

RESERVE BANK OF FIJI

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RESERVE BANK OF FIJI CLARIFIES POLICY MEASURES

1. DEVALUATION

The Reserve Bank of Fiji wishes to assure the public that recent rumors and speculation that there will be a devaluation are unfounded.

The Reserve Bank has acted swiftly in the present circumstances to stem any large capital outflows and to moderate pressures on foreign exchange reserves and the exchange rate. Capital controls have been tightened and a credit ceiling has been introduced. These measures should ensure that the expected outflow is kept to manageable levels and that foreign exchange reserves can be maintained.

Fiji's foreign exchange reserves are currently over \$800 million, well in excess of the amount required for usual operations and sufficient to provide a substantial buffer in the event of any temporary pickup in capital outflows.

Given the strong foreign reserves position and the precautionary policy measures already introduced, the Reserve Bank of Fiji does not feel that devaluation is necessary.

2. CREDIT CEILING

The Reserve Bank of Fiji wishes to clarify the operation of the recent credit ceiling on commercial bank lending. The credit ceiling restricts commercial bank lending to the private

sector to levels outstanding as at 19 May 2000. The credit limit is an aggregate limit, not a limit on lending to individual commercial banks' customers. Commercial banks are free to lend to individual customers, as long as they manage their total lending within the overall limit.

The ceiling on bank lending apply to their average lending over one month. Commercial banks therefore have the flexibility to temporarily exceed the ceiling if there are some short-term fluctuations in loans and repayments (for example, in the use of overdraft facilities by business people) that are likely to be evened out over the month.

The Reserve Bank however is mindful of the practical implications of such a measure. In this regard it has established a process where deserving cases can be referred by banks to the Reserve Bank of Fiji for consideration and approval.

The Reserve Bank wishes to re-emphasise the paramount need of the country to protect its foreign reserves in this period of crisis. These measures are temporary and will be lifted once the situation return to normal.

Savenaca Narube
Governor

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