RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No. : **05/2012**

Date : **30 January 2012**

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

MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank of Fiji, at its monthly meeting in January, agreed to keep the Overnight Policy Rate unchanged at 0.5 percent.

Reserve Bank Governor and Chairman of the Board, Mr. Barry Whiteside said, "risks to the global outlook have increased largely due to the intensification of the sovereign debt crisis in the Euro-zone in the second half of 2011. Consequently, the global economy is estimated to have expanded by 3.8 percent last year, a slowdown from the 5.2 percent growth in 2010. This year, the escalation of fiscal sustainability concerns and financial fragilities in the Euro-zone is expected to lead to a further slowdown, with the International Monetary Fund (IMF) expecting global economic growth to moderate to 3.3 percent from the 4.0 percent anticipated earlier. Commodity prices and inflation are expected to decline as well, in tandem with the slowing global demand".

On the local front, the domestic economy is estimated to have grown by 2.1 percent last year. Governor Whiteside noted that "sectoral performances in the last quarter of 2011 generally revealed mixed results. While output from the cane and sugar industries as well as visitor arrivals remained buoyant, gold, electricity generation and construction activity contracted further with labour market conditions remaining soft. On a positive note, domestic credit rose further for the second consecutive month in November reflecting a pick-up in credit demand and general consumer spending". For 2012, while growth is projected at 2.3 percent, the recent flooding in the West and parts of the Northern Division is expected to negatively impact activity in the agricultural sector and to some extent tourism, thereby posing difficulties for businesses leading to some dampening of economic activity in these regions.

In December, headline inflation declined further to 7.7 percent, from 8.8 percent in November. The easing of inflationary pressures reflects the waning effects of the increase in the electricity tariff rate restructure in November 2010 and the decline in commodity prices. Nevertheless, the outturn at the end of 2011 was higher compared to the 6.5 percent annual inflation figure forecasted by the RBF. The divergence was largely due to revisions in the Consumer Price Index basket which now reflects the increase in the taxi fare effective from November last year. Looking ahead, the year-end inflation forecast for 2012 remains at 3.5 percent.

Foreign reserves as at 25 January stand at around $1,507.4 million, equivalent to 4.8 months of retained imports cover. The Governor added that, "with the current comfortable outlook for foreign reserves and inflation expected to gradually decline in the coming months, it is appropriate that monetary policy remains accommodative to support domestic economic growth".

The Board emphasised that the Reserve Bank will continue to vigilantly monitor developments in international and domestic economic conditions over the ensuing months, and adjust monetary policy accordingly.

RESERVE BANK OF FIJI