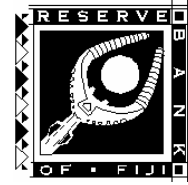


RESERVE BANK OF FIJI



PRESS RELEASE

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THE RESERVE BANK RELEASES ITS FIRST MONETARY POLICY BOOKLET

“The stance of monetary policy will remain on a tightening bias in the foreseeable future”, the Governor of the Reserve Bank of Fiji, Mr. Savenaca Narube said while releasing the inaugural edition of the Bank’s Monetary Policy Booklet. “This policy strategy is necessary to protect the two objectives of Monetary Policy”, the Governor added.

In retrospect, the twin objectives of monetary policy were met in the first four months of this year with inflation low and foreign reserves at adequate levels. At the end of April, inflation was 1.6 percent while foreign reserves were \$744 million sufficient to cover 3.2 months of imports of goods.

The Governor also noted that in the past five years, growth in the Fiji economy has been driven largely by domestic demand. While it is very encouraging to see the rise in investment in the last five years from its historical low level, consumption has been extremely buoyant, financed largely through borrowing from commercial banks and credit institutions. This has resulted in rising demand for imports which has been exacerbated by the hikes in oil prices. “With commodity exports underperforming, the trade deficit continues to widen and this is a concern”, the Governor emphasised.

To safeguard the objectives of monetary policy, the Reserve Bank began to tighten monetary policy in May 2004 with a 50 basis points rise in its policy indicator rate. This was followed by another 50 basis points increase in October 2005 and a one percentage point rise in February 2006. In addition, effective 8 May, the Reserve Bank also raised its statutory reserve deposit ratio from 5 to 7 percent. As a result, liquidity has declined and interest rates have risen. “We need to see interest rates move up to suppress consumption demand and address the imbalance in our net exports position”, the Governor said.

Looking ahead, the growth in the Fiji economy is expected at 2.7 percent this year and 2.2 percent in 2007. Results from the Business Expectations Survey conducted at the end of 2005 indicated that the general outlook for business sentiments in the next 12 months is relatively more encouraging. Expectations for domestic sales, production and employment improved in comparison to sentiments expressed in the previous survey. Inflation is forecast to be 3.5 percent at the end of 2006.

In conclusion, the Governor said that in considering future monetary policy actions, the Bank will take into account a host of factors including the performance of our exports, the growth in domestic credit, performances of major sectors/industries, the stance of fiscal policy and

trend in crude oil prices. “In particular, the Reserve Bank will be monitoring very closely the development in the trade balance of the Balance of Payments”, the Governor added.

The Monetary Policy Report will be released bi-annually. The Report will contain a detailed account of monetary policy decisions and will provide a comprehensive summary of key economic developments. An integral part of the Report will be on how developments in economic indicators will impact upon future monetary policy decisions.

Savenaca Narube
Governor and Chairman of the Board
Reserve Bank of Fiji

To obtain copies of the Report, interested parties are requested to contact Manager Corporate Communications on telephone 322 3225 or email caroline@rbf.gov.fj or Lorraine Seeto, Chief Manager Corporate Planning and Assurance on telephone 322 3413 or lorraine@rbf.gov.fj. This Report is also available on the Bank’s website: www.rbf.gov.fj