses through promoting access to financial services for all Tongans, especially women and marginalized communities. Supporting the growth of small and medium-sized enterprises (SMEs) will foster job creation and stimulate economic growth. We aim to provide targeted assistance and capacity building to help entrepreneurs succeed.
(viii) Strengthening governance and fiscal responsibility through committing to prudent fiscal management and transparency. Investing in strengthening our public financial management systems will bolster accountability and enhance our ability to deliver services effectively.

Yet medium-term growth potential remains modest at around 1.2 percent, lower than the 1.7 percent average growth for the 10-year period prior to June 2025, due to Tonga's increasing structural vulnerabilities, distance to markets, and exposure to more frequent natural hazards.

The financial sector has scope for further development to accelerate the growth of private sector. Deeper financial intermediation is essential for Tonga's prioritization of private sector development, as broader access to credit and more diversified financial instruments are needed to mobilize savings, finance entrepreneurship, and support private-sector expansion. Enhancing financial depth will help bridge existing structural gaps in credit provision.

To address these challenges, the Government are advancing measures to broaden access to finance with initiatives underway including the restructuring of the Government Development Loan (GDL) scheme to better target underserved sectors, and the introduction of new lines of credit and financial instruments, and the planned issuance of ADB-supported local currency bonds. In parallel, targeted support for private-sector projects, including grant financing to support women's small enterprises, aims to expand opportunities for entrepreneurship and inclusive economic growth.

On the monetary policy, the Reserve Bank has adjusted its policy stance from accommodative to neutral, reflecting the need to contain persistently high core inflation, protect stability of its pegged exchange rate, and sustain financial system resilience. Monetary reforms focus on modernizing operational frameworks to improve liquidity management and safeguarding the exchange-rate peg that underpins macroeconomic stability.

In 2025, the Government escalated commitments to strengthen public finance accountability and transparency, implementing public finance reforms across the Government and key public enterprises. They included (i) strengthening expenditure control and fiscal discipline, directing spending toward high return and growth-oriented priorities, (ii) upgrading budget processes to enhance the quality, efficiency, and credibility of public spending; and (iii) reinforcing monitoring, reporting, and audit systems to uphold transparency and accountability.

These reforms should direct the investment of the public resources in building Tonga's capital formation and productive capacity, sustaining vital remittance linkages, and creating fiscal space to expand private-sector development particularly in tourism, agriculture, fisheries, manufacturing, and handicraft innovation to generate meaningful employment and opportunity for Tonga's women and youth.

Government has committed to fighting against illicit drugs and provided full support for advancing good governance and anti-corruption efforts. The Government is also advancing reforms aimed at strengthening public trust, improving service delivery, and ensuring that development outcomes are tangible and measurable for all Tongans.

The priorities for the national development for the next 10 years will be guided by the Tonga Strategic Development Framework III 2025-2035 which will be launched in November 2025.

As we gather here today, it is crucial that we, as a global community, advocate for transformative changes in how climate finance is accessed and disbursed. I urge our partners at the World Bank and the IMF to take decisive action in the following areas:

1. **Simplification of Access**: Streamline funding processes and simplify application procedures to make it easier for SIDS to engage with climate finance. Ensure that support is readily available and adaptable to our unique contexts.

2. **Increased Support for Community-Based Initiatives**: Prioritize funding for projects that focus on local needs and capacities. Empower communities to design and implement solutions that are culturally relevant and effective.

3. **Dedicated Funding for Loss and Damage**: Establish robust and predictable funding mechanisms specifically for loss and damage, ensuring that SIDS have the resources necessary to recover from climate impacts that are beyond our control.

4. **Capacity Building and Technical Assistance**: Provide targeted capacity building and technical support to enhance our ability to develop competitive proposals and manage funded projects effectively.

5. **Partnerships with Local Organizations**: Leverage the expertise of local NGOs and community organizations that have a deep understanding of our needs and priorities, ensuring that climate finance is responsive and effective.

We also strongly urge the World Bank and the International Monetary Fund to adopt the Multi-Dimensional Vulnerability Index (MVI) as a central criterion for determining access to concessional financing for Small Island States. The MVI provides a more accurate reflection of the structural challenges and external shocks these economies face—challenges that traditional income-based measures fail to capture. Its application would ensure fairer access to resources, enabling Small Island States to build lasting resilience and pursue sustainable development.

Tonga expressed deep concern over the proposed 1% levy on remittances by the United States, emphasizing that such a measure could disproportionately affect vulnerable households and reduce vital foreign exchange inflows that sustain livelihoods and national resilience. The International Monetary Fund intervention to address this critical issue with the United States in relation with the adverse impact on the Balance of Payment is imperative.

We commend the collaborative effort of the World Bank and development partners in the development of the disaster risk insurance instrument PICRIC for the region. The same support is sought for the capitalization of the Pacific Resilience Facility (PRF) to secure predictable financing for climate adaptation and disaster preparedness.

The World Bank work on the development of the new Strategy for the Small States, which draft form was discussed with members of small states during the Annual Meeting, is commendable, and we are looking forward for the implementation of the differentiated approach that is fit and proper for advancement of member countries development aspiration.

Conclusion

The Government of Tonga expresses its deep appreciation to the World Bank Group, the Fund and its development partners for its ongoing assistance through grants, concessional finance, knowledge sharing, technical assistance, and policy dialogue.

As Tonga commemorates 150 years of constitutional endurance, we are reminded that our strength lies in resilience, partnership, and Christian faith. On behalf of His Majesty Government and people of the Kingdom of Tonga, I convey our sincere gratitude to the World Bank Group and IMF for your continued friendship and partnership. Together, we can contribute positively, towards a more resilient, and prosperous world, and wellbeing of our country for generations to come.

Thank you.