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Statement by the Hon. **PILIMILOSE BALWYN FA'OTUSIA**,  
Governor of the Bank for **TONGA**

**Statement by the Hon. Pilimilose Balwyn Fa'otusia,**  
Governor of the Bank for Tonga, on behalf of Hon. Pohiva Tu'i'onetoa,  
Prime Minister and Minister of Finance of 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,

It is a pleasure and an honour for me, as the newly appointed Prime Minister and Minister of Finance, to have this opportunity to address the International Monetary Fund (IMF or Fund) and World Bank Group (World Bank) Joint Board of Governors 2019 Annual Meetings on behalf of the Government of the Kingdom of Tonga.

I wish to acknowledge the strong support of the Bretton Woods Institutions and convey my sincere appreciation to both leaders, Mr. President David Malpass and Madame Managing Director Kristalina Georgieva for their significant contributions and stellar leadership in support of global growth and financial stability. We congratulate Kristalina Georgieva on her recent appointment and convey our best wishes for her journey ahead.

I would also like to take this opportunity to express how saddened we are by the significant damage, devastation and lives lost as a result of Tropical Cyclone (TC) Idai in Africa earlier this year. We convey our deepest condolences to the families of the casualties in the affected African States of Madagascar, Malawi, Mozambique, and Zimbabwe. Such natural events including earthquakes and floods are constant reminders of the increasingly devastating impacts of global warming and climate change which require sufficient resources and action to enhance mitigation and resilience at all levels.

**Global Economic Outlook**

Mr. Chairman,

We are pleased with the progress and growth experienced by the global economy over the decade in recovering from the 2008 Global Financial Crisis. However, we are aware of the forecasted slow-down of global growth this year with a projected growth rate for 2019 of 3.5 percent, relative to 3.7 percent in 2018. Growth is expected to pick up slightly to 3.6 percent in 2020 as growth of advanced and emerging market and developing economies improve. Risks to global growth remain on the downside as a result of global trade tensions in the United States and Peoples' Republic of China, a tightening of financial conditions in Europe, and high levels of public and private debt. To avoid further weakening of global growth, we support the instrumental leadership of our Bretton Woods Institutions in fostering cooperation in support of sustainable trade and effective policy interventions across all economies in order to boost potential output growth, manage

sustainable debt and inflation, and secure inclusive and people-oriented development outcomes and strategies.

## **Tongan Economy**

Mr. Chairman,

The Government of Tonga is currently in transition as a result of the recent passing of the late Honorable Prime Minister of Tonga 'Akilisi Pohiva. This transition is in progress as I now take on such leadership role as Tonga's newly elected and appointed Prime Minister, along with my Cabinet membership fully appointed recently.

The Tongan economy has experienced moderate and steady growth with a forecasted growth of gross domestic product (GDP) by 3 percent for Financial Year 2019/20 and an average growth in national GDP per capita of 1.3 percent over the past two decades. However, with the ongoing recovery and long-term reconstruction efforts in response to the significant damage and destruction from TC Gita in February 2018, the economic outlook is picking up positively whereby economic growth is forecasted to be 3 percent in financial year 2019/20, and to increase in outer years. The major drivers of such growth include: (i) the implementation of major infrastructural developments funded by development partners, particularly the World Bank and the Asian Development Bank; (ii) the overall effort of the Government towards addressing and enhancing its priorities; and (iii) an accommodative monetary policy that is appropriate to encourage utilization of the excess liquidity in the banking system.

The Tonga Strategic Development Framework II 2015 – 2025 (TSDFII) continues to guide the overall development of the economy and is founded upon the national vision of “*a more progressive Tonga, supporting a higher quality of life for all.*” Now in its fourth year of implementation, the Government of Tonga continues to invest resources and capacity towards achieving of the national and organizational outcomes of the TSDFII, specifically in support of the Government's nine priority areas as reflected in the Government Priority Agenda for Financial Year 2019/20. The nine priority areas comprise of: (i) Public Sector System Reform; (ii) Development of the Informal Sector; (iii) Combating and addressing the Impacts of Illicit Drugs; (iv) Infrastructure development particularly of community and agricultural roads; (v) Support for the Energy Sector; (vi) Digital Government; (vii) Health; (viii) Quality Education; and ix) Lands Administration and Management. Investing in these priorities are pertinent and relevant to the present context and challenges of sustained development in Tonga and will aid to advance tangible investments that support growth and development for the Tongan people. Given that the underlying emphasis of the Government priorities is to ultimately invest for the common good of the Tongan people, the Government, as such, developed the underlying theme of the Government Budget for Financial Year 2019/20 as “*Our country, our people*” to reflect the country's people-centered development focus.

Tonga's fiscal space continues to be prudently managed to ensure overall sustained economic and fiscal stability. The overall Government Budget for the current Financial Year 2019/20 is \$539.8 million Tongan Pa'anga, with in-kind support of \$104.5 million Tongan Pa'anga. The strategic thrust of the Financial Year 2019/20 Budget recognizes and gives attention to relevant key issues such as: (i) disaster preparedness to ensure

resilience to natural events; (ii) accountability, transparency and reporting of aid assistance from Development Partners for ongoing recovery efforts; (iii) completion of the reconstruction and recovery efforts following TC Gita & TC Ian; (v) increased effort to address the issues of illicit drugs and deportees; and (vi) improvement of pre-departure support to prepare Tongans for overseas employment.

Given the ongoing reconstruction and recovery from TC Gita, we are grateful for the generous provision of significant resources which expedited and advanced the ongoing reconstruction efforts for Tongans that were affected. We specifically acknowledge the significant assistance provided by development partners including the World Bank, in addition to non-government organizations and humanitarian agencies. The resources facilitate the reconstruction of more fundamentally resilient schools, households, and infrastructure, which will contribute to boosting economic activity.

As a small island developing economy with extreme vulnerability to natural disasters and climate change, Tonga continues to prioritize the enhancement of resilience across all sectors of its economy in order to better secure and sustain current and future investments and infrastructure. The dispersed and low-lying geographical nature of the country also highly contributes to its vulnerability, in addition to external economic factors such as transaction costs and economies of scale.

The accommodative monetary policy stance remains appropriate to support domestic economic growth, including the recovery from TC Gita, while continuing to maintain financial stability. This is against the background of low inflation with annual inflation rate at 0.4 percent, high foreign reserves at 8.1 months of imports, excess liquidity, and sound financial system. To this end, the National Reserve Bank of Tonga (NRBT) continues to maintain key monetary policy measures in the medium-term to encourage banks' productive utilization of excess liquidity in the banking system, which includes retaining the: (i) monetary policy rate at 0 percent; (ii) minimum loan/deposit ratio at 80 percent; (iii) Statutory Reserve Deposit ratio at 10 percent; and (iv) inflation reference rate of 5 percent. Equally important is the ongoing vigorous supervision of banks and strengthening of the supervision and regulation of the non-bank sector, through the implementation of new laws such as the Foreign Exchange Control 2018 and the Microfinance Institutions Act 2018, to ensure they continue to be able to support the country's economic development in a safe and sound manner.

### **Partnership with the World Bank Group**

We welcome the World Bank's efforts in support of the 2030 Agenda for Sustainable Development - Sustainable Development Goals (SDGs). We support the World Bank's "Forward Look – a vision for the World Bank Group in 2030" which provides a pathway for the World Bank in aligning its work and twin goals of: (i) eradicating extreme poverty; and (ii) ensuring shared prosperity, in support of the achievement of the SDGs. The *Forward Look* sets out the critical role that the World Bank can play in the lead up to 2030 via a multi-faceted plan of how it could best support its wide range of member countries, including Small Island States like Tonga. In addition, we also note the important role that the World Bank has in addressing some of the most prominent challenges of our time, including human capital and climate change which require multi-sectoral approaches and people-centered solutions.

In this vein, we welcome the World Bank's ongoing work in human capital, specifically via its Human Capital Project which responds to a myriad of challenges that call for investing more effectively in people. With the current focus of the Government of Tonga on people-centered investments corresponding to its nine priorities, we note the increased attention from the global community, including Tonga, to prioritize investments in human capital, including through IDA19. In this regard, we also note with importance that increased spending or investment in people does not necessarily translate into desired results. The consideration of all relevant factors in support of human capital is vital, and we support the World Bank's ongoing work to incorporate all relevant factors into its Human Capital Index methodology such as socio-economic factors, culture, gender, and environmental factors. For Small Island States like Tonga that comprise of dispersedly located island groups, in addition to prominent cultural values/practices, such factors hold true as they relate to all stages and levels of learning, including the early stages of childhood development.

We wish to acknowledge and highlight the World Bank's work in the Pacific Region particularly via its *Pacific Possible 2024* which recognizes the need for a tailored approach to investment and development in Pacific Island Countries given the unique development challenges and circumstances of the Pacific region. With a focus on seven high-potential areas, such as fisheries, climate change, and tourism, the World Bank, through the *Pacific Possible*, explores transformative solutions and opportunities that account for, *inter alia*, the regions far distance from global markets, terrestrial and marine impacts of climate change, and the existing capacity of local domestic markets in relation to international trade and global value chains.

Tonga wishes to highlight and recognize the instrumental and significant level of resources provided by the World Bank in support of its development via the International Development Association (IDA), International Finance Cooperation (IFC), and International Bank for Reconstruction and Development (IBRD). Tonga enjoys a significant level of resources under the current IDA18, and has the pleasure of contributing to the work of the IBRD through the 2018 IBRD General and Selective Capital Increase Packages. The IDA18 portfolio for Tonga amounts to a total of US\$67 million, allocated amongst the sectors of sustainable fisheries, vocational skills and training, disaster resilience, transportation, and digital government support for effective and efficient public service delivery, in addition to development policy operations (DPOs). The establishment of the Central Services Unit in support of existing IDA18 projects continue to add value to the capacity of Government through the Ministry of Finance to implement and deliver IDA projects effectively and efficiently.

As we approach the 19<sup>th</sup> replenishment, IDA19, we strongly support the call and case of Small Island States like Tonga and its neighboring Pacific Island Countries for a robust IDA19 package to account for our unique challenges and development needs. Climate change and other drivers of fragility continue to impact our development, in addition to limitations in human capital, infrastructure, and the development of the transportation and informal sectors of the economy. Such sectors are being considered as priorities for Tonga's national IDA19 portfolio which will support, *inter alia*, improving the conditions of community and agriculture roads, human capital investments, whole-of-government electronic financial systems, in addition to DPOs. The resulting benefits will include

economic transformation and job creation through the development of the informal sector, resilient infrastructure, as well as improved trade and export of local produce. Tonga, therefore, supports the World Bank's approach to the Job and Economic Transformation (JET) Agenda which prioritizes job creation or work in the informal sector through south-south cooperation mechanisms. Similarly, given the need for a robust IDA19 that reflects our needs, Tonga supports the proposed review of the IDA voting rights framework in support of more effectively accounting for the concerns of member countries.

### **Partnership with the International Monetary Fund**

Amid the backdrop of global economic growth being largely constrained by trade barriers and geopolitical tensions, other global challenges such as climate change and the rise of digital activities posing both benefits and risks, particularly for Small Island States, are among the key priorities that Tonga is faced with. We therefore welcome the Managing Director's *Global Policy Agenda* calling for appropriate actions on both the international and domestic front to safeguard global and domestic macroeconomic and financial stability. Equally important, we welcome the Fund's efforts to modernize its policy toolkit to meet the challenges of a fast-changing world and evolving needs of member countries. We are also encouraged by the progress towards developing an integrated policy framework to effectively help members determine the appropriate policy mix within the country context.

We welcome the Fund's work to assist members combat climate change risks. In particular, we support the Fund's policy advice focusing on building resilience to climate-related risks and the integration of climate change issues in the Fund's surveillance activities on a risk-based approach tailored to country priorities. With Tonga being susceptible to the physical risks of climate change while being challenged by its limited fiscal space and high reliance on grants and weaker absorptive capacity, we call on the Fund to provide relevant and well-grounded policy advice to assist in the assessment of the trade-offs between fiscal spending on ex-ante resilience building, development needs, and protection of the vulnerable groups while maintaining debt sustainability and safeguarding macro-fiscal sustainability. We also encourage the Fund to provide further guidance on the potential implications of climate change initiatives on economic activities, monetary policy and financial stability, as well as associated policy tools to mitigate such potential risks stemming from climate initiatives. This could also be achieved through strengthened collaboration between the Fund and relevant development partners to leverage on these institutions' expertise. To this end, we look forward to the joint IMF/World Bank pilot of the Climate Change Policy Assessment tool in Tonga in February 2020. This would provide valuable insights on Tonga's mitigation and adaptation plans including any gaps, and thereby assist in building coherent macro frameworks to address such needs.

We welcome the progress in advancing the Bali Fintech agenda. Leveraging on the benefits of technology provides ongoing support to the efforts towards tackling the implications of withdrawal of correspondent banking relationships and promoting financial inclusion. This is particularly relevant for Tonga with significant level of remittances supporting its foreign exchange earnings against the backdrop of weak export earnings and high reliance on imports. Moreover, with the rise of digital activities providing potential disruptions to domestic policy formulations, Tonga seeks the Fund's continued assistance

in providing guidance on how to better manage the opportunities and risks associated with digital and fintech related activities. With Tonga's fixed exchange rate regime, the introduction of crypto currencies such as libra poses a threat to maintaining adequate level of foreign reserves to facilitate the country's international payments and trade.

We take positive note of the completion of the review of the Fund's concessional lending facilities to better meet the needs of countries that are highly vulnerable to natural disasters such as Tonga. With the increased frequency and intensity of natural disasters, this is a timely review to better equip member countries with 'life lines' to fall back on in the event of natural disasters, amidst rising debt levels and other competing priorities.

We acknowledge the Fund's engagement with Tonga through the provision of technical assistance and capacity development activities from both the IMF headquarters and the Pacific Financial Technical Assistance Center (PFTAC), as well as the IMF-Singapore Regional Training Institute. We look forward to the continued deepening of the integration of the capacity development programs with the surveillance activities to better tailor the capacity development activities to the country's needs.

## **Conclusion**

Mr. Chairman, I once again thank the World Bank and the Fund for their assistance, leadership and guidance, and wish both institutions success in the year ahead.

Thank you very much for your attention.