RESERVE BANK OF FIJI

PRESS RELEASE

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RBF MAINTAINS ACCOMMODATIVE MONETARY POLICY

The Reserve Bank of Fiji (RBF) Board at its monthly meeting on 26 November kept the Overnight Policy Rate (OPR) unchanged at 0.25 percent.

The Governor and Chairman of the Board, Mr Ariff Ali, highlighted that "while most countries across the globe will note an economic contraction this year, economic conditions improved somewhat over the third quarter due to various monetary and fiscal stimulus measures. The announcement of three vaccines showing considerable efficacy rates in initial trials are a much needed positive development, as risks remain elevated given the daily increases in new COVID-19 cases and the recent re-enactment of lockdown measures in several countries."

Mr Ali added that the slump in global travel continues to affect tourism and related industries. While some uptick was noted in sectoral performances over the review month, aggregate demand continues to be weak. Partial indicators for consumption spending, investment activities and labour market conditions recorded annual contractions in the first ten months of the year. Given the sluggish economy, domestic credit has slowed and interest rates have generally declined owing to high levels of liquidity, which was around $856.5 million as at 25 November.

Going forward, risks to the financial sector remain as the ending of moratoriums offered by financial institutions to COVID-19 affected customers could raise the existing levels of non-performing loans. Mr Ali reiterated that 2020 would note the largest projected economic contraction on record at -19.0 percent and the recovery forecast for next year is contingent on the reopening of borders and resumption of international travel. Given this uncertainty, economic growth for 2021 is anticipated to range between 1.6 percent and 8.0 percent, while in 2022, growth is forecast to be between 5.2 percent and 8.7 percent.

For the twin objectives of monetary policy, annual inflation stayed negative at -2.9 percent in October and is forecast to be -3.0 percent by year-end. On the external front, despite the significant reduction in tourism earnings, foreign reserves remain comfortable underpinned by the narrowing trade deficit arising from subdued imports and lower crude oil prices as well as the upswing in remittances. Foreign reserves (RBF holdings) are currently (26/11) around $2,194.1 million, sufficient to cover 7.3 months of retained imports and are expected to be comfortable in the near-term.

Governor Ali concluded that the outlook for the RBF's twin objectives are intact for now and the Bank will continue to monitor economic developments and risks closely, and align monetary policy where appropriate.

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