RESERVE BANK OF FIJI



PRESS RELEASE

Press Release No. : 08/2011 Phone : (679) 331 3611

Fax : (679) 330 2094

Date : 01 April 2011 E-mail : rbf@reservebank.gov.fj

MONETARY POLICY STANCE REMAINS UNCHANGED

Following the meeting of the Reserve Bank of Fiji Board held on 31 March 2011, the Acting Governor and Chairman of the Board, Mr. Barry Whiteside, announced that the current monetary policy stance remains unchanged, with the overnight policy rate maintained at 2 percent.

On international economic conditions, Mr. Whiteside said that the global recovery is expected to continue in 2011, led by favourable outturns in emerging and developing economies. However, possible threats to this outlook include inflationary pressures from higher food and oil prices, escalating debt levels in Europe and the ongoing civil unrest in the Middle East and North African regions. For our major trading partners, the devastating impact of the recent natural disasters in Australia, New Zealand and Japan have led to downward revisions to their 2011 growth rates.

Domestic economic outcomes were mixed in the review period. The Chairman highlighted that while consumption indicators registered some positive growth, the increase in VAT collections were largely attributed to the higher VAT rate, which rose from 12.5 to 15 percent in January. On investment, construction-based activity remained subdued. However, resource-related investments, particularly in the mining, fishing, forestry and mineral water industries, are expected to strengthen in the coming months. On the external sector, Mr. Whiteside stated that latest data revealed an improvement in the trade deficit by 18.4 percent, due to higher growth in exports relative to the expansion in imports.

Inflation rose further in February to 7.6 percent, mainly reflecting the impact of the increase in fuel and wheat product prices as well as the higher VAT rate. The year-end inflation projection for 2011 remains at 6.0 percent.

The Board Chairman added that the level of foreign reserves was \$1,277 million on 31 March 2011, adequate to cover 3.8 months of imports of goods and non-factor services. Importantly, the Chairman noted that there are possible risks to the outlook for foreign reserves and inflation, including higher international crude oil and food prices. Furthermore, there may be a dampening in export demand and inbound tourist travel from our major trading partners Australia, New Zealand and Japan, following their reduced growth forecasts for 2011.

In light of the prevailing modest demand conditions in the economy while keeping in mind the possible risks to our monetary policy objectives, the Board decided to maintain the current monetary policy stance. In the meantime, the Reserve Bank will continue to assess the impact of any major changes in international and domestic economic developments and 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.fi Website: www.rbf.gov.fi