



## *PRESS RELEASE*

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### MONETARY POLICY STANCE REMAINS UNCHANGED

At its monthly Board meeting on 31 May, the Reserve Bank of Fiji agreed to maintain the current accommodative monetary policy stance by keeping the Overnight Policy Rate (OPR) unchanged at 0.5 percent. Maintaining a low policy rate is aimed at signalling lower interest rates in the market, particularly lending rates to stimulate lending and growth in priority sectors of the economy. Strengthening the current economic recovery is critical in view of ongoing risks to our external stability and the vulnerabilities the economy faces.

The Governor of the Reserve Bank and Chairman of the Board, Mr. Barry Whiteside, in announcing the decision remarked that developments on the international front have deteriorated over the month, largely due to on-going speculation of a possible Greek exit from the Euro Zone in the next twelve months. The deteriorating fiscal and financial conditions in the Euro Area pose the greatest threat to the global growth outlook. Although there were mixed performances for our major trading partners in the review period, they are still expected to register positive growth in 2012.

The outturn in the domestic economy in the first quarter of this year was encouraging, with data generally pointing to better sectoral performances and a pick-up in demand. Electricity consumption, together with gold production and visitor arrivals all recorded higher performances compared to the same period in 2011. Consumption remained strong in the first three months of the year, as indicated by the annual growth in domestic VAT collections, and new consumption lending almost doubled over this period. Generally, investment indicators remain mixed even though new investment lending registered notable growth in the first quarter.

The Governor, however, cautioned that whilst the outturn in available indicators are broadly in line with the growth prospects this year, it must be noted that the impact of the March-April floods and resulting losses to the economy are not fully captured in the data available in first quarter but will be reflected in the coming months. Despite this setback in the first quarter, the economy is expected to continue on a recovery path.

Financial conditions improved further as indicated by the growth in monetary and credit aggregates, ample liquidity in the banking system and low interest rates. Broad money and domestic credit both registered increases in April, with the rise in the latter being led by the upturn in private sector credit. In light of adequate level of liquidity in the banking system, interest rates on both deposits and lending declined further in the review period.

Mr. Whiteside added that foreign reserves, currently at about \$1,446 million, remain comfortable and are sufficient to cover 4.6 months of retained imports. Inflation in April rose to 6.4 percent from 5.6 percent in March, mainly reflecting the effects of the March-April floods. Foreign reserves are envisaged to remain adequate in the coming months and inflation is still expected to fall to 3.5 percent by year end.

With the monetary policy objectives intact, the Governor concluded that the accommodative monetary policy stance of the Reserve Bank remains appropriate in view of increasing uncertainties on the global front and the pressing need to support domestic economic growth.