RESERVE BANK OF FIJI

PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank Board agreed to maintain the Overnight Policy Rate (OPR) at 0.5 percent, following its monthly meeting held on 23 February, 2012.

In announcing the Board decision, the Governor and the Chairman of the Board, Barry Whiteside stated that "international economic and financial conditions have continued to weaken, and the outlook remains uncertain driven by the European sovereign debt crisis, underlining the lower-than-expected global expansion this year".

Domestically, the Governor noted that following an estimated 2.1 percent growth last year, the economy is forecast to expand further by 2.3 percent this year, led by the industrial and primary sectors. However, the recent floods in the Western Division at the end of January pose some downward bias to the growth outlook, with preliminary assessments indicating notable impact on the agriculture, wholesale & retail, construction and electricity & water sectors. Despite these setbacks, consumption and investment are expected to be positive this year on account of higher incomes, lower corporate and personal tax rates and increased incentives for investment announced by the Government through the 2012 National Budget.

The Board Chairman added, that the recent pick-up in annual private sector credit growth to 6.5 percent in January 2012 from 3.5 percent in January last year, is a positive reflection of the three reductions in the OPR last year and on-going discussions with banks. This year, credit is expected to remain upbeat, supported by recent implementation of the new small medium enterprise credit guarantee system and the required Agriculture and Renewable Energy Loan ratios and to a lesser extent by the expected increases in consumption and investment demand as well as expected flood related reconstruction.

Inflation fell in January to 5.9 percent from 7.7 percent in December last year, reflecting the fading of one-off price increases and easing commodity prices. The recent floods are expected to impact inflation outcomes in the coming two to three months through higher prices for agricultural market items. However, with the supply of these items expected to normalise thereafter, the year-end inflation forecast remains at around 3.5 percent.

Foreign reserves remain at comfortable levels. As at 24 February 2012, reserves stood at $1,493 million, sufficient to cover 4.7 months of retained imports of goods and services.

The Board noted that the current stimulatory role of monetary policy is appropriate given the escalated external and domestic downside risks to growth. In the coming months, the Board will continue to assess global and domestic developments and align monetary policy accordingly.

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