

RESERVE BANK OF FIJI



PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank Board held its monthly meeting on 26 May 2011 and agreed to maintain the Overnight Policy Rate (OPR) at 1.50 percent.

According to Reserve Bank Governor and Chairman of the Board, Mr. Barry Whiteside, “Developments in the world economy remain promising for Fiji, with positive growth in our major trading partner economies likely to support higher exports, tourism and inward remittances this year. However, global risks prevail through higher unemployment levels and inflation.”

Domestically, the economic outlook continues to be supported by the improving global recovery. The 2.7 percent growth forecast for 2011 is expected to be broad based, with most sectors such as tourism and mining, maintaining their growth momentum from 2010. Local labour market conditions are anticipated to improve through increased hiring intentions and incomes, on the back of higher economic activity forecast for this year. Credit growth remains modest. However, rising inflation is expected to be a drag on consumer spending.

On monetary policy objectives, the Governor noted that inflation rose further in April to 8.1 percent, from 7.6 percent in March. The monthly increase in consumer prices was mainly driven by higher prices for wheat products, market items and miscellaneous items. Considering the upward trend in world oil and food prices over the past three months, higher trading partner inflation forecasts and the improved domestic growth outlook, the year-end inflation forecast for 2011 has been revised upwards to 7.0 percent from the 6.0 percent projected earlier. Importantly, underlying inflation, which excludes volatile items, also rose in April to 2.7 percent, raising some caution for possible upward domestic price pressures, although it was lower than the 4.8 percent recorded in 2010. Over the medium term, inflation is expected to fall.

Foreign reserves are currently around \$1,436 million, sufficient to cover 4.2 months of imports of goods and non-factor services. The performance of foreign reserves has been above expectations and the outlook is expected to remain at current levels to the end of year, supported by pending inflows of global bond proceeds, inflows from export earnings and higher tourism receipts.

Against this background, Mr. Whiteside said that, “the current accommodative monetary policy stance remains unchanged, with the OPR maintained at the current level. However, the Bank will continue to vigilantly monitor inflation and possible second round effects extremely closely.”

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