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Statement by the Hon. **SUNIA MANU FILI**,  
Governor of the Bank for **TONGA**



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Governor of the Bank for Tonga**

Mr. Chairman, Madame Managing Director of the International Monetary Fund, Mr. President of the World Bank Group.

I am honored to have the opportunity to address the 2011 International Monetary Fund (IMF) and World Bank Group (WB) Board of Governors' Annual Meetings.

I would like to congratulate and welcome Ms Christine Lagarde on her first Annual Meetings in her capacity as the Managing Director of the International Monetary Fund.

On behalf of the Tongan delegation, I would like to express my appreciation to the Fund and Bank 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 economic crisis and chart our future direction in a changing world.

The impact of the global economic crisis which engulfed economies three years ago continues to echo today. While the international community and the international financial institutions have responded to the plight of the developing countries with remarkable unity of effort, the economic recovery remains fragile and uncertain.

One year ago we had looked forward to a gradual return to economic growth, but recent events suggest that this may be some time further away as the larger and more advanced economies seek to address their own domestic economic challenges.

**Tongan Economy**

For the past three years, Tonga's economy went through a period of economic contraction associated initially with the rapid increase of international food and fuel prices, followed by the onset of the global economic crisis, and exacerbated by a succession of natural disasters including a tsunami and a drought.

The path towards economic recovery is not easy. Tonga is highly dependent on foreign remittances which are adversely affected by the impact of the global economic crisis. The decline of remittances, particularly from the United States, has reduced household incomes significantly affecting domestic aggregate demand and government tax revenue collections.

The main outcome of this has been an increase in the fiscal deficit and an associated impact on government's service delivery as well as increased hardship within the

community. Fortunately the development partners, including the Fund and the Bank, have responded positively to the government's request for support.

The economy has still not returned to the state that it was in prior to the global economic crisis, but the government anticipates that positive growth can be achieved through its policies of fiscal consolidation and structural reform with additional support from its development partners.

In the recently announced budget for 2011/2012, the government plans to regain sustainable fiscal stability while enhancing service delivery and thereby contributing to economic growth.

Following Tonga's first democratic election in November 2010, the government, which took office in January 2011, announced a new medium-term national development plan, the Tonga Strategic Development Framework, to provide the platform for its economic policies over the period until 2014.

The government continues to make significant improvement to its public financial management system. One of the key commitments by the government is the proposed implementation of a Medium Term Budget Framework (MTBF) in the next financial year.

At the same time, the government, with the support of its development partners including the Bank, has made significant progress with energy and infrastructure development, particularly the planned installation of a submarine fiber optic cable. This infrastructure improvement should enhance the transmittal speed of digital communication, a critical factor to the development of the private sector.

While Tonga has maintained its commitment to achieving substantial progress of the Millennium Development Goals (MDGs), particularly in the basic areas of human development, there is continuing hardship facing households and communities in the rural areas and outer islands. The government plans to introduce a social protection scheme to mitigate increased hardships amongst the more vulnerable members of society.

The government is committed to maintaining the momentum of the ongoing economic reforms and despite recent challenges, it is optimistic about future developments.

### **The World Bank Group**

The global economy is still facing urgent and pressing issues, which calls for continued engagement by the international financial community with low income countries to take appropriate measures to address them.

The post-crisis strategy developed a year ago identified five priority actions for the World Bank Group, one of which is targeting the "poor and vulnerable." This underscores the

importance of coordination with relevant parties, particularly the private sector, and appropriately putting jobs and gender at the center of policy development. This comes with determination in using collective capacity to implement what had been mapped out as key lessons in the 2011 World Development Report (WDR).

The global economic crisis has taken a heavy toll across many countries with negative impact on employment and incomes undoing the accumulated economic gains of the past decade, undermining progress towards achieving MDGs, and creating serious risks for social sustainability and cohesion.

In this regard, the effort by the Bank to develop a framework to address the concerns over jobless recovery is welcomed. The Bank has rightly avoided applying universal solutions by searching for strategies that suit individual countries. At the same time, the Bank's work could take a more integrated approach across sectors and also across countries given global interdependencies.

With the ability of the Bank to mobilize resources, it can take a comprehensive analysis by looking into jobs as the key of development that connects the need to lift the living standard of people, productivity gains across sectors, and social change and cohesion.

In this connection, the launching of the crisis response window under IDA16 is welcomed as it should help strengthen the IDA's capacity to support its member countries in their quest for economic growth and jobs creation.

Furthermore, the Bank's review of its strategic approach to address gender parities is also welcomed. Indeed, this is a core development objective and it cannot be overemphasized enough given that it would enhance productivity, improve the life of the next generation, and make institutions and societies more representative.

While it is recognized that substantial resources have been allocated through different developmental instruments to address gender parity, it is considered that more can be done through greater engagement in country-level gender diagnostic, so that needed interventions are clearly understood for the Bank to provide effective and meaningful support. The importance of more effective coordination cannot be over emphasized.

The Tongan government wishes to formally express its gratitude to the Bank for its support during these difficult economic and financial times. The support has been provided by way of budgetary support, project grants and policy advice. For a small country with limited resources, such support has been most welcomed and appreciated.

In this regard, the Bank's regional office based in Sydney has been most effective and the Bank's staffs have been very proactive in engaging with the government to address its policy challenges, and the government looks forward to this close working relationship continuing into the foreseeable future.

## **The International Monetary Fund**

The continuing efforts by the Fund to support member countries to maintain financial and economic stability in the aftermath of the global economic crisis is welcomed.

The initiatives by the Fund to broaden the surveillance mandate to ensure a more balanced focus on various risks such as fiscal, monetary and financial sector risks is especially welcomed in the aftermath of the global economic crisis. Furthermore the Fund's on-going discussion with the Bank on strengthening global financial safety nets is also timely.

There is a need to review the Fund's lending toolkit for low income countries, including fragile states so that country-specific circumstances are more effectively incorporated into staff assessments, and also to ensure that there are adequate resources devoted to the engagement with such states, as this is of particular importance for the smaller members of the Fund.

The Fund's on-going reviews of the Debt Sustainability Analysis framework together with the studies on the spillover effects of events in the advanced member countries are welcomed. These are significant contributions which will be very useful for Tonga in light of her experiences of the impact of the recent global economic crisis.

The government of Tonga is grateful to the Fund for the close cooperation and engagement over the past year during a time of significant fiscal pressure as a consequence of the global economic crisis. The policy advice received from the Fund and its staff, as well as the support provided by the Pacific Financial Technical Assistance Center based in Suva, Fiji Islands, has been a significant contribution to enhancing the limited capacity of the government. The recent establishment of the office of the Resident Representative for the Pacific has contributed positively to a closer working relationship between the government and the Fund staff. This has resulted in enhancing the government's economic management capability which has supported the maintenance of the country's macroeconomic stability.

May I conclude by wishing the Bank and the Fund continued success in resolving the many difficult challenges that lie ahead.

Thank you.