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Statement by the Hon. **JOSAIA VOREQE BAINIMARAMA**,
Governor of the Bank and the Fund for **FIJI**,
at the Joint Annual Discussion

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Mr. Chairman, it is an honor to address you on behalf of the delegation of the Republic of the Fiji Islands, on the occasion of the International Monetary Fund and the World Bank annual meeting. I congratulate you on your appointment to Chair this joint annual discussions. We also warmly welcome The Republic of Kosovo, which became the newest member of the five World Bank Group Institutions on July 29, 2009.

The past twelve months, Mr. Chairman, have been characterized by the slow emergence of the world economy from the worst financial and economic crisis in the post-war period. Coordinated policy action by the world's leading industrialized economies has helped pull the global economy from the verge of collapse. While the worst of the recession may be past, the healing process is far from over. Positive prospects for growth next year are hugely dependent on major policy support.

While financial markets are stabilizing and the global economy is improving, the pace of recovery is sluggish as the risk of a jobless recovery remains. Despite positive economic data on advanced and emerging market economies showing an end to recession as well as lower rates of decline and positive growth, the global financial system is expected to take a long time to normalize, as many markets are highly reliant on public support. Therefore, Governments need to continue with economic stimulus plans to combat the crisis. Going forward, we reiterate the call for governments to develop exit strategies which should be cautiously implemented only once full economic recovery is seen and unemployment fallen.

There is no doubt that a key part of the IMF's mandate is the promotion and maintenance of monetary and financial stability, both in individual countries and at the international level. Stability is the foundation for sustained economic growth, and crisis prevention and resolution is an integral part of the Fund's work. In this respect Mr. Chairman, I wish to comment on four critical and unique operations of the Fund in the context of the crisis. The first is on surveillance. Surveillance, in my view, is a central instrument for maintaining monetary and financial stability.

Mr. Chairman, the crisis heightens the need for enhanced and deeper understanding of financial stability issues by the international community. It is critical that this be an area of increasing focus of the Fund's surveillance. The crisis has again brought to the fore the need to continue to strengthen the Fund's Article IV consultations. But more importantly,

the Fund should be aggressive in ensuring that sources of contagion risk that the surveillances reveal are mitigated through redressing measures.

In this respect, I strongly advocate the need for even-handedness. Equal regard should be given to thoroughly and comprehensively assessing members' performance during surveillance, and implementing the findings, irrespective of size. Oversights on the financial stability front and ignorance of the obvious can have catastrophic developments as we have now experienced.

Could the crisis have been avoided? I believe so, but only if early warning signs had been detected and addressed through surveillance. Surveillance has the opportunity to correct anomalies. Otherwise, the whole world stands to suffer when imprudent practices are allowed to continue in influential and advanced economies. The demise of their financial institutions has rippling effects across the globe. We urge that steps be taken to strengthen and modernize surveillance, in particular, to ensure its effectiveness in order to avoid future crisis.

Second, Mr. Chairman, relates to Technical Assistance (TA). As I alluded to earlier, the global financial crisis has caused great distress in advanced and developing countries across the globe. This is particularly so for small and open island economies like us. To survive, Mr. Chairman, we have limited choice hence we are forced to make painful adjustments. Reforms have been undertaken in areas such as public financial management, public service, and financial sector to better absorb the external shock.

As we undertake policy maneuvering to sustain ourselves during this turbulent period, we will increasingly look to the Fund for TA. In light of this, Mr. Chairman, we express our strong reservations about the Fund's intention to charge for TA. Whilst we fully understand the rationale for the TA reforms undertaken by the Fund, we believe that it is inappropriate for the Fund to be charging for TA particularly at this difficult time, and including the rehabilitation period following the crisis.

The impact of this external shock was not fully comprehended at the time when the Fund determined to start charging TA. The global scenario has changed since, with increased vulnerability of developing and small island countries. Against this background, we would urge that the Fund reconsider and withdraw this policy until such time that developing countries have recovered from the global financial crisis. To do otherwise would derail our efforts to formulate sound macroeconomic policies and carry out capacity building through Fund TA, in order to better insulate us from the impact of current and future crisis, and build stronger and sustainable economies.

The third issue, Mr. Chairman, is about the funding assistance provided by the Fund. Mr. Chairman, in the recent past, we have seen unprecedented intervention and assistance by governments, donors, multilateral institutions and central banks to sustain ailing financial systems. In most cases, this has been necessary to avoid economic collapse, the impact of which would have extended well beyond the borders of these economies given the global chord that binds us.

We believe, Mr. Chairman, that a global response to the crisis through the coordination of policies between countries is critical. In this regard, the Fund in cooperation with G-20 countries, has championed the cause of recovery through its rapid action to provide financial support and encourage commitment from donor countries towards a coordinated global strategy. Total loans committed or disbursed in excess of US\$165 billion since the beginning of the crisis, and the additional US\$250 billion worth of new Special Drawing Rights (SDR), have gone a long way in containing the crisis and helping prevent a possible catastrophe. Further to the Fund's efforts, the Bank has also scaled up its operations, confirming support for a total lending of up to US\$100 billion in external financing for developing countries, over a three-year period. Additionally, the Bank has reviewed its financial capacity given the possibility of a slow recovery and the possible need to deploy additional resources. As the third wave of the crisis unfolds with rising unemployment levels, concerted and strong policy actions to arrest joblessness through structural reforms, active labor market policies, training and education, must continue.

I wish to acknowledge Mr. Chairman, the financial assistance rendered by the Fund recently to sustain members through these trying times. Delivery by the Fund in helping countries counter the negative impact of the crisis, is commendable. Over the last six months, Fund resources have been tripled to around US\$750 billion as a financial safety net to cushion any further global fallout from the crisis. Small developing economies like ours are grateful to countries which have internationally cooperated through their pledges of financial support. Furthermore, the allocation of SDRs in August and September, to boost member country reserves has been timely in supporting external stability for many developing economies. Moreover, the provision of US\$6 billion to help low-income countries over the next 2-3 years is critical in enabling our poorer countries of the world pull through during this global economic crisis.

The availability of IMF funds to assist in economic adjustment gives confidence to members and the international system as a whole. The timely assistance of the Fund during adverse periods helps lower the incentive for countries to take adjustment measures which can have devastating effects to national and international economies. Mr. Chairman, I place emphasis on the timeliness of such assistance. In my view, such assistance to members should see beyond political developments. As long as members are progressing on measures that in the immediate, medium or long term will bring about

sustained economic progress, the Fund and the World Bank should be supportive. Especially, Mr Chairman, when it is not in the interest of the Fund to see one of its members fail.

In addition to the three pointers I have discussed above, Mr. Chairman, let me now turn to governance. We agree that the Fund and the Bank, should remain quota-based organizations. Moreover, as part of continuing reforms, a huge milestone to be achieved for emerging and developing economies like us, would be significantly raising our voice and representation to reflect changes in the world economy. We applaud the Fund in reaffirming its vows to improve accountability, reinforce the participation of Fund Governors in strategic supervision, and agree with the shift towards an open, transparent and merit-based selection of international financial institutions management. Improving the role and long-term effectiveness of the Fund and the Bank to build stronger cooperation and ensure a sustainable global economy and international financial system is needed.

Mr. Chairman, Fiji has not been immune to the impact of the global financial crisis. Similar to other developing countries, the Fiji economy has been adversely affected by the crisis, whose effect was compounded by the worst floods experienced in the country's history in January this year. This dual impact on the economy resulted in a downward revision in Gross Domestic Product forecast for this year, to a negative 0.3 percent. Furthermore, the balance of payments came under severe pressure as foreign reserves levels fell to below 2 months of imports at around US\$250 million, on account of lower export earnings, remittances and tourism receipts.

To help cushion the negative impact of the global downturn on the domestic economy, Fiji authorities responded with various monetary policy measures aimed at boosting liquidity levels in the banking system. The local currency was devalued by 20 percent in April, necessitated by sharp appreciations of the Fiji dollar against the A\$ and NZ\$. Foreign reserves have steadily increased since then. Recently, foreign reserves have further increased, boosted by a total injection of around US\$95 million in SDR allocation by the Fund. In this instance, Mr. Chairman, we kindly express our sincere appreciation to the Fund for this timely financial assistance to member countries, which has hugely supported our balance of payments position, and will engender more confidence in the economy and financial system. Current foreign reserves levels are around US\$510 million, equivalent to over 3.5 months of imports.

In tandem with the devaluation, the Fiji authorities implemented other policy measures to support the growth recovery process in the economy, including a lending interest rate cap for commercial banks and licensed credit institutions, maximum interest rate spread for banks and oversight of the setup of specialized micro finance centers by banks. Support

by our local financial institutions has been critical in creating a stable interest rate environment which will support economic activity and employment creation in the economy. The authorities also more recently, removed the credit ceiling on banks, to support economic recovery, in light of the adequacy of foreign reserves and modest inflation outcomes. Furthermore, regulations on bank lending rates and interest margins will be reviewed regularly and phased out as the economy improves.

Mr. Chairman, on other developments, Fiji recognizes the need to have a clear and predictable path for the restoration of democracy in the country. In this regard, the Government has formulated a Road Map which sets out a framework for the achievement of sustainable democracy, good and just governance, socio-economic development and national unity. This 5-year plan is founded on the basis of the Peoples Charter for Change Peace and Progress - a platform which has been set for political and social reforms, and is the fruit of an unprecedented nation-wide consultation process including the private sector, civil society and the Government. The Government is bolstering its efforts towards entrenching a dominant culture of democratic good governance in the nation. This should ensure that corruption is minimized, minority view recognised, and the voices of the vulnerable in our society heard.

Importantly as well, the Road Map aligns with the Government's Strategic Framework for Change announced in July this year. This framework forms a mandate for the Government to ensure that true democratic, non-communal, equal suffrage based elections for parliamentary representation are held by September 2014. Key principles and pertinent time frames have been clearly set to guide the nation on this path. In the next three years, the Government is focused on rebuilding the economy and restoring it to a sustainable growth level. Beginning in 2012, a new constitution will be formulated, based on common and equal citizenry, eliminating ethnic based voting, to be ready a year prior to the planned elections.

Mr. Chairman, the Government is committed to the maintenance of law and order, and will undertake a reform of its penal code, in alignment with strengthening its law enforcement institutions. In addition, it will also strengthen the infrastructure of the judiciary and build up its capacity. We invite and welcome any international assistance from relevant development agencies and our development partners to help facilitate these reforms so our country can achieve greater transparency, access to justice and riddance of corruption.

Having said this Mr. Chairman, I wish to highlight an issue that I find concerning. That is, Mr. Chairman, the continued hesitancy of the Bretton Woods Institutions to engage with Fiji despite the progress we have made since the political events of December 2006.

Mr Chairman, during our leadership, we have reformed the financial system, adjusted the exchange rate, which is something that the Fund has been advocating in its surveillance, we have weaned corrupt and racial policies and built up strong governance, we have progressed on right sizing the civil service and have promoted financial inclusion so that the rural population would benefit from the extension of financial services to these areas and facilitate the establishment of small and medium enterprises schemes.

We have also strengthened our customs and tax department and reformed the public financial management and similarly the public sector enterprises. Mr Chairman, we have also pursued structural reforms in areas that have stifled our economic performance over the past years. At the same time Mr Chairman, we have progressed on constitutional and electoral reforms in order to build a system that will ensure that political instability, which had been fuelled by bad governance in the past, will be a thing of the past.

These, Mr Chairman, are areas that the Fund and the Bank normally champion, to ensure social and economic progress. It therefore baffles me, Mr Chairman, that despite these positive initiatives, the two institutions have not been forthcoming to assist us. This is true even when we applied for assistance, based on humanitarian grounds, following the devastating flooding that ravaged our country at the beginning of this year. It resulted, Mr Chairman, in loss of lives, destruction of our agricultural sector, which threatened food security and trade, and loss to our tourism and business sectors. We were left to pick up the pieces alone, Mr Chairman, whilst the institutions that are normally concerned about our well being, both economically and socially, stood at a distance. This request for assistance is still with the Fund. Again, I emphasise the need for timeliness and equal treatment of members on this front. I look forward to a change in stance soon by the Fund and World Bank towards us through re-engagement that will be critical for our sustainable performance.

Given our current political status Mr. Chairman, our country remains committed to the process of engagement and/or re-engagement with our neighbors and development partners. Our country upholds the principles of internationalism and sovereign dignity, and we seek the understanding and support of the international community to help us move forward. At this juncture, we would like to thank our international partners and multilateral agencies who have continued to engage or have re-engaged to provide assistance to our objectives and facilitate infrastructure development and reform. Apart from the timely assistance given by the Fund, we also extend our sincere appreciation to the Asian Development Bank for its emergency loan of around US\$18 million this September, to help rebuild damaged infrastructure and revive economic activity in areas affected by floods early this year.

Mr. Chairman, our Government is determined to bringing an end to our country's history of political instability, by removing racially-based policies, addressing governance challenges and putting in place a stable platform for growth. With the help of our Bretton Wood institutions, we will be able to more successfully address the structural challenges which currently inhibit our progress. We cannot do it alone. We need yourselves - the Fund, Bank, donors, development partners and multilateral institutions, to engage and/or re-engage with us. Only then can we achieve substantial progress towards a future of peace, prosperity and justice for our nation.

We accord our sincere appreciation to the Fund for the Technical Assistance Fiji continues to receive, as well as the work done by the IMF Pacific Technical Assistance Centre in Suva. We also thank the Bank for the assistance provided through the World Bank Regional Office in Sydney, to Fiji and its Pacific Island neighbours.

Finally, Mr. Chairman, we wish both institutions every success in their future endeavours and look forward to their continued engagement.