RESERVE BANK OF FIJI

PRESS RELEASE

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RESERVE BANK ANNOUNCES MONETARY POLICY CHANGES

The Board of the Reserve Bank of Fiji, at its monthly meeting on 28 April 2011, agreed to reduce the Overnight Policy Rate (OPR) to 1.50 percent from 2.00 percent.

While announcing the board decision, the Acting Governor and Chairman of the Board, Mr. Barry Whiteside stated that "while the rising crude oil and food prices pose ongoing concerns for households and businesses in the economy, the current settings of slowly improving domestic demand and a healthy foreign reserves outlook validates a continued accommodative monetary policy stance".

Mr Whiteside said that "whilst global economic recovery remains upbeat, the adverse impact of the natural disasters in Japan, New Zealand and Australia has resulted in a downward revision to the 2011 economic growth outlook in these economies. However, the impact on our export sector is expected to be limited, although some negative effects are likely on visitor arrivals in the short-term".

On the domestic front, real sector performances remain mixed. Recent data showed continued improvement in consumption activity, supported by private sector credit and improved employment conditions. Investment conditions however, remain subdued although higher realised investment in the public and resource-based sectors such as mining, mineral water, fishing and forestry should strengthen investment activity this year. Overall, the economy is now projected to grow by 2.7 percent this year, compared to the 1.3 percent envisaged earlier. Similarly, economic growth for 2012 and 2013 have also been revised upwards to 2.1 percent and 1.9 percent, respectively.

Inflation was registered at 7.6 percent in March, mostly driven by international price developments (rising food and oil prices) as well as the increase in VAT rate and electricity tariff. However, underlying inflation, as measured by the trimmed mean, is around 2.3 percent. Over the month, consumer prices rose marginally by 0.1 percent. Year-end inflation forecast for 2011 remains at 6.0 percent.

Foreign reserves are currently at $1,360 million, equivalent to 4.0 months of imports for goods and non-factor services. The current soft import demand, rising non-sugar exports, proceeds from the global bond issue and better performance in the tourism sector are expected to yield a stable foreign reserves position in the near term. Nevertheless, higher international oil and food prices remain a threat to this outlook.

Mr Whiteside reiterated that "the reduction in the OPR, coupled with the high liquidity in the financial system should provide further impetus for investment and raise demand needed to support economic growth. However, he added that while monetary policy is accomodative to growth, the Bank will remain vigilant in monitoring inflation and foreign reserves in the coming months and aligning monetary policy accordingly to ensure our objectives are safeguarded".

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