RESERVE BANK OF FIJI



PRESS RELEASE

Press Release No. : 03/2011 Phone : (679) 331 3611

Fax : (679) 330 2094

Date : 28 February 2011 E-mail : <u>rbf@reservebank.gov.fj</u>

RESERVE BANK ANNOUNCES MONETARY POLICY CHANGES

The Reserve Bank of Fiji Board held its meeting on 25 February, 2011 and decided to reduce the Overnight Policy Rate (OPR) to 2.00 percent from 2.50 percent.

While announcing the board decision, the Acting Chairman of the Board, Mr. Adish Narayan stated that "while the current trend and outlook for inflation poses some concern, on balance, the reduction in the OPR is appropriate considering the still very weak domestic economic conditions and a favourable outlook for foreign reserves".

Mr Narayan said that "recent economic data indicate that the global economy is recovering well from the worst recession in 60 years. However, the latest surge in oil prices coupled with high food costs and potential overheating in emerging market economies could dampen the global economic recovery and negatively affect our tourism and export industries. On the domestic front, recent indicators reveal that visitor arrivals, mining, electricity and the non-sugar export sectors performed positively in 2010 despite the contraction in the sugar sector".

Furthermore, latest indicators suggest that consumption activity improved, albeit weakly, in 2010 aided by inflows of personal remittances and improvement in labor market conditions. Investment, however, remains subdued as reflected in the decline in imports of investment goods and fall in new loans for investment purposes over the year.

The Board also noted that the inflation rate rose to 5.9 percent in January from 5.0 percent in December last year, mainly reflecting the impact of the increase in VAT together with the higher crude oil price in the review period. Mr. Narayan added "that the recent rise in inflation does not reflect strong domestic demand conditions but stems largely from the upward revisions in the FEA tariff in November 2010 and VAT increase in January as well as supply side factors, particularly in the international oil market".

On the external front, the trade deficit narrowed by 6.8 percent to \$1,017.8 million in the first eight months of 2010, underpinned by a notable growth in exports and subdued demand for imports. Liquidity in the banking system increased further over the month and currently stands at \$378.3 million. Commercial bank interest rates, despite mixed outcomes over the month, generally declined in 2010 compared with the previous year facilitating a modest pick-up in private sector credit.

Foreign reserves are currently at \$1,304.95 million, equivalent to 3.9 months of imports for goods and non-factor services. On account of the recent increase in VAT and supply-side constraints in

Private Mail Bag, Suva, Fiji Tel: (679) 331 3611 Fax: (679) 330 2094 Email: info@rbf.gov.fi Website: ww.rbf.gov.fi

the crude oil market, the inflation forecast for this year has now been revised upwards to 6.0 percent from the earlier projection of 3.0 percent.

Despite the marginal growth estimated for 2010 and positive outturns in some major sectors such as tourism so far this year, the domestic economy is still performing below potential. The Acting Board Chairman stated that "the reduction in the OPR to 2.00 percent should stimulate demand by reducing borrowing costs and creating an environment that is conducive to investment. This should aid economic recovery and support growth".

However, the Board emphasised that while monetary policy is currently accommodative to growth, the Reserve Bank will continue to monitor the twin objectives of low inflation and comfortable level of foreign reserves and will align monetary policy accordingly.

Reserve Bank of Fiji

Private Mail Bag, Suva, Fiji Tel: (679) 331 3611 Fax: (679) 330 2094 Email: info@rbf.gov.fj Website: www.rbf.gov.fj