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Statement by the Hon. **AIYAZ SAYED-KHAIYUM**,
Governor of the Fund and the Bank for the **REPUBLIC OF FIJI**

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Governor of the Fund and the Bank for the Republic of Fiji

**Mr Chairman,
Fellow Governors,
Distinguished Delegates,
Ladies and Gentlemen,**

1. I am honoured to deliver this address on behalf of the delegation from the Republic of Fiji, to the annual meeting of the International Monetary Fund (Fund) and the World Bank (Bank). I would like to commend the Bretton Woods institutions in helping steer the global economy during these challenging times of continuing uncertainty and growing risks. I also congratulate Nauru which became the 189th member of the Fund and the Bank in April this year.
2. I also would like to express the appreciation of our Prime Minister and the Fijian people to the Fund, the Bank, other development partners and fellow member countries, for the messages of condolences, international aid and financial support received following the devastation of Cyclone Winston and subsequent floods earlier this year. 2016 will go down in our history as the year our nation was hit by the strongest tropical cyclone ever recorded to make landfall in the Southern Hemisphere and one of the strongest in the world. A joint Post Disaster Needs Assessment led by the Bank revealed total damages and losses of US\$1.4bn or around 30 per cent of GDP. The impact from these shocks on our economy has further exacerbated the dampening effects already prevailing from the prolonged global slowdown.
3. On behalf of the Fijian Government and people, I express our condolences to the people of Haiti and others affected by Hurricane Matthew. Having recently experienced the devastating effects of a destructive natural disaster ourselves; we know that the Fund, the Bank and the global community will do what is necessary to assist those affected. Hurricane Matthew is also a harsh reminder of the increasingly destructive natural disasters, exacerbated by climate change, that threaten the economic stability of small and vulnerable states and the need to develop more creative financing options to support the rebuilding process.

Fijian Economy

4. Mr Chairman, our growth projection for this year was revised down from 3.5 per cent to 2.4 per cent to reflect the adverse impact of natural disasters and floods as well as the subsequent rebuilding efforts.
5. Nevertheless, the Fijian economy is still expected to post its seventh consecutive year of broad based growth this year, a first since the 1970s and this is expected to continue into the medium term. Comparatively, growth in 2015 and 2014 were 3.6 per cent and 5.6 per cent, respectively, driven by strong activity in the transport, finance and forestry sectors.

- 6 Fiji's current positive growth performance is expected to continue on the back of accommodative fiscal and monetary policy settings, associated with strong infrastructure spending and supportive low taxes and interest rates. Credit growth remains firm, consistent with positive demand and expansion in the financial sector. Notably, prudent public finance, monetary and financial management and supervision amidst improved business and consumer confidence have yielded macroeconomic and financial stability and manageable debt levels. Fiji's external stability position remains favourable reinforced by strong tourism earnings and personal remittances.
- 7 Specifically, fiscal policy is geared towards enhancing Fiji's infrastructure development, investing in human capital and boosting potential growth. While the Government records operating surpluses, increasing investment expenditures in critical infrastructure underpin deficits, which are expected to remain within the Government's target of 3 per cent of GDP. For the 2016/2017 financial year the budgeted deficit is 4.7 per cent, of which 2 per cent is directed towards reconstruction associated with Cyclone Winston. Monetary policy is geared towards attaining low inflation and adequate level of foreign reserves. Current inflation trends above the 3 per cent average norm have been mostly due to supply constraints and structural policy adjustments while our foreign reserves level can cover more than five months of retained import cover indicating a healthy external position relative to international benchmarks.
- 8 Growth is expected to rise to 3.6 per cent in 2017 and decline marginally to 3.1 per cent in 2018. Nonetheless, there are downside risks to the current strong growth trajectory. These include capacity constraints in booming sectors particularly construction, the weak global economy, the increasing threat of natural disasters and other climate change factors and elevated imports related to reconstruction efforts in the wake of Cyclone Winston, to name a few.
- 9 The Fijian Government is continuing with its public sector reforms, focusing on public-private partnerships, civil service and public enterprise reforms and mainstreaming the ease of doing business.

International Monetary Fund

- 10 Mr Chairman, we welcome and commend the Fund's commitment to its surveillance, lending and capacity building activities through which it provides vital policy advice, resources and training to implement necessary reforms for lifting potential growth. We encourage the Fund to continue to reflect country specificities appropriately when designing macroeconomic policy advice to its members, to ensure that optimal policy outcomes are achieved.
- 11 The Fund's resources serve as a catalyst for other multilaterals to step-up, we encourage the Fund to continue to review and enhance its facilities to ensure that the assistance provided is commensurate with the shocks encountered. Mr Chairman, the debilitating impact of climate change and related natural disasters in Fiji and other small island vulnerable states, are imminent threats to macroeconomic stability. This was well illustrated in the proposed assistance available under the Rapid Financing Instrument facility, which amounted to a

mere one per cent of GDP when the devastation of Cyclone Winston is estimated at around 30 per cent of GDP. We encourage the Fund to consider an approach that would provide greater flexibility in allowing higher access limits on concessional lending to small states that are significantly affected by severe natural disasters.

- 12 Mr Chairman, capacity building is an essential role provided by the Fund that is highly appreciated by the membership, especially small states with human resources constraints. Given the importance of preserving macro-financial stability, the Fund should continue to focus on priority areas of fiscal and public debt sustainability, public financial management, financial sector supervision, and improving data limitations. With climate change and natural disasters now considered as real threats to the macro stability of countries such as Fiji, we encourage the Fund to explore ways to incorporate the impact of such shocks in its policy frameworks. We commend the close collaboration with the Executive Board's Small States Working Group resulting in pertinent small states' issues, such as the withdrawal of correspondent banking and enhancing resilience to natural disasters and climate change, being elevated and considered more seriously by the Fund. We understand that work is progressing on this front and look forward to discussing the preliminary findings during future Annual Meetings.
- 13 We welcome the Fund's close engagement with Fiji through the annual Article IV consultations and technical assistance provided through the Pacific Financial Technical Assistance Centre (PFTAC). The success of recent Article IV missions, publication of staff reports, and ongoing technical assistance (TA) programs are testament to our effective collaboration, improved traction of the Fund policy advice and their implementation. We commend the Fund for the continuity of TA in the key areas of macroeconomic modelling and forecasting, public financial management, financial sector and statistics. Mr Chairman, we remain appreciative of ongoing Fund engagement through the PFTAC and the Resident Representatives Offices located in Fiji and encourage the Fund to intensify its efforts towards aligning TA to country needs and policy priorities while taking into account absorptive capacity. Fiji has shown our commitment to the PFTAC by agreeing to contribute towards the ongoing funding operations of the PFTAC office in Suva, Fiji for the next five years.

World Bank

- 14 Mr Chairman, on World Bank issues, a lot of positive outcomes have transpired since our re-engagement. In May this year, a new World Bank and International Finance Corporation office opened its doors in Suva. This is expected to further deepen and strengthen our partnership and collaboration. Having a country presence has enabled faster action on the ground and Government has capitalised on this by accessing quick and timely advice from Bank staff. We acknowledge the Bank's support towards our rehabilitation efforts for Cyclone Winston; through the Post Disaster Needs Assessment as well as the US\$50 million Development Policy Loan. We look forward to the completion of Fiji's Systematic Country Diagnostic and the formulation of our new Country Partnership Framework for 2017.
- 15 We congratulate the Bank for the Forward Look exercise which sets out the Bank's vision to 2030, and the important role the Bank can play in global economic development. The world

community has endorsed a global agenda through the Sustainable Development Goals and the climate change agreement at COP 21. The Forward Look will enable the Bank to support global development agendas while at the same time addressing its own corporate goals.

- 16 Mr Chairman, we commend the Bank for its leading role in developing innovative financing facilities to address global shocks such as the Pandemics Emergency Financing Facility for pandemics, the Global Concessional Financing Facility for refugees and the Catastrophe Risk Insurance Facility to provide insurance against natural disasters. To end extreme poverty by 2030, it is critical that the Bank intensifies its efforts to face each global challenge with an urgency and scale proportionate to the problem.
- 17 Mr Chairman, we acknowledge the Bank's support towards the small states agenda and we commend the setting up of the Small States Secretariat and the Small States Advisory Group. We support the setting up of a dedicated research programme for small states and we offer to host the programme in Fiji as we are already hosting similar programmes with other development partners, such as the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). It would also complement other initiatives being run in Fiji, such as the setting up of a unit to consider legal issues related to climate change.
- 18 While small states are a heterogeneous group, in general they grapple with a range of similar development challenges. For small island states in the Pacific, climate change is threatening the social and economic wellbeing of our economies and our ability to meet the Sustainable Development Goals. Essentially, climate change cannot be de-linked from development. Despite our middle income status, Fiji remains highly vulnerable to climate change and natural disasters. For IBRD small states like Fiji, there are currently no concessional funding sources to access finance for rapid emergency response and reconstruction following a natural disaster. We therefore reiterate the importance of recognising our inherent vulnerabilities as small states in the allocation of concessional financing, in particular, consideration of the application of the small island economy exception to Fiji.
- 19 As the hub of the Pacific, our neighbours depend on Fiji for air connectivity, trade, financial services and education, to name a few, highlighting the interdependence between IBRD and IDA countries in the region. We welcome the current dialogue on expanding the vulnerability indices, and urge the Bank to set up a financing facility specifically for middle income small states to access post disaster financing. We ask the Bank to consider flexibility in providing finance to the region, in particular to providing assistance to develop bankable projects for the Pacific.
- 20 The threat of climate change has led to the setting up of a myriad of climate finance facilities. Notwithstanding the availability of these funds, they remain underutilised given small state's limited capacity to access them. The Bank could assist by improving alignment between donors, helping to simplify procedures for accessing these funds, and in tailoring capacity building programmes to enhance technical skills for accessing climate funds. Fiji in partnership with the UNESCAP has initiated a regional training programme in the Pacific to build capacity in this area and we call on the Bank to support such country initiatives.

- 21 Mr Chairman, we note the Bank's in-depth work on the Pacific Possible, which focuses on the sectors that offer significant potential as well as challenges, being tourism, labour mobility, knowledge economy, fisheries, deep-sea mining, non-communicable diseases, climate change and natural disaster preparedness. The Bank's support through increased lending and advisories would enable Pacific island economies to harness the potential of these sectors and to address the key challenges that require urgent action. We urge the Bank to support projects that will enhance progress in the Pacific, such as projects to develop regional aviation standards, tourism and trade.
- 22 Mr Chairman, we welcome the progress on the development of a Dynamic Formula and the Shareholding Review, which will ensure that the Bank remains representative and responsive to global economic changes. In addition, the new Environmental and Social Framework (ESF) will no doubt contribute to promoting better and lasting development outcomes.

Conclusion

- 23 In closing Mr Chairman, let me thank the Fund and the Bank for their ongoing efforts in strengthening collaboration and deepening partnerships to achieve our national developmental goals and improving regional and international outcomes. We wish both institutions success in the year ahead.