# RESERVE BANK OF FIJI ECONOMIC FOCUS

## The New Definition of Foreign Reserves

Recently, the Reserve Bank of Fiji announced that foreign reserves would be recorded under a new definition. The Governor of the RBF, Mr Savenaca Narube, said that "official foreign reserves would now include foreign reserves held by other local institutions." What does this mean? Why did the Bank implement this change? Is the change in line with international practices? We will attempt to answer these questions in this article.

Firstly, let's consider the previous definition of foreign reserves. Up until now, official foreign reserves in Fiji included only those reserves actually held by the RBF. In other words, only the foreign assets listed in the Bank's balance sheet were considered as the nation's holdings of foreign reserves.

In fact, initially, only the Reserve Bank was allowed to hold foreign assets or reserves. However, as our economy strengthened and the financial sector developed, the Bank allowed financial institutions, like the Fiji National Provident Fund, to hold and invest foreign reserves offshore.

Even so, these foreign reserves are very much part of Fiji's foreign reserves. The only difference is that instead of the Reserve Bank holding and investing these foreign reserves, they are now held and invested by these local institutions.

More importantly, the Reserve Bank still effectively has control over these reserves. How is this possible? When the Bank allows these institutions to invest these reserves abroad, an important condition of approval is that the Reserve Bank can call on them at any time. In other words, the Reserve Bank, when necessary, can request that these institutions bring back these reserves to the country.

When we recall these reserves holdings, it means that the local institutions will sell us foreign exchange (value of the investment recalled) in exchange for Fiji dollars. In this way, the Bank's foreign exchange holdings will rise, while the local institution's holdings of foreign exchange will fall. However, the local institution will have the Fiji dollar equivalent of the investment. The funds remain with the local institution, except, now, it is in local currency.

Will it be easy for the institutions to bring back these funds? Yes, it should be. Another equally important condition of approval for these institutions to hold these foreign reserves is that they need to hold it in liquid form. This means that they need to hold reserves in such a form that they are easily able to bring back the funds, as soon as the Reserve Bank requires them to do so.

Is this treatment in line with international practices? Yes. This change was possible under the International Monetary Fund's (IMF) Balance of Payments Manual (5th Edition), which sets guidelines in compiling national statistics such as foreign reserves.

Why did the Bank implement this change? The change was made to accurately capture the total foreign reserves available to the country. Indeed, we must know how much money is available to us to meet all our payment obligations.

Under this new definition, our official foreign reserves at the end of July was $955 million, equivalent to around 5.4 months of imports of goods or 4.0 months of imports of goods and non-factor services. This foreign reserves level includes Reserve Bank's foreign assets of $690 million and other holdings of foreign assets of $265 million.

**RESERVE BANK OF FIJI**