



RESERVE BANK  
OF FIJI



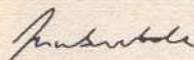
**What does the  
Reserve Bank  
of Fiji do?**

# GOVERNOR'S FOREWORD

This booklet provides information on the functions of the Reserve Bank of Fiji and its role in Fiji's economy. It outlines the organisational structure of the Bank and the functions of the respective departments.

The booklet explains the way the Reserve Bank of Fiji formulates and implements monetary policy in Fiji. It also explains its role in maintaining a sound and stable financial system.

I am sure that this booklet will be useful to a wide audience and will create greater awareness of, and enhance understanding of the functions of the Reserve Bank of Fiji.



J.Y. Kubuabola  
Governor



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# RESERVE BANK'S STATUTORY RESPONSIBILITIES

The functions, powers, and responsibilities of the Bank are specified in the Reserve Bank of Fiji Act, 1983.

“The principal purposes of the Bank as stated in Part II, Section 4 of the Reserve Bank Act are as follows:

- to regulate the issue of currency, and the supply, availability and international exchange of money;
- to promote monetary stability;
- to promote a sound financial structure; and
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country.”

# RESERVE BANK'S VISION AND MISSION STATEMENTS

## Vision Statement

We will help Fiji build a strong economy and provide confidence in, and stability to, our financial system.

## Mission Statement

We will achieve our commitment by:

- establishing appropriate monetary conditions for price stability;
- establishing financial conditions and adopting policies that will ensure an adequate level of foreign reserves to meet Fiji's external obligations;
- fostering conditions that will promote stability, development and integrity of the financial system;
- regulating the issue of currency;
- disseminating relevant and appropriate information; and
- developing and retaining a highly trained and skilled workforce dedicated to the pursuit of quality practices.

# ORGANISATIONAL STRUCTURE OF THE RESERVE BANK

## Reserve Bank of Fiji Board

A Board of Directors appointed by the Minister for Finance determines the policy and affairs of the Bank. The Board consists of seven members, namely the Governor of the Bank who is also the Chairman of the Board, the Permanent Secretary for Finance as the ex-officio member and five other members.

The members of the Board other than the Governor and the Permanent Secretary for Finance are appointed by the Minister for Finance from among persons of recognised standing in agricultural, commercial, financial, industrial or professional matters.

The Governor of the Bank is appointed by the Constitutional Offices Commission after consultation with the Minister for Finance and the Board of the Reserve Bank. The Governor serves as the chief executive of the Bank and is responsible to the Board for the execution of its policy and the management of the Reserve Bank. In the event of the absence of the Governor, the Deputy Governor can exercise all the powers and functions of the Governor in accordance with the provisions of the Reserve Bank Act.

Board meetings are held every month.

# DEPARTMENTAL STRUCTURE AND FUNCTIONS

The Bank has four main departments - economics, financial markets, financial institutions and currency and corporate services. The key roles of each Department are as follows:

## Economics

The Economics Department's main responsibility is to conduct economic analysis and provide advice on the formulation of monetary policy. Some of the key tasks performed by the Department are as follows:

- monitoring economic and financial developments and providing advice on appropriate monetary policy settings in Fiji;
- undertaking research and preparing economic forecasts;
- writing and co-ordinating the Bank's publications; and
- co-ordinating economic policy with relevant authorities.

## Financial Markets

The Financial Markets Department has the primary responsibility for implementing monetary policy, managing Fiji's foreign reserves and providing banking services to the Government. It also handles foreign exchange regulation and control as well as exchange rates. Its key functions include:

- conducting open market operations to achieve operational monetary policy targets;
- maintaining appropriate exchange rate arrangements;
- acting as a fiscal agent of the Fiji Government and registrar for debt instruments issued by the Fiji Government. This function has also been extended to a number of statutory corporations;

- providing banking services to Government and commercial banks; and
- administering exchange controls to monitor and regulate capital flows through the banking system.

## **Financial Institutions**

The Financial Institutions Department's major objective is to maintain a sound market-based financial system through prudential supervision of licensed financial institutions. Key areas of duties include:

- supervising licensed financial institutions and maintaining confidence by minimising detriments to the interests of depositors and policy holders;
- processing applications for those wishing to become licensed banks, credit institutions, insurers, brokers and agents; and
- ensuring that prudential policies and guidelines are up to date and that licensed institutions conform to these standard requirements.

## **Currency and Corporate Services**

The Currency and Corporate Services Department has primary responsibility for currency issue and internal administration of the Bank, including financial reporting and human resources management. Its key areas of work include:

- ensuring availability and supply of good quality currency;
- ensuring that the Bank has a qualified and trained workforce to meet the output requirements;
- providing support services to other departments in the Bank; and
- seeing that the financial accounts of the Bank are prepared in a timely manner.



# FUNCTIONS OF THE RESERVE BANK

The key functions of the Bank are as follows:

## (i) ISSUE OF CURRENCY

### Issue and Supply of Currency

The issuing and supplying of currency in Fiji is the responsibility of the Reserve Bank and no other person shall issue currency. Currency issued by the Reserve Bank is the legal tender in Fiji. The Reserve Bank arranges for the printing of bank notes and the minting of coins and for the security and safe keeping of currency, and its disposal and destruction as necessary.

Specialist overseas printers are commissioned to print Fiji bank notes. They execute designs requested by the Reserve Bank and include identification marks and other distinctive characteristics. Contracts for the minting of coins and the printing of notes are put out to international tender.

The Bank uses a computerised Note Processing Machine to ensure efficiency in currency operations and management. It is more secure and effective in detecting counterfeit currency and sorts currency notes into specific qualities including ATM quality notes.



## (ii) MONETARY POLICY FORMULATION AND IMPLEMENTATION

### Goals of Monetary Policy

The two goals of monetary policy in Fiji are:

- price stability; and
- an adequate supply of foreign exchange reserves.

There is now a broad consensus that the primary monetary policy goal of central banks is to achieve and maintain low inflation. It is well known that monetary policy cannot increase the long-term growth rate of the economy. However, by maintaining low inflation sound monetary policy can provide an environment where an economy's growth potential is maximised.

It is important to maintain low inflation. Inflation reduces the purchasing power of people's incomes - that is, wages and salaries buy fewer goods when prices go up. It also causes uncertainty for consumers and businessmen because they do not know how much things will cost in the future.

There have been many studies that show inflation reduces investment and long-run economic growth. By keeping inflation low, the Reserve Bank is able to help create an environment that supports economic growth and employment.

The main causes of inflation in Fiji are:

- rising prices of imported goods;
- wage increases above productivity increases; and
- excess demand.

The Bank has to monitor and respond to these pressures whenever they threaten the low inflation outlook.

## Implementing Monetary Policy

The Reserve Bank implements monetary policy using market-based techniques. The Bank conducts open market operations using its own securities - Reserve Bank of Fiji Notes - to influence liquidity conditions and short-term money market interest rates. In practice, the Reserve Bank advertises in the newspaper once a week offering to sell a certain amount of Reserve Bank of Fiji Notes. Banks and some other organisations such as Fiji National Provident Fund bid for these securities. By issuing more securities the Bank takes money out of the financial system; by issuing fewer securities (and because some outstanding securities will be redeemed) the Bank can put money into the financial system. By doing this it can influence short-term interest rates.

The Bank's indicator rate - the rate it uses to gauge conditions in the money market and to signal policy changes - is the 91-day Reserve Bank of Fiji Note rate.

Since financial markets in Fiji are still at an early stage of development, the Reserve Bank provides very clear signals of policy changes to the market and exercises moral suasion to ensure that commercial banks respond appropriately to changes in market interest rates. This is an important part of the policy process. To increase the efficiency of monetary policy operations the Reserve Bank is currently looking at improving and streamlining the payments system.



The Reserve Bank has a Dealers' desk to assist in the building up of a portfolio of domestic bonds to enable the development of secondary market trading.

Currently the Bank is using the services of a licensed broker/dealer. The Government and Statutory bodies' bonds are listed with Bloomberg and Reuters, global financial information providers.

## (iii) SUPERVISING THE FINANCIAL SYSTEM

### Supervising the Financial System

A sound financial system is an essential element for promoting economic stability and growth. The Reserve Bank is responsible for promoting financial system stability. The Reserve Bank powers in this area are provided under:



- The Reserve Bank of Fiji Act;
- The Banking Act; and
- The Insurance Act.

### Banks and Credit Institutions

Under the Banking Act, the Reserve Bank licenses and supervises those institutions that accept deposits from the public. These include six commercial banks and three other financial institutions including Merchant Bank of Fiji, Credit Corporation (Fiji) Limited and Home Finance Company Limited. The Bank is particularly concerned with protecting the interests of depositors. Consistent with the Act, the Reserve Bank requires that licensed financial institutions follow prescribed rules. These rules include adhering to or implementing appropriate prudential policies and guidelines. These rules are based on international standards prescribed by the Basle Committee on Banking Supervision.

The Reserve Bank has introduced guidelines for licensed banks and other financial institutions for countering money laundering in Fiji. Guidelines have also been issued for the information to be disclosed by banks and credit institutions in their audited annual financial statements.

These are aimed at standardising disclosures by these institutions and further enhancing market transparency.

To ensure that the Reserve Bank's rules are followed, the Reserve Bank regularly monitors the activities of financial institutions through off-site and on-site supervision.

- Off-site supervision is conducted through the analysis of financial and other prudential information provided by licensed entities. In monitoring their condition and performance, due regard is paid to capital strength, large exposure concentrations, asset quality, profitability, liquidity position, foreign exchange operations and risk management systems and controls in place to manage risks.
- On-site supervision involves visits to licensed financial institutions. During these visits Reserve Bank staff closely examine the institution's operations and policies and procedures as well as their adherence or conformity with the Reserve Bank's prudential policies and regulations.

In looking after the interests of depositors the Reserve Bank must also ensure that banks remain profitable. Insolvent institutions would put depositors' money at risk and undermine financial system stability. At the same time, however, the Reserve Bank encourages financial institutions to deliver their products efficiently and in a cost-effective manner.

## **Insurance Companies**

Under the Insurance Act of 1998 the Reserve Bank supervises insurance providers in Fiji.

The insurance industry is comprised of two life insurance companies, eight general insurance companies, one reinsurance company and three brokers.

There are also hundreds of individuals or companies who are licensed to sell insurance products for specific insurance companies.

The Insurance Act 1998 requires the Reserve Bank to formulate “standards governing the conduct of insurance business and insurance broking business” as well as to supervise the “conduct of agents, brokers and insurers in the Fiji Islands”.

Specific techniques of insurance supervision include:

- setting strict licensing requirements for new entrants into the industry;
- ensuring that insurers meet minimum solvency requirements;
- setting regulations on how the funds of an insurer or broker may be invested; and
- evaluating the adequacy of the reinsurance arrangements of insurers.

Supervision is mainly done off-site through the analysis of statutory accounts and other reports submitted by insurers and brokers to the Reserve Bank.

## (iv) FOREIGN RESERVES, CAPITAL CONTROLS AND EXCHANGE RATES

### Foreign Reserves

The Reserve Bank manages foreign exchange reserves. Foreign exchange reserves are a pool of foreign currencies held by the Reserve Bank to facilitate international trade of goods and services. The Reserve Bank's foreign reserves are mostly held in currencies like US dollars, Australian dollars, Euros, Japanese yen and New Zealand dollars.

It is the Reserve Bank's responsibility to ensure that reserves are always adequate, and that foreign currency is always available when needed. This objective is achieved through various measures and internal policies. Perhaps the most direct measure is the Exchange Control Regulations, which serve to regulate flows of money into and out of Fiji. Sound macroeconomic policies are also important to ensure that there are no undue pressures on reserves, in either direction.

The reserves are actively managed within the parameters of safety, liquidity and profitability. Investments are held mainly in the currencies of our major trading partners. The Reserve Bank also monitors and forecasts these flows to ensure that adequate cover is always provided. The Reserve Bank ensures that it holds sufficient reserves at all times.



## Exchange Control

Exchange Control is administered under the Exchange Control Act on behalf of the Minister for Finance. It encompasses Government's regulations regarding foreign currency trading. These regulations assist the Reserve Bank in monitoring capital flows through the banking system. Exchange Control policy formulation is influenced by the Bank's monetary policy and its membership in the International Monetary Fund and World Trade Organisation, which encourage codes of liberalisation and international trade.

Since the early 1990's, the Reserve Bank has been annually reviewing and gradually dismantling exchange controls in an effort to encourage foreign investment. This is in line with the Reserve Bank's "sequencing of exchange control liberalisation" approach, consistent with the Government's deregulation policies and supportive of Fiji's outward oriented economic growth and development. Fiji is also guided by its respective membership agreements under the World Trade Organisation and the International Monetary Fund. Of course, exchange controls have to be taken off when conditions are right, so a measured and orderly approach to liberalisation is used.



## Exchange Rates

As part of the mandate to maintain sound exchange conditions, the Reserve Bank advises the Minister for Finance on the exchange rate. An exchange rate is the rate or price at which one currency is exchanged for another currency. Each day the Reserve Bank sets the official exchange rate for the Fiji dollar. This is the price at which the banks can sell or exchange Fiji dollars in transactions with the Reserve Bank. The transactions are in US dollars.

Fiji has been using a fixed exchange rate, with the level of the exchange rate pegged to a basket of currencies made up of its major trading partner currencies - the Australian dollar, Japanese Yen, New Zealand dollar, the United States dollar and the Euro.

The fixed exchange rate arrangement has played an important role in creating macroeconomic stability and in achieving low inflation.

<b>Fiji Dollar Basket</b>	<b>19 - Oct - 99</b>
<b>Australian Dollar</b>	<b>0.6441</b>
<b>Euro</b>	<b>1.0824</b>
<b>Japanese Yen</b>	<b>105.46</b>
<b>NZ Dollar</b>	<b>0.5085</b>
<b>US Dollars</b>	<b>0.5089</b>

## (v) THE RESERVE BANK AS A BANKER

### Banker to Government

The Reserve Bank is the banker to the Government. The guidelines dealing with the Bank's relationship with Government are explained in sections 47-53 of the Reserve Bank Act. Advances are provided to Government on a temporary basis. As stated in Section 49 of the Reserve Bank of Fiji Act the Minister for Finance may consult the Reserve Bank on the amount of credit required for the financing of the Government's budget. The Bank and the Government have worked closely on ensuring the consistency of monetary policy and fiscal policy objectives.



As stated in the Reserve Bank Act the total amount of outstanding advances made by the Reserve Bank to the Government shall, at no time, exceed 30 percent of the average annual ordinary revenue of the Government.

### Banker to Banks

The Reserve Bank is also the banker to commercial banks. The Reserve Bank's dealings with the banks are explained in sections 37-44 of the Reserve Bank of Fiji Act. Banks operate individual accounts with the Reserve Bank.

## (vi) POLICY COORDINATION

The Bank encourages dialogue with policy-making agencies to promote effective implementation of macroeconomic policies. It meets with the representatives of the private sector to exchange views on economic and financial issues.

Regular meetings are held with the Treasury Section of the Ministry of Finance to coordinate the financing requirements of Government. Consultations are also held with statutory corporations to discuss their borrowing requirements. The Bank meets on a quarterly basis with individual commercial banks to discuss financial and economic issues.

The Macroeconomic Policy Committee meets regularly to discuss economic projections and provide economic policy advice to the Government through the Minister for Finance. This Committee plays a vital role in ensuring that monetary and fiscal policy settings are consistent. The Committee is chaired by the Governor of the RBF and comprises senior representatives from the Ministry of Finance, Bureau of Statistics, Ministry of National Planning and the Prime Minister's Office.

## (vii) DISSEMINATION OF INFORMATION

The Reserve Bank in conducting its operations ensures dissemination of timely, relevant and appropriate information to the public. The Reserve Bank disseminates information through its three key publications:

- The **News Review** is published on a monthly basis and contains information on domestic economic conditions and the monetary policy stance.
- The **Quarterly Review** provides a comprehensive analysis of developments in the global economy and an assessment of domestic economic conditions. The report also contains economic and financial data on Fiji's economy.
- The Bank's **Annual Report** includes the report on operations of the Bank and the annual financial accounts. An annual report by the Reserve Bank is also prepared to cover developments in the insurance industry.

The Bank issues six-monthly **Monetary Policy Statements** to provide information on the outlook for economy and its monetary policy stance. The Bank also produces leaflets on appropriate subjects from time to time.

The Bank has direct consultations with the private sector through industry visits. Presentations on economic and financial issues are made to various forums including schools.



