RESERVE BANK OF FIJI

PRESS RELEASE

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RESERVE BANK OF FIJI RELAXES EXCHANGE CONTROL POLICY

The Reserve Bank of Fiji Board announced that it is relaxing its Exchange Control policy but will continue to maintain the credit ceiling, following its meeting on 24 April 2008.

According to the Governor and Chairman of the Board Mr. Savenaca Narube, “The Bank undertook a comprehensive review of its monetary policy and exchange control guidelines. In this review, the Board took into account the state of the economy and the growth projected for the next two years, which were recently released by the Macroeconomic Policy Committee. The Board noted the decline in investment and the weak employment conditions. In addition, the Board clearly recognised that the pressure on Fiji’s balance of payments is not expected to abate, arising largely from the wide trade deficit. While the growth in exports projected for this year and the next two years is encouraging, it will not be sufficient to reduce the trade deficit in dollar terms, due to the country’s relatively larger import bill, which is expected to continue to increase due to higher world oil and food prices. As expected, as the economy recovers, imports have rebounded this year and against the small anticipated gain in exports, the trade imbalance is likely to worsen in 2008.”

The Chairman said that, “The Board noted that despite these very difficult economic conditions, Fiji’s foreign reserves stabilized in the second half of 2007 and increased to $959 million at the end of the year, from $880 million at the end of 2006. This generally indicated that the monetary policy package that is currently in place is having its desired effects of slowing down import demand. The Board however also recognised that the slowdown in imports was also a result of the overall contraction of the economy, the decline in investment and the cut in the government’s budget deficit.”

The Board was therefore of the view that the Bank’s existing policy is generally appropriate and should still be focused primarily on consolidating Fiji’s financial stability.

On the credit ceiling, the Board noted that the demand for credit is weak and the commercial banks’ lending is generally below the ceiling. Therefore, the commercial banks still have room to increase lending within the ceiling. Furthermore, the commercial banks are allowed to exceed this ceiling, but only on their lending to priority sectors of the economy, like investment. Hence, the credit ceiling is not restraining investment. In fact, it allows the banks to channel funds to the priority sectors of the economy while having an overall restraint on their lending to non priority areas. The imposition of the credit limit has also allowed the Bank to let liquidity rise, which has led to a reduction in interest rates, which should again support investment lending. The credit ceiling will therefore remain."

However, to further assist investment and in light of the stability in foreign reserves, the Bank has decided to relax its exchange control guidelines on non-resident borrowing from local sources. Furthermore, these limits would no longer apply to borrowing up to $500,000. While this facility was only introduced at the beginning of the year, the Bank has decided to relax these limits to facilitate growth. This is anticipated to provide the much needed impetus to private sector investment. In relaxing these limits, the Bank has responded to the views of the private sector. The new local borrowing limits for non-resident companies are attached to this release.

In noting that the inflation rate has risen to over 7 percent, the Board recognized that the major factors were the soaring international oil and food prices, which were beyond the control of monetary management. In any case, the existing stance of monetary policy was already consistent with restraining inflationary pressures. If these inflationary pressures persist in the months ahead, it will be necessary for the Bank to revise upward its year end inflation forecast of 5.0 percent."

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ATTACHMENT: DETAILS OF CHANGES TO EXCHANGE CONTROL POLICES ON LOCAL BORROWING BY NON-RESIDENT CONTROLLED COMPANIES

The Board of the Reserve Bank of Fiji in its monthly meeting in April 2008 announced a relaxation to the exchange control policy on local borrowing by non-resident controlled companies. Non-resident controlled companies will now be entitled to borrow more from commercial banks and other lending institutions.

The new policy guidelines which come into effect immediately are as follows:

1. Foreign owned companies will be allowed to borrow locally up to a certain percentage of their total borrowings based on their shareholding structure under the debt to equity ratio guideline of 3 : 1. This applies to all new borrowing.
   - 51% - 70% non-resident ownership - up to 85% local financing
   - 71% - 90% non-resident ownership - up to 75% local financing
   - 91% - 100% non-resident ownership - up to 60% local financing
2. The policy will not apply to total new borrowing up to $500,000.

This policy will apply immediately.

Details of these measures are available from the Reserve Bank.

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