RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No. : **15/2006**

Date : **28 July 2006**

Phone : **(679) 3313 611**
Fax : **(679) 3301 688**
E-mail : **info@rbf.gov.fj**

GOVERNOR MR. SAVENACA NARUBE'S STATEMENT ABOUT THE FIJI ECONOMY

The Reserve Bank of Fiji has a mandate under its Act to:

- Protect macroeconomic stability
  - Low inflation
  - Adequate foreign reserves

Inflation is under control despite the high oil prices because:
- The fixed exchange rate is serving as an anchor on prices
- Wage demands are moderate
- There is good inflation management in major trading partners
- There are good supply conditions of local market produce like dalo, local vegetables

Foreign reserves are adequate at this time but we are concerned about the future because:
- Commodity exports like sugar, garments, agriculture, forestry and fishing are seriously underperforming - this is a structural issue not a competitiveness issue
- Import demand is buoyant funded by remittances and domestic credit
- Remittances are funded from offshore so impact on foreign reserves is neutral
- Import funding by domestic credit is a direct drain on foreign reserves
- Hence the need to dampen domestic credit

Interest rate is the major instrument of central banks to dampen credit demand.

The Reserve Bank of Fiji has now used interest rates to slow down credit then spending and in turn imports. The Bank has been proactive as it takes time to translate the increase to spending and imports.

Unfortunately interest rates affect all forms of expenditure which includes investment and consumption.

To offset this, the Reserve Bank has issued guidelines on priority lending to commercial banks. This hopefully will help continue to support investment.

Central banks around the world use interest rate and lately they have been raising interest rates.
- US raised rates sometimes more than 4 times a year and is now over 5 percent
- New Zealand and Australia have done the same and their official rate is close to 6 percent
- Bank of Japan has raised rate for the first time in many years
- Reserve Bank of India has recently raised rates to over 5 percent

Fiji's official rate is only 4.25 percent which is relatively low.

To lessen the need to raise interest rate further fiscal policy should support monetary policy:

- Government to put in measures that discourage consumption imports
- Government to reduce take home pay
- Fiscal deficit to be reduced

Reforms must be accelerated immediately to lift commodity exports.

The Reserve Bank is confident that if these are done the situation will become sustainable within two years.

RESERVE BANK OF FIJI