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Statement by the Hon. **POHIVA TU'I'ONETOA**,  
Governor of the Bank for **TONGA**

**Statement by the Hon. Dr. Pohiva Tu'i'onetoa,**  
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' 2018 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 Yong Kim for their leadership and foresight in helping to steer our Bretton Woods institutions to maintain growth and financial stability despite global challenges.

I would also like to use this opportunity to express how deeply saddened we are by the tragic loss of life and devastation caused by the earthquake and tsunami that hit the Indonesian island of Sulawesi. We send our condolences to the survivors and the families of the victims. The growing incidences and intensity of natural disasters and climate change induced calamities are one of the greatest threats to humanity and require urgent support and action particularly to the Pacific Islands including Tonga.

**Global Economic Outlook**

Mr. Chairman,

We are pleased that the global economy continues to grow however we are mindful this growth is spread unevenly across regions and people and it is beginning to plateau. Risks are emerging including risk to economic stability and prosperity. Risks to the principles and institutions that underpin international cooperation. Ten years ago we were at the brink of the great financial crisis however this was survived through the cooperative approach taken at all levels, domestically, regionals and globally.

To prevent this, countries' domestic policies including policies on taxes, government spending and borrowing, exchange rate determinants, and monetary and credit rules aimed to reduce uncertainty and risk in turn enhances prospects for growth and improved living standards need to be complemented at the global level. In today's fast and hyper-connected world, no country can manage these issues alone. We need cooperation. It requires more inclusiveness, more people-centered, and more results-oriented.

**Tonga's Economy**

Mr. Chairman,

The Tongan economy has experienced moderate and steady growth over the past decade. However, following the Category 4 Tropical Cyclone Gita (TC Gita) making landfall on the main island and neighboring island of 'Eua on 12 February 2018, the government was forced to reprioritize the 2017/18 budget to address this critical need. TC Gita left devastating impacts, assessed at an economic value of about \$356 million, or about 30 percent of Tonga's gross domestic product (GDP) in nominal terms. The government as such has developed the 2018/19 budget theme as "*Recovery with Greater Resilience*" reflecting Tonga's urgent recovery and rebuild efforts in the medium to longer term addressing issues of disaster risk management and adaptation, to ensure resilient growth and sustainable development.

In light of TC Gita's impact on the economy, concerted efforts from all stakeholders including foreign governments, non government organisations (NGO's) and development partners—cash, in kind and pledges—to provide immediate response and recovery to ensure the safety of the Tongan people have been encouraging and very much appreciated. This will not only assist with the recovery of individual households and businesses, but also help to stimulate economic activities at all levels. The outlook for the economy is for a pick-up in momentum from the second half of 2018, supported by TC Gita related recovery and rebuild construction projects. In this regard, real GDP growth is projected to recover moderately at around 3.9 percent in 2018/19. This trajectory will continue into the outer years supported mainly by the recovery efforts.

*Tonga's Strategic Development Framework 2015 – 2025* with the national vision for "A more progressive Tonga supporting a higher quality of life for all" broadly spells out government's strategic direction in the management of economic, social, political institutions, infrastructure and environment and is now in its second year of implementation. Furthermore, given this is the beginning of a new government administration a *Government Priority Agenda (GPA) 2018-2021* has been developed to further narrow down the immediate needs over the next 4 years in the areas of developing human capital, health and other social services—enhancing private sector development, enabling business climate, energy efficiency, infrastructure and tourism. All of these are aimed at improving productivity and promote inclusiveness in a sustainable and climate resilience manner.

The National Reserve Bank of Tonga (NRBT) continues to maintain an accommodative monetary policy stance in order to support macroeconomic stability and growth as it continues to achieve its target of maintaining adequate level of foreign reserves and promoting low and stable inflation. This was to encourage the utilisation of the excess liquidity in the banking system to increase lending, particularly to the growth sectors, in order to support domestic economic growth and the recovery from TC Gita. The annual inflation rate in August 2018 recorded a 5.7% increase which is slightly higher than the NRBT's 5% reference rate. The foreign reserves remained at relatively high levels recording 7.3 months of import cover as at the end of September 2018, which is well above the NRBT's minimum level of 3 months of import cover. The exchange rate remained broadly in line with fundamentals with no deterioration in competitiveness. The banking system also remained sound with strong capital and liquidity position maintained, and non-performing loans continuing to remain low. Credit growth continued although it has slowed. Total bank lending growth over the year to August 2018 was 10.1% compared to a 17% growth last year. The growth in loans was largely a result of higher lending extended to

businesses; and household lending also increased over the year. However, liquidity continued to remain high, which coincided with the continued rise in the foreign reserves level. The NRBT continues to remain vigilant and will closely monitor developments for early signs of vulnerabilities including threats to financial stability.

The NRBT continued with its financial inclusion initiatives to promote wider access to financial services. Tonga recognizes that digital financial services is an important catalyst for the promotion of financial inclusion particularly with its widely dispersed islands and associated high transportation costs hindering access to the physical financial access points. Furthermore, with the continued threat of de-risking and de-banking, exploring FinTech solutions is crucial to facilitate provision of access to affordable formal financial services that addresses the financial demand of the public. This comes with its own risks, hence the continued push for strengthening of financial consumer protection policies and measures to protect against cyber risks. In addition, three laws were passed during the year that would assist the NRBT in its role of regulating and supervising financial institutions, particularly the non-bank financial institutions, and the management of the foreign reserves. These are the Foreign Exchange Control Act, Moneylenders Act, and Microfinance Institutions Act. These would also contribute to the efforts of protecting the interest of financial consumers serviced by the non-bank financial institutions.

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

Mr. Chairman,

We welcome the WBG's continuous commitment and progress against the *Forward Look: a vision for the World Bank Group in 2030* which outlines how the WBG can best support the development agenda for 2030 while staying focused the twin goals: to eradicate extreme poverty and ensure shared prosperity in a sustainable manner. Today, countries have embraced a truly global agenda through the Sustainable Development Goals (SDGs), the climate change agreement at COP21, and the commitment to Finance for Development. Attaining them requires a multi-sector approach that aligns well with the overall achievement of the SDGs.

We are encouraged that the WBG continues to lead the global response to some of the largest global challenges of the day including climate change and crisis response pandemics, refugees, and famine. We encourage the WBG to leverage our scarce resources even more to crowd in more private capital, create markets and bring more private sector rigor and innovation rather than rely mainly on government funding or donor aid to finance projects. Through dialogue and knowledge transfers, new and more efficient ways can be achieved to finance development.

With two years into the establishment and implementation of the twin Goals and the SDGs we urge the WBG to continue its unwavering commitment to monitor progress to ensure that by 2030, no one is left behind. We are encouraged by the leadership of Dr Jim Yong Kim in highlighting the significance of the development of human capital or investing more and more effectively in people. This is particularly relevant to Tonga as a small island state with its people as the most important resource.

Tonga wishes to acknowledge the progress of the *Pacific Possible 2024* which looks at transformative opportunities for Pacific Island countries over the next 25 years and identifies the region's biggest challenges that require urgent action. Pacific Island countries like Tonga face unique development challenges. We are far away from major markets, often with small populations spread across many islands and vast distances, and are at the forefront of climate change and its impacts. But we also have unique opportunities which, if acted on, could provide transformative growth and development.

We also wish to applaud the WBG's successful capital increase and 18th replenishment of the International Development Association (IDA18) which will help support Tonga's key priorities. The government is very pleased to have participated in the General Capital and Selective Capital increase for the IDA, IBRD as well as IFC. Through this historical increase we believe it is safe to say as shareholders we have clearly demonstrated our renewed confidence in global cooperation as well as the WBG leadership in development. We anticipate this capital package allows for greater responsiveness to risks to global stability and security, particularly in vulnerable countries like Tonga. Through IDA 18 Tonga will be able to work in the areas of adaptation through building up our resilience to climate change and natural disasters in the transport and fisheries sectors, assisting with employment opportunities for youth, and developing e-government in addition to economic and fiscal reforms. We are working very hard to ensure full commitment and implementation of IDA 18 with increased capacity through the use of a Central Support Unit to match the scaling up of the Bank's assistance to Tonga to ensure we deliver the expected results. We are also pleased with the decentralisation of WBG staff to the Pacific as well as in country making it very convenient for us in terms of proximity which should improve capacity and efficiency.

As a Pacific Small Island Development State (SID), Tonga is the 2nd most vulnerable country in the World to natural disasters and we have witnessed this with the number of cyclones that have affected our country (and the Pacific) we are pleased with the WBGs leading role in disaster risk financing, including the development of responsive policies and instruments. We wish to acknowledge the immediate payout from the Pacific catastrophe risk insurance pilot program (PACRAFI), this will be our second payout and the largest that has been done from PACRAFI. Furthermore, the support in terms of technical assistance (TA) including the TA towards the Damage and Loss Assessment and the development of our Recovery Framework and the assistance with the development of our application to the Bank's Crisis Response Window (CRW) which has been successful. The new funding will enable the repair and reconstruction of buildings and schools impacted by TC Gita ensuring students will be taught in buildings more resilient to cyclones and earthquakes, and with upgrades for disability access. As a SID, we would always seek the support of the World Bank on a differentiated approach towards assisting us given our challenges of geographical isolation, economies of scale, climate change, sea level rising and great exposure to natural disasters. We understand that we are the victims of climate change which are manmade disasters, and we are seeking the support of Multilateral Development Banks including the World Bank as well as Developed Countries to support us with more of adaptation assistance. We have the Green Climate Fund but it is still a challenge for us to access these funds.

Tonga wishes to also acknowledge the valuable assistance provided by International Financial Corporation (IFC) over the years in support of growth in the private sector and

towards the promotion of public-private partnership across the economic sectors. Given Tonga's limited diversification, narrow economic base and its inability to exploit economies of scale, we urge IFC to continue its assistance to Tonga and encourage private partnership participation where there are opportunities in the public sector.

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

Tonga acknowledges the support rendered and assistance provided by the annual IMF Article IV Mission which continues to offer tailor made policy advice and support to low-income countries including Tonga. These annual events have contributed significantly to sharpening economic policy analysis and policy design of our government. Tonga also acknowledges the impact of the debt sustainability assessment which has incorporated a vulnerability index allowing Tonga to access 100% grant effective as of 1<sup>st</sup> July 2018 and no longer at 50% loan and 50% grant.

Tonga, through the NRBT, benefited from technical assistance from the IMF to improve and review its foreign reserves management in order to strengthen the risk management framework and practices to be in line with international best practices. The NRBT has also put in measures to combat risks of cyber-attacks and the misuse of its systems, particularly for managing of the country's foreign reserves. In addition, there was a scoping mission to explore macroprudential policy tools appropriate for Tonga in order to promote financial stability. This is welcomed by the NRBT as it enhances its ability to better monitor developments in the economy and monetary conditions for any vulnerability that may threaten not only financial stability but also macroeconomic stability.

The NRBT and other domestic financial institutions have also taken part in the IMF's work in the Pacific region during the year, on correspondent banking relationships and remittances. It is hoped that the solutions identified during this initiative, and any further assistance that may be offered by the IMF, particularly in making connections with the regulators in the larger economies to enhance understanding of the their regulatory expectations, as well as developing alternative products or using of FinTech solutions, would eventually assist in combating the de-risking and de-banking practices by global banks and the detrimental impact on the banks and money transfer operators from the Pacific region. This would thereby assist in lowering the threats on the flow of remittances that is supporting most Pacific economies such as Tonga. Meanwhile, Tonga continues to ensure its anti-money laundering/counter terrorist financing framework is enhanced to combat the threat of de-risking. The IMF is in the process of reviewing Tonga's AML/CFT laws to be in line with the Financial Action Task Force (FATF) standards' requirements, in preparation for Tonga's mutual evaluation by the Asia Pacific Group on Money Laundering that is scheduled for 2019.

### **Conclusion**

Mr. Chairman, once again may I reiterate our appreciation towards the WBG and IMF for their leadership, guidance and partnership as we strive to achieve the twin goals which are to reduce poverty and promote shared prosperity in all member countries of the Bank including Tonga.

I thank you very much for your attention.