

Savenaca Narube: Monetary and exchange rate policies under rising inflation and global economic slowdown

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the 30th meeting of the SEACEN Directors of Research and Training, Nadi, 22 October 2008.

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Introduction

Dr Karunasena, SEACEN Executive Director

Directors of Research and Training

Resource Persons – Mr. Masaru Tanaka, Dr Susan Adams, Dr Andrew Filardo, Mr. Angus Sullivan

Ladies and Gentlemen

Bula Vinaka!

I sincerely welcome you all to Fiji to the 30th Meeting of the SEACEN Directors of Research and Training. I extend a special welcome to those who are attending the meeting for the first time and also to those that are visiting Fiji for the first time. It is also a pleasure to see familiar faces as well – welcome back to Fiji.

In past SEACEN meetings here in Fiji including the Governors conference I had tried to explain the meaning of the Fiji greeting “**Bula**” to the delegates. Let me take the opportunity to do that again this morning. You would have heard this greeting as you disembarked from the plane and also around this resort. You will hear this word many times throughout your stay in Fiji – it is an all encompassing greeting which includes hello, good morning, good afternoon, good evening, welcome, good health and virtually everything good. It captures the warmth and hospitality of the people of Fiji.

SEACEN Directors of Research and Training Meeting

It is a pleasure to host this auspicious meeting this year. We were supposed to have done this one year ago. I thank Bank Indonesia for bailing us out and hosting this meeting in 2007. We last hosted the DORT meeting in 1993 when we were only an observer in SEACEN. So we are very pleased to be hosting the DORT conference again after 15 years!

In April 2004 at the Board of Governors meeting in Colombo, Sri Lanka, Fiji formally joined the SEACEN family as its 13th member. We then hosted the SEACEN Board of Governors Meeting soon after that in 2005 and SEACEN EXCO in 2006.

As you know, Fiji is the second smallest member of SEACEN in terms of population. The smallest is of course Brunei. But right now we wish we have a bit of the wealth that country has particularly oil. We are also somewhat removed from South East Asia. As you no doubt have experienced, it takes a long time to come to our islands. You have tasted a bit of our medicine when we travel to your part of the world. But we always welcome the opportunity to network with our fellow SEACEN countries. It is an opportunity for us to observe, listen and learn from the experiences of some of the most dynamic countries in the world.

We have benefited a lot from the SEACEN training opportunities hosted by members and the Center. We appreciate the efforts of the Centre in collaborating with central banks to mount courses, seminars and workshops as well as bringing people together to work on research projects. It is the relationships and networking that is formed that enables us to foster and strengthen partnerships and become more effective in our role as central banks.

Financial crisis

Right now, everyone is reeling from the meltdown of the world financial markets. It is the deepest since the great depression. I am sure none of us here were around then, but the length and the depth of this crisis have surprised everyone. It is now become a global phenomenon. Asia and the Pacific will not be spared. We will feel its impact in different areas and degrees.

The 1998 Asian financial crisis has forced many countries in the region to strengthen institutions and establish mechanism that I believe have made our financial systems more robust and resilient. I think that this will help cushion the impact of this crisis in the region. However, like the Pacific we will all need to brace for its economic fallout.

Themes of the meeting

I am therefore extremely interested in today's seminar on "**Monetary and Exchange Rate Policies under Rising Inflation and Global Economic Slowdown**". It is relevant and timely.

This financial crisis has compounded our economic woes in Fiji. It has come on top of a deep economic decline of over 6 percent last year. It has also arrived at a time when our exports have not performed to expectation which has been further exacerbated by the high world prices of oil and food. This combination has exerted extreme pressure on our balance of payments.

In Fiji, we expect the economic fallout of the crisis to impact our tourism industry the most. The onset of a global recession combined with movements in exchange rate is expected to dampen tourist's plans to visit Fiji. Tourism is the vehicle that we had anticipated to take us out of the economic decline back to a modest growth path. We will now need to reassess this. Our earlier estimate for a 1.7 percent growth this year and 1.5 percent next year is under serious threat.

We are however relieved by the fall in oil prices. Like many of you, we have introduced several fiscal measures to cushion the impact of the increase in oil and food prices. But we basically cannot cushion their full impact given our balance of payments and debt position. We are relying on some demand management to help us reduce imports. Demand is already responding but the fuel import bill is still quadrupled our historical level. Inflation, at over 9 percent, is the highest in over twenty years.

It presents considerable challenges to policy makers. How can you pump prime an ailing economy when the balance of payments are weak and inflation rising?

Fiji's scenario fits snuggly into today's agenda. Mr. Tanaka's keynote address is about the challenges we face in the era of uncertainty. Dr Susan Adams will discuss the trade off between inflation and growth. And Dr Filardo and Dr Oh will address the policy options that may be available for central banks. We keenly look forward to these discussions and I am sure that we will take back with us some of the lessons that will help us in our policy work.

Let me briefly share Fiji's experience in monetary management with you. In Fiji, we have a political dimension to our economic scenario. Under such a combination of factors, the prescriptive policy medicine may not work very well. We have therefore chosen to temporarily abandon our market based monetary strategy and opted for a rather direct approach. We have introduced a credit ceiling but allowed commercial banks to exceed this ceiling only for lending to priority sectors. This is working well for us. It has allowed us to suppress consumer lending and raise liquidity which has lowered interest rates. In addition, we have selectively used capital controls to protect our foreign reserves while the fixed exchange rate continues to anchor inflation. This combination has slowed down demand without shutting out investment, stabilised our foreign reserves and kept inflation at single digits.

Let me say something on the second theme of this meeting. We all know how important HR is to our business or any business for that matter. I am therefore pleased that you have combined this meeting with a Directors of Training seminar on ***HR as Strategic Business Partner***. We in Fiji, again because of our small size, have a very small pool of skilled people. In addition, we lose a lot of our experience and knowledge abroad especially to Australia and New Zealand. While I know that this is a global trend, we are however at the bottom of the pecking order. We have nowhere to replenish our losses from. Inevitably we need to continue training and capacity building. It is however a costly exercise.

SEACEN is doing a lot in building partnership in this capacity building and I commend their contributions. There is a lot that we can share amongst ourselves. We run our own individual training. There is no reason why we cannot share this training more widely than what we are doing already. It would be efficient to do so. Our collaboration with other training providers will also be useful.

I always emphasise three things on training to my colleagues. One is that the Reserve Bank of Fiji will be an organisation that encourages capacity building and puts priority on training. The second is that we should ensure that the training is relevant. The last thing, which tends not to receive the attention it deserves, is that we need to measure the effectiveness of this training not only in the short term but also in the medium to longer term.

Arrangements

Let me now move on to the fun side of our meetings. We must have fun as we work. That is the Pacific way. During your brief stay in Fiji, we have arranged a few activities that will give you a taste of what Fiji is about. Tomorrow night, we will have the traditional ***kava*** ceremony and some cultural dances. On Friday, there is a cruise to Mala Mala Island, one of the many uninhabited islands off this coast line. We can arrange golf for those who wish to take up this option. On Friday evening, we will have fire dancing and a beach BBQ.

Of course, we must encourage you to shop while you are here to help our balance of payments. A shopping visit to nearby Nadi town and Port Denarau should not be missed. You may also wish to also try our local dress code which are the bula shirts and "sulus" (or skirts) for the men and what we call the "sulu jiaba" for the ladies. The secretariat will only be too pleased to provide any assistance that you may need. The dress code for all our evening dinners will be bula dress or smart casual.

Conclusion

In concluding, let me say that the global financial environment that we operate and live in is becoming more and more unpredictable. As central bankers, we will need to respond accordingly in order to maintain macroeconomic stability in such a hostile environment. Research and capacity building are two important pillars of our work that will help us meet the challenges that we are facing now and will face in the future.

I thank the SEACEN Executive Director and his team for the arrangements they have made for this conference.

I sincerely hope that you will find the conference fruitful and I that you will enjoy your stay in Fiji.

Vinaka Vakalevu and thank you.