RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No.	**: 02/2013**	**Telephone**	**: (679) 3313 611**
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Date	**: 1 February 2013**	**Email**	**: info@rbf.gov.fj**

MONETARY POLICY STANCE REMAINS UNCHANGED

The Reserve Bank Board at its monthly meeting on 31 January agreed to maintain the Overnight Policy Rate (OPR) at 0.5 percent.

While announcing the Board decision, the Acting Chairman of the Board, Mr Iowane Naiveli stated that "global economic conditions and prospects remain gloomy although some progress was made by the US Government to resolve its fiscal issues early in the review month." Consequently, the International Monetary Fund recently cut its global growth forecast for 2013 to 3.5 percent, down from the earlier forecast of 3.6 percent in October last year. While the US economy has shown signs of modest growth, the Euro zone is still mired in recession. Conditions in China have improved in recent months while in Japan, authorities have introduced further fiscal stimulus to spur growth.

On the domestic front, the Fijian economy is estimated to have grown by 2.5 percent last year. The Board noted that "sectoral performances remained mixed in the final quarter of 2012". Weak sectoral outcomes were noted for cane, sugar, gold and visitor arrivals. However, demand continues to be driven by consumption spending as evident by the strong growth in new lending for consumption purposes, and domestic Value Added Tax collections whose growth remained upbeat. Additionally, indicators for investment continue to support a positive outlook. Nonetheless, this year's economic performance is expected to be marred by the adverse impact of Cyclone Evan on the primary and service sectors, ongoing structural issues in some key industries, and continued softness in global demand.

Inflation was recorded at 1.5 percent in December 2012, down from the 2.1 percent noted in November. This was on account of lower prices for some market items and the continuing weakness in the global economy, which translated into lower commodity prices. Foreign reserves remain comfortable and are currently (31 January) around $1,602.5 million, sufficient to cover 4.9 months of retained imports.

The Board further added that given the comfortable level of foreign reserves and inflation, the current accommodative monetary policy stance remains appropriate to support an environment for economic growth and development.

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