

RESERVE BANK OF FIJI



PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank Board held its monthly meeting in Lautoka on 24 August 2011. The meeting was followed by a presentation on Fiji's economic conditions to the Western Business Community. The Board also took the opportunity to visit some manufacturing, mining and forestry projects in Navua, Lautoka, Ba, Vatukoula and Rakiraki.

The Board agreed to maintain the Overnight Policy Rate (OPR) at 1.50 percent. In announcing the board decision, the Governor and the Chairman of the Board, Mr. Barry Whiteside stated that "solid-paced growth in emerging markets continued to support global economic growth. However, elevated inflationary pressures in these economies and continued softness in certain advanced economies' performances remain a concern".

On the domestic front, the Governor noted that economic activity remains uneven across key industries. Apart from the tourism, mining and forestry industries, production outcomes and investment intentions have remained weak. Cautiousness in consumer spending persisted in the July review period, consistent with the annual declines in merchandise imports and new lending for consumption purposes in the year to May and year to June, respectively. However, on a positive note, total exports rose annually in the year to May, underpinned by higher earnings from re-exports, sugar, fruit & vegetables and other domestic exports, which more than offset the declines in fish, gold, garments and timber receipts. Personal remittances also rose annually by 9.6 percent in the first six months of the year while tourism earnings posted a 5.1 percent annual growth in the first quarter.

Inflation remained elevated at 10.1 percent in July, compared to 10.3 percent in June. On an annual basis, prices for most categories rose, reflecting the high global commodity prices, particularly for food and oil which fuelled the surge in consumer prices. Nevertheless, supply-side and external factors - developments that fall outside the influence of conventional monetary policy - have accounted for much of our domestic inflation to date. The inflation forecast for end-2011 remains at 7.0 percent, although risks largely emanating from the recent increases in the retail prices for fuel, bread and butter, are tilted to the upside at this stage.

Foreign reserves increased further over the month to \$1,629.2 million on 30 August, sufficient to cover 4.8 months of imports of goods and non-factor services. Mr. Whiteside concluded that, "foreign reserves are expected to remain at comfortable levels while demand-driven pressures on inflation are largely absent. Essentially, with no immediate threats to our core monetary policy objectives, the Bank's monetary policy stance remains focussed on supporting the domestic economic recovery".

In the coming months, the Reserve Bank will continue to monitor domestic and international economic conditions and align its policy decisions accordingly.

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