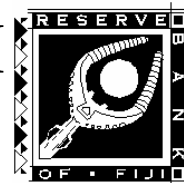


RESERVE BANK OF FIJI



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MONETARY POLICY FOCUSES ON PROTECTING FINANCIAL STABILITY

“Protecting our external financial position remains the focus of monetary policy”, the Governor of the Reserve Bank, Mr. Savenaca Narube said while releasing the second edition of the Bank’s 2006 Monetary Policy Statement. “Maintaining macroeconomic stability at all times will provide a sustainable foundation for the economy to continue to grow”, the Governor added.

The country need to reverse the widening gap between exports and imports which in large part has come about from higher imports of consumption goods and mineral fuels. While the latter to a large extent is beyond our control, we can and should do something now to depress demand for imports of consumption goods. The Bank has begun to address this over the last three years by raising interest rates and making the price of loans more expensive. “Credit growth has been extremely buoyant and this has funded the rising demand for imports”, the Governor commented.

“Recent monetary policy changes are beginning to filter through to commercial banks’ interest rates”, the Governor said. Commercial banks’ time deposit rate was at 6.63 percent in September, up from 5.65 percent in June. Lending rates are also trending upwards. The higher lending rates have slowed the rate of credit growth but growth is still too high at over 20 percent per annum. “We would prefer this rate of growth to decline further to below 15 percent”, the Governor said.

The Governor therefore noted that the revenue measures announced in the 2007 National Budget will play a strong complementary role in slowing consumer demand. These measures should encourage households to make careful decisions about expenditure patterns. At the same time, the Bank is encouraged by the Government’s renewed effort to raise exports in the medium term and to accelerate the reform process which is fundamental to raising our rate of growth to a level that will be able to absorb the growing new entries into the labour market. “The nation now looks forward to the implementation of these plans”, the Governor commented.

The Governor said that, “On the downside, the continuing political uncertainty has seriously undermined our efforts to stabilise the economy let alone pursue further growth. An uncertain political environment scares away investors and tourists both of which have played a critical part in our growth in the last five years. Since 2001, we have managed to reverse the general decline in investment and it is now at its highest level for a long time.

On the other hand, tourism has been our engine of growth. This political uncertainty therefore poses significant risks to growth, investment and jobs. To minimise this risk, the Reserve Bank may have to impose additional monetary measures to protect our financial position. In this regard, the Bank has recently tightened the process required for selected foreign exchange transactions. The Bank will continue to monitor the situation closely”.

In conclusion, the Governor stressed the importance of safeguarding economic stability particularly our ability to fund our external transactions. This is paramount. Without it, the economic progress that we have worked hard to achieve will falter, investment that has been rising will dry up and many of our school leavers will not be able to find jobs. “I am however optimistic that this will not eventuate”, the Governor added.

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To obtain copies of the Monetary Policy Statement, interested parties are requested to contact Manager Corporate Communications on telephone 322 3225 or email disusu@rbf.gov.fj or Lorraine Seeto, Chief Manager Corporate Planning and Assurance on telephone 322 3413 or lorraine@rbf.gov.fj. The Monetary Policy Statement contains a detailed account of monetary policy decisions and includes a comprehensive review of key economic developments