

RESERVE BANK OF FIJI



PRESS RELEASE

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RESERVE BANK OF FIJI PROVIDES CLARIFICATION ON THE ECONOMY

The Reserve Bank of Fiji today provided a clarification on the state of the Fiji economy in response to the ADB Report, "Pacific Economic Monitor."

As a result of the worsening global economic and financial conditions, as well as the January 2009 flooding, the Fiji economy is expected to contract by 0.3 percent this year. The Bank clarified that had it not been for the floods, Fiji would have actually grown marginally this year. The contraction projected for the Fiji economy is milder than that being experienced by Fiji's major trading partner countries. The Bank is optimistic that the economy will rebound next year to a modest recovery.

Although visitor arrivals have declined in the first quarter, indications from the industry is that this may now be slowing down, supported by extensive marketing. Hence, the Bank expects visitor arrivals to fall by a smaller magnitude by the end of the year. With the start of the peak season for the industry, as well as the devalued Fiji dollar, visitor arrivals should pick up in the coming months.

It is very encouraging to note that foreign reserves have improved from around \$440 million before the devaluation, to around \$640 million now. This has assisted in the improvement of liquidity in the banking system, which has now grown to \$150 million, from a low of \$15 million in late March.

The Government is also actively seeking to contain expenditures in non-essential areas. Various reforms in areas such as civil service, public enterprises and public financial management will further assist in consolidating the fiscal position. Government is committed to restraining the fiscal deficit to the budgeted level of 3 percent of GDP. Revenue collections, which were above target during the first quarter, will assist Government in restraining the fiscal deficit this year.

Although the Bank expects inflation to increase as a result of the devaluation, growth in prices is expected to moderate to around 2 percent by the end of next year.

The Bank is monitoring the situation very closely. Early indications are that imports have begun to fall. This should help support the balance of payments further.

With respect to the Fiji dollar, Mr. Sada Reddy, Governor of the Reserve Bank said that there will be no further devaluation. The Fiji dollar is now competitive and should be attractive to tourists seeking to holiday in Fiji. It should also be more attractive now for foreign importers to buy goods from Fiji.

The Bank is conducting road-show presentations and meeting with various stakeholders to explain the rationale behind its recent policies. In order for the policies to be fully effective, Governor Reddy has stressed reliance on domestic goods and services. At the same time, the Bank called for increased effort at raising the level of exports from Fiji.

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