RESERVE BANK OF FIJI

PRESS RELEASE

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RBF MAINTAINS ACCOMMODATIVE MONETARY POLICY STANCE

The Reserve Bank of Fiji (RBF) Board, at its meeting on Thursday 29 July, maintained the Overnight Policy Rate at 0.25 percent.

In announcing the decision, the Governor and Chairman of the Board, Mr Ariff Ali, highlighted that "the second wave of the pandemic has created additional socio-economic trauma for Fiji. Economic activity slowed significantly in the second quarter, although some pick-up has been noted recently as more businesses reopened with strict COVID-19 protocols and citizens adapt to the COVID-19 environment. Nonetheless, aggregate demand remains depressed as more people have become unemployed or have had their hours and wages reduced while business and consumer confidence has plummeted further, given the uncertainties."

Mr Ali also advised that financial conditions remain accommodative, with lending rates and cost of funds declining over the month amidst high liquidity of around $1.6 billion (28/7) in the banking system. Overall, the financial sector remains stable despite the rise in non-performing loans as banks are adequately capitalised and have sufficient provisioning against bad debts. However, credit activity remains subdued, reflecting weakness in the real economy and heightened credit risks in the financial system.

On the twin objectives of monetary policy, the Chairman added that "while overall inflation is still low, inflationary pressures have started to creep in as rising global food and crude oil prices along with high freight costs have filtered into domestic prices. Additionally, local border restrictions and mandatory COVID-19 protocols have resulted in higher prices for some food items and raised the cost of doing business. Headline inflation edged up from -1.6 percent in May to zero percent in June as the higher prices of food, transport, housing, and fuel perfectly offset the decline in prices of alcohol, tobacco, *yaqona*, and other items. In the first half of this year, inflation had averaged -0.9 percent compared to -2.4 percent in the same period last year. Therefore, the year-end inflation forecast of 1.5 percent is now upward biased. In contrast, the outlook for foreign reserves is comfortable as the Government's plan to finance part of its deficit from external sources in the next fiscal year will provide a further boost, despite the delay in the resumption of tourism activity. Currently (29/07), foreign reserves are around $3.1 billion, sufficient to cover 10.8 months of retained imports of goods and services."

Governor Ali also commended the 2021-22 National Budget and the expansionary stance given the urgent need for Government to make up for the shortfall in the spending power of households and investment appetite of businesses. As announced in the Budget, the Reserve Bank will be providing a $200 million facility through the banks and other lending institutions to help businesses recover from the crisis.

The Governor stressed that achieving herd immunity over the next few months is paramount to setting the course for economic recovery from next year onwards. In this regard, he applauded the 79.3 percent of the adult population that have received their first dose of the vaccine and the 20.5 percent who are now fully vaccinated.

In concluding, Mr Ali highlighted that the objectives of monetary policy of comfortable foreign reserves level and low inflation are still intact and permits a continuation of the accommodative monetary policy stance. However, the Reserve Bank continues to closely monitor economic developments and will align its monetary policy accordingly.

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