

RESERVE BANK OF FIJI



PRESS RELEASE

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RESERVE BANK OF FIJI RELEASES MARCH 2006 QUARTERLY REVIEW

In releasing the Reserve Bank's March 2006 Quarterly Review, the Governor, Mr Savenaca Narube, said that, "In the first quarter of 2006, domestic demand was still relatively strong. Latest data showed that consumption was still rising, assisted by higher incomes and borrowings from financial institutions. Given our narrow production base, the high level of consumption directly translated into strong imports growth, which is being exacerbated by high oil prices. On the other hand, Fiji's export performance remains quite depressed. Continuing reforms in the sugar and mining industries are some positives for the exports sector but more initiatives are needed for the future, to match the growing demand for imports."

The Governor highlighted that in order to dampen domestic demand, the Bank had raised the indicator rate by 100 basis points to 3.25 percent at the end of March 2006. This followed the two interest rate increases of 50 basis points in October 2005 and May 2004. "I reiterate the fact that our growth needs to be driven by exports and investment", Mr Narube said.

In addition to the interest rate increase, the Bank also tightened liquidity by raising the Statutory Reserve Deposit (SRD) requirement for commercial banks from 5 percent to 7 percent effective 8 May 2006. The Bank will continue to closely monitor economic developments in the coming months and will align monetary policy accordingly.

As at the end of March 2006, the objectives of monetary policy were successfully achieved. Despite higher oil prices, Fiji was able to maintain a low inflation rate, at 2.0 percent. In addition, foreign reserves were around \$793 million, adequate to cover 3.4 months of imports of goods.

Mr Narube pointed out that "In 2005, the domestic economy is estimated to have expanded by 1.5 percent. On a sectoral basis, the tourism industry registered good growth, as visitor arrivals remained on track for yet another record year. Similarly, the building & construction, fishing, electricity and copra industries also performed well during the period. On the downside, output was depressed in the sugar, gold, garment and timber industries".

"The economy is projected to grow by 2.7 percent in 2006 and encouragingly, growth is expected to be relatively more broad-based than it was last year. The robust activity in the tourism industry is likely to continue. Agriculture and mining are expected to improve as reforms gain momentum and the building and construction industry is still buoyant, although it may have reached a peak in 2005. The 2006 year end inflation rate is projected at 3.5 percent as inflationary pressures are likely to emanate from external sources, namely higher energy prices and a relatively stronger US dollar".

In concluding, the Governor stressed the need for growth to be driven by the private sector and investment. “This will enable us to achieve a higher and more sustainable pattern of economic growth into the future”.

Reserve Bank of Fiji