RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No.	**: 25/2009**	**Phone: (679) 3313 611** **Fax : (679) 3301 688**
Date	**: 19 June 2009**	**Email : rbf@reservebank.gov.fj**

<u>MONETARY POLICY STATEMENT</u>

The Reserve Bank of Fiji released its bi-annual Monetary Policy Statement today. The Reserve Bank also announced that it left monetary policy unchanged, after its monthly Board meeting on 28 May, 2009.

The Governor and Chairman of the Board, Mr. Sada Reddy said that "major monetary policy changes have been made in the last few months. These measures were necessary in response to the adverse developments with the onset of the global economic and financial crisis." The policy measures taken are in line with the Bank's ongoing efforts to maintain financial and external stability, and to move the economy forward sustainably. The impact of the policy changes has been immediate.

The 20 percent devaluation was a key proactive policy response to safeguard Fiji's competitiveness and to protect Fiji's foreign reserves in light of the negative impact of the global financial crisis. As a result, the foreign reserves which had been falling rapidly, have improved to around $650 million and have been steadily increasing since.

Liquidity in the banking system has also improved. It rose strongly to around $150 million from very low levels early in the year. The improved liquidity situation is expected to ease credit conditions both in terms of lending rates and availability of bank credit.

Following the devaluation, prices have increased as expected. Prices rose by 0.8 percent in May due to higher prices for food, durable household goods and transport. During the coming months, prices are forecast to rise further and then start moderating towards the end of next year.

In light of this, Mr. Reddy has once again emphasized to the people of Fiji the need to be self sufficient as much as possible in terms food supplies etc. He has also called on the trade unions to show restraint in wage negotiations in the next 2 years and the business community to not to pass on the full effect of the price increases of the devaluation thus assisting in the economic recovery.

Mr. Reddy stated that, "Fiji's major financial intermediaries need to play a more active role in the economic recovery process. These institutions have always played an important part in our economic development. As we move forward, they must align their policies with the long term economic growth strategies of Government. The recent policy announcements are an important step in that direction."

Policy changes on the weighted average lending rate of commercial banks and other licensed financial institutions, and interest rate spread of banks, are an effort to stabilise interest rates and assist in the growth process. These changes are expected to translate to a stable and more conducive borrowing environment for Fiji's businesses and the people and offer depositors more reasonable returns on savings. Some downward movement in the lending rates are already being seen but the full impact of the recent policies on interest rates are still to be seen.

The setup of a Financial Systems Development and Compliance (FSDC) Group at the Reserve Bank and the plans to setup specialised microfinance service centres for banks will steer the financial system towards potential growth areas. With the commercial banks' assurance to stringently apply specified lending guidelines on high priority sectors, the Reserve Bank will closely monitor developments in lending particularly for investment-related projects, export-oriented activities, local businesses and small and medium sized enterprises. The plans to now link tourism sector domestic borrowings to local value added content and environmental protection is expected to encourage the development of local industries, and at the same time to ensure that our fragile environment is protected in line with national environment policies.

The Governor reiterated the important role played by the financial institutions to facilitate overall economic development. The support of the public in this regard is equally vital in helping the Reserve Bank meet its objectives. The FSDC Group will act as a conduit for public feedback on financial services and scrutinise the adherence to and advancement on the Bank's recent policy announcements.

In an effort to increase awareness about the recent policy measures, the Reserve Bank has embarked on a nation wide public awareness campaign through roadshows to explain the rationale behind its recent policy initiatives. The engagement of key stakeholders including the grass root people through this forum and others is an attempt to educate businesses, Government agencies and the public on the economic situation and emphasise the urgent need for everyone to work together to progress the country.

Closer policy coordination between the Government and the Reserve Bank is critical to ensure that both fiscal and monetary policies are aligned to meet the economic management challenges as we move forward. The recent policy measures announced by the Bank, including exchange controls, are an attempt to stabilise Fiji's external position. This should be complemented by Government maintaining a tight rein on expenditures through fiscal discipline. Reducing operational costs and the prioritisation of expenditure is essential in this regard. Improving revenue collections in tandem with expenditure restraint should allow greater scope for more capital expenditure and more funds to support vulnerable groups in society.

The recent announcement by the Government to scale back non-essential expenditure and to keep a tight rein on expenditure has been welcomed by the Bank. However, it is critically important that important capital works as per the budget is carried out in a timely manner to add impetus to the economy.

Mr. Reddy specially noted the sound fiscal position of the government given the challenges and hopes that this trend continues with proactive policies.

As we move forward, it is clear that the unfolding global crisis and recession has negatively impacted our economy, like the rest of the world. The anticipated slow economic recovery currently envisaged for the world economy and weak prospects for the domestic economy continue to pose downside risks on various fronts.

March quarter exports fell by 12 percent with lower earnings particularly from mineral water and garments exports. Lower demand for our exports due to the global fall off in demand, and lower remittance receipts will continue to pose risks to our foreign earnings. In this regard there is a need to reduce the level of our imports through various measures and change in sourcing for cheaper imports. Therefore, there is an urgent need to streamline our trade and investment policies to suit the current environment.

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Furthermore, government policies to lessen our dependence on oil imports, such as diversification into non-fossil energy, will reduce outflows and help sustain our balance of payments. In support of local industries, we need to promote and buy Fiji made products to improve domestic production in viable import substitution areas. Overall, we need to work together to build a better Fiji.

To conclude, the Reserve Bank is closely monitoring the impact of recent policy changes on the economy. The Bank will continue to analyse the global and domestic economic conditions and align policies accordingly.

Reserve Bank of Fiji