RESERVE BANK OF FIJI

PRESS RELEASE

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THE RESERVE BANK OF FIJI MAINTAINS AN ACCOMMODATIVE MONETARY POLICY STANCE

The Reserve Bank of Fiji (RBF) Board kept the Overnight Policy Rate (OPR) unchanged at 0.25 percent following its monthly meeting on 31 March.

The Governor and Chairman of the Board, Mr. Ariff Ali stated that "The geopolitical tensions between Russia and Ukraine is a major new source of uncertainty that has led to supply shortages and subsequent increases in the price of crude oil, food and other commodities." This has added to the already elevated inflationary environment brought on earlier by the COVID-related supply chain disruptions and the mismatch between demand and supply. Inflationary pressures have also posed challenges for central banks as they attempt to rein in inflation whilst managing growth. The International Monetary Fund has advised that global growth in 2022 is likely to be lower than previously anticipated on account of these developments. The current situation is fluid and the Bank is following events closely.

Nonetheless, the Governor highlighted that the domestic economy is on its path to recovery after two years of contractions led largely by the tourism industry. The recent announcement that Fiji is now open to all vaccinated travellers from any country together with the removal of the three-day mandatory hotel stay, as well as the relaxation around travel requirements in New Zealand and Australia, is expected to boost arrivals in the coming months. Feedback from industry stakeholders reveal that forward booking numbers from airlines and hotels already show a steep rise in tourism demand from April onwards.

Major sectoral performances are also upbeat as gold, timber and electricity production picked up in February. Consumer spending is also picking up and is evident in higher domestic valued added tax (VAT) collections, demand for electricity and spending on both new and second hand vehicles. Consumption has been supported by higher inward remittances and consumption-related loans. Labour market conditions have also shown a marked improvement with the vacancy rate in February being the highest since the start of the pandemic. Investment activity nonetheless, has remained subdued amidst a cautious environment given the upcoming elections, rising costs and global supply chain disruptions.

On the financial sector, Mr. Ali stated that "Credit activity had picked up pace aided by the utilisation of the RBF's targeted lending facilities". Loans to the private sector continued to increase, driven by both private sector business entities and private individuals. Excess liquidity remains more than ample, supported by higher foreign reserves inflows and currently (30/03) stands at $2,130.9 million, maintaining downward pressure on interest rates. Consequently, the level of non-performing loans for both commercial banks and licenced credit institutions has trended downwards from the peaks noted in the third quarter of 2021.

Regarding the pandemic, the Governor added that "It is positive to see the number of coronavirus cases fall globally and the return to some form of normal life across the globe and Fiji as various COVID-19 related protocols are being gradually phased out."

Mr. Ali highlighted that annual inflation was at 1.9 percent in February 2022 led mainly by higher food and fuel prices. Food prices have been impacted by the existing pandemic-induced bottlenecks, the recent events surrounding the Russia-Ukraine war, the effects of Tropical Cyclone Cody and the sugar price review in January. Nonetheless, the recent measures announced in the revised 2021-2022 National Budget are expected to cushion some of these inflationary pressures and reduce inflation by around 0.9 percentage points.

On foreign reserves, while the import bill is expected to surge to meet the demand of the growing economy as well as higher commodity prices, the expected rebound in tourism earnings is anticipated to keep foreign reserves at adequate levels in the near term and are currently at $3,125.3 million (31/03), sufficient to cover 8.6 months of retained imports of goods and services.

Governor Ali concluded that "Inflation pressures remain elevated underpinned mostly by import prices, therefore monetary policy tightening will not be appropriate to curb inflationary pressures." An accommodative monetary policy stance is needed to support the ongoing economic recovery from the pandemic. The Bank will continue to monitor economic developments and risks and align monetary policy as and when needed.

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