OVERNIGHT POLICY RATE REMAINS UNCHANGED

The Reserve Bank of Fiji Board maintained the Overnight Policy Rate (OPR) at 0.25 percent, at its monthly meeting on 28 May.

The Governor and Chairman of the Board, Mr Ariff Ali, highlighted that, “the coronavirus (COVID-19) pandemic continues to negatively impact the global and domestic economy. More recently, most countries have reported a flattening curve with regard to the outbreak, and despite concerns of a second wave, have begun easing internal lockdown restrictions, sparking some optimism. However, the lifting of global restrictions is expected to differ in timing and magnitude, yielding uneven economic recovery within, as well as, across countries.”

Mr Ali added that Fiji’s subdued economic outcomes to date are broadly consistent with global developments and the impact of COVID-19 measures taken both globally and domestically. Travel restrictions have severely impacted tourism and related sectors, while suppressed global activity has resulted in weak demand for Fiji’s exports and reduced remittance receipts. In step, domestic credit growth has slowed and unemployment has risen markedly. As a result, the Fiji economy is projected to note a severe contraction in 2020. Partial indicators to date reveal that the domestic economy will record the largest contraction, similar to a number of other countries. Some recovery is anticipated from 2021, however this is highly contingent on the resumption of global travel before year-end.

On the Reserve Bank’s monetary policy objectives of stable inflation and adequate foreign reserves, these remain intact. Annual inflation has been in negative territory since January and was -1.3 percent in April underpinned by lower prices of yaqona, vegetables, kerosene and diesel. By year-end, inflation is forecast to be 1.0 percent, mainly due to expected increases in food prices, and some stabilisation of global fuel prices. Foreign reserves as at 28 May stood at $2,212.2 million, sufficient to cover 6.9 months of retained imports. In the near-term, foreign reserves levels are projected to remain sufficient, supported by a fall in import payments due to both low domestic demand and commodity prices and higher offshore Government borrowing, which will more-than-offset weakened export receipts.

The Governor added that around 20 percent of loans has been restructured by financial institutions as a result of COVID19. However, Fiji’s financial system has been assessed to be sound with stable interest rates, underpinned by solid capitalisation and liquidity ratios, and supported by ample excess liquidity which was $802.2 million on 27 May.

Given this backdrop and outlook, the current stance of an accommodative monetary policy remains appropriate and complements Government’s efforts to stabilise the economy. The Reserve Bank will continue to monitor the situation closely, and align monetary and financial sector policies, where appropriate.