RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No. **: 29/2011**

Date **: 31 October 2011**

Phone : (679) 331 3611
Fax : (679) 330 2094
E-mail : info@rbf.gov.fj

RESERVE BANK ANNOUNCES MONETARY POLICY CHANGES

In its monthly meeting on 28 October, the Board of the Reserve Bank of Fiji agreed to reduce the Overnight Policy Rate (OPR) from 1.5 percent to 0.5 percent.

In announcing the Board decision, the Acting Chairman of the Board, Mr. Deo Saran, stated that "the weaker outlook on global and domestic growth warrants such a move, particularly at this juncture where foreign reserves levels are comfortable and the outlook is stable, while inflation is expected to moderate over the coming months. The reduction in OPR should provide further impetus for investment and fuel private sector demand needed to support economic growth."

Developments in the global economy have entered a more precarious phase with greater uncertainty and financial volatility. The uneven expansion between advanced and emerging & developing economies is expected to widen further. The debt and banking sector problems in Europe together with the fiscal sustainability concerns over the United States are significant threats to the already weak recovery in global demand. Consequently, the downward revision in global growth to 4.0 percent for both 2011 and 2012 will have implications for Fiji via its impact on major trading partner economies.

On the domestic front, the Board noted that the performance of the real sector has been mixed. The buoyancy in visitor arrivals continued in July, consistent with the tourism peak season. Some improvements were noted in cane and sugar production in the cumulative to September period, while the decline in gold production was compensated by the prevailing high world gold prices in the same period. However, the lower electricity consumption and production is indicative of the persisting lull in industrial production. In addition, consumption spending remains modest in line with slow growth in private sector credit, while investment activity remains soft.

In line with easing international commodity prices as well as the decline in prices of domestic market items, inflation fell to a less-than-expected 9.7 percent in September. Looking ahead, prices are expected to moderate further, consistent with the weaker outlook on global commodity prices in view of the slowing global economy, and taking into account the expected waning impact of the one-off increase in the electricity tariff rate and VAT. Despite the persisting upside risks, downside risks should not be ruled out given the volatile nature of commodity prices. The year-end inflation hence, remains at 7.0 percent.

Foreign reserves are comfortable at around $1,543.2 million on 31 October, sufficient to cover 5.0 months of retained imports of goods and non-factor services. The Board also noted that the outlook on foreign reserves remains adequate into the medium term.

The Acting Board Chairman concluded that "with our monetary policy objectives stable against a subdued domestic growth outlook into the medium term, it is imperative that monetary policy moves beyond its current accommodating parameters towards a more stimulating role that will provide the lower interest rate environment needed to boost economic activity."

RESERVE BANK OF FIJI