

RESERVE BANK OF FIJI

PRESS RELEASE



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RBF MAINTAINS ACCOMMODATIVE MONETARY POLICY STANCE AND INCREASES IMPORT SUBSTITUTION AND EXPORT FINANCE FACILITY FUNDING

The Reserve Bank of Fiji (RBF) Board maintained the Overnight Policy Rate (OPR) at 0.25 percent following its monthly meeting on 30 April.

The Governor and Chairman of the Board, Mr Ariff Ali, highlighted “that on the global front, trade, travel and economic activity have been hampered significantly as a result of the unprecedented COVID-19 health crisis. Domestically, consumption and investment activity have contracted due to weak aggregate demand and business confidence. The halt in tourism activity is expected to continue into the second half of the year. The economy is expected to contract more sharply than the -4.3 percent previously estimated for 2020. A rebound in economic activity in 2021 is contingent on the pandemic abating, a resumption of global travel, and lifting of domestic restrictions from the third quarter of this year. However, the recovery is likely to be protracted, with significant downside risks given the fluid status of the pandemic.”

Governor Ali emphasised that the RBF’s twin monetary policy objectives of stable inflation and adequate foreign reserves remain intact. Inflation was -2.8 percent in March, down from 4.0 percent in the same period last year, owing to lower prices for *yaqona*, food, kerosene and diesel. While food prices have recently risen due to limited supply and the impact of Tropical Cyclone Harold, subdued demand and falling global crude oil prices are expected to keep overall inflationary pressures low throughout 2020. Foreign reserves remained adequate at \$2,214 million as at 30 April, sufficient to cover 6.9 months of retained imports of goods and services. The outlook for foreign reserves is expected to remain stable on account of the narrowing trade deficit driven by lower imports.

The Governor highlighted that an accommodative monetary policy stance is appropriate in this environment of significant uncertainty where investment spending is projected to remain subdued. In line with the OPR reduction in March and ample liquidity in the financial system, lending rates have stabilised and cost of funds have declined further. Overall, the financial sector remains sound and well capitalized while the recent uptick in non-performing loans is being monitored closely.

In addition to the measures announced last month, Governor Ali announced that the RBF would provide further support to the economy via an increased allocation of \$100 million to the Import Substitution and Export Finance Facility, effective immediately. The facility, which will now have a total funding of \$300 million, provides credit to exporters, large scale commercial agricultural farmers, public transportation and renewable energy businesses at concessional interest rates with commercial banks, credit institutions and the Fiji Development Bank. Combined with the SMEs Credit Guarantee Scheme and the relief packages offered by banks, these initiatives should help contribute to easing the financial difficulties imposed on private sector businesses by COVID-19.

The Governor concluded that the current downturn in global and local economic activity will likely persist until risks from the health crisis are resolved or mitigated. In the meantime, the Reserve Bank will continue to monitor these developments closely and align monetary and financial sector policies, where appropriate.

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