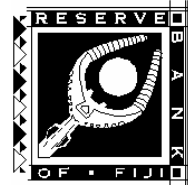


RESERVE BANK OF FIJI



PRESS RELEASE

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RESERVE BANK OF FIJI RELEASES 2007 ANNUAL REPORT

The Interim Prime Minister and Acting Minister for Finance and National Planning, Commodore Josaia Voreqe Bainimarama tabled the 2007 Annual Report of the Reserve Bank of Fiji in Cabinet on 26 August, 2008. The Report includes the audited accounts and the operations of the Reserve Bank for the year ended 31 December, 2007.

Highlighting developments during the year, the Governor of the Reserve Bank, Mr. Savenaca Narube stated that “the 2007 year was an extremely difficult year for the Fiji economy. The economy contracted, employment conditions were weak, investment declined and the balance of payments continued to come under pressure. To make matters worse, inflation flared up mainly due to world developments which were well beyond Fiji’s control. This harsh climate presented very difficult policy choices between growth and safeguarding the balance of payments.”

The Governor noted that “in a state where the economy is declining, the balance of payments is under pressure and inflation is rising, the Reserve Bank’s focus needed to shift predominantly to the short term objective of protecting foreign reserves and moderating inflationary pressures. Understandably, such a policy stance does not directly promote economic growth. However, safeguarding economic stability now would not only build a much needed foundation for growth in the long term but one that is more sustainable.”

Mr. Narube explained that “the monetary policy response was concentrated on two fronts. The first was to address the exuberant level of credit growth from 2003 onwards where the commercial banks’ lending to the private sector was growing by over 30 percent. The Reserve Bank had started to reduce this credit overhang since 2004 when we began raising interest rates. In response to the crisis of late 2006, the Reserve Bank decided to put aside its market based approach to implementing monetary policy and instead adopted a pragmatic strategy that is more effective in such a crisis situation. We decided to impose a ceiling on commercial banks’ lending in December 2006. This credit ceiling remained throughout 2007.”

He added that the second policy front was on exchange control. The Reserve Bank of Fiji had been progressively relaxing exchange controls for the last fifteen years. This will continue to be our long term strategy. However, to help stabilise our financial outflows after December 2006, selective tightening of exchange controls was chosen to help retain foreign exchange.

The Governor further highlighted that “in the second half of the year, the monetary policy strategy was having the desired effects. Foreign reserves stabilised and then increased to \$958.6 million up

from \$880.1 million at the end of 2006. Considering the considerable stress that the economy was facing, this was an encouraging result.”

He clarified that due to the stability in our external financial position, the Reserve Bank relaxed a number of its exchange control measures during 2007. At the end of the year, the limits on local borrowing by non resident companies was the only one remaining.

Mr. Narube explained that the credit ceiling and the exchange control limits on local borrowing are clearly short term measures. They are not intended, nor are they appropriate, for the long term. A comprehensive review of monetary policy will be undertaken early in 2008.

On deciding on the components of its monetary policy, the Governor highlighted that “the Reserve Bank was very mindful of the effects of its tight monetary policy on investment. Investment is necessary for growth. Therefore, in applying the credit ceiling, the Reserve Bank opened a window where commercial banks could exceed the ceiling but only in priority areas particularly investment. This has worked well and approval of the use of this facility for new loans reached \$140.3 million during 2007. Thus the credit ceiling provided the Reserve Bank with an additional lever to steer credit to areas that continue to support growth in the medium term. The credit ceiling is therefore not restraining lending to investment.”

The Governor said that “The rise in inflation is a concern against a backdrop of a declining economy. This combination of economic decline and rising inflation would have a strong adverse impact on the livelihood of the people particularly those in the lower income range. Rising inflation was clearly a global phenomenon and brought home the fact that Fiji is very much part of the global village. Rising food prices and the persistent high oil prices were the major reasons.”

Clearly, inflationary pressures were beyond the control of domestic demand management. There was very little that monetary policy needed to do in response to the rise in inflation. Monetary policy was already tight and consistent with the demand management strategy to combat inflation. Furthermore, demand was weakening. Therefore, in my view, the most sensible policy option was to prevent the second round effects of inflation on demand through wages and high fiscal deficits.

I am happy to report that Fiji’s financial system is strong and growing. Total assets of the financial system (excluding Reserve Bank of Fiji) increased by 2.7 percent to \$9.3 billion. Overall, non performing loans as a percentage of total loans of commercial banks at 6 percent remained low by international standards. The insurance industry’s performance was satisfactory in 2007 and insurance companies continued to be well capitalised and adequately met solvency requirements. The Bank worked closely with Fiji National Provident Fund’s board and management to strengthen its corporate governance.

Mr Narube also stated that the Reserve Bank had achieved several important milestones in 2007. The new banknotes featuring the new \$100 note and additional security features were unveiled by His Excellency, the President of Fiji, Ratu Josefa Iloilo in March 2007. A review of our coins was completed in 2007 and the new coins which are generally smaller in size will be in circulation in early 2009. The 1 cent and 2 cents coins will be phased out of circulation and the old coins will be recalled. The remaining provisions of the Financial Transactions Reporting Act came into force on 1 January 2008. We were very happy to launch the Real Time Gross Settlement System project in October 2007. FIJICLEAR, as the system is called, is operating well.

The Governor further reported that “the Bank’s 2007 financial statements are now compliant with the International Financial Reporting Standards. In 2007, the Bank recorded a profit of \$20.371 million. After transferring \$1 million to General Reserves, \$19.371 million was transferred to Government. This profit is higher than 2006 because of the higher level of foreign reserves and higher interest rates in the international market during 2007.”

In conclusion, the Governor stated that “2008 will again be a challenging year. The world economy is slowing. Commodity prices may rise further pushing domestic inflation higher. While the economy is projected to recover, the rate of recovery is low and will take several years for the country to regain its 2006 position. There are some encouraging signs on exports but this is insufficient to narrow the trade deficit. The pressure on the balance of payments will remain and may well intensify. Thus, the country needs to exert more priority and resources to growing exports, establishing alternative sources of energy and growing its agricultural output to lower the demand on imports. We cannot achieve this without reforms. A program of reform must be an integral part of our national plan to move forward and build a better platform for our future growth. On monetary policy, the focus for 2008 will be on consolidating our external financial stability.”

Reserve Bank of Fiji