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Statement by the Hon. **JONE YAVALA KUBUABOLA**,
Governor of the Fund for **FIJI**,
at the Joint Annual Discussion

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It is an honour to attend the fifty-fourth joint Annual Meeting of the Boards of Governors of the International Monetary Fund and the World Bank Group. My delegation and I wish to thank Mr. Camdessus and Mr. Wolfensohn and their staff for the support and advice to countries during these testing times and for their initiatives to promote a more stable financial environment. Allow me also to congratulate the President of the World Bank, Mr. Wolfensohn, for his reappointment for another term.

Global economic conditions look more favourable than they did twelve months ago. The US economy continues to provide good support for the world economy, growth in the European economies looks to be picking up, and the Japanese economy appears to have steadied. In the developing countries, economic conditions have generally stabilized and in some cases are showing considerable improvement. Against this improving global backdrop, Fiji's economy is also looking to pickup by over 7 percent this year, as the economy returns to more normal conditions following the debilitating effects of the drought and the weaker global conditions over the past couple of years. Despite these positive developments in global economic and financial conditions, many downside risks remain. Great care will now be necessary to nurture the fragile global recovery and guard against some of the potential hazards that lie ahead.

Mr Chairman, the global economy has faced setbacks in the past two years – indeed we have come through the most severe worldwide economic crisis of the past 50 years. These events have been caused by a combination of factors; in particular, problems with macroeconomic management, deficiencies in domestic financial systems and weaknesses in the international financial system. The IMF and the World Bank have played an important role in stabilising conditions during this period and putting in place policies to foster sustained recovery. The opportunity has also been taken to look at ways of strengthening the international financial architecture to help guard against financial crises in the future.

The events of the past two years, while painful, have also provided us with a number of valuable lessons. Many of these lessons are not new, but they reinforce thinking which is broadly accepted, but often less enthusiastically applied. Let me touch on a few of these.

1. Mr. Chairman, the first issue is liberalisation. We all know that financial sector liberalisation can spur economic growth and development but liberalisation also entail risks if reforms are not appropriately designed and implemented. The recent crises in Asia, Russia and Latin America have demonstrated the urgency of finding ways to achieve orderly liberalisation. In Fiji, we have proceeded cautiously with

liberalisation, opening up the capital account progressively over the past decade as conditions allowed.

2. Second, the need for strong financial structures and institutions that are able to withstand the types of shocks which affect more open economies. The lesson is now very clear - as part of the reform process, policy makers should work towards developing systems, institutions and financial markets that are strong enough to withstand potential shocks to the economy. Strong domestic financial sector regulation and prudential oversight are important ingredients for weathering financial storms.
3. Third, sound macroeconomic management, which include strong fiscal positions that provide governments some cushion to withstand unfavourable shocks. Appropriate monetary policy is also important to maintain stability and confidence in the financial system.
4. The fourth major lesson that comes from the experiences of the past couple of years is the need for greater transparency, by both the public and private sectors. Better and timely information allows better risk assessment and decision making by policy makers and the private sector. The recent codes of good practices on transparency in monetary and fiscal policies are good examples of recent initiatives in this area. I understand the Special Data Dissemination Standards (SDDS) have now been adopted by some member countries. Fiji has been involved in the General Data Dissemination Standards (GDDS) pilot in the Pacific region.

Mr. Chairman, the events of the past two years have focused attention on building the international financial architecture and reviewing the multilateral institutions' policy prescriptions. The new financial order will no doubt take into account the lessons learnt, in particular, the need to encourage transparency and accountability. The higher and volatile capital flows ought to be properly managed to minimize their disruptive impact on domestic markets.

This new financial system calls for closer consultation and better burden sharing. We therefore welcome recent discussions at the Fund and the Bank about better ways to involve the private sector in preventing and managing financial crises. This is a complex issue, but one of utmost importance. In practice, it involves finding ways of getting creditors and debtors to come together in a collaborative manner to assess problem situations and arrive at mutually beneficial processes for recovery.

We are also pleased with other recent IMF and World Bank initiatives. On the Fund side we welcome the introduction of two new facilities – the Contingency Credit Line (CCL) and Y2K facilities. These facilities will provide a useful complement for existing techniques and may help member countries respond quickly to financial crises.

On the Bank side, we would like to reaffirm our support for the Comprehensive Development Framework (CDF). We certainly look forward to further developments on the framework; particularly the dissemination of lessons learnt, which we could draw upon to help us refine and strengthen our development strategies. Undoubtedly, the CDF

will allows us to look at our development strategy in a coherent manner with the appropriate balance between macroeconomic and financial concerns on the one hand, and social and structural issues on the other. Furthermore, the emphasis on country ownership, and partnership, with the required longer-term foresight, are fundamental principles that will ensure effective policy building and implementation in developing countries.

Fiji's overriding goal to improve living standards through sustainable and equitable growth is very much in line with the CDF approach. Our Government is strongly committed to addressing the social and structural imbalances we currently face. Broadly, these involve increasing employment opportunities in areas where we have comparative advantages, increasing and improving the delivery of social services, protecting the poor, and effecting social transfers to reduce the cost of living for low income earners. From the lessons learnt from the international experience over the last two years, we definitely see the need to cushion the economically vulnerable from income fluctuations.

As a small state, we are optimistic that the CDF principles of ownership and effective collaboration with development partners should bring about more sensitivity to the special problems of our economies. We welcome the Small States' strategy jointly developed by the World Bank and Commonwealth Secretariat. In our view, the strategy for such an initiative should concentrate on the vulnerabilities of small states. For Fiji as a small South Pacific Island state, our major challenges are our isolation from major markets, meagre resources and susceptibility to natural disasters like hurricanes and droughts. We eagerly look forward to the finalisation of the strategy for small states after full consultations with the relevant member countries.

Mr. Chairman, let me comment on another of the Fund and the Bank's recent initiatives – the proposed debt relief for highly indebted poor countries. This is a very worthwhile initiative and commands wide support. We are heartened by the Fund's decision to undertake off-market transactions rather than open market sales of gold to fund this initiative, which would avoid the disruptive effects on gold producing countries like Fiji.

Mr Chairman, on a final note let me just touch on one other issue that is on everyone's minds at the moment – the Y2K problem. Dealing with the issue has become quite complex – as you are aware the issue is not just about fixing a computer problem - as policymakers we must recognise that the Y2K issue involves managing risk. In Fiji, we have been taking the necessary steps to minimize Y2K – related problems in our financial system. We applaud the decision by the Fund to introduce a temporary facility that will help members deal with unforeseen balance of payments problems that may arise in connection with the Y2K problem.

I conclude by thanking the Bank and the Fund for their assistance and support to Fiji and the Pacific region. As always, we will continue to look to the Fund and the Bank

for assistance in infrastructure, human resource development, institutional strengthening, and economic and financial policy advice. We commend the services of the Pacific Financial Technical Assistance Centre and thank the Fund and the United Nations Development Programme and other donor countries for their continued support in this and other areas.

I would like to wish the IMF and the World Bank well in their future endeavour.