FOREWORD

This special publication - an updated version of a booklet first produced 10 years ago - was prepared for celebrations to mark the 21st anniversary of the Reserve Bank of Fiji. It is part of the RBF's effort to heighten understanding and awareness of the bank's role and some of the economic and financial issues related to its work. Broader public understanding of the factors which influence the RBF's policies and its functions will help our country to achieve its objective of increased prosperity.

J.Y. Kupuabola
Governor
October, 1995

CONTENTS

MAKING THE WORLD WORK  2
FROM CHAOS TO ORDER  4
YEARS OF PROGRESS  8
DECIMAL CURRENCY ARRIVES  10
BIRTH OF THE RESERVE BANK  13
PROVIDING THE MONEY  15
NOT TOO LITTLE, NOT TOO MUCH  16
CONTROLLING THE CREDIT  18
THOSE FAMOUS FOREIGN RESERVES  22
CONTROLLING INCOMINGS AND OUTGOINGS  25
A BANKER TO GOVERNMENT AND THE BANKS  26
SUPERVISING THE FINANCIAL SYSTEM  28
DEVELOPING THE CAPITAL MARKETS  30
MANAGING THE BANK  31
CONCLUSION  31
The playwright George Bernard Shaw called it the most important thing in the world. From the moment we’re born to the day we die, it plays a central part in our lives. We love it and we hate it. It is the stuff of dreams and it lurks in our nightmares. Some people lie, cheat and even kill for it.

Nations fight over it.

In Fiji, a severe shortage of it helped take the country into the British Empire, thus changing forever the destiny of these islands.

What is this crucial, confusing, powerful commodity, this indispensable key to prosperity?

It’s money, those potent pieces of paper and metal, without which human society cannot function.

Countries, companies, other organisations and individuals must have money to acquire the many products and services they need.

A family exchanges money for bread and milk at the corner shop; for education, clothing, furniture, transport and entertainment. A company pays out money for wages and salaries and to get raw materials for making its products.

A nation uses money to buy the goods and other items it cannot, or does not, manufacture or produce itself.

Money, quite simply, makes the modern world work.

There was a time when people did not need money.

That was when the land and the sea alone gave food, shelter and clothing. There was self-sufficiency.

It was an elemental form of existence dependent on the inter-relationship between people and nature.

But as more complex social structures began to emerge, simple self-sufficiency was no longer enough.

Different groups and tribes had increasing contact with each other and began to desire things their immediate environment could not provide.

So they adopted the concept of swapping, or barter, involving the exchange of one item for another.

It soon became evident, however, that barter had limitations. It was too inexact and cumbersome.
A transaction could not be concluded, for instance, if one of the parties did not want an item offered as exchange, or did not attach a high enough worth to it.

There was a need for a unit of exchange with a measurable, reasonably constant, and widely accepted value.

And so humankind graduated to money.

At first it took various forms - such as sea shells, carved stone and even cattle - but all these failed to provide the required qualities of convenience, accessibility and constant value.

Pieces of metal, in easily handled sizes with an agreed worth, eventually became the favoured units of value.

These coins, as they were called, were made from gold, silver, copper, and other metals. Later, the coinmakers used alloys, or mixtures of metal.

In time paper notes, marked to indicate their value, gained wide acceptance too.

Coins and notes did not have to be valuable in themselves. Their worth as money, or currency, was related to the willingness of the public to use them as a means of exchange.

If the people of a country felt a 15cm x 6cm piece of paper, virtually valueless in itself, could be exchanged for goods or services of a specific quantity or value, then the paper represented legitimate currency. Its financial value came from the confidence of the population in the currency system and the Government which issued it. A Government that had the wealth to support the money it put into circulation usually had a successful and acceptable currency.

The money system of exchange spread throughout the world.

Those who made a living as money lenders were the forerunners of the financiers who founded great banks.

The banks provided services for saving, lending and investing money. They helped create a worldwide financial network which permitted money to be circulated between nations.

In most countries today the printing, issuing and supply of currency is the responsibility of a central bank.

A central bank is the holder of a country's purse strings, which might, in itself, appear to be a fairly simple task.

In reality, though, administering the supply of money calls for a great deal of skill and good judgement.

It involves complex questions of economics, trade and high finance, for which there are often no perfect answers. These questions, seemingly unconnected to our own daily lives, in
Reserve Bank of Fiji

Fact affect each one of us in a basic way.

For they all have to do with that most fascinating symbol of economic activity, the one thing billions of people cannot live without - those units of exchange we call money.

The Reserve Bank of Fiji (RBF) is our nation’s central bank.

Like similar institutions elsewhere it is something of a mystery to non-bankers.

This book takes some of the mystery away from the RBF. It briefly tells the story of money in Fiji and how the bank came into being and describes why it is so important in the development of the country.

It looks at some of the little-understood economic and financial issues which concern the RBF. It answers many questions about Fiji’s monetary system and the growth of that system from the early days of European settlement to the era of political independence and the threshold of the 21st century.

Today Fiji is generally well regarded for its overall financial order and stability. We have a money industry governed by law, with excellent banks and other institutions for savings, deposits, investing and loans.

The Government organises and implements procedures for collecting revenue from taxation and follows detailed programmes of expenditure to meet the cost of administration and provision of better amenities and services for the people.

The country gets high ratings from international lending agencies.

All this is in stark contrast to the financial confusion and chaos which gripped the land over 120 years ago, finally leading to bankruptcy.

The leaders of the day, led by Ratu Seru Cakobau, turned to Britain for...
support - and Fiji became a colony, setting in motion a historical process culminating in the attainment of full sovereign nationhood in 1970.

Before European traders and sailors came in the mid-19th century, bartering formed the foundation for Fijian commerce. Groups possessing specialised talents - farming, weaving, fishing and so on - traded the product of their skill. Yams were exchanged for fish, and mats for carved tools or weapons. The "barter chain" often ran from the coast to an isolated village in the interior mountains.

At first the European traders used barter too. Sandalwood merchants and the later beche-de-mer traders gave the chiefs things like iron implements, whales' teeth, muskets, gun powder, steel blades, scissors, tobacco and liquor in return for the valuable scented timber and the sought-after sea delicacy.

There were commercial links with Tonga which sent whale's tooth artefacts and woodworking craftsmen to Fiji and took back sandalwood, masi and parrot feathers.

Barter came to an end with increasing European settlement and the associated introduction of western ideas of financial and economic organisation and management.

In the 1860s and early 1870s paper money and coins made their appearance - but in a bewildering potpourri of currencies and notes.

If you were shopping in Levuka, the then capital, you would come across British sovereigns, American and Mexican dollars, Bolivian half dollars, French francs, Russian roubles, Turkish gold coins and mohurs from India.

The coinage was based on gold and silver and therefore had real value.

It was a different story, however, with the first Fiji paper money.

The Fiji Governments of the day could print as many notes as they wanted - they lacked the gold and silver however, to redeem them when they were presented.

Some of the early trading companies even had their own paper
currency and Ratu Cakobau’s Government attempted to assert its authority by issuing a series of notes including, initially, those with a value of $5, $1 and 50c.

They were bilingual - in Fijian and English - and one later series reportedly featured a dazzling array of colours - crimson, blue, green, purple, black and lavender.

Their exotic appearance though was not enough to win credibility and they were usually rejected as being of suspect value.

Members of the public were not convinced the Government had the gold and silver to back up the notes.

A diarist of the day described how an acquaintance of his, who had tendered Government paper money as payment for goods, was told by the shopkeeper that if he wanted to buy anything he “must pay in money and not rubbish like that”.

It was not unusual for the Government’s coffers to be virtually empty.

An official of that period recalled that the Treasury was sometimes down to its last $10 worth of coins.

The Government was saddled with debt, including claims by America for property loss following destruction of a US Consul’s house on Nukulau island.

Records show that on March 17, 1874, the British Consul officially declared the Government bankrupt.

After negotiations in the months that followed, Britain finally agreed to take over responsibility for the governance of Fiji. Ratu Cakobau and his supporters looked to Britain to establish an orderly system of Government - and to place Fiji’s finances on a sound footing.

With the establishment of a new form of Government, drawing on the British experience, Fiji’s monetary affairs began to assume a degree of normalcy.

In 1876, the Bank of New Zealand took over the interests of the short-lived, pioneer banking organisation, the Fiji Banking and Commercial Company Limited.

The Bank of New South Wales (now Westpac) opened its doors here in 1901.

Confidence and credibility were replacing the pre-colonial confusion.

But there was a long way to go before Fiji attained complete financial regularity and stability.

Currency from many nations still passed over shop counters daily, and privately issued notes continued to circulate.

Both commercial banks introduced their own paper money.

In 1914, the Government took an important step. It established a currency board with the sole right to
issue currency notes and coins in the colony.

The board was the original forebear of the Reserve Bank of Fiji.

In true colonial style, the Government granted the three board members titles that left little doubt about the importance of their task. They were called Commissioners of Currency.

The Colonial Secretary, Mr Eyre Hutson, second only in rank to the Governor, was a Commissioner.

So were the Receiver General, Mr Richard Rankine, and the Honourable Henry Marks (later Sir Henry), a leading businessman and public figure.

The Commissioners met for the first time at 10 a.m. on December 4, 1914. They gathered in the Receiver General's modest office in the two-storey wooden Government Building in Suva, the site of the present-day Anglican Cathedral.

They wore the close-fitting, impractical attire favoured by colonial Europeans - and perspired steadily in the 82 degrees Fahrenheit heat.

Their discomfort, however, did not distract them from the business at hand - and the heavy atmosphere in the office was undoubtedly relieved by the cooling whirl of a ceiling fan.

With Mr Hutson leading the discussion, the Commissioners followed an agenda that launched Fiji into an era of monetary order.

On a practical matter, they first decided they should issue a notice telling the public where their office was.

Then the Commissioners gave their attention to the main item of the day - the first issue of currency.

The Crown Agents in London had already shipped to Fiji a consignment of notes and the Commissioners formally acknowledged receipt of these.

They allocated £20,000 for issue, made up of 10,000 £1 notes, 1,000 £5 notes, 200 £10 notes and 150 £20 notes.

Anticipating future demand they recommended that a further supply of £1 and £5 notes be obtained.

The Receiver General sent a set of duplicate keys from the currency safe to the Bank of New-
For nearly 60 years the Currency Board was the focal point of Fiji's currency system.

It presided over major changes, each one taking the country a stage further in its monetary and economic development.

English coins were used at first. Then, in 1934, the board introduced Fiji's own coins manufactured at the Royal Mint in London.

The pennies and halfpennies, made of copper mixed with nickel, had a distinctive feature - a hole through the centre.

In World War II they became popular souvenirs with American soldiers serving in Fiji - and halfpennies were sometimes pressed into service as makeshift washers.

The other denominations were sixpences, shillings and two shillings made from 50 percent silver.

At the time of the first coin issue, Fiji got a new consignment of notes, which...
became the sole notes to be legal tender. That meant they became the only money to be accepted in Fiji in exchange for goods and services.

In 1936 Fiji was one of the few Commonwealth countries to mint a one penny coin featuring the name of King Edward VIII, whose abdication was one of the great constitutional dramas of the century.

In 1947, 12-sided nickel and brass threepenny bits made their appearance, and were minted until 1967.

Sometimes the board had to respond with initiative and innovation as special problems arose.

In 1920, for instance, it introduced a five shilling note to offset a shortage of silver coins.

The Commissioners had to tackle all kinds of disruptions and challenges caused by the war.

For a while coins were minted in San Francisco on the West Coast of America instead of at the Royal Mint, 12,000 miles away in bomb-damaged London.

The San Francisco coin-makers manufactured halfpennies and pennies in brass, and sixpence, one shilling and two shilling pieces in 90 percent silver.

Later the 1942 America-minted halfpenny became relatively valuable as a collectors' item because only a small number were minted.

At one stage during the war, with the acute shortage of metal, the Government printer produced a supply of notes in one shilling and two shilling denominations - and some Fiji one penny notes were printed in Australia.

In 1942 when some of the normal notes became scarce, the Reserve Bank of New Zealand agreed that New Zealand £1 and £5 notes being
printed by the Commonwealth Bank of Australia could be overprinted by the Government printer for local use.

There were other curious, and sometimes embarrassing, happenings.

The board found itself on one occasion with too many notes because of confusion over a printing order.

Boxes full of the surplus currency, were loaded into the boot of a Commissioner's station wagon, taken to the Government printer, and quietly burnt in the incinerator at the rear of the building.

Then there was the day New Zealand currency officials discovered a case of their notes missing when a shipment arrived from London.

Notes for Fiji were on the same ship - so an anxious New Zealander called Suva to find out whether the Currency Board had a box of notes too many.

The missing notes were never found.

Incidents like this, though, were the exception.

For the most part the job of printing and issuing currency proceeded in an efficient and businesslike fashion.

While Fiji continued to favour the British system of measuring currency in pounds, shillings and pence (£ s d), many other countries were adopting decimal currency.

Decimal measurements were found to be more convenient and easier to calculate. Soon those nations without a decimal system found themselves at a disadvantage in their international trade and financial dealings.

So in the mid 1960s the Government in Fiji made a momentous decision. Pounds, shillings and pence (£ s d) would no longer be the units of
currency.

They were to be replaced by dollars and cents, expressed in decimals.

To some the demise of the £s.d. represented the emotional severance of a link with the British Crown, forged in unique circumstances nearly a century before.

It was in fact, as events would show, very much part of the end of Empire. Some 21 months after decimalisation, Fiji became an independent nation.

It took two years of planning and public education to organise the change to decimal currency.

The new notes and coins arrived by ship. They were stored in a vault adjacent to Albert Park at the imposing Government Buildings, which had replaced the modest wooden structure on the site of the Anglican Cathedral.

The heavily guarded vault was crammed with millions of dollars worth of the new currency waiting to go into circulation.

On January 13, 1969, a Government advertisement in the Fiji Times proclaimed that from that day the unit of currency in Fiji was the dollar.

L.s.d. would be withdrawn gradually as they were paid into the banks.

The decimal notes were in denominations of 50c, $1, $2, $5, $10 and $20.

Coins represented 1c, 2c, 5c, 10c and 20c.

Post offices, postal agencies, shops and businesses exchanged the old currency for the new at the banks. The banks in turn exchanged old notes for new at the Currency Board vault.

On January 14, the Fiji Times was reporting that Fiji had moved smoothly into the dollar age.

Said one article: "From all over the country came reports that the public was readily accepting the new currency and banks... were crowded throughout the day".

The Rogovoka, a Government ship.
sailed with an armed guard to distribute the currency in the outer islands.

But it would take months, and even years, for some people to think in terms of dollars and cents.

Destruction were issued.

According to one estimate the Government printer's incinerator could consume about £250,000 worth of notes a day.

But the notes did not always burn easily and they had to be turned constantly to ensure the flames completed their job.

A journalist with a sense of humour had himself photographed lighting a cigarette with two £10 notes. He tossed the fragments into the incinerator with a batch of notes worth £15,000.

Two officials present confessed they couldn't quite quell a curious feeling of unreality as they watched the banknotes burn.

Hundreds of tons of coins were sold to the Royal Mint in London and the Royal Australian Mint, to be melted down for use in the manufacture of new currency.

Some threepenny bits ended up in canvas bags, on the pilot boat Seniceva, to be dumped into the sea outside Suva Reef.

There is no treasure trove waiting to be discovered, for the coins were tipped loose over a wide area of deep water.

The tendency was to mentally convert a price back into £.s.d. to get a clear picture of an item's value.

Plans were made for disposing of the £.s.d. as they went out of circulation.

Destruction and disposal followed a carefully organised sequence.

Notes were counted and mutilated - the final act in removing their value - and then, under the watchful eyes of a specially appointed Board of Survey, millions of notes went up in smoke. Then official Certificates of
With independence in 1970, Fiji began to develop rapidly. There was a fresh spirit and vitality as the country assumed responsibility for its own affairs. In all areas of national life and in the economy, came progress, growth and change.

It soon became evident that the Currency Board was no longer adequate for an independent state. Fiji needed a new organisation with an enlarged role. Apart from the administration of money supply, there were reserves of foreign currency to administer, a commercial banking system to supervise and many related economic matters to address.

The organisation eventually established to perform these functions was the Reserve Bank of Fiji.

Its immediate predecessor, though, was the Central Monetary Authority (CMA) which came into being officially in early 1973. It had wider powers than the Currency Board.

The CMA, like the board, had responsibility for printing, minting and issuing currency. But it was also charged with promoting the growth of a healthy financial system and strong economy, to act as banker to commercial banks and banker and financial agent for the Government and Government agencies.

That was the role it performed for 10 years - until January 1, 1984 when an Act of Parliament to establish the Reserve Bank of Fiji took effect.

The legislation was approved exactly 119 years after the start of banking in Fiji.

Today the Reserve Bank occupies an 18-storey building in Pratt Street, Suva. Its graceful lines and soaring
columns are a distinctive landmark, far removed in time and style from the simple wooden office of the first Commissioners of Currency.

The decisions taken every day in the Reserve Bank Building affect us all in our daily lives, especially in relation to our money.

Just like its forerunners, the RBF controls the supply and distribution of currency. But its function now encompasses the increasingly sophisticated financial system which underpins the workings of Fiji society. The RBF is responsible for guiding the continued sound growth of that system to ensure it helps to enhance living standards and broaden the avenues for productive and profitable investment.

It wants to see more of Fiji's people saving their money, so that the capital accumulated can be used to promote economic growth, while providing savers with a return on their money through the banks and other institutions. The RBF also acts as a banker's bank and a bank for the Government. It monitors the inflow and regulates the outflow of foreign capital and manages Fiji's overseas reserves. The RBF, in addition, supervises the activities of Fiji's insurance industry.

All these facets of the RBF's duties and the way it conducts them combine to form Fiji's overall monetary policy. That policy is not just an academic matter. It contributes greatly to Fiji's orderly economic development and the better way of life synonymous with that.
Smiling children from Fiji's multi-ethnic community... Nadi International Airport and a tourism cruise vessel... a river-bank village with a bilibili laden with fruit and root crops... contrasting architectural themes of Parliament House and the Reserve Bank building... and the scene of the signing of the Doed of Cession.

All these images of Fiji are depicted on the latest issue of banknotes circulated by the RBF from May, 1995. With values of $2, $5, $10, $20 and $50 the notes also feature a reproduction of a portrait of the Queen alongside the Fiji coat of arms and a canoe masthead, or domodomo - symbol of the RBF.

The $50 note is a new addition to the currency while the former $1 note - which saw service for 26 years - is replaced by a coin.

The new notes are printed in muted tones of red ($50), blue ($20), purple ($10), orange ($5) and green ($2).

Specialist overseas printers are commissioned to print Fiji banknotes. They execute designs requested by the RBF, and include identification marks and other distinctive characteristics.

These are meant to make life difficult for forgers and thieves.

Neither the RBF, nor the printers, like to talk too much about production of banknotes. Security and secrecy are essential.

How much does RBF pay to print banknotes worth millions of dollars?

The cost of printing does not match the value of notes. They assume their proper worth when they go into circulation.

Fiji's coins and notes have been produced by the Royal Mint in London, the Royal Australian Mint, Royal Canadian Mint, the Singapore Mint and Thomas De La Rue and Company Ltd. of England. Contracts for the minting of coins and the printing of notes are put out to international tender.

Fiji's coins, valued at 1c, 2c, 5c, 10c, 20c, 50c and $1, are made from copper.
or an alloy of copper and nickel. They
too bear the Queen's image on one
side, and designs on the other
representative of Fiji. The 1c coin has
a yagona bowl (tanoa), the 2c, a fan
(tiri), the 5c, a drum (tiaki), the 10c, a
club (wau), the 20c, a whale's tooth
(tabua). The 50c piece depicts a
double hulled canoe
under a full sail
druga and $1, a
drinking vessel
(saqamoli). The
coins are
manufactured when
required.

The RBF makes
a limited number of
speciality minted
coins available for
numismatists -
people who collect
coins as a hobby.

Commemorative sets include those:
marking independence in 1970 and the
centenary of the Deed of Cession in
1974. Fiji won an international
competition in 1993 for the quality of
its special $10 silver piece
commemorating a discovery voyage by
the great English navigator Captain
William Bligh.

Managing Fiji's supply of
notes and coins is one of
the RBF's most important
tasks.

A non-economist could be forgiven
for wondering exactly why control of
the amount of money is so crucial.

Certain other questions come to
mind: If times are
bad in Fiji and
people can't get
enough money for
all their needs,
why doesn't the
RBF simply print
more currency?

We often read
that the
Government is
short of money.
Why should that
be? Surely all it
has to do is to ask the RBF for some
more?

Everyone in Fiji can presumably
have as much money as they like if the
RBF prints enough.

Unfortunately monetary policy is
not that simple.

Money is like a lubricant. Without
it an engine will break down; too much
of it can be equally damaging.

It requires careful management to
ensure there is neither insufficient
money, nor too much of it, for the
needs of a country.

NOT TOO LITTLE, NOT TOO MUCH
If there is too much money in circulation, currency can start to lose its value. This happens because an excess supply creates an additional demand for goods and services. If people have more money in their pockets, they usually want to spend more. When they go shopping, they find many others have the same idea. That means several people might want to buy that video, or new fridge. Then, the person who offers the most for the item to be bought will be the one who makes the purchase. Prices start to rise because people are prepared to pay more to get what they want.

This is called inflation, or rising prices. As prices go up, money is worth less and less.

Six months ago $20 may have bought a shirt. You might find now that your $20 is no longer enough to purchase the same shirt. Therefore $20 is worth less than its former value.

Inflation caused by too much money chasing too few goods can lead to serious social problems. In some countries prices have been known to rise each year by 500 percent or more. That leads to great distress and sometimes anger. People are faced with the possibility of their money becoming worthless—as it sometimes was during the days of Ratu Cakobau’s Government.

That was a reality too in parts of Europe some 70 years ago. Notes had so little value that vast quantities were needed to buy ordinary items. There were even instances of people loading notes into wheelbarrows to go shopping.

If there is not enough money in circulation, the demand for goods and services reduces and the country goes into an economic decline.

People do not purchase, therefore the organisations which manufacture and distribute products go out of business or lose money. When this
happens unemployment follows.

It is the job of the RBF to make sure Fiji's money supply is such that there is financial and economic stability, that currency keeps its basic value and inflation is controlled.

How much currency does Fiji need?

The amount varies but on any particular day there could be up to $115 million worth of Fiji banknotes and coins circulating in the country.

Of this about $10 million dollars would be in the banks and $105 million with the public and businesses.

Ten years ago Fiji needed less than half this quantity of currency.

Notes and coins stay in circulation until they are returned to the RBF by commercial banks.

The banks, which receive and pay out money every day, conduct regular inspections of currency.

If notes are too dirty or damaged, the bank tellers wrap them into neat bundles for dispatch under strict security to the RBF.

The RBF destroys them in a shredding machine and provides the commercial banks with fresh replacement notes from its vault.

Notes do not have a long life. A $2 note, normally used more frequently than other denominations, is usually ready for the shredder within six months.

A $20 note, on the other hand, stays in circulation for about two years.

Coins can be used indefinitely. Only if they are mutilated are they sent by commercial banks back to the RBF for eventual disposal.

CONTROLLING THE CREDIT

The amount of borrowing, or credit, extended in a country, increases money supply and has great influence on the economy.

Modern society relies heavily on credit, which is built on confidence and trust; the acceptance of a promise to pay at a later date.

A storekeeper provides credit when he lets a customer take a quantity of goods without payment, on the understanding that the debt will be settled later.

Companies let other organisations buy products on credit. The products
are made available to the purchaser; payment comes in the future.

Banks give credit when they lend. This kind of credit has a more critical impact upon the course of the economy than that provided by traders. It is for this reason that bank credit needs to be carefully controlled - and that is one of the RBF's tasks.

The RBF does not favour too much credit in the economy for this increases buying power and tends to drive up prices. It encourages credit to be given to sections of the economy which are particularly important to Fiji - such as agriculture and export industries.

Agriculture provides employment for rural people, boosts the production of local food and earns money for Fiji through overseas sales. Selling Fiji produce and manufactured products in other countries is a high economic priority. The Fiji market is too small to sustain and stimulate all the industry and investment the country needs to create jobs and increase wealth. We must win export sales to do this and to generate earnings of foreign currency.

It was to encourage Fiji companies to seek export markets that the RBF introduced an export credit finance facility. This makes it easier for exporters to get the credit required to meet overseas orders. It also provides for special low interest rates on export borrowings. This, in turn, helps exporters to sell at competitive prices.

When there is too much credit flowing, more money usually goes overseas to pay for unnecessary imported goods - and when that happens Fiji's holdings of foreign currency are reduced. We need this overseas currency to pay for the vital things Fiji needs from other countries.

The RBF achieves credit control in several ways.

All the commercial banks must place in the RBF a certain proportion of the money they hold in deposits. This requirement is called the Statutory Reserve Deposit (SRD).

The SRD can be used by the RBF to regulate the amount of money the banks have available for lending.

If, for instance, the RBF feels the economy needs more credit, it can reduce the SRD, thus freeing the money to be used for credit by the banks.

If, on the other hand, the RBF
considers there is too much credit being given, it can increase the SRD.

This means the banks must lodge a higher percentage of their deposits with the RBF. That money cannot then be issued as credit.

The RBF can influence credit trends through the buying and selling of its own Notes. These Notes are not currency notes. They are actually certificates which commit the RBF to repay the buyer of the Notes after a certain period - plus interest. This contributes to "liquidity management" - the control of the amount of money in the financial system. If there's too much that means liquidity is high; too little means liquidity is tight.

The RBF sells its Notes when liquidity is high - money is thus moved from the economy to the Reserve Bank. It is then not available for lending.

To put more cash into the banks so they can expand lending, the RBF can buy back from them RBF Notes. This gives the banks extra cash, permitting them to increase lending.

The Government and Government-associated organisations spend many millions of dollars to improve standards of living in Fiji. So the Government also needs credit to help pay for projects which bring about these improvements.

The RBF, therefore, makes sure the banks invest some of their money with the Government.

These investments are done through purchase of special notes - treasury bills - and bonds, which commit the Government, or Government organisations, to repaying the money loaned to it within a certain time and at a certain rate of interest.

This policy of the RBF of directing some credit to the Government and its organisations is described by the impressive title, Unimpaired Liquid Assets Ratio (ULAR).

This is a banker's way of saying the banks have to keep a specific quantity of cash in Government bonds and notes. The RBF has another reason for this policy.

Money loaned out by a bank is usually from deposits placed with it by
individuals and organisations. By insisting that the banks give part of their credit to the Government, or those organisations guaranteed by the Government, the RBF is helping to protect the depositors. It is lessening the risk to them because it is generally agreed money invested with the Government is perfectly safe. The RBF doesn't want the banks to keep the depositors' funds in just one basket. It thinks it is better for the country and safer for the depositors if there is more than one basket.

In allocating credit in this way, the RBF must gauge the credit requirements of private borrowers. It is important to make enough credit available for loans to individuals, farmers and businesses.

Interest rates have a role in controlling credit. Interest is the amount we must pay banks for the use of borrowed money. Banks also pay interest to depositors on the money they place in savings accounts and other accounts. In this case, the interest is a payment to the depositor by the banks for being able to use the money deposited to make loans.

The Reserve Bank of Fiji Act gives the RBF, with the approval of the Minister of Finance, authority over interest rates in the banking system. Interest rates were “deregulated” from July 12, 1987. This means that upper limits on bank lending rates and deposit rates were removed. Interest levels were then determined by market forces i.e. supply and demand - consistent with a general move towards a more open and free-market economy. The philosophy here is that markets operating with the minimum of Government interference, relying on the free exchange of goods and services between customers and suppliers, is the best way to economic success.

If lending interest rates are high that will tend to reduce credit as people may decide that money is too expensive to borrow. Who wants to borrow $200 when the interest rate payable on the loan means the amount
to be paid back at the end of the year is $250?

Some people will be prepared to borrow at that rate, but a lot won’t - and the amount of credit in the economy will therefore be lessened.

There will be more borrowing if interest rates are low - or, in other words, if money is cheap. By encouraging low rates the RBF can stimulate credit.

Interest rates also help in encouraging savings.

The RBF is usually keen to see people saving their money. Savings form part of the cash available to lend for investment in the development of Fiji.

So good interest on savings deposits, which depositors are lending to the banks, are an incentive to save.

A reduction in these rates can lead to money being taken out of deposits and being used in other ways - in buying consumer goods or in speculative activities.

The RBF’s decisions on interest rates policy, therefore, can affect economic activity in several ways, depending on the situation at the time.

On most days during the week foreign exchange officers of the RBF make a series of international phone calls, and send a string of telex messages.

They confer with investment advisers in financial centres such as Tokyo, Singapore, Hong Kong and Sydney.

The decisions they make help Fiji to get the best return on the money the country keeps overseas - its foreign reserves.

We hear a great deal about these funds.

Economists are constantly telling us that they must not be permitted to fall below a certain level.

If we run out of reserves, they say, Fiji becomes bankrupt. Bankrupt?

Surely that could never happen. Countries today simply don’t get into that position. Governments always have money, don’t they?
Why should the ordinary citizen worry about some obscure currency investments abroad?

The fact is that every nation needs foreign reserves, or foreign exchange, as it is sometimes called.

This is how the foreign exchange system works: because Fiji, as with any other country, does not produce or manufacture all the commodities and products we require, the country has to buy many millions of dollars worth of goods overseas. It's a long list... food, machinery, vehicles, equipment, household appliances, electronic goods, medicine, footwear, clothing, etc., etc.

The overseas companies selling these goods to Fiji don't want to be paid in Fiji dollars. They want payment in a foreign currency commonly used for international trade - American dollars, Japanese yen, Pounds sterling, German marks and others.

Fiji, therefore, has to make sure it has enough of these currencies overseas to pay for its imports. The RBF tries to keep Fiji's foreign reserves at an amount equivalent to the cost of about five months of purchases of overseas goods. It believes this is a "safe" figure which should ensure that Fiji is able to meet its commitments. Loans to finance Fiji's development from organisations like the World Bank must also be repaid from foreign reserves.

Just like overseas trading companies, these lending organisations want to be paid in international currency.

Fiji builds up its foreign reserves from money it earns for its export of sugar, garments, gold, coconut oil, fish, timber, produce, and so on. Tourism is also a major foreign exchange earner because visitors pay for their holidays in the currency of their own countries.

The RBF, as manager of our foreign reserves, plays a central role in all of Fiji's overseas trade transactions, and works closely with the commercial banks to keep exports flowing and to finance imports.

International trading is a little more complex than making a purchase at the neighbourhood hardware store, or selling vegetables at the market.
Complications arise because of the different currencies involved.

Let's look at a fictitious example of a trade deal, and how the RBF is involved.

Imagine the Fiji Sugar Corporation (FSC) sells US$10 million worth of sugar to an importer in Malaysia.

The importer buys the sugar in US$, a common form of international currency.

The US$ are paid to FSC's bankers, which hold them temporarily on behalf of the FSC.

The FSC does not want to be paid in US$. It needs Fiji currency.

So its Fiji bankers sell the US$10 million to the RBF for the equivalent amount of Fiji dollars.

The Fiji dollars are deposited in the FSC's bank and the corporation can then pay the cane farmers in local currency and meet its other obligations.

The US$ bought by the RBF become part of Fiji's foreign reserves and are held in investments overseas.

Could Fiji ever run out of foreign reserves?

This could happen if our export earnings dropped, and we still had a high demand for imported products.

There wouldn't be enough foreign exchange to purchase imports, or to pay our national debts abroad.

Supermarket shelves would be empty of all those imported food products. Hospitals wouldn't be able to treat the sick properly because of a shortage of drugs and medicine.

Buses and boats would lie idle, their owners unable to purchase fuel.

Businesses and factories would close, crippled by a lack of goods, raw materials, equipment, machinery and other things they need from overseas.

This in turn would lead to unemployment.

These things have happened in some countries, but Fiji has prudently maintained a healthy level of foreign reserves.

What is a Fiji dollar actually worth in comparison with other currencies? How is its value arrived at?

Each day the RBF sets the official "exchange rate" for the Fiji dollar.

This is the price at which the banks can sell or exchange our dollars in transactions with the RBF. The transactions are in US dollars - an important overseas currency.

Using a special formula, the RBF calculates the price, taking into account exchange rates for the currencies of Fiji's main trading partners.

This is often referred to as a "trade weighted basket of currencies."

The commercial banks in Fiji use the RBF rate to establish their own list of values for overseas currency.
CONTROLLING INCOMINGS AND OUTGOINGS

In the course of a working day the banks receive foreign currencies from several sources. It comes as payment for exports and from tourists exchanging their own money for Fiji dollars. Fiji people overseas send foreign currency home and some arrives through other kinds of transaction.

The banks also have to make payments in foreign currencies on behalf of their customers. These include payments for imported goods, for overseas travel and for loan repayments.

Normally the commercial banks buy and sell among themselves the foreign currencies they require for all these transactions.

Sometimes, however, these currencies are in short supply - and in these circumstances they purchase from the RBF.

On other occasions the banks may have too much overseas currency for their needs. Again, they turn to the RBF which buys the surplus.

Apart from export income, the RBF supervises other funds coming into Fiji, and those going out.

Fiji welcomes investment from overseas - except in some sectors of the economy.

It would hardly be appropriate, for instance, to allow foreign investors total freedom to go into speculative activities within Fiji.

The RBF helps scrutinise foreign investment applications to make sure investors bring in their share of overseas capital for commercial projects.
It welcomes genuine investors who bring in money and knowledge for tourism, manufacture or processing for export, and for replacing items formerly imported.

These businesses are good for Fiji. They help to create work, increase foreign reserves and add to the funds available for local use.

A foreign investor is permitted to send profits and dividends out of Fiji and if at some stage the investor's business is sold, the capital realised can also be freely remitted overseas.

The RBF carefully monitors capital transferred abroad. It believes it is in the country's best interests for Fiji money to be invested locally. There are, therefore, restrictions on the purposes for which local people are permitted to send funds out of the country.

A BANKER TO GOVERNMENT AND THE BANKS

Like most organisations and individuals, the Government of Fiji needs a bank. Its bank is the RBF.

The Government deposits funds with the RBF and makes withdrawals when it has to make payments.

The amount on deposit varies, and can be as high as $20 million.

Sometimes the Government account is "overdrawn" meaning that more money has been drawn out than was actually on deposit.

In these circumstances the RBF becomes a lender to the Government, although this is only for a day or so until more money is deposited.

The RBF does not lend unlimited amounts to the Government. It would be foolish if it did. Prices would rise and foreign
reserves would be depleted.

The RBF Act, an act of Parliament, therefore sets a limit on the amount it will advance to the Government. This is normally not more than 30 percent of the average annual ordinary revenues of the Government for the previous three years.

The RBF is also the bank for commercial banks. In the mid-1990s the following six banks were operating: The Australia and New Zealand Banking Group Limited, Bank of Baroda, National Bank of Fiji, Westpac Banking Corporation, Habib Bank Limited, and Bank of Hawaii.

These banks have a normal banker-customer relationship with the RBF. They operate individual accounts used for payment for the purchase of notes and coins and foreign currency, and for other normal banking transactions.

In the usual course of business, banks may lend and borrow from each other. But, like any normal trader, banks sometimes require loan funds from another lender. This lender is the RBF. Its loans, however, are for short periods, not exceeding 183 days.
We have looked at how money makes the world work. The banks make money work. They are a bridge between savers and borrowers. Commercial banks accept deposits and pay interest. They make loans and earn interest. By extending credit so vital for economic growth, the banks keep an economy moving and expanding. They help farmers harvest their cane and industries manufacture their products. They provide lending for imports and exports, construction of homes and goods that make life more comfortable.

The banking industry in Fiji has changed dramatically from the distant days of Levuka, when there was just one bank serving a country trying to find economic stability and order. There was no official supervision then and hardly any legislation.

Today the market is more crowded, complex and competitive. Fiji is entering the age of electronic banking and money management. Computers and credit cards are used instead of cheque books and cash. Withdrawals can be made from automated terminals on the street outside a bank. Telecommunications and the “information highway” open the door to eventual shopping and banking from the comfort of the home.

The commercial banks, with branches throughout Fiji, serve an expanding population. Three licensed credit institutions provide additional forms of customer service for purchase, hiring or leasing. Specialised financial organisations such as the Fiji Development Bank, the Fiji National Provident Fund, the Housing Authority and the Unit Trust of Fiji, cater to different needs. They are controlled by
their own laws and statutes.

The Reserve Bank's legal supervisory role extends to those corporate entities which accept deposits from the public. Clearly, supervision is vital in an industry dealing with an extremely sensitive asset - the dollars and cents integral to the welfare of the entire nation. People are protective towards and cautious about their money. The key word is confidence. They need to be sure their cash is safely banked and secure - that they can get it back, with interest, when they want it. They must have faith that their bank has sufficient financial backing and enough Government support to withstand a crisis. If confidence is replaced by nervousness or panic, depositors want to withdraw their money immediately and the sense of alarm spreads. Then the integrity and stability of an entire financial system can be threatened, with severe national consequences.

One of the RBF's paramount tasks is to maintain confidence in, and stability of, Fiji's banking industry, especially through protection of the interests of depositors and other creditors.

It does this by monitoring the activities of the banks, ensuring they abide by the rules and regulations, studying regular reports submitted by them to the RBF, examination of records and scrutiny of internal procedures. Corrective action is taken, in consultation with the Government, when this is necessary.

Additional safeguards and control features came into effect with the Banking Act of 1995. It invests the RBF with additional powers for the regulation of an expanding financial sector. These powers are similar to those recognised internationally as essential for economic stability and growth. The act, among other things, provides for depositors to have sufficient financial information to make prudent decisions about placing their funds. It has provisions requiring banks to have enough of their own capital invested in their local operations. Other measures relate to an assessment of expertise, integrity, ownership and standing in the financial community. There is even a clause empowering the RBF to take control of an institution in certain situations.

Another aim of RBF supervision is to stimulate competition for the ultimate benefit of customers. The RBF discourages monopolies. Without proper competition, individual banks may be tempted to exploit their position by imposing higher charges for services or colluding with other organisations to the detriment of the consumer.
Fiji and its people will get the best return for their money if investors large and small have much broader choices for investing to create more wealth. Even though the financial sector of the economy is rapidly expanding, there are still only limited opportunities for individuals and companies to invest their cash so that it works for them and the economy. The RBF, with the support of the Government, is committed to creating more varied capital markets. A Capital Markets Development Authority will act as a spur for this. The RBF wants to see more well-managed financial and investment institutions and products for raising and depositing funds. This, in turn, will lead to a more effective mobilisation of savings and their utilisation in the most productive parts of the economy.

Development of the Suva Stock Exchange is a significant initiative. The RBF is cooperating with other financial organisations to strengthen the exchange and to provide the incentives for more companies to seek a listing. When they do this, members of the public will be able to buy shares in some of the most successful companies in Fiji.

The Reserve Bank will collaborate closely with the stock exchange in training and investor education programmes to create more awareness among the public.

What about those in the lower income groups, especially in rural areas removed from the main centres of financial activity? What can the Reserve Bank do to get them closer to the capital markets and give them access to credit? The RBF is bringing together experts to pool ideas for expanding the markets and financial services so that rural communities and the poor can also benefit.
The affairs of the RBF are guided by a board of directors appointed by the Minister of Finance.

The bank's chief executive is the Governor, who works with a team of executives. The Governor is also the chairman of the board.

The bank has two main departments - policy and markets, and supervisory, banking and corporate services. Divisions within the departments deal with exchange rates, foreign reserves, exchange control and transactions, monetary policy and general economic advice, international liaison, corporate planning and staff development, financial statistics and analysis, economic and international analysis, capital markets, financial systems and market operations, bank registration and supervision, banking statistics and insurance, corporate administration, property management, currency operations, security, financial management, budgeting, payments and receipts. It's a comprehensive list of corporate responsibilities, reflecting the expansion and development of the RBF.

**CONCLUSION**

This is the story of the Reserve Bank of Fiji.

Its origins go back to another time and another place when foreign settlers, traders and colonial officials took Fiji into the world of modern money. From the initial chaos, the empty coffers and Government bankrpytcy have come stability, order and progress. Much of the credit for that can be attributed to the Reserve Bank of Fiji and its predecessors. Now the RBF looks to a new century and the continued orderly development of the monetary system which forms a foundation for Fiji's economic advancement.

**RESERVE BANK of FIJI**
**PRIVATE MAIL BAG**
**SUVA, FIJI**
**TELEPHONE:** (679) 313611
**TELEX:** 2164 RESBANK-FJ
**FAX:** (679) 301688

Researched and written by Matt Wilson Ltd. in association with the Reserve Bank of Fiji. Designed and produced by Wilson Addison.