

RESERVE BANK OF FIJI



PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank Board at its monthly meeting on 28 February agreed to maintain the Overnight Policy Rate (OPR) at 0.5 percent.

The Governor of the Reserve Bank and Chairman of the Board, Barry Whiteside said that “global economic conditions and outlook remain positive, despite the slight downward revision in global growth prospects by the International Monetary Fund late last month.” Downside risks continued to emerge from the Euro zone as recent indicators signal ongoing weakness and a further dip into recession this year following the decline in economic activity noted last year.

Latest indicators on domestic demand noted continued growth in private consumption. Additionally, partial indicators for investment activity have been largely positive throughout 2012 with investment now expected to reach 25 percent of GDP this year. Moreover, the expansionary stance adopted by the Government, particularly on infrastructure spending, will support economic activity and assist in aligning the growth path back to its potential.

On the downside, however, Mr. Whiteside stressed that “aggregate supply has been lagging in major sectors since the latter part of 2012. Weaker performances in tourism, sugar, gold and sluggishness in electricity and cement production last year imply that these industries are operating below capacity and have yet to fully recover from the floods, cyclone and other supply-side disturbances encountered last year.” Against this backdrop, it is imperative that policies continue to be geared towards enhancing the recovery and restoring full capacity in major sectors of the economy over the next few months.

Foreign reserves are currently (28 February) around \$1.6 billion, sufficient to cover 4.5 months of retained imports. Inflation, however, rose to 3.2 percent in January from 1.5 percent in December, largely reflecting the impact of Cyclone Evan on agricultural produce and an increase in domestic prices of cooking gas and kerosene. However, based on expectations that global commodity prices will stabilise further given the global outlook, and the existing spare capacity in the economy, the year-end inflation rate forecast remains at 3.0 percent.

In view of the ongoing recovery on both the global and local fronts, the Governor stated that maintaining the current accommodative monetary policy stance in the foreseeable future to support economic growth would be appropriate. However, he stated that the Reserve Bank will continue to monitor domestic and international economic developments, particularly the outlook for inflation, foreign reserves and growth, and align its monetary policy decisions accordingly.

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