

RESERVE BANK OF FIJI



PRESS RELEASE

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RESERVE BANK INTRODUCES AGRICULTURE AND RENEWABLE ENERGY LOANS RATIO

The Governor of the Reserve Bank of Fiji, Mr. Barry Whiteside, today announced the introduction of the Agriculture and Renewable Energy Loans Ratio under the provision of Section 44 of the Reserve Bank Act.

Effective from 29 February 2012:

- i) Commercial banks are required to hold 4 percent of their deposits and similar liabilities in loans to the Agriculture (including Fisheries and Forestry) sector;
- ii) Commercial banks are required to hold 2 percent of their deposits and similar liabilities in loans to the Renewable Energy sector;
- iii) Commercial banks will be given one year to comply with the required ratios from the effective implementation date; and
- iv) The policy will be reviewed on an ongoing basis and any changes deemed appropriate by the Reserve Bank will be communicated to commercial banks accordingly.

Mr. Whiteside said that the Reserve Bank maintained an accommodative monetary policy stance over the past year to support the domestic economic recovery. To this end, the Bank had progressively reduced its Overnight Policy Rate to signal further lowering of interest rates in the market, to encourage investment lending. The easing of monetary policy was in line with the favourable outlook for foreign reserves and inflation. In addition, liquidity in the banking system has remained at levels adequate to meet any upturn in demand for credit.

He added that amidst the subdued demand conditions and the need to fast-track growth in the economy monetary policy remains focused on maintaining a low interest rate environment while supporting Government's medium term fiscal strategy of channelling resources to priority sectors to facilitate growth and investment. On the global front, most central banks have reacted to the faltering of demand in their economies with exceptionally large interest rate cuts as well as unconventional measures to sustain credit expansion and economic growth. Fiji is no exception. Mr. Whiteside clarified that the establishment of both lending ratios is a pragmatic policy that aims to facilitate lending to important sectors of the economy and promote macroeconomic stability.

The Governor highlighted that a joint effort by all stakeholders is needed to support banks in their challenge to boost lending to these priority sectors, especially given the increased

cautiousness in financial markets which has led to risk aversion and soft lending by financial institutions. Collaboration between local authorities such as Investment Fiji, local business councils, Government agencies and foreign trade missions, can assist banks in the identification of viable projects in these sectors. To complement these efforts, the Reserve Bank will be organising a financing expo to bring together banks and other financial institutions, private sector businesses and individuals and relevant Government agencies, to facilitate potential credit to these key sectors.

Mr Whiteside added that with the uncertainty surrounding the sugar industry, there is great potential for growth in non-cane agriculture as well as large commercial agricultural ventures. The Governor also noted that promoting renewable energy in a small open developing economy such as Fiji is imperative given its vulnerabilities to adverse movements in oil and food prices and their negative impact on foreign reserves. Given the potential for gains from this policy initiative by other sectors of the economy that rely on the agriculture and renewable energy sectors, especially the tourism industry, a much wider positive impact on the economy is expected. Overall, facilitating lending to both these sectors will not only increase economic activity, but also promote import substitution, improve food security, encourage export growth and investment and contribute to macroeconomic stability.

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