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WORLD BANK GROUP

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 for **TONGA**,
at the Joint Annual Discussion

STATEMENT BY HON SIOSIUA T.T. 'UTOIKAMANU, MINISTER OF FINANCE AND GOVERNOR FOR TONGA AT THE 2002 ANNUAL MEETINGS OF THE INTERNATIONAL MONETARY FUND AND WORLD BANK GROUP.

Mr. Chairman,

It is an honor for me to address you on behalf of the Government of the Kingdom of Tonga at the 57th Annual Meetings of the Board of Governors of the International Monetary Fund and World Bank Group. I wish to extend my appreciation to the Government of the United States and to the Washington DC authorities for their hospitality and excellent arrangements and organization during these testing times. I also wish to take this opportunity to welcome East Timor as the newest member of the Fund and the Bank.

On the world economy, future recovery continues to depend on the outlook for the United States. The recent upward revision of the growth rate of the United States augurs well for the future outlook. We note that a modest rebound is projected for the Japanese economy. It is to be hoped that this can be sustained into the medium term to support future growth prospects for the world economy. It is also hoped that macroeconomic policies in industrial countries will continue to support worldwide economic activity. As such we welcome the analysis by the staff of the Fund recommending the easing of monetary policy and appropriate fiscal policy consolidation.

We welcome the moves towards enhancing the effectiveness of Fund surveillance which include improving the vulnerability assessments, expanding the

coverage of financial assessments, and enhancing multilateral surveillance of the international capital markets. We also welcome the Fund's initiatives to improve the Article IV consultation process to provide a broader and deeper analysis of the state of the economy in member countries.

The continued progress being made under the enhanced HIPC initiative in providing debt relief to the world's poorest countries is a major step forward. Debt relief is an essential first step for successful growth and development. However much more needs to be done to ensure that HIPC countries achieve a robust exit from unsustainable debt. The full benefits will only be realized if the improved debt situation is sustained through support to promote the investment and human development necessary to achieve sustained growth and poverty reduction. We urge that low income non HIPC members be also considered for debt relief in order to support growth and development.

We welcome the action being taken by the Fund and the Bank to support actions to counter money laundering and the financing of terrorism. In particular we welcome the assistance provided to member countries to address the abuses of the international financial system.

We join others in welcoming the agreements reached at the March UN Conference on Financing for Development in Monterrey, and more recently at the Johannesburg World Summit on Sustainable Development. The agreements offer a real prospect of meeting the Millennium Development Goals and securing a substantial

reduction in global poverty. The agreements also offer opportunities through trade for more rapid growth and poverty reduction, and the challenges of financing for development through strengthening partnerships, improving the conditions for investment and growth, enhancing official development assistance flows. We welcome all efforts to significantly increase official development assistance. Poverty reduction, however, will only be achieved if we employ the available resources in a more effective way so as to ensure that the benefits of growth are shared as widely as possible.

We especially welcome the actions being taken by the World Bank and other international institutions to implement the proposals in the April 2000 report of the Joint Commonwealth/World Bank Task Force on Small States. We urge the Fund and the Bank to give greater recognition to the increased urgency of the challenges confronting their small and vulnerable members from recent international developments and other factors.

The Tongan economy continued to perform below expectations during the past year with slower GDP growth, and with fragile external and fiscal accounts. The key challenge for Tonga in the short term is to preserve external viability through strict fiscal and monetary policies. The key challenge in the medium term is to restructure the public sector in order to support private sector led growth. These challenges are exacerbated by the vulnerability of our country to natural disasters. In January this year, a destructive cyclone affected our northern island groups. We wish to acknowledge the rapid response of our development partners in providing relief, and more particularly the World Bank for providing an emergency recovery credit facility within a very timely framework.

This year, the government has embarked on a comprehensive economic and public sector reform program in order to respond to the short and medium term challenges the country faces. The twin objectives of the reform program are, firstly, to improve the efficiency of the government and to improve service delivery to the public and, secondly, to create an environment more conducive to economic development which will create new employment opportunities for new entrants into the labour market.

The improved efficiency of government is to be achieved by stricter fiscal discipline largely achieved through the budgetary resource allocation process and by civil service reform, which creates a performance oriented system for recruitment, deployment and remuneration for official at all levels, as well as for the Government's decisions regarding the allocation of scarce resources to its competing priorities.

The creation of an environment more conducive to economic development is to be achieved by a variety of measures. These include regulatory reform, tax reform aimed at base broadening and rate lowering, and re-examination of the role of the state in activities better left to the private sector.

Finally, we wish to congratulate the Managing Director of the Fund and the President of the World Bank for their leadership in managing both institutions during this challenging times following the tragic events of September 11 of last year. We wish them continued success in leading our sister institutions in facilitating a full recovery of the world economy. We would also like to acknowledge with appreciation the technical and

financial assistance that both institutions have provided to Tonga. The assistance, we assure you, continue to improve the standard of living of our people and we therefore, look forward to a continued partnership in the future.

Thank you.