RESERVE BANK OF FIJI

PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank of Fiji Board, at its monthly meeting on 30 November, agreed to keep the Overnight Policy Rate (OPR) unchanged at 0.5 percent.

The Reserve Bank Governor and Chairman of the Board, Mr. Barry Whiteside said, "there is a real risk that the European sovereign debt crisis could seriously derail global growth prospects should European leaders fail to take proper action. The adverse impact of any further slowdown in global growth is expected to offset some of the gains from exports, tourism, remittances and foreign investments. However, growth prospects for most of our major trading partners remain positive."

On the domestic economy, the Chairman highlighted that the 2011 growth forecast has been revised down to 2.1 percent from 2.7 percent, due to lower-than-previously-envisaged activity in the manufacturing and forestry sectors, contractions in gold; electricity; and fish output as well as lower performances in parts of the public sector. On a positive note, however, consumption activity continues to pick-up, performances by the tourism and tourism-related sectors remain strong, there is firm recovery in cane and sugar production, and interest in new mining activities is growing.

Domestic credit growth picked up strongly in October, largely reflecting higher private sector credit expansion of 6.1 percent, the highest in over 2 years. New lending for consumption and investment purposes were higher during the review period. At the same time, commercial bank interest rates continued to trend downwards given the surplus liquidity in the banking system.

Headline inflation eased further to a lower-than-expected 9.1 percent in October while underlying inflation, as measured by the trimmed mean, was unchanged at 3.7 percent. Looking ahead, the Governor said that, "the subdued global economic outlook and the current low domestic demand pressures are anticipated to support a lower inflation outlook. Year-end inflation is now forecast at around 6.5 percent. The level of foreign reserves as at 30 November was around $1,461.4 million, equivalent to 4.8 months of retained imports of goods and non-factor services. The outlook for foreign reserves remains adequate into the medium term."

Mr. Whiteside added that, "with the outlook for inflation and foreign reserves anticipated to remain favourable over the medium term amidst a deterioration in global growth prospects, maintaining an accommodative monetary policy to support investment activity domestically remains crucial." At the same time, he emphasised the need to be vigilant in assessing ongoing developments globally and domestically and adjusting monetary policy appropriately.

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