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Statement by the Hon. **PECELI VOCEA**,  
Governor of the Bank for **FIJI**,  
at the Joint Annual Discussion



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Mr. Chairman, it is indeed an honour to address you on this annual meeting of the International Monetary Fund and the World Bank, on behalf of the Government of Fiji. Hon. Zoran Stavreski, I offer you my congratulations on your appointment to chair this joint annual meeting.

The international economy has been beset with a series of challenges in the past year that has raised uncertainties on many fronts. Many advanced economies face recession whilst growths of emerging market economies are slowing down. The spillovers of the crisis including weak external demand, persistent inflation and tight credit conditions have become apparent and dim any hope of a quick turnaround in global growth.

Mr. Chairman, the crisis unfolding in the financial markets is of historic proportion. The problems beginning with the sub-prime mortgage markets more than a year ago, have reached unprecedented levels. It is evident that problems and risks taken on by financial institutions were veiled by huge corporate profits. With financial globalisation, the turmoil on Wall Street has serious implications for the rest of the world, as systemic risks have the potential to ignite a global credit crunch.

The fact that countries have taken a comprehensive approach to relieve the stress on their financial institutions and markets indicates that the financial crisis has now become a global problem. The systemic nature of the crisis calls for extraordinary or even unorthodox measures to calm the markets, restore financial stability and improve confidence. At the same time, we caution that these measures be carefully designed to avoid stifling proper functioning of market mechanisms and themselves being sources of risks. Furthermore, the financial regulatory architecture needs to be modernised and sound risk management practices developed so as to avoid a repeat of such a massive global financial catastrophe in future.

Small and open economies like ours are deeply concerned about the financial market events, which no doubt will have wide-ranging impact on us. It adds to the already precarious situation we face in managing the risks related to commodity price increases. Policy making as a result, has become more challenging with the trade-off between inflation and growth whilst ensuring financial stability is at the forefront of policy makers' consideration. As such, the current crisis calls for more urgency in strengthening surveillance.

Mr. Chairman, the series of crises that we have seen lately raises a lot of questions about the vigilance of the Fund and the Bank. In this regard, we wish to emphasise the following. Firstly, it is important to enhance the surveillance of advanced and systemically important economies. It is evident from the crisis that there may have been oversight on this front that has now proven disastrous. Secondly, the advanced and systemically important economies should also be included in the vulnerability exercise. Thirdly, the Fund should be more holistic in its exchange rate assessment. In addition, we believe that in implementing the 2007 Decision, the Fund should focus on the broad macroeconomic picture and policy mix with due consideration of a country's specific and unique circumstances in determining the appropriateness of a member's exchange rate.

Mr. Chairman, the Bretton Woods Institutions have a responsibility to cushion the effects of the fuel and food price increases on member countries. Quick action by the Fund and the Bank in analysing the impact of these price increases on low and low-middle-income countries, as well as the provision of funding assistance is acknowledged in this regard. To the Fund's credit, the provision of useful analysis and policy advice to the members through flagship reports such as the Global Financial Stability Report and the World Economic Outlook have been useful. We also welcome the flexibility exercised in the recent modification of the Exogenous Shocks Facility. On the Bank side, we appreciate the progress made in implementing the Global Food Crisis Response Program to support countries that have been severely affected by the increase in food prices. We also look forward to a similar response program to assist countries mitigate the impact of high fuel prices.

Nevertheless, I believe more can be done and I am certain that members would prefer much swifter action by the two institutions during difficult times. As such, we urge the Fund and the Bank to be more flexible during adverse global developments. A review and reform of funding instruments within the Fund and the Bank may be necessary and would be welcomed.

Mr Chairman, Fiji has been affected by the hikes in food and oil prices, but more severely by high oil prices given our heavy dependence on imported fuel. Recent surveys conducted by the Bank attest to this. Our authorities have implemented measures to counter the impact of the high prices on sections of the population that have been most affected, but we submit that these measures can only provide short term relief.

As such, we appeal to the Fund and the Bank for technical as well as financial support to alleviate the effects of high commodity prices on small and remote island countries like Fiji. In line with its mandate, we call on the Fund and the Bank to provide assistance in the form of budgetary support that can create the fiscal space and allow Governments to strengthen social protection programs for the most vulnerable. To improve energy

supply, we seek the Bank's assistance in providing affordable financing and technical advice for projects that support viable long-term energy solutions. In this regard, we call on the Bank to review its position on the financing of a key renewable energy project in Fiji.

Mr. Chairman, poor and developing countries are more susceptible to the impact of climate change, and hence, will bear a bigger burden of the adaptation and mitigation costs. As a result, rehabilitation costs of climatic events are sometimes met at the expense of planned developmental programs, which add pressure to Government finances. In this regard, we fully support the call for developed countries to take urgent action in contributing to the mitigation and adaptation costs of developing countries. Contribution of financial resources must go beyond the existing envelope of donor assistance for mainstream developmental programs. The World Bank's proposed strategy for climate change provides clarity on its role in expanding financial products and incentives, as well as in building collaborative relations amongst countries. However, the Bank must ensure that its products and programs for climate change take into account the special needs of member countries, particularly those most vulnerable.

Mr. Chairman, reforming the World Bank's governance structure is vital to the legitimacy and long-term viability of the institution. As such, we feel the Bank's unique mandate should be appropriately featured in the reform process. We note the progress made in the last few months and we support the proposed increase in basic votes to enhance the voting power of developing and transition countries. We also support the establishment of a third Executive Director for the Sub-Saharan African region. In our view, the geographical size and needs of the region justify the need for an additional chair to contribute to Board effectiveness and the Bank's operations in Africa.

Mr. Chairman, allow me to provide an update on recent developments in Fiji. Given our current situation, we are aware that a clear and predictable plan for restoring democracy that is supported by the international community would be an important part of re-engagement. In this regard, I wish to assure you that the Interim Government continues to have effective control over the country. Peace and stability is maintained whilst positive progress towards democratic elections is being made. The population census is completed, a new supervisor of elections has been appointed and the election boundaries are being reviewed. Combating corruption and promoting good governance remains high on the agenda of the Government. We are also in the process of finalising a Draft People's Charter that aims to set a platform for broad political and social reforms. All these efforts are geared towards a return to democratic rule. The recent court decision which was in favour of the current Authority will help fast track preparations for the upcoming elections and we hope that it will also facilitate full re-engagement of the Fund and the Bank with Fiji.

Fiji's domestic economy is on the mend following a severe economic contraction in 2007. A modest growth is expected this year and in the medium term. There are encouraging signs in some sectors, including a rebound in tourism and resumption of gold mining. But challenges remain in terms of raising investments and lifting our exports that would strengthen and sustain growth going forward. Managing inflation is equally critical in our efforts to maintain international competitiveness. Whilst the increasing commodity prices have made this task difficult, closer coordination between our monetary and fiscal policies will ensure that inflation remains in check.

Mr. Chairman, both fiscal and monetary policies have remained tight and domestic demand has been managed through controls. The resultant stability of the financial sector and reserves levels is testimony to the effectiveness of unconventional methods when the situation demands. However, we will reverse these controls when the situation improves, following regular reviews of their effectiveness. Fiscal consolidation has also seen our deficit and debt levels reduce since 2006, with plans to bring them down further. Mr. Chairman, despite the many odds stacked against us, Fiji has always honoured its debt and major obligations.

Fiji's financial system remains robust and is currently insulated from the international financial markets meltdown. We are progressively implementing the findings of the FSAP to strengthen our supervisory and regulatory capacity, and enhance the ability of the financial system to withstand shocks. Furthermore, Fiji has just concluded an Article IV Mission and the results are awaited with enthusiasm. As always, we are appreciative of the policy advice and discussions such Missions generate.

Mr. Chairman, fuel accounts for about a quarter of our import bill and is a drain on our reserves. Demand management is now an important policy aspect for controlling our dependency on fuel and its derivatives and to promote increased efficiencies in our use of these products. Similarly, we are pursuing a number of initiatives to secure alternative sources of energy to reduce our dependency on fuel imports.

Mr. Chairman, we appreciate the rationale behind the Fund's reforms relating to charging Technical Assistance, however, the fact remains that for some, TAs and training are the most tangible benefits we derive as members. The process of applying and seeing the TA through is also taxing on members in terms of time and personnel. As a beneficiary of such TAs, Fiji expresses concern that the charging of TAs may hinder capacity and institutional building in low and lower middle-income countries, even with the system of differentiated charges in place. We are comforted with the reassurance that if ineffective, the charging policy will be reversed. Nevertheless, Fiji acknowledges the technical assistance that the Fund and the Bank have provided over the years. We also appreciate

the work done by the IMF Pacific Technical Assistance Centre in Suva and the World Bank Regional Office in Sydney in assisting Fiji and other Pacific Island countries.

At this point, I would like to reiterate Fiji's request for a full re-engagement with the Bretton Woods Institutions. As Fiji continues to make concerted efforts towards democratic rule, we believe our development objectives could be achieved faster with the support of the Fund and the Bank through the provision of affordable financing, particularly, in the face of the current global crisis.

Finally Mr. Chairman, we wish both institutions well in their future endeavours and we look forward to your continuous engagement.