

**INTERNATIONAL MONETARY FUND
WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 52

October 6 - 8, 1998

Statement by the Hon. BARTHOLOMEW ABA'AU ULUFA'ALU ,
Governor of the Bank for SOLOMON ISLANDS ,
on behalf of Kiribati, Marshall Islands, the Federated States of Micronesia,
Samoa, Solomon Islands, and Vanuatu,
at the Joint Annual Discussion

**H.E. BARTHOLOMEW ABA'AU ULUFA'ALU,
PRIME MINISTER AND ACTING MINISTER OF FINANCE
SOLOMON ISLANDS**

***On behalf of Kiribati, Marshall Islands, Federated States of Micronesia,
Samoa, Solomon Islands and Vanuatu***

I am pleased and honoured to address the fifty-third Annual Meetings of the IMF and the World Bank Group on behalf of our Pacific Constituency comprising Marshall Islands, Federated States of Micronesia, Solomon Islands, Samoa, Vanuatu and Palau which is the latest member to join the Fund and the Bank.

The outlook for the world economy has deteriorated considerably over the last year and as such it gives much cause for concern. Almost every country in the world has been affected—albeit to differing degrees. We in the small island economies have already felt the full weight of the Asian crisis.

Many of us are concerned about reductions in tourist inflows, lower world commodity prices, and the decline in the volume of our exports.

We have responded to the Asian crisis by strengthening our own macroeconomic management and several of us have embarked on ambitious reform programs to improve the efficiency and effectiveness of government, strengthen government transparency, and facilitate private sector development.

We can learn from the mistakes of others and build stronger, more resilient economies. But given our limited resources, we also need financial assistance from bilateral and multilateral sources. And we need a more favourable international environment to get the desired response from such reforms.

It is generally recognised that there is a deficiency in global demand, which needs to be revived. Otherwise, we will face the risk of a global recession. The issue of how to achieve an expansion in global demand is therefore very important.

While the industrial countries have the financial resources, we believe that the scope for pursuing expansionary fiscal and monetary policies in these countries is limited because their economies are already operating at a high level of capacity utilization. Further injection of demand in these countries is therefore not likely to be very productive.

On the other hand, there is a large deficiency in demand in the Asian economies which are operating at low levels of capacity utilization. These countries need an urgent injection of demand supported by external funding to revive economic activity. How to

achieve this is one of the biggest challenges facing the Bretton Woods institutions and the international community at this time.

Since many of the governments and business enterprises in the Asian region are highly indebted, their capacity to contribute to demand is very limited. It will therefore, be important for multilateral institutions to assist the region in restructuring the debt so as to build some capacity for further expansion of credit in the short-to medium-term.

As small island nations, we appreciate and indeed support the principle of capital account liberalisation. As a practical matter, however, we need a long transition period to achieve this. Our economies are very distinct from others. Our financial and other institutional structures are still underdeveloped and weak and our foreign exchange reserves are very low. Hence, we seek your understanding that capital controls may for some time remain an essential part of our economic management tool, at least in the current uncertain and volatile financial times.

We seek an early ratification of the Eleventh General Review of Quotas. We believe this will assist in improving the liquidity of the Fund which in turn will benefit member countries in their endeavours to reform their economies. We also need to ratify the planned special allocation of SDRs to address the need to supplement international reserves, especially to avert the risks for a global recession.

It is a well-known fact that we are a community of countries that are geographically dispersed over a vast ocean with virtually no direct access to markets and with limited scope for economic diversification. As the recent Commonwealth Ministerial Mission to the international financial institutions emphasised, there is a need to promote understanding of the “small states paradigm” in the economic sphere. This is particularly relevant in the context of international trade. It is in this vein that the Bretton Woods Institutions should give attention to the special attributes and constraints of smallness.

We support the efforts being pursued to improve Bank-Fund Collaboration. However, this collaboration should aim to better serve members’ development and balance of payments needs rather than be pursued for its own sake.

The current challenges facing our Pacific constituency members range from governance issues to tackling economic policy reform and meeting social welfare needs. We are determined not to be marginalised in the context of globalisation. But to achieve this, we need larger countries to also pursue their reforms aggressively. And we want a Fund and Bank, that are sensitive and knowledgeable about our particular characteristics, to be forthcoming with technical and financial assistance when requested.

In concluding, I would like to thank the managements, staff and Boards of both institutions for their constructive advice and assistance on behalf of my Pacific constituency.