RESERVE BANK OF FIJI

PRESS RELEASE

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MONETARY POLICY STANCE STAYS UNCHANGED

The Reserve Bank Board held its monthly meeting on 21 July 2011, and agreed to maintain the Overnight Policy Rate (OPR) at 1.50 percent.

According to the Governor and Chairman of the Board, Mr. Barry Whiteside, "while prospects for global and most major trading partner economies' growth remain firm, relatively high international oil and food prices remain as prominent downside risks to the current international outlook. In fact, while the current strength in commodity prices is indicative of recovery in global demand, these price hikes have reduced real household incomes and spending, both on the global and domestic fronts, via relatively higher inflation outcomes."

During the review period, sectoral outcomes in the domestic economy were varied. Data on exports earnings for timber, fish and cane production, suggest that the rebound in Fiji's resource sectors persists. On industrial production, while higher mineral water and garment earnings in the first six months indicate increased activity, the sixth consecutive decline in electricity production so far this year points to continued softness in certain parts of the domestic economy. On the upside, tourism activity is expected to further strengthen as the industry enters its peak season and feeds through to wholesale & retail trade activities and certain transport categories. Nevertheless, business sentiments for the communications and real estate & business services sectors are relatively subdued and new commercial bank lending data suggests restrained financial intermediation. Overall, some sectors are performing more strongly than the others, pointing to an uneven economic recovery and persisting slump in certain sectors.

Inflation in June was 10.3 percent, up from 8.8 percent in May. The domestic inflation outcome was underpinned by higher energy, food and alcoholic drinks & tobacco-related prices. The continuing high oil prices and inflation constitute intermediate costs borne by firms that will negatively impact total output levels. The Governor added that, "the spare capacity in the domestic economy combined with the anti-inflationary bias of monetary policy in our major trading partner economies, should assist with keeping inflation levels trending downwards towards year end. The inflation forecast at end December remains at 7.0 percent."

Foreign reserves rose further to $1,575.4 million as at 21 July, sufficient to cover 4.7 months of imports of goods and non-factor services. Mr. Whiteside concluded "that with the current comfortable outlook for foreign reserves and subdued demand-pull pressure on inflation, the monetary policy stance will remain accommodative to support the continued recovery of the domestic economy." Additionally, the Reserve Bank in consultation with banks has set an initial target of 10 percent growth in lending to priority sectors, to support the current economic recovery. This target will be reviewed in six months.

In the coming months, 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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