RESERVE BANK OF FIJI

PRESS RELEASE

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RESERVE BANK OF FIJI MAINTAINS TIGHT MONETARY POLICY STANCE

Following the meeting of the Reserve Bank of Fiji Board held yesterday, the Governor and Chairman of the Board, Mr. Savenaca Narube, announced that the current tight monetary policy stance would remain unchanged.

According to Mr. Narube in making that decision, the Board took into account that, "The prospects for global growth in 2009 have deteriorated further and the economic slowdown is deeper and wider than originally envisaged. Consequently, in January the International Monetary Fund (IMF) downgraded world growth for 2009 to 0.5 percent from a 2.2 percent estimated earlier. Most of Fiji's trading partner economies are expected to contract this year, except Australia. While growth for Australia is expected to be positive, it will be the lowest in more than a decade."

Mr. Narube added that "The deepening of the global financial crisis and the January floods will lead the downward revision in the 2009 estimated output in the agriculture, forestry, fishing & subsistence, manufacturing, wholesale & retail, hotels & restaurants and transport & communication sectors. These developments will adversely affect exports, tourist arrivals and remittances which will exert additional stress on our foreign reserves. Furthermore, the Board noted that the rehabilitation and humanitarian support after the floods will increase the demand for additional government expenditure. At the same time, liquidity has tightened putting upward pressures on interest rates."

On a positive note, fuel prices have dropped allowing inflation to decrease to 6.1 percent in January, down from 6.6 percent in December 2008. Nonetheless, the higher prices of market items as a result of the floods will tend to keep inflation up in the next six months. However, by year end, the RBF expects inflation to decline to 4.5 percent. There however remains upside risks that crude oil and wheat prices may rise again.

Mr. Narube reiterated that “The Board recognised that consistently implementing the right policy mix will be crucial in regaining stability and re-establishing a higher growth path for Fiji. The priority right now for macroeconomic policy is to stabilise our foreign reserves position. Therefore monetary policy will continue to focus on maintaining monetary and financial stability. At the same time, there is capacity for Government to support growth through greater capital spending. In financing its expenditure, the Board noted that there is room for Government to switch to offshore borrowing in order to support monetary policy safeguard foreign reserves. Government’s external debt is only 7 percent of GDP and our external debt servicing is as low as 3 percent of our export earnings.”

In response to the tightening of liquidity, the Governor clarified that “The Reserve Bank will stand ready to supply liquidity to allow the financial system to operate smoothly but without undermining our priority of safeguarding foreign reserves. The RBF has already halved its minimum lending rate under which commercial banks can borrow from the RBF, from 6 percent to 3 percent. The Board is also urging commercial banks and the FDB to use the Export Finance Facility, under which they can borrow from the RBF at a maximum of 2 percent and lend at concessionary rates to eligible exporters. The Board also agreed that statutory reserve deposit is an instrument that the RBF will use to stabilise liquidity as and when needed.”

To help in rebuilding after the flood, the Board has agreed to establish a Flood Rehabilitation Facility to be offered through commercial banks with concessional interest rates similar to the Export Finance Facility.

The Governor concluded by saying that “The Board is confident that with this right policy balance, Fiji would be able to cushion the impact of the financial crisis, retain economic stability and build a steadier platform for growth into the long term. I would like to urge everyone to work together and contribute towards these common national goals.”

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