

RESERVE BANK OF FIJI

PRESS RELEASE



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Telephone : (679) 331 3611

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Facsimile : (679) 330 2094

Email : info@rbf.gov.fj

RBF MAINTAINS ACCOMMODATIVE MONETARY POLICY STANCE

At its meeting on Thursday 24 June, the Reserve Bank of Fiji (RBF) Board kept the Overnight Policy Rate unchanged at 0.25 percent.

The Governor and Chairman of the Board, Mr Ariff Ali, in announcing the decision, highlighted that the current supportive monetary policy stance is consistent with the current weak economic performance and the outlook in the near term. He added that the recent spike in infections due to the second wave of COVID-19 impedes confidence and poses significant downside risks to economic activity. While the domestic economy is envisaged to contract further this year, the steady progress in local vaccination could pave the way for a modest recovery next year. The Governor reiterated that vaccinating the population will be essential to control the spread of the virus, help support the reopening of businesses and borders and kick-start tourism activity.

The latest consumption and investment indicators remain sluggish given the reduced spending power of households and firms. The prolonged unemployment situation due to the pandemic has also exacerbated poverty and inequality amongst vulnerable groups. In this regard, continued fiscal support will be crucial to ease the burden on households and firms and minimise the scarring effects of the pandemic on long-term growth prospects. In the financial sector, movements in monetary aggregates continue to mirror the weak real sector activity. Credit activity remained subdued as private sector credit contracted annually for the tenth consecutive month in April. Meanwhile, the current (23/06) liquidity level remains ample at \$1,668.7 million, consistent with the monetary policy stance aimed at placing downward pressure on interest rates.

Mr Ali stated that “the outlook for inflation and foreign reserves is stable. Annual inflation came in at -1.6 percent in May, influenced by the lower prices of kava and alcoholic beverages. However, near-term risks to inflation are expected to stem from increases in global crude oil and food prices, disrupted local supply chains due to stringent COVID-19 measures, and increasing freight costs. Foreign reserves are currently strong (24/06) at \$3,117.7 million, sufficient to cover 10.9 months of retained imports and expected to remain comfortable into the medium term.”

The Governor added that the global economic recovery is strengthening, particularly with Fiji’s major trading partner economies, buoyed by fiscal and monetary stimulus along with solid progress on the vaccination front. While the global recovery may not necessarily translate into domestic economic activity, for now, it has nonetheless resulted in higher inflows of remittances.

Considering these latest economic developments and the stable outlook for inflation and foreign reserves, the Board concluded that the monetary policy stance is appropriate. The Bank will continue to monitor the economic situation and risks closely and align monetary policy where warranted.

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For further details, please contact:-

Communications Office

Telephone: (679) 3223 381 Email: info@rbf.gov.fj

Mr Mervin Singh – Manager Corporate Communications

Telephone: (679) 3223 229 Email: mervin@rbf.gov.fj