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

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Governor of the Bank for Tonga

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 honoured to have the opportunity to address the International Monetary Fund (IMF) and World Bank Group (WBG) Joint Board of Governors' 2016 Annual Meetings on behalf of the Government of Tonga.

I wish to convey my sincere appreciation and gratitude to Madame Christine Lagarde and Dr. Jim Yon Kim for their leadership at the helm of our Bretton Woods institutions, in guiding their valuable contribution to global growth and financial stability.

I would like to take this opportunity also to express my sincere condolences to the people of the affected Caribbean Islands including those in the Florida Peninsular who lost their homes because of the category-4 cyclone Matthew. This is a tangible testament of what natural disaster as a result of climate change can do to an island states in just a few hours instigating unimaginable human and physical damages that would take years to recover and rebuild.

I welcome the government of Nauru as the newest member of the IMF and WBG and wish her success in future development endeavours.

Global Economic Outlook

Mr Chairman,

As the growth of the global economy remains unchanged from the disappointing pace of 2015, the projection is not very promising showing that the world economy is not out of the wood yet since the eruption of the global crises in late 2008. The recovery has not been flourishing as anticipated, but we are certain that the determined efforts of the Bretton-Wood Institutions will avoid repeating the history instead having a sustainable growth that deserves by the citizens of the world. The global economic activities overtime driven by the growth of the emerging markets and developing economies, albeit the

persistent of the political challenges and dynamic external environment faced affords encouraging global growth prospects going forward.

With the global efforts disbursed to avoid reverting of the economic gained thus far, the recognized down-side risks have become more pronounced and prolonged stagnation due to political uncertainties, geopolitical risks and eroding confidence in policy effectiveness. These downside risks presented a mentality of fear in most of the policy-makers because of possibility of setting back global growth and trigger financial market turbulence. Therefore, both institutions are therefore encouraged and called upon to be rigorous in their approach in assessment of the global economy and target timely strategic actions and policy measures in response to assist countries towards achieving inclusive, sustainable and resilient socioeconomic and economy-wide growth and development.

Tonga Economy

Mr Chairman,

The Tonga economy has experienced gradual growth over the past few years of the post-global crises, slowly picking up with a forecast to even-off over 2016/17. Despite the somewhat sluggish growth projected, economic growth is nevertheless initiated and supported going forward by a couple of one-off events including construction activities most of which are donor funded projects, including World Bank development projects, as well as the preparation for the upcoming Pacific Games in 2019.

The Tonga Strategic Development Framework (TSDF) 2015 – 2025 launched last year sets a national vision for a “more progressive Tonga supporting a higher quality of life for all”. Specifically, there are four thematic areas upon which the Government would like to place priority focus on during the current financial year. These are (i) good governance; (ii) inclusive and sustainable growth; (iii) poverty alleviation and; (iv) safer and better infrastructure. These priorities areas are hinged at the 2016/17 budget theme “Plan the Work and Work the Plan with Monitoring and Evaluation” chooses to encourage working the plan within the available resources so as to achieve sustainable and inclusive growth.

Tonga’s GDP in real terms is projected to grow 2.7 per cent in 2016/17 with further positive growth in 2017/18 largely due to increased activity in the secondary and tertiary sectors of the economy. The primary sector is projected to experience steady growth and is expected to increase in the future given the recent establishment of the country’s first Fisheries and Agricultural Sector Plans outlining the priority investments planned for implementation in the coming years. The economy has maintained through its National Reserve Bank a comfortable set of monetary policy instruments to support macroeconomic stability, economic growth and to promote low inflation.

The current accommodative stance of the monetary policy is appropriate in light of low inflation and robust external position, while recent rapid increase in credit growth is not yet a concern considering that it started from a low base. Specifically, despite the deflation evident, foreign reserves remain

comfortably above the 3–4 of import cover, exchange rates remain competitive, positive credit growth, and the banking system remaining sound with high liquidity and narrowing interest rate spreads. The National Reserve Bank’s monetary policy actions will continue to focus on exploring measures to encourage the full utilization of the excess liquidity in the banking system for prudent lending activities to support economic growth. This includes undertaking financial inclusion initiatives to support inclusive economic growth. Furthermore, work is in progress to develop the appropriate laws and regulatory framework for the regulation of non-bank financial institutions that cater for certain sectors of the population which are not banked, to ensure the interest of financial consumers that they serve are well protected. At the same time, the National Reserve Bank will remain vigilant and will continue to closely monitor early signs of vulnerabilities.

Fiscal conditions continue to be managed to ensure overall economic fiscal stability. The budget for the current financial year 2016/17 is TOP\$327.9 million with in-kind support of TOP\$217.4 million which constitutes an overall budget value of TOP\$545.3 million. This is done through the implementation of appropriate fiscal strategies to ensure the fiscal management of Government finances, maintaining moderate debt distress and amongst other, support priority major infrastructure developments. The fiscal balance for 2016/17 presents a slight deficit which is financed from foreign concessional loans as well as domestic borrowing through bonds. The fiscal policy support development of critical infrastructure projects, and continue providing low cost loans to the small and medium enterprises and for vocational and technical education through the Tonga Development Bank.

Tonga faces inevitable developmental challenges with the presence of climate change and its magnified impacts for island states including Tonga which require adaptation and close management in terms of the persistent risks evident overtime. The macro economic conditions have remained stable and closely monitored to ensure that macro stability continues and business confidence is intact. Additionally, financial conditions remain in support of economic growth with a profitable and highly liquid banking system.

Tonga’s financial system continues to be affected by the global banks’ de-risking decisions which has resulted in the closing of some of the money transfer operators’ (MTOs) accounts and the exit of correspondent banking relationships due mainly to elevated money laundering & terrorist financing risks associated with MTOs. This has the adverse implication of increasing the cost of remittances and reversing the efforts to reduce poverty, promote financial inclusion, and ultimately ensuring macroeconomic resilience, particularly for small island states such as Tonga who rely heavily on remittances and international trade for its people’s livelihood.

About 88% of the total remittances are channeled through the MTOs and 70% of Tongan adults were reported to have received remittances over the past year. Although remittances have remained high, the cost of remittances from the remitting countries has increased, and in Tonga’s case, cost of remittance from New Zealand has increased to about 13%, which is above the G20 target of 5% for 2030. Options available for the authorities in Tonga have been exercised such as efforts to improve the AML/CFT

compliance of the MTOs and easing of certain requirements in order to meet the correspondent banks' requirements and thereby avoid the termination of the correspondent banking relationships, as well as through regional efforts. But it will also work with Financial Institutions to address the concerns with increasing fees as a result of de-risking. Financial inclusion continues to be a priority with National Reserve Bank's current efforts and intention to create a National financial Inclusion Strategy to promote financial inclusion in Tonga.

Partnership with the World Bank Group (WBG)

Mr Chairman,

While welcoming the World Bank Group management's continuous commitment to a better, more efficient and agile organization that uphold standards to further exploit synergies across its institution, the development of the forward look vision for 2030 certainly galvanize the corporate focus of the Bank towards eradication of extreme poverty and ensure prosperity. This has confirmed the pledge made in the 2015 Annual Meetings calling the WBG management to build on the critical works undertaken in the past years so as to reinforce its relevance and overall role in addressing the most intractable development challenges while improving its effectiveness.

With one year past of the establishment of the Strategic Development Goals (SDGs) and countries having embraced a truly global agenda providing a shared frame of development ambitions, we urge the WBG management not to take their eyes off on the objective to offer direction for selectivity and prioritization within the framework. This is critical because the attainment of the WBG forward look vision requires a multi-sector approach that bode-well with the overall achievement of the SDGs. This will entail making sure resources are deployed where they are needed most, integrating global issues into the Bank's business model, expanding the partnership works with private sector and catalysing financing for development.

We laud the current replenishment negotiations for IDA 18 which reported to set up for a historical change and the effort pursued to transform the IDA's financial model allowing for scaling up of financial assistance to member countries and the small island states in particular, thereby enhancing its financing capacity and ability to support critical developmental areas. In that connection, we would like to reemphasize the need to build in more flexibility into the IDA18 in terms of ensuring vulnerabilities to climate change is part of the equation and to reconsider the current rules of using debt-distress situation as determinant feature for provision of either grant or credit. For Tonga, the provision of IDA resources via credit modality could undermine the effort to build the most required fiscal buffers to counter the economic and social repercussions caused by climate changes. Tonga is pleased with the WBG commitment to look into this issue of debt sustainability in the context of scaling-up in the IDA18.

Tonga welcomes the development of the Pacific Possible focusing on transformative opportunities and providing clear identification of the biggest challenges that requires urgent action. There is no doubt that the findings presented in the Pacific Possible indeed offer policy-makers with specific insights into what each area could mean for the economy, for employment, for government income and spending. For this Pacific Possible to become a reality, we urge the WBG to be more innovative and practical in their advisory assistances to the region so as the country's development targets are achieved. This requires seeing more of resources are directed to implement the WBG and Tonga development programs for the next three years.

We thank the WBG for the job well done in taking stock the engagement of the small states with the Bank, as the report recently issued boldly highlighted that despite the natural beauty of these ocean and land-locked islands they are extremely vulnerable to climate change and have limited resources to respond to any climatic impacts. However, we are encouraged with the launching of the Small Island States Resilient Initiative for the fact it will provide the required breathing space through the provision of various financing mechanisms such as debt-for-resilient, debt-swaps and exchange of global knowledge. The effort of the WBG in elevating the visibility of the small states developmental challenges and opportunities into the WBG business model is welcomed. We urge the WBG to draw up operational framework with timeline to develop and implement the required new business model, policy tools and operational apparatuses to improve the WBG's intervention to enhance the affairs of small states.

With the small states increasingly affected by extreme weather events and rising sea levels, we are appreciative of the establishment of the Climate Change Action Plan (CCAP) which has underscored the Bank's commitment to provide significant assistance to island states in building resilient through expanding operational climate smart-policies and investing in green infrastructure. In this context, we observe with gratitude the strong focus on climate change adaptation and resilience under IDA 18 and for the consideration given to a broad set of characteristics of vulnerability when it comes to distribution of IDA resources. The attention to provide necessary resources to deal with loss and damages on the aftermath of climatic disaster is equally important. This is absolutely good for Tonga in its endeavours to better adapt to climate change and strengthening disaster preparedness. .

We are encouraged with the World Bank Group's continued efforts to mainstream and streamline the Disaster Risk Management into the national level as well as regional development investment operation and planning. This is implied that small states such as Tonga will be benefitting from a nimble and swift response from the WBG in terms of providing investments that helps protect the lives and livelihoods of the people and to safeguard growth in key socio-economic sectors. Therefore, we call on the WBG as the premier development institution to play a key role in advancing policies essential for growth and poverty reduction.

Tonga welcome the approval of the WBG's new Environmental and Social Framework reflecting the relentless commitment being pursued by the Bank to expand the protections for the people and the environment in all Bank-financed investment projects so as to further improve developmental outcomes.

Furthermore, Tonga wishes to acknowledge the valuable assistance provided by IFC over the years in support of growth in the private sector and towards the promotion of public-private partnership across the economics' sectors. Given Tonga's limited diversification and narrow economic base, we urge IFC to invest more towards the development of Micro, Small and Medium Enterprises (MSMEs) and their ability to access finance and leveraging on the available technology and improved infrastructures, as a reasonable development in this area can be a catalyst to greater mobilization of funds into investment, improve domestic resource mobilization and enhance the national welfare, reduce inequality and support inclusive economic growth. This is an area that we are certain will provide a meaningful opportunity for creation of employment and livelihood, especially for economic empowerment of women and youth in the region, and thereby reduce the dependency on external sources of income.

Finally, Tonga is very appreciative of the WBG effort to scale-up the financial envelope for IDA18. This will certainly provide the financial resources required to meet our national priority and that of SGDs.

Partnership with the International Monetary Fund (IMF)

Tonga welcomes the development of the Managing Director's Global Policy Agenda (GPA) and supports the call for a more potent policy mix involving monetary policy, fiscal policy and structural reforms that can work to strengthen global growth prospects. In this connection, we appreciate the current consideration of the Funds to address the issue of social protection through their policy advisory services to member countries. We believe this is a step to the right direction in recognizing the dire social implications experienced by billions due to the corollaries provoked by financial and economic crises triggering job-losses and financial turmoil. We urge the Funds to collaborate effectively with other agencies on social protection issues so as to ensure intervention programs are complementary in nature. The financial provision of interest free loan to maintain macro-economic stability of the small island states in the event of natural disaster is essential.

We acknowledge the Funds continuous efforts to deepen analysis of structural reforms and develop principles to guide policy prioritization. This has supported the new infrastructure policy that had been developed to provide technical and financial support towards scaling up infrastructure outlays and cultivating institutional aptitude in the implementation of infrastructure projects.

We applaud the operationalization of the 2014 Triennial Surveillance Review (TSR) recommendations towards enhancement of the even-handedness of the Fund's surveillance. Therefore, we commend the Fund to further ensure even-handedness across the full range of its activities and put more emphasis on the importance of continuity and two-way engagement between the Fund and Tonga to augment the traction of Fund policy advice.

Tonga appreciates the Fund's incessant commitment to tailor policy advice and examine the scope to enhance financial support for low-income countries including Tonga in order to pursue their development undertakings. In this context, we acknowledge the instrumental services rendered by IMF through its annual Article VI Consultations. This annual event has contributed significantly to the economic policy consideration of the government which led to the serious concerns over the unilateral decision of the global correspondent banks in terminating the correspondent bank relationships as well as closing down of the accounts the local money transfer operators. The concern has been intensified following the release of the results of the IMF de-risking study in the region which exhibit potential large and detrimental impact of closure of MTOs on the financial sector and macro-economy.

We therefore urge the Funds to work closely with the global forums and the G20 developed economies, where de-risking has emanated from, to seriously consider the impact of de-risking on small island states' economies and people's livelihood, and clarify their expectations of what needs to be done in order to avoid de-risking and continue to assist with capacity building in this regard as we certainly concur that efforts ought to go beyond compliance only.

Tonga also acknowledges assistance that the Fund will be providing the National Reserve Bank to review its monetary policy tools and develop the financial markets which would go towards improving the monetary policy transmission mechanism and enhancing the monetary policy framework.

Conclusion

Mr Chairman

Let me once again thank the Bank and Fund for their leadership and guidance and wish both institutions success in the year ahead.

Thank you very much for your attention.