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**WORLD BANK GROUP**

World Bank Governor's Statement No. 12

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Statement by the Hon. **TIOFILUSI TIUETI**,  
Governor of the IBRD for **TONGA**

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Governor of the IBRD 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,

**Introduction**

I am honored to address the esteemed Governors on behalf of the Government of Tonga at the 2023 Annual Meetings of the International Monetary Fund (IMF) and World Bank Group (WBG). Our heartfelt thanks go to the Kingdom of Morocco for their warm hospitality, which profoundly inspired our delegation, especially considering their resilience in the face of recent challenges, notably the earthquake.

**Economic Recovery and Challenges**

Tonga faces a challenging road ahead. After enduring the double disasters of 2022, Tonga's economy has successfully rebounded in FY2023 after consecutive contractions in the last two years. Growth is estimated at 2.5% for FY 2023 and forecasted to grow an average of 2.6% in the near term. However, persistent challenges will be crippling our development effort in the medium to long-term including, high domestic inflation, vulnerability to climate change, natural disasters, the energy price crisis, and geopolitical tensions like the recent Israel conflict.

Headline inflation has eased from its peak of 14% in September 2022 to 7.4% in June 2023 and down to 2.8% in August 2023, a significant reduction below the 5% reference rate in the second half of 2023 (first time since May 2021). Although imported inflation has eased, domestic inflation continues on an upward trend and has remained relatively high over 8 percent in August 2023 which requires ongoing monetary policy measures.

The pace and magnitude of monetary tightening is carefully monitored by the Reserve Bank to ensure the undue output cost is minimized from slowing down our economic recovery priority. On the fiscal side, the Government continues to protect its affected economic sectors, which are the backbone of its development, and the most vulnerable citizens of the country by implementing prudent fiscal measures appropriate to safeguard them against current and potential challenges going forward. Strong coordination of the

monetary and fiscal policies will aid to uphold Tonga's economy in the medium to long-term.

### **Climate Resilience**

Given Tonga's high multi-hazards exposure and increasing susceptible to natural disasters, such as cyclones and rising sea levels due to climate change; building climate resilience is vital to safeguard lives, infrastructure, and the ecosystems.

Whilst Government established clear policies and regulations to guide the risk reduction, allocation and utilization of climate finance, tailoring financing instruments to address local challenges, such as coastal erosion or agricultural adaptation, enhances the effectiveness of climate finance interventions has been challenging. Hence, we call on the two Banks and other International Financial Institutions (IFIs) to provide technical support on existing climate facilities (and potential facilities) with flexible terms and conditions that is accessible to us in the near term to help strengthen Tonga's climate resilience effort.

### **Financial Constraints and Reforms**

In view of the importance of the reconstruction and building back better the resilience effort of the country and given that building and investing in Tonga's climate resilience requires unprecedented increase in investment to match Tonga's multiple exposure to hazard risks. The Government continues to explore proactive measures to manage those risks and seek additional grant financing from its development partners, led by the World Bank, to ensure that debt remains on a sustainable path, while trying to meet other Government priority development goals.

Moreover, economic recovery measures have been implemented to return livelihoods of those affected by the double disasters in 2022 to normalcy, bring down inflation, enhance climate resilience, ensure financial stability and safety net, mobilize job-driven investments, social protection, and transformative reforms. Government's goal is to boost output levels to pre-pandemic situation by up to 5% annually over the next four years.

The enforcement of anti-money laundering regulations in Tonga has unintended consequences, particularly on correspondent banking relationships (CBR). Tonga's heavy reliance on trade and remittances exacerbates these challenges, limited financial inclusion, poor access to services, and inflationary cost of remittances. Intervention by the IMF and the World Bank to address this tension between compliance and financial accessibility is essential to safeguard financial stability.

Government had also requested the World Bank to support its effort to leverage on technology for domestic electronic payments, and other enablers in developing financial products that can be accessible and affordable, particularly for the vulnerable and productive sectors, while ensuring adequate protection of financial consumers.

Technology and digital opportunities will help increase domestic access to financial services and reduce vulnerability to external shocks including digital financial services, expanding parametric type insurance, credit scoring facility, seeking the assistance of development partners.

We actively engage in initiatives like the Global Shield Fund and Commonwealth Green Finance to bolster our resilience. Tonga appreciates the vital support from international organizations such as the World Bank and IMF. The development response from these institutions is pivotal, especially for Small Island States (SIS) and climate-vulnerable nations like Tonga.

### **Commitment to Sustainable Development**

Despite challenges, the Government of Tonga remains steadfast in its commitment to sustainable economic recovery. However, our national priorities and dedication to the SDG 2030 are under significant threat. We actively seek innovative solutions and partnerships with international allies to fortify our vulnerable economic foundations.

### **Conclusion**

In conclusion, we advocate for solidarity and collective efforts of both World Bank and IMF member countries to overcome these challenges, paving the way for a more sustainable, inclusive, and resilient development.

Thank you for your attention and support.