

RESERVE BANK OF FIJI



PRESS RELEASE

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RESERVE BANK RAISES OFFICIAL INTEREST RATE

The Reserve Bank of Fiji Board, at its monthly meeting yesterday, decided to raise the official interest rate from 2.25 percent to 3.25 percent.

The decision was made after reviewing economic conditions since the last interest rate hike in October 2005. The Board noted that the current monetary policy stance was still accommodative. Recent economic data suggests that consumer demand continues to increase, supported by strong credit growth. The rising consumer credit is of some concern. International oil prices remain high.

The Board noted that these factors are adding to our growing imports bill. This trend is not sustainable given the lacklustre performance of our exports industry. A small open economy which is driven by consumption is unsustainable. Therefore, the Board deemed it necessary to take a further measure to reign in the credit expansion for the protection of our overall macroeconomic stability.

In pursuing this policy option, the Board recognises that investment activity has been on the rise with several major investment projects nearing completion and a few more starting up this year. These developments will certainly provide a stronger base for Fiji's economy in the medium term. However, the Board also notes, that it will take some time before these projects will get off the ground and begin to realise gains for the Fiji economy.

The Bank's twin objectives of low inflation and maintaining an adequate level of foreign reserves remain intact. Inflation was 2.3 percent in January and official foreign reserve levels stood at \$850.1 million as at 23 February 2006, sufficient to cover 4.0 months of imports of goods. Nevertheless, the Board regards its policy decision as a proactive response to protect these two objectives.

The Reserve Bank will continue to monitor developments in the coming months and align monetary policy accordingly.

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