

RESERVE BANK OF FIJI



PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

Following its monthly meeting held on 30 June, 2011, the Reserve Bank of Fiji Board decided to maintain its current monetary policy stance, with the Overnight Policy Rate (OPR) held at 1.50 percent.

The Governor and Chairman of the Board, Mr. Barry Whiteside stated that “developments in the global economy remained firm despite the recent setbacks for some advanced economies. Growth prospects for Fiji’s trading partner countries remain generally positive and this should be favourable for Fiji’s trade, tourism, remittances and associated sectors.”

Domestically, sectoral performances revealed mixed results. However, some pick-up in sectoral output is envisaged towards the second half of the year, as we approach the cane crushing and peak tourism seasons. The commencement of the cane crushing season and the envisioned increase in tourism activity are expected to provide the much-needed impetus for economic activity, particularly boosting consumer spending in the coming months. However, the current high operational costs, especially on mineral fuels and electricity, continue to pose supply constraints to most businesses.

Inflation remained heightened as the increases in global commodity prices, especially oil and food, filter through domestically. In May, the inflation rate as measured by the Consumer Price Index, rose further to 8.8 percent from 8.1 percent in April. Excluding food and energy items, inflation remained unchanged at 2.7 percent over the same period. With the current global high oil and food prices expected to remain, the inflation forecast for this year is forecast to peak soon before declining to 7.0 percent in December.

Foreign reserves rose further to \$1,522 million as at 28 June, sufficient to cover 4.5 months of imports of goods and non-factor services. The higher foreign reserves level provides an adequate buffer for preserving Fiji’s external stability, in the event of a sharp rise in imports particularly through higher oil and food prices. The comfortable level of reserves has also enabled the Reserve Bank to approve all outstanding profit repatriation by commercial banks, as well as raise the limit for offshore investment by the Fiji National Provident Fund.”

Mr. Whiteside added “that with the current comfortable outlook for foreign reserves and inflation expected to gradually decline in the near term, it is appropriate that the monetary policy stance remains accommodative to support expansion in investment, business and consumption activity.” In this regard, the Reserve Bank has raised its concerns with individual banks and collectively with the Association of Banks in Fiji (ABIF), on the high average new lending rates and the low volume of new lending at a time when the liquidity in the banking system is at a historical high level. The Reserve Bank has informed banks at its joint ABIF meeting that it will put in place policies that will support lending to priority sectors and measures that will bring down lending rates in a high liquidity environment. Further discussions will be held with the banks in July prior to implementing these policies, which will support priority sectors of the economy, and help create employment and growth in the country.”

The Reserve Bank will continue to monitor developments closely over the ensuing months, along with all other factors having a bearing on economic conditions.

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