



## *PRESS RELEASE*

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### **RESERVE BANK OF FIJI CLARIFIES ISSUES ON LIQUIDITY**

The Reserve Bank of Fiji today clarified the cause and implications of the recent liquidity condition in the financial system. Liquidity has tightened in the financial system and consequently interest rates have started to trend upwards. Mr. Savenaca Narube, Governor of the Reserve Bank of Fiji stated that, "The total level of liquidity in the financial system can only decline if the Reserve Bank withdraws funds from the system or if foreign reserves flow out of the country. The current tight market liquidity has been a direct result of outflows of foreign reserves and not from any deliberate policy actions of the Reserve Bank."

Mr. Narube explained that, "In a situation of tightening liquidity, commercial banks may respond to their own funding needs in a number of ways. Firstly, they can borrow funds from the overnight inter-bank market. The inter-bank rate is fully market determined and thus the Reserve Bank has no influence on this. In January, the weighted average inter-bank rate was 1.06 percent. Secondly, commercial banks can also raise their deposit rates to compete for funds in the market. This has been happening recently. Finally, if banks cannot access liquidity through either of the above means, they can borrow under the overnight lending facilities offered by the Reserve Bank. This facility is often referred to as the "lender of last resort" facility. The Reserve Bank has already reduced the interest rates on its lending facilities to help the commercial banks manage their short-term liquidity needs. However, commercial banks have so far been managing on their own and have not resorted to this facility yet."

Mr. Narube added that the banks could also utilise the existing Export Finance Facility, whereby they could borrow from the Reserve Bank at a maximum interest rate of 2 percent and lend to exporters at a concessional rate. This will allow the commercial banks to manage their liquidity and at the same time offer low interest rates for export promotion to address Fiji's balance of payments problems and growth concerns.

Mr. Narube confirmed that, "There is no liquidity crunch in Fiji. However, with the current foreign reserves forecast, liquidity is expected to remain tight. The Reserve Bank will ensure that the financial market will continue to operate smoothly and that the financial system will remain sound."

**RESERVE BANK OF FIJI**