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Statement by the Hon. **SELA MOLISA**,
Governor of the Bank and the Fund for **VANUATU**,
on behalf of the Federated States of Micronesia, Kiribati, the Marshall Islands,
Palau, Samoa, the Solomon Islands, and Vanuatu,
at the Joint Annual Discussion

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It gives me great pleasure in addressing the fifty-fourth Annual Meetings of the IMF and the World Bank Group on behalf of the Pacific Constituency comprising Kiribati, Marshall Islands, Federated States of Micronesia, the Republic of Palau, Samoa, Solomon Islands and Vanuatu.

This year's meeting is unique in that it ends the annual meetings of this century as we approach the new millennium. On the threshold of the new century let us not forget to look back and reflect on the achievements and failures, the lessons from which we may be better equipped to face the challenges ahead.

Our struggle to achieve economic advancement has not always been easy-going. The task is even harder for most of the small island nations some of which I stand here before you to represent. Given the small size of the Pacific Island States and the pursuit to open up our economies, we are becoming more exposed, thus, vulnerable to external shocks. The financial turbulence in Asia, the crisis in Russia and the turbulence in Brazil have sent out waves of shocks globally in varying magnitude, impinging upon our economies directly and indirectly making the years 1998 and 1999 particularly difficult for the Pacific Islands. The deceleration in growth in 1998 affected the Pacific Islands. The economies witnessed lower export earnings and the exacerbation in commodity prices declining trend compounded by a sharp decline in demand. The situation was aggravated by increased supply from the emerging countries facing economic difficulties over the period.

The Pacific Islands, though beautiful, are susceptible to natural calamities. We are hit by cyclones every year. We also have droughts and tidal waves, as was the trauma in Papua New Guinea last year, when part of Papua New Guinea was struck by severe tidal waves causing extensive damage and loss of lives. The future prospects are bleak for the low-lying atolls of the Pacific, particularly those whose quality of life is threatened by the sea level rise associated with the global warming. Much too often negative externalities of our economic pursuits are ignored.

We note the signs of recovery in several Asian countries which would seem to indicate that the worst of the financial crisis is over. The risks, however remain. There is a crucial need therefore for industrial countries to implement prudent policies. The improvement in the world economy is expected to have positive effects on the economies of the Pacific Islands. Nevertheless, the lesson learned is that 'globalisation' and liberalisation have the

potential to be disruptive, due to the close financial and economic ties with other countries.

Some of the problems of the island states are very unique and require special attention. We have come to realize the need to maintain strong economic fundamentals through the pursuit of economic reforms and adjustments. Indeed many of our countries have used this opportunity to push through demanding reform agendas. Some degree of reform to that effect have begun in the region. These reform programs were implemented with assistance from other external sources and supported by the World Bank and the IMF.

Our island economies are small, one sidedly structured, and the resources are limited, to insulate the economies from the spill-over effects of external crises. In spite of these problems, the damage can be minimised through means of appropriate reforms, as are underway in some countries already. It is appreciated that in view of the need to revitalise the global economy, the IMF and the World Bank took the initiative to find ways to finance the ESAF/HIP countries. Indeed, we are proud to see members of our constituency already indicating their willingness to join the international effort by passing their SCA-2 balances to the HIPC Trust. We understand that the initiative would take into consideration the concerns of the gold producing countries, some of which belong to my constituency, especially the idea that involvement of the Fund's gold be limited to off-market measures.

We are grateful for the services extended by the Bank and the Fund to the Pacific, in the running of seminars as well as the provision of technical assistance. With regards to technical assistance, we note the review made by the Fund. It is hoped that future fund technical assistance be sensitive to the unique needs of small island economies, and be available in appropriate forms. The Pacific Technical Assistance Centre (PFTAC) based in Suva, Fiji plays a crucial role in the region and continues to serve members well. In the monetary field, sustained technical support and advice has been productive particularly with central banking operations.

We welcome the Fund's intention to establish a new IMF facility for Y2K – related balance for payments difficulties associated with the millennium bug. We believe that this facility is an appropriate response by the Fund in any likely event of Y2K related capital outflows.

We note with appreciation increasing presence of the World Bank and the potential to increase its services to the region. We no doubt believe this to be a worthy endeavour. We welcome the Bank's initiative for small states envisaged under the Comprehensive Development Strategy. We also note the importance of the IFC, in particular, the presence of the South Pacific Project Facility both of which have helped sector development in the region.

We are thankful for the IDA resources that have been provided to us on concessional terms. It is hoped that this will continue.

We commend the Bank and Fund activities in the region as they well complement the reforms underway. We understand that special care will be given to our environment, given that they so much determine the quality of our lives.

Let me conclude by thanking the Management, Staff and Boards of both the Fund and the Bank for all your assistance, particularly some very constructive advice and assistance.

Ladies and Gentlemen, thank you for your attention.