RESERVE BANK OF FIJI

PRESS RELEASE

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THE RESERVE BANK OF FIJI MAINTAINS AN ACCOMMODATIVE MONETARY POLICY STANCE

Following its monthly meeting on 28 April, the Reserve Bank of Fiji (RBF) Board maintained the Overnight Policy Rate (OPR) at 0.25 percent.

Prospects for the global economy have weakened and remain uncertain mainly due to the ongoing war in Ukraine, which has created a humanitarian crisis and caused widespread disruptions for the global economy, as heavily sanctioned financial markets, trade boundaries, and constrained shipping routes have interrupted the supply of fuel, food, and other critical commodities. These factors, combined with high freight costs and disruptive COVID-19 containment lockdowns in China, have compounded price pressures. Against this backdrop, the International Monetary Fund, in its April World Economic Outlook, downgraded global growth projections for both 2022 and 2023 to 3.6 percent, 0.8 percentage points (pp) and 0.2 pp, respectively, from its January forecast. The Governor and Chairman of the Board noted that while some major trading partner economies have started to tighten their monetary policy stance to contain rising price pressures, safeguarding growth domestically is vital to avoid derailing the post-pandemic recovery.

Governor Ali also remarked that despite these growing headwinds, the projected positive stimulus generated by the tourism industry's recovery has begun to offer momentum for the domestic economy. Since the opening of borders, tourist arrivals have totalled 72,132 between December 2021 and March of this year, with 21,390 visitors recorded for March alone. While most tourists have come from Australia, the gradual easing of global travel restrictions suggests that arrivals from all other source markets are expected to increase, generating positive spill over benefits to other connected industries. Sectoral performances in March generally improved for major industries such as mineral water, electricity and sawn timber production, while gold output declined. Consumption activity remained positive as tax collections, and vehicle registrations improved, while investment spending stayed subdued. Labour market conditions continued to improve and were propped up in the review period by increased recruitment intentions in the Western Division as the tourism industry prepares for a surge in visitors heading into its peak season.

In terms of the financial sector, Mr Ali stated that the RBF special lending facilities have supported credit activity, evident in the increase in private sector credit which grew annually by 1.4 percent in March 2022. In the first three months of this year, the drawdown of new loans from commercial banks totalled $716.9 million, much higher than the $501.3 million in the same period last year. Furthermore, banking system liquidity remains high at $2,051.7 million (27/04), placing downward pressure on lending rates, as commercial banks' cost of funds hover near historical lows.

Mr Ali further noted that Fiji is not immune to the turbulent global developments and the pass-through of rising commodity costs to domestic prices. Consequently, in March 2022, imported inflation contributed 3.0pp to overall headline inflation of 4.7 percent, which in turn was mainly driven by higher food and fuel prices, as well as prices of all other related commodities. Given the added price pressures, headline inflation is now forecast to reach 5.0 percent, from the earlier projection of 4.5 percent, by the end of

2022. Subsequently, as an import-dependent nation, increased import payments due to soaring global commodity prices and a rebound in domestic demand would cause significant outflows of foreign reserves. Nonetheless, foreign reserves are expected to stay comfortable in the near term, aided by the rebound in tourism and related activities, stronger remittances (partly due to the high demand and uptake in labour export schemes) and Government loan drawdowns. As of 28 April, foreign reserves were $3,051.2 million, sufficient to cover 8.4 months of retained imports (MORI).

The Governor highlighted that the accommodative monetary policy stance is appropriate to support Fiji's recovery going forward, as the current inflationary pressures are primarily supply-driven and influenced by external factors outside our control. However, the Bank will continue to carefully monitor policy objectives moving ahead, particularly any undue pressure on foreign reserves and possible second-round effects of higher commodity prices on inflation, and align monetary policy where appropriate.

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