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Statement by the Hon. Sada Reddy Governor of the Fund for Fiji at the Joint Annual Discussion

Mr. Chairman, it is indeed an honor for me to deliver this address 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. I also warmly welcome Tuvalu, which became the newest member of the Fund and World Bank Group on 24 June 2010.

In the last couple of years, Mr. Chairman, the global economy has been confronted with huge challenges in the aftermath of the worst financial and economic crisis in the post war era. Through the well coordinated action of governments and major central banks as well as the support from the international multilateral institutions, particularly the International Monetary Fund and the World Bank, the world has avoided a recession of equal proportion to the Great Depression of the 1930s. Since then, growth prospects for the world economy have improved markedly with global growth for this year now revised up to 4.6 percent.

While this implies that the worst effects of the recession may be over, there are still downside risks to the expected full recovery of most industrialised economies. Recent updates suggest that the level of unemployment in most advanced economies is still high, economic activity is still lower than pre-crisis levels and higher budget deficits along with rising public debt levels are curtailing the ability of economies to undertake further fiscal stimulus to support economic recovery.

Despite these difficulties, Mr. Chairman, global financial and economic conditions have improved compared to twelve months ago. World financial markets have stabilised and the global economy is envisaging a favorable economic outturn this year. Nevertheless, as we move forward, it is critical for Governments to be proactive in implementing policies and strategies necessary to fast track economic recovery, which in turn will support the revival of developing economies such as ours. I urge the Fund to be more proactive and encourage engagement and mutual cooperation at the global level. Global cooperation and engagement by the Bretton Woods institutions during this period is essential to supporting economic growth, which will create jobs and help alleviate poverty.

Mr. Chairman, financial and monetary stability is crucial for sustainable economic growth. The need for this and the vital role played by the Fund in crisis prevention and resolution has been brought to the fore following the impact of the Global Financial Crisis (GFC). In this regard, I commend the Fund for its ongoing work towards maintaining stability in the international financial system. More specifically, I wish to comment on a few critical areas where the Fund should put more emphasis.

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The first is on the area of surveillance that is undertaken by the Fund. The GFC, Mr. Chairman, has revealed weaknesses in past surveillance practices leading up to the crisis where the focus has been on individual countries rather than on systemic issues.

The gravity of the crisis and its negative implications for small developing economies should compel a change in emphasis.

Surveillance, in my view Mr. Chairman, should be vigorous in terms of the traditional country-level macroeconomic analysis, better encompass financial sector and regulatory issues, and take into account cross-border spillovers and systemic risks. I am aware that the Fund has already advanced on this front through its Early Warning Exercise. Mr. Chairman, given the vulnerabilities of economies to crisis, I urge the Fund to prioritise macro-financial stability in its surveillance activities, which will help mitigate systemic risks inherent in financial sectors of developed economies. This will help cushion the impact of any crisis on small and open vulnerable island states such as us. We urge the Fund to take steps that will strengthen and modernise surveillance so that its effectiveness is enhanced and potential future crises are detected early and avoided.

The second issue, Mr. Chairman is financial sector reforms. I applaud the Fund for its input into this ongoing debate particularly on its call for tougher and better regulation, its collaboration among countries and the proposal for a global tax on banks. While there is a general agreement that countries, especially the advanced economies, need to reform their financial sector, the pace at which the reforms are being discussed and implemented seem to have lost momentum with the pick-up in global economic recovery. I urge the Fund to maintain its stance on reforms and work vigorously towards resolving issues that will remove hinderances to progress on this front.

Thirdly Mr. Chairman, I wish to restate our strong reservations towards the Fund's intention to charge for Technical Assistance (TA). The vulnerabilities of developing countries to external shocks were clearly evident in the aftermath of the crisis. Apart from the contraction in economic activity, we had to implement painful reforms necessary in areas such as the civil service, public enterprises, public financial management, the financial sector and land reforms. These reforms should bring about changes that would help us achieve sustainable economic growth and help us weather the effects of external shocks in future.

The fourth issue, Mr. Chairman is regarding IMF lending facilities. I highly commend the commitment by the Fund and G-20 countries on the provision of over \$200 billion and a further \$283 billion in SDR to assist countries affected by the crisis. I also commend the Fund for the introduction of its new Flexible Credit Line (FCL) which provides a strong safety net for countries with a good track record and the tripling of concessional lending commitments to low-income countries, charging zero interest through 2012.

Furthermore, I thank the Fund for the extension of the duration and credit available under the FCL as well as the introduction of a Precautionary Credit Line as an

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additional credit facility for countries that might not qualify under the FCL strict requirements. I extend my support for proposals under discussion to establish a framework for dealing with systemic crises as well as the move towards regional financial arrangements similar to those undertaken with Euro-zone earlier this year. As a small island developing country that is dependent largely on the rest of the world, Fiji is grateful for the goodwill of countries that have financially pledged and cooperated with the Fund under a common goal to prevent a global recession, restore confidence and revive world economic growth. The Fund's timely action and willingness to make their lending programs more flexible and the streamlining of policy conditions to support vulnerable economies, have contributed greatly to restoring confidence and helping avert a greater crisis.

I would also like to comment on Governance issues at both the Fund and the Bank. Since their inception, both these organisations have been quota based and we agree that this quota based system should remain in place. However, for the operations of the Bretton Woods institutions to remain relevant and effective in future, it is important that we reform the governance structure to reflect the significant roles now played by major developing economies in world economic affairs. Increasing their voice and representation will make the institution more credible and thereby reinforce their legitimacy as policy advisor to its members. I understand that there have been some discussions on this issue within the Fund particularly in relation to the quota increase to dynamic emerging markets and developing countries by January 2011. This is a commendable move and I urge the Fund to pursue all avenues to realise this proposal and thus make the Fund a more legitimate and effective agency in the long run.

I also wish Mr Chairman to briefly remark on the sustainability of public debt. Due to the unparalleled financial bailouts undertaken by Governments over the last two years, debt levels in most developed and developing countries have reached unsustainable levels. I am of the view that countries should always be mindful of the long term sustainability of debt and the need to address this issue, particularly persistent fiscal deficit. I acknowledge that the Fund is already playing a critical role in this area through policy advice rendered to member countries and I urge the Fund to maintain momentum.

Mr. Chairman, the Fiji economy is still recovering from the effects of the global financial crisis. Combined with the devastating impact of two tropical cyclones this year and the prolonged drought that is affecting the sugar producing region of our country, Fiji's GDP growth for 2010 will see downward revision from the 1.8 percent growth earlier anticipated. Faced with huge challenges last year, we implemented various policy measures aimed at facilitating growth on the domestic front and stabilising our balance of payments position on the external front. As a result of these measures, foreign reserves have stabilized. It is anticipated to remain at comfortable levels by year end. Inflation has fallen in 2010 and should remain low over the next year.

At this juncture, Mr. Chairman, we would like to acknowledge and sincerely express our gratitude to the Fund for its timely financial assistance without which the pressure

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on our balance of payments would have been far more serious. The SDR injection of around US\$93 million in the second half of 2009 boosted our reserves level and greatly helped restore confidence to our economy and the financial system. Current foreign reserves levels are around US\$630 million, equivalent to over 3.8 months of imports.

Mr. Chairman, we also thank the Fund for its timely visit and advice on improving our macroeconomic situation. Following the Article IV Mission in 2009 and the ongoing consultation on a possible Stand-By Arrangement (SBA) funding support by the Fund, the authorities have progressed on the recommendations made by these successive Missions. These include the removal of interest rate caps on commercial banks interest rates, relaxation of capital controls, consolidation of government finances and the review of the Reserve Bank of Fiji Act to enhance the autonomy and independence of the central bank. In addition to these policies, a new market based monetary policy framework was implemented, preparatory work is being carried out on an appropriate exchange rate regime that would allow us to better absorb shocks as well as the finalization of a timeline for the gradual phasing out of price controls. Overall these policies should help lower the cost of doing business, facilitate competition and increase efficiency, productivity and consequently growth in Fiji. Furthermore, we continue to partner with financial institutions for the development of small and medium enterprises and the microfinance sector in Fiji. I believe that the development of this sector will facilitate poverty alleviation in our country, as has been proven in other developing economies. The support we have received so far from internal stakeholders in our financial industry has been tremendous and this mutual cooperation should facilitate economic activity and also enhance our future growth prospects.

Mr. Chairman, on the other developments in our country, I would like to reiterate the point I made last year, that Fiji recognises the need to have a clear and predictable path for the restoration of democracy in the country. Apart from the economic reforms which I have discussed above, we have also made inroads on the political front. Our political reforms remain focused on creating a just and fair society where minority views are recognised and the voices of the vulnerable in our society are also heard.

Last year I also outlined the Road Map formulated by the Government geared towards setting the framework for the achievement of sustainable democracy, good and just governance, socio-economic development and national unity. This 5-year plan, which is in place, 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 a consultation process including the private sector, civil society and the Government. Also important is the Government's Strategic Framework for Change, a mandate for the Government to ensure that true democratic, non-communal, equal suffrage based elections for parliamentary representation are held by September 2014.

So, our political roadmap is very clear Mr. Chairman, though some countries continue to demand that we hold early elections without first having to address the basic fundamentals that breed racism, corruption, poor governance and gross

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mismanagement in our society. To ignore these practices and expedite democratic elections as some are demanding at this juncture would be recipe for further disasters. We are seeing positive changes Mr. Chairman. I hope that the international community, including the Fund and the World Bank, will also acknowledge the progress being made. More critically, that they re-engage and partner with us to realise our true potential, for the betterment of our people.

In our bid to rebuild the economy and restore it to a sustainable growth level, we have reformed the financial system, continuing to wean corrupt and racial policies, building up strong governance and reforming the civil service. Additionally, we have facilitated the establishment of micro, small and medium enterprises schemes and have promoted financial inclusion so that the rural population would benefit from the extension of financial services to these areas.

Moreover, Mr. Chairman, we have strengthened our customs and tax department, improved the public financial management and reformed the public sector enterprises. We have also pursued structural reforms in areas that have stifled our economic performance over the past years. Beginning in 2012, we will move on reforms in the political arena by initiating discussions for a new constitution based on common and equal citizenry, eliminating ethnic based voting, to be ready a year prior to the planned elections.

As I have noted earlier Mr. Chairman, our nation is currently pursuing reforms that are unprecedented in our history. The current administration has taken bold measures that have been ignored for so long, resulting in stunted economic performance. Despite the obstacles, we have pressed on and are committed to implementing all the necessary changes that will bring about sustainable economic growth and a truly democratic society for our people and our future generations. It is noteworthy, that most of the reforms that we are implementing now are in line with recommendations of previous missions. Some of the results will be witnessed in the medium term. Re-engagement will expedite some of these crucial reforms.

In this light Mr. Chairman, I call on the Fund and the World Bank to look beyond the political landscape and to continue to engage with Fiji in bringing about the much needed changes that will lift the standard of living for our people. I applaud the Fund in engaging with Fiji in our request for an SBA facility. It is our view that the SBA would greatly enhance the confidence in our economy as we move ahead in reforming the financial system, reorganizing the public service with strong focus on good governance and transforming the political system to ensure that bad governance will be a thing of the past.

Before I conclude Mr. Chairman, I wish to 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, particularly the recent appointment of the new Resident Rep for the Pacific. I also thank the Bank for the assistance provided through the World Bank Regional Office in Sydney, to Fiji and its Pacific Island neighbours.

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