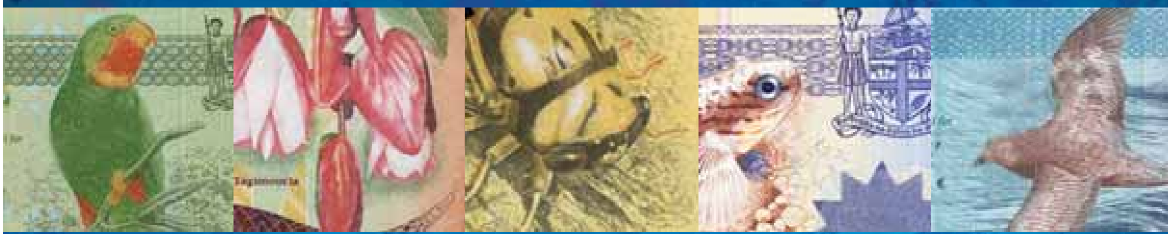
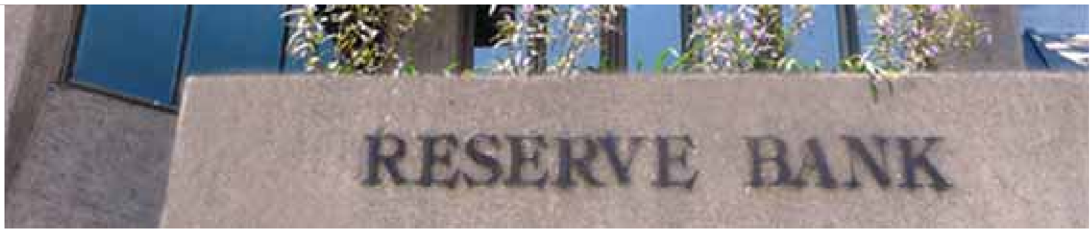


Monetary Policy in Fiji

Reserve Bank of Fiji

Corporate Statements



Our Vision

Leading Fiji to Economic Success

Our Mission

- Enhance our role in the development of the economy
- Provide proactive and sound advice to Government
- Develop an internationally reputable financial system
- Conduct monetary policy to foster economic growth
- Disseminate timely and quality information
- Recruit, develop and retain a professional team

Our Values

- **P**rofessionalism in the execution of our duties
- **R**espect for our colleagues
- **I**ntegrity in our dealings
- **D**ynamism in addressing our customers' needs
- **E**xcellence in everything

Contents

Foreword by the Governor

The conduct of monetary policy in Fiji has undergone significant transformation over the last two decades. While the monetary policy objectives of low inflation and adequate foreign reserves have remained paramount and constant over time, the framework for monetary policy implementation has evolved reflecting changes in the Fijian economy and progress in our financial system development.

In an ever increasing globalised world, the formulation and implementation of monetary policy has become even more challenging as policymakers attempt to mitigate the effects of external and internal shocks on domestic economic priorities. The escalation in oil and food prices, for instance, has significant negative effects on a small economy such as Fiji because it generates inflationary pressures and directly reduces the level of foreign reserves. This, in turn, affects macroeconomic stability, lowers growth and may derail economic performance in the long run.

The Reserve Bank of Fiji is tasked with preserving macroeconomic stability by ensuring that prices are low, foreign reserves are at comfortable levels and the financial system is sound. The attainment of these objectives is important as not only will it enhance macroeconomic stability, it also provides a platform where investment will increase, economic activity will thrive and output will grow.

The Reserve Bank of Fiji is tasked with preserving macroeconomic stability by ensuring that prices are low, foreign reserves are at comfortable levels and the financial system is sound.

Understanding the far reaching implications of the Reserve Bank's decisions on the economy, and therefore on the nation's welfare, is important for everyone. This booklet titled "Monetary Policy in Fiji" attempts to provide a non-technical account of how monetary policy is formulated, implemented and impacts the economy. The publication also aims to increase public awareness about the functions and operations of the Reserve Bank of Fiji.

I am confident that this booklet will be valuable reading for anyone interested in monetary policy and central bank operations in Fiji. It will also raise awareness and promote a deeper understanding of the role of the Reserve Bank in contributing to improving the well-being of the people of Fiji.

Barry Whiteside
Governor
January 2013

Introduction

Money is a universal term that most people in the world can easily identify with. Without it, every day living and life in general becomes difficult. Managing money is therefore important. If money is mismanaged or not managed at all, the social, political and economic consequences can be catastrophic.

The Reserve Bank of Fiji (RBF), like all other central banks, is tasked with managing the overall supply of money in the economy. This process is known as monetary policy.

The decisions that the RBF makes in formulating monetary policy are predominantly aimed at improving the overall performance of the economy via the achievement of its objectives. The formulation of monetary policy in Fiji has undergone significant changes over the years. These changes have been necessary to ensure that the domestic economy is able to respond well to evolving changes both in the global and local economy.

To a considerable extent, changes in the formulation of monetary policy have been accompanied by corresponding changes in its implementation approach. The implementation is mainly done by influencing the interest rate that financial institutions, specifically commercial banks, charge on loans and offer on deposits to their customers in Fiji. Changes in commercial bank interest rates will then influence movements in other market interest rates which

The Reserve Bank of Fiji, like all other central banks, is tasked with managing the overall supply of money in the economy. This process is known as monetary policy.

will, in turn, influence the level of money transactions carried out by the general public, businesses, Government and the RBF. This will result in changes to the total amount of money and credit in the economy. Changes in the amount of money and credit will then lead to desired changes in the level of output, employment and prices.

Commercial banks respond to changes in monetary policy made by the RBF. Additionally, other institutions in the market do likewise in an attempt to remain competitive and maximise their gains.

The entire process of formulating and implementing monetary policy is an indirect one, where the RBF relies on market forces to bring about the outcomes expected. This means that as commercial banks respond to changes in monetary policy made by the RBF, other institutions in the market do likewise in an attempt to remain competitive and maximise their gains. In addition, there have been occasions when the Reserve Bank implemented monetary policy via direct measures, but these are only undertaken when indirect measures are ineffective in addressing underlying economic issues where macroeconomic stability is threatened. Overall, monetary policy decision-making by the RBF is a dynamic and complex process involving various stakeholders whose responses and participation is critical to ensuring that policy changes are properly and efficiently transmitted to achieving expected changes in the economy.

New design Fiji banknotes and coins launched on 12 December, 2012

What are the Objectives of Monetary Policy in Fiji?

The objectives of monetary policy are formally established in the RBF Act (1983). These are generally interpreted as having suitable conditions for sustainable economic growth through the maintenance of price stability and an adequate level of foreign reserves.

Like all central banks, the RBF has price stability as one of its dual monetary policy objectives. However, the RBF does not have a formal inflation target for price stability as many central banks in developed countries like Australia, Canada and New Zealand have. It is, nevertheless, generally comfortable with average inflation rates of around three percent, a level consistent with more certainty and assists businesses in making sound investment decisions. More importantly, low and stable inflation also preserves the purchasing power of consumers and safeguards the value of people's savings.

Maintaining an adequate level of foreign reserves is vital for a small open economy, such as Fiji, which depends a lot on imports.

Apart from keeping prices low and stable, maintaining an adequate level of foreign reserves is vital for a small open economy, such as Fiji, which depends a lot on imports. Essentially, a comfortable level of foreign reserves provides confidence to economic agents (e.g. businesses and investors) and minimises the possibility of speculation on the domestic currency.




What is Inflation and Why is it Important to Maintain it at Low Levels?

Every year, prices of goods and services change. The rate at which overall prices change is called the inflation rate.

To measure the level of prices, the Fiji Bureau of Statistics (FBOS) periodically conducts a Household Income and Expenditure Survey to determine a basket of goods and services that an average person spends his or her money on. The FBOS then calculates how much income an average person spends on each of the goods and services item. To measure the overall change in prices, the Bureau conducts a survey to see how the prices of each of these items, has changed over the month. An average of these price changes is then taken. The prices of goods on which consumers spend more money are assigned larger weights than those on which consumers spend a lower proportion of their disposable income.

There are two main causes of inflation in Fiji. Imported inflation or changes in the prices of imported goods, represents about two thirds of Fiji's inflation, highlighting our reliance on imports. As such, when prices of goods in other countries from which we import increases, the prices we pay for these goods also go up. The remaining one third of inflation comes from domestic sources, largely wages and prices of domestic market items. If wages or other costs of production rises by more than productivity increases, then firms pass this difference onto consumers in the form of higher prices. Factors, such as cyclones and other natural disasters, can also affect prices of market items in the short-term.

Imported inflation or changes in the prices of imported goods, represents about two thirds of Fiji's inflation, highlighting our heavy reliance on imports.

High inflation is bad for the economy for a number of reasons, foremost of which is that it reduces the value of money. As prices go up, people's incomes, such as wages and salaries, will buy fewer goods. The savings that people hold will also fall in value. Inflation also erodes the value of businesses' capital. Not surprisingly, people may be reluctant to save or to invest in financial assets if they think it will be worthless in the future. An important consequence of high inflation is that it will encourage the Reserve Bank to raise interest rates in the economy in order to dampen demand pressures on prices and bring inflation down. High interest rates will affect current borrowers who will now have to pay more to

service their debts. On the international front, inflation increases the Fiji dollar price of our exports causing people in other countries to buy less of them. As a result, our exporters would earn less and have less to spend in Fiji.

Low inflation is a cornerstone for economic growth. It ensures that the purchasing power of our incomes is not eroded by price increases. Furthermore, it provides an environment where cost pressures on businesses, such as demand for wage increases, are contained.

High inflation is bad for the economy because it reduces the value of money. As prices go up, people's incomes, will buy fewer goods. The savings that people hold will also fall in value.

What are Foreign Reserves and Why do we need them?

Fiji's official foreign reserves are those assets that are held in foreign currency by the RBF and other institutions, like the Fiji National Provident Fund and private companies, which are allowed by the Reserve Bank to hold foreign currency assets offshore. Reserves not held by the RBF, are usually referred to as 'unofficial reserves', and are subject to recall by the RBF for balance of payments purposes, should the need arise.

How do we earn these foreign reserves?

There are many sources. We receive the bulk of these foreign currencies from other countries that buy our exports, from tourists who bring in foreign currency to spend here, from those who send money to Fiji (remittances) and those from whom we borrow money.

Why do we need foreign reserves?

Firstly, Fiji does not produce or manufacture all the commodities and products and services it requires. Therefore we need to import goods such as food, mineral fuels, medicine, equipment, footwear, vehicles and many others from abroad. We also pay for professional and business services provided by expatriates that are not available locally. Overseas companies and service providers that sell these goods to Fiji do not want to be paid in Fiji dollars. They want to be paid in their own currency or a foreign currency commonly used for international trade, such as the American dollar, Japanese yen and the Australian dollar, to name a few. Fiji, therefore, has to make sure it has enough supply of these currencies to pay for its imports. Also, Fiji residents travelling abroad need to purchase foreign currency.

If we do not have foreign reserves to purchase imports, or to pay for our international debt abroad, supermarket shelves would not be able to stock all imported food products. Hospitals would not be able to treat the sick properly because of a shortage of drugs and medicine while, buses, boats, and airplanes would be idle as their owners would be unable to purchase fuel.

As a result, businesses and factories would close, crippled by a lack of goods, raw materials, equipment,

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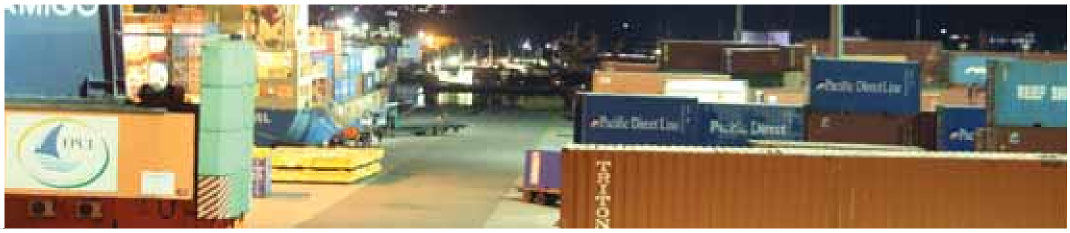

machinery and other products and supplies they need from overseas. This would lead to an economic downturn, a rise in the level of unemployment and other economic and social problems.

What is the adequate level of foreign reserves that we should keep?

The appropriate level depends on a country's circumstances and preferences, and should represent a level below which the country would risk macroeconomic stability. A high level of foreign reserves does not necessarily reflect strong economic performance, as this could simply be the result of low demand for imports arising from low economic growth. The global rule of thumb is to keep reserves at around three months of imports. In comparison, the RBF has set a benchmark cover of 4-5 months of imports of goods and non-factor services.

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What is the Monetary Policy Framework?

In pursuing its goals of monetary policy, the RBF has in place a framework that will facilitate the achievement of its objectives. The nature of the monetary policy framework adopted depends on factors such as the country's stage of economic development, the state of financial market development, the domestic economic environment and the extent and nature of trade with the rest of the world. Examples of frameworks currently adopted by central banks around the world include monetary targeting, inflation targeting, exchange rate targeting and currency boards.

Before 1997, the Reserve Bank implemented monetary policy through a monetary targeting framework. This involved assigning growth targets for the money supply and credit that are consistent with achieving a growth target for the economy as well as keeping inflation low and maintaining a comfortable level of foreign reserves. With financial innovation and deregulation of the financial system over the years, the RBF undertook a review of the monetary targeting framework in the late 1990s to gauge its relevance and effectiveness in meeting the policy objectives.

The Reserve Bank formally moved away from monetary targeting with the implementation of a new monetary policy framework in 1998. Under this framework, the RBF relied primarily on open market operations (OMO) to conduct monetary policy. This is mainly undertaken via the buying and selling of RBF Notes to align market interest rates to the policy indicator rate set by the RBF.

In May 2010, following efforts to improve the effectiveness of price signals in the market, modernise the framework and enhance the transmission of monetary policy, the RBF implemented a new monetary policy framework.

The RBF relied primarily on open market operations to conduct monetary policy. This is mainly undertaken via the buying and selling of RBF Notes to align market interest rates to the policy interest rate set by the RBF.

Features of the Monetary Policy Framework

The current framework has three main features. Firstly, there is the official rate through which the Reserve Bank communicates its monetary policy stance. This is the Overnight Policy Rate (OPR).

The RBF's OPR is similar to the official rates used by many other countries such as the Overnight Cash Rate in Australia and the Federal Funds Rate in the United States. An increase in the OPR indicates to the market that the Reserve Bank is tightening monetary policy while a reduction in the OPR signals an easing in the monetary policy stance.

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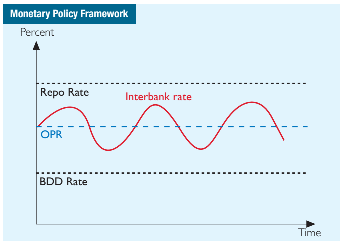
Secondly, the framework features an interest rate corridor. At 50 basis points above the OPR lies the Repurchase (or Repo) Rate, which represents the discount lending rate at which commercial banks can borrow from the Reserve Bank. The Repo rate serves as the upper limit of the interest rate corridor and moves in line with changes in the OPR.

Thirdly, at 50 basis points below the OPR is the Banks' Demand Deposit Rate (or BDD rate) which represents the rate at which banks earn interest on balances in their exchange settlement accounts held with the Reserve Bank. Whenever the Reserve Bank tightens policy by raising the OPR, the BDD rate also increases making it more attractive for commercial banks to deposit funds with the RBF.

Under this framework, the Reserve Bank sets the overnight policy rate. Changes in the OPR are used to signal to commercial banks the direction desired by the Reserve Bank for short term interest rates, and ultimately, the whole structure of interest rates. Once the OPR is set, the Reserve Bank then conducts OMO to influence the overnight interbank rate to move to and be equal to the OPR.

Monetary Policy Framework



How is Monetary Policy Formulated?

The process of monetary policy formulation in Fiji is quite similar to other central banks around the world. The Economics Group of the RBF is responsible for formulating monetary policy.

The Group monitors the performance of various key economic variables on a monthly basis and makes an assessment of their impact on the forecast for inflation and foreign reserves, which is presented to the Policy Coordinating Committee (PCC) for discussion. The PCC comprises the Chief Manager (Economics) as Chairperson, Senior Economists and Economists. The findings from this forum then form the basis of the proposed monetary policy stance that is submitted to the Monetary Policy Committee (MPC) which meets one week before the Board meeting. Members of the MPC include the Governor (Chairperson), Deputy Governor, Advisor to the Governors and the Heads of the six groups at the Reserve Bank. At this forum, an extensive discussion takes place on various economic indicators together with latest developments in the economy and considerations for the appropriate monetary policy setting. Upon agreement at the MPC meeting, the monetary policy stance is taken to the RBF Board.

The RBF Board gives approval for the appropriate stance of monetary policy. The Board comprises seven directors - the Governor of the Reserve Bank (Chairperson); the Permanent Secretary for the Ministry of Finance (ex officio); and five community representatives. Meetings are held monthly and changes in the policy stance are conveyed to the public via press releases. These press releases are also posted on the Bank's website (www.rbf.gov.fj).

Monetary policy formulation is not a simple technical matter. It is clearly an art that largely depends on experience, expertise and judgement of economic circumstances.

The RBF Economics Group monitors the performance of various key economic variables on a monthly basis and makes an assessment of their impact on the forecast for inflation and foreign reserves.

Includes Chief Economist, Senior Economists and Economists from Economics Group. Provides advice on the monetary policy stance.

Includes the Governor and Executive Management of the RBF. Approves the recommended policy stance to the Board.

Includes the Governor, Permanent Secretary for the Ministry of Finance and five other members from the community. Decides the RBF monetatry policy stance.

What are the Tools for Conducting Monetary Policy?

The tools of monetary policy are instruments used by central banks to achieve their monetary policy objectives. These instruments are used to influence interest rates, credit and monetary aggregates, which then affect economic activity, inflation and foreign reserves.

The Reserve Bank uses both direct and indirect tools to implement monetary policy. Direct instruments mainly involve the use of a statutory reserve deposit (SRD) ratio, directed lending and regulation of interest rate margins while indirect instruments largely involve the use of open market operations.

The Reserve Bank uses both direct and indirect tools to implement monetary policy.

Prior to 1989, monetary policy was implemented using direct controls. At that time, Fiji's financial system was heavily regulated and the RBF exercised controls on the quantity of commercial bank lending and on the interest rates they charged on loans. Central to this approach was the control on the quantity of money supplied - the RBF used changes in the SRD requirement for commercial banks to influence the money and credit aggregates, and ultimately inflation and foreign reserves. In addition, since interest rates on commercial banks' lending and deposits were regulated, the RBF also varied these rates to influence monetary aggregates.

However, with the deregulation of the financial system and the move to market-based systems, in 1989, the Reserve Bank introduced its own Notes as an instrument for policy, replacing previously used direct controls on both the quantity and cost of funds (interest rates). Ultimately, the shift towards targeting the price of funds or interest rates through market forces meant that

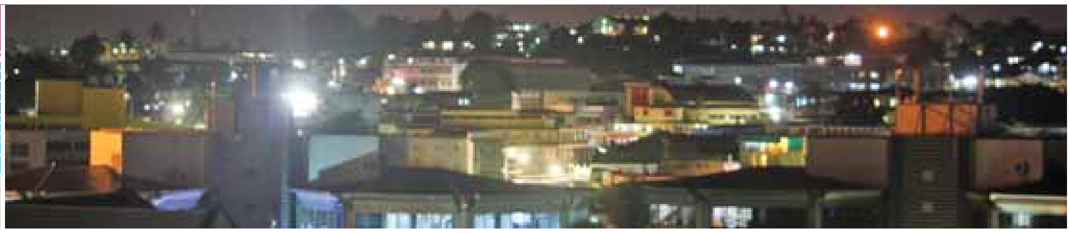
OMO became the primary instrument for conducting monetary policy.

Despite this fundamental shift towards market-based mechanisms to implement monetary policy, the RBF has on several occasions reverted to direct controls in carrying out monetary policy. For instance, in the face of declining foreign reserves levels in December 2006, the Reserve Bank imposed a credit ceiling on commercial banks' loans to the private sector. This was followed by the suspension of OMO in June 2007 and regulation of interest rate margins of commercial banks and other lending institutions. In addition, changes to the SRD ratio have also been used extensively to manage liquidity in the system.

The RBF has also used the exchange rate policy tool to safeguard its foreign reserves at times when levels had fallen to critical lows. In addition to the devaluations of 1987 and 1998, the RBF devalued the Fiji dollar by 20 percent in 2009, in response to declining reserves, which fell to around 1.5 months of imports of goods and non-factor services.

Direct instruments mainly involve the use of a statutory reserve deposit ratio, directed lending and regulation of interest rate margins while indirect instruments largely involve the use of open market operations.

What are Open Market Operations?

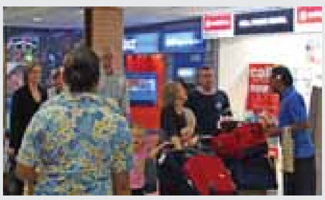


OMO refers to the purchase and sale of securities by the central bank to change the level of liquidity in the banking system in order to influence the movement of short-term interest rates.

Unlike most developed economies where central banks use Government securities, in the case of Fiji, the Reserve Bank uses its own securities, called RBF Notes, to conduct OMO. By repurchasing or selling RBF Notes, the Reserve Bank adds or withdraws funds respectively, from the market. Changes in the level of funds in the banking system affect short-term interest rates, including that paid on its securities.

OMO has three strengths of considerable importance: flexibility, precision and size.

OMO has three strengths of considerable importance: flexibility, precision and size. By flexibility, any given OMO can be easily revised or reversed on the same day or thereafter. By precision, the RBF can buy or sell exactly the amount of RBF Notes it wishes. Finally, by size, OMO can be conducted on any scale. These three strengths of OMO make it the best tool of the RBF for the day-to-day conduct of monetary policy.



How does the RBF decide on when and how much RBF Notes to Issue?

The RBF conducts OMO to align the overnight interbank borrowing rate with the OPR. If there is a gap between the two, the RBF will sell or buy RBF Notes as needed to influence the level of liquidity in the banking system such that the overnight interbank rate moves to its desired level.

In deciding how much RBF Notes to sell or buy back, the Reserve Bank first observes the rate at which overnight interbank borrowing takes place in the market. The activity and interest rates in the overnight interbank market are determined largely by the level of liquidity and the liquidity needs of individual commercial banks. If the overnight interbank rate is much lower than the OPR, the RBF would need to issue RBF Notes to mop up liquidity and place upward pressure on the overnight interbank rate. In cases where the overnight interbank rate is much higher than the OPR, the Reserve Bank would need to buy back RBF Notes from the market, thereby injecting liquidity into the system and placing downward pressure on the overnight interbank rate.

To help determine the level of excess bank liquidity in the system, an analysis of liquidity forecasts is prepared to predict the market's liquidity position. The Financial Markets Group within the RBF prepares a daily liquidity forecast which details expected inflows and outflows of funds to and from the system. Once it determines the level of excess liquidity or banks' demand deposits, the RBF decides how much Notes to sell or buy in order to impact the overnight interbank rate. The guiding principle in issuing or buying RBF Notes is to influence bank liquidity to a level where the overnight interbank rate is equal to the OPR.

Once the overnight interbank rate has reached the OPR, small amounts of Notes are floated on a periodic basis to test the market. Consistency in the Reserve Bank's signals to the market is very important for credibility and efficiency of monetary policy.

It must be noted that there is no precision in the OMO process, particularly in a small, less developed market like Fiji. Judgment always plays a big part in such market operations.

In deciding how much RBF Notes to sell or buy back, the Reserve Bank first observes the rate at which overnight interbank borrowing takes place in the market.

When and how does the RBF Change the OPR?

The OPR is used as an indicator for policy purposes and is set in line with the Bank's monetary policy stance. If the outlook for the economy, in particular that of prices and the level of foreign reserves, deems the current level of the OPR no longer appropriate, the RBF would adjust the rate accordingly.

A reduction in the OPR indicates an easing of monetary policy while an increase in the rate will signal a tightening of monetary policy. In the case of an expansionary monetary policy, the Reserve Bank would set a lower OPR and use its primary instrument, OMO, to repurchase RBF Notes in order to raise the level of money supply and place downward pressure on interest rates in the market. The Bank will also not sterilise any injection of liquidity from inflows in foreign reserves, thus raising the level of excess reserves in the banking system. As the Reserve Bank raises the level of money supply in the banking system, banks are able to acquire more funds at a cheaper cost.

If the outlook for the economy, in particular that of prices and the level of foreign reserves, deems the current level of the OPR no longer appropriate, the RBF would adjust the rate accordingly.

In the case of a contractionary policy stance, the Reserve Bank would conduct open market sales in order to reduce the level of money supply in the economy so that a higher OPR target is achieved. A higher OPR entails a higher cost of funds for the banks as lowering the money supply in the banking system would place an upward pressure on interest rates in the market.

The magnitude of the increase or decrease in the OPR is a decision made by the RBF Board and depends on the appropriate level of the OPR needed to translate expected changes in interest rates to the market.

The Reserve Bank of Fiji is tasked with preserving macro-economic stability by ensuring that prices are low, foreign reserves are at comfortable levels and the financial system is sound. The attainment of these objectives is important as it will not only enhance macroeconomic stability, but also provide a platform where investment can increase and economic activity to thrive.

How does Monetary Policy Affect the Economy?

It is important to know how monetary policy can be effective in the management of the economy as a whole when it operates through such a short-term interest rate. In practice, changes in the OPR should have a strong influence on other interest rates, which in turn affects economic activity and ultimately our monetary policy objectives.

Changes in the OPR will influence the overnight interbank rate which will then affect other interest rates in the market, particularly commercial banks' deposit and lending rates.

The process by which monetary policy affects economic activity is called the transmission mechanism. Under the current monetary policy framework, there are three main stages of how monetary policy affects the wider economy and by extension the goals of monetary policy. In the first stage, changes in the OPR will influence the overnight interbank rate which will then affect other interest rates in the market, particularly commercial banks' deposit and lending rates.

Commercial banks' deposit rates are influenced, as banks align the interest rates they pay on deposits with the interest rates on short-term money market instruments such as RBF Notes and Treasury Bills, lest there may be an outflow of deposits and vice versa. Their lending rate gets affected as the cost on deposits is altered following the change in the OPR.

In addition, a change in the OPR results in an automatic change in the interest rate banks pay on funds borrowed from the RBF (i.e. Repo Rate). If the OPR is raised, it becomes more expensive to borrow from the RBF, and cheaper if it is reduced. Hence, if banks' cost of borrowing increase, they would need to offset this by increasing their lending rate to avoid registering a loss on income.

In the second stage of transmission, changes in commercial bank interest rates will lead to changes in deposits and credit which will impact on economic activity. This occurs in a number of ways through changes in savings and expenditure patterns of individuals, and investment behaviour of businesses. Higher interest rates raise the cost of borrowing to finance expenditure. Alternatively, they increase the incentive to save or to delay spending.

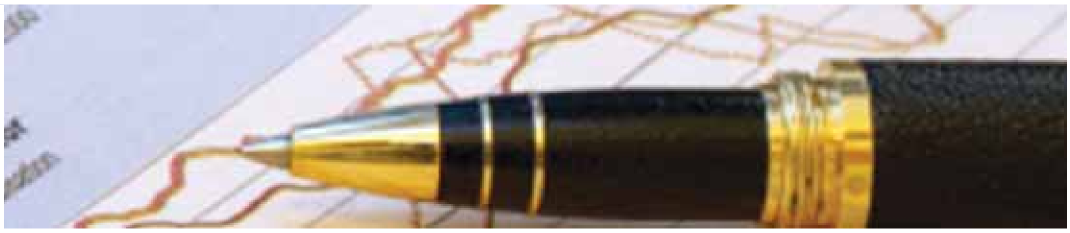
Finally, changes in economic activity arising from the shift in spending behaviour of individuals and businesses, affect prices, foreign reserves and employment. Demand for certain goods relative to others will see prices of those goods rise. An increase in the demand for imported goods may see foreign reserves fall while investment in a factory that exports items may result in an increase in foreign reserves.

Who bears the Cost of Monetary Policy?

Monetary policy implementation does not come free. There are costs associated with the sale and purchase of RBF Notes as well as the remuneration on the excess liquidity that commercial banks hold with the RBF, as dictated by the policy framework. Both these costs are fully borne by the Reserve Bank.

The costs associated with the conduct of monetary policy are borne by the RBF.

Coordination with Government and Other Stakeholders



It is important to note that monetary policy is not the only force affecting employment, output and prices. Government's budgetary policies also influence the economy through changes in tax and spending programs. Shifts in business and consumer confidence and other market forces also affect saving and spending plans of businesses and households.

Monetary and fiscal policy coordination in Fiji is underpinned by the common objective of the RBF and Government to create the right environment to improve the standard of living of all citizens in Fiji.

For small open economies like Fiji, natural disasters and fluctuations in prices of key commodities such as mineral fuels, food, sugar or gold can cause disruptions in output and affect domestic economic performance. Modifications in international trade rules and regulations in economic policies abroad can also impact the economy.

The RBF recognises that Government's fiscal policy is fundamentally linked to monetary policy. Monetary and fiscal policy coordination in Fiji is underpinned by the common objective of the RBF and Government to create the right environment to improve the standard of living of all citizens in Fiji. Although the Ministry of Finance is largely responsible for formulating and implementing fiscal policy for the nation, the Reserve Bank provides input and advice at many stages of the policy formulation. This harmonisation of policies is inbuilt in the RBF Act and is effected through a number of committees such as the Macroeconomic and Debt & Cashflow Policy Committees, which have representatives from both institutions.

Apart from Government, the RBF conducts consultative meetings and discussions with major stakeholders from key sectors such as the retail, manufacturing, tourism, sugar and mining. These meetings assist the RBF in keeping abreast with how industries are performing and to have a better feel of where the economy is heading. Therefore, in making decisions relating to monetary policy, the RBF ensures that the views of all stakeholders are sought and considered, in order to make its policy more effective.

How do we Judge the Success of Monetary Policy?

The performance of monetary policy is judged on the achievement of the two objectives of low and stable inflation and a comfortable level of foreign reserves, which lay the platform for macroeconomic stability that will bring about improved standards of living for all of Fiji's citizens.

In this respect, history reveals that Fiji has on average, had relatively low inflation and a comfortable level of foreign reserves except in periods of high global commodity prices, significant global slowdown, natural disasters and structural changes to fiscal or exchange rate policy.

The success of monetary policy is based on the achievement of the two objectives of low inflation and a comfortable level of foreign reserves.

Abbreviations

BDD	Banks' Demand Deposits
FBOS	Fiji Bureau of Statistics
MPC	Monetary Policy Committee
OMO	Open Market Operations
OPR	Overnight Policy Rate
PCC	Policy Coordinating Committee
RBF	Reserve Bank of Fiji
SRD	Statutory Reserve Deposit

RESERVE BANK OF FIJI

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable craft capable of long voyages. The tagaga (pronounced "tangaga") or masthead, was crucial for holding in place the sails, woven from the leaves of the pandanus tree. It was the tagaga which enabled the navigators to keep their drua sailing towards their destinations.

For the Reserve Bank of Fiji, a logo based on the tagaga masthead, symbolises the Bank's role in contributing towards a sure and steady course for Fiji's economy.

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