RESERVE BANK OF FIJI

PRESS RELEASE

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MONETARY POLICY STANCE REMAINS UNCHANGED

At its monthly meeting on 27 October, the Reserve Bank of Fiji Board agreed to maintain the current accommodative monetary policy setting, leaving the Overnight Policy Rate unchanged at 0.5 percent.

In announcing the decision, the Governor and Chairman of the Board, Barry Whiteside stated that, "while the economy is on track to achieve its seventh consecutive year of positive growth in 2016 following a 3.6 percent expansion in 2015, some sectoral performances have been lower-than-expected thereby indicating a downward bias on the current growth projection of 2.4 percent. Yearly growth in visitor arrivals and remittance inflows, while staying positive, have both trended below forecast. In particular, tourist numbers from Australia are lower over the year which is being offset by strong increases from other markets especially New Zealand and China. Among other sectors, sugar, timber and fish production have declined due to Tropical Cyclone Winston and down time from planned mill upgrades. Despite higher capital spending allocated in the 2016/2017 National Budget for reconstruction activity, shortages of essential building materials have led to delays in some major construction works, resulting in expected slower project implementation this year. Nevertheless, the overall positive growth is reflective of strong performances in other sectors such as electricity and gold." Consistent with ongoing economic activity, Mr Whiteside said consumption and investment activities remain positive, supported by continued accommodative financial conditions, remittance inflows and favourable labour market conditions.

On the international front, Mr Whiteside highlighted the modest global growth projections, waning trading partner demand and prevailing uncertainties and risks especially relating to rising import commodity prices and contagion implications of the 'Brexit'. Consequently, our external balances are expected to slightly deteriorate, exacerbated by the higher import demand to support the economic recovery.

Amidst these developments, the twin objectives of the Reserve Bank remain intact. Foreign reserves were around $1,983.6 million (27 October 2016), sufficient to cover 5.5 months of retained imports of goods and non-factor services. Headline inflation rose above 5.0 percent for the fifth consecutive month in September to 5.6 percent as a result of supply side constraints. This was underpinned by higher prices in the alcoholic beverages, tobacco & narcotics category which accounted for two thirds (3.7 percentage points) of overall inflation – particularly for yaqona, food & non-alcoholic beverages and education. High yaqona prices have persisted and unexpectedly grew further in September. If prices remain at similar levels, there is a higher likelihood of continued inflationary pressure towards the end of 2016. Consequently, the 2016 year-end headline inflation forecast has been revised upward to 5.0 percent, from the 3.5 percent expected earlier. Excluding the impact from higher prices of volatile items such as food, yaqona and energy, underlying inflation for September was around 3.3 percent.

The Governor concluded that the Reserve Bank will continue to monitor latest developments and risks to the global and domestic economic outlook and align monetary policy, accordingly.

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