

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 monthly meeting on 27 May, maintained the Overnight Policy Rate at 0.25 percent.

The Governor and Chairman of the Board, Mr Ariff Ali, highlighted that the second wave of local COVID-19 infections as well as the continued closure of international borders is weighing heavily on Fiji's near-term economic prospects. As a result, an economic contraction is now likely for 2021, while the outlook for 2022 remains uncertain. The prompt restart of tourism activity and an expansionary fiscal stance in the next financial year are central to economic recovery. While the current containment measures are crucial to curb the virus spread, their persistence will exacerbate the downturn in sectoral output and suppress consumption and investment spending further.

Labour market conditions are also severely affected, with the Fiji National Provident Fund and Government continuing to provide some relief in this difficult economic environment. Financial sector activity confirms weak consumer and business demand with a consistent contraction noted in private sector credit since July last year and an uptick in non-performing loans. However, risks in the banking system are being mitigated by sufficient levels of provisioning and adequate levels of capital. In addition, banking system liquidity remains ample to date (27/05) at \$1,693.5 million.

Mr Ali reiterated that the economic recovery hinges on how soon the second wave of infections is contained locally and the resumption of international tourism. To control infections and safely reopen our borders, increased local vaccination will need to be urgently prioritised. Assisting businesses to ride out the pandemic and ensuring vulnerable segments of society do not fall further into poverty is also imperative as this has long-term implications on economic recovery and growth.

The Governor maintained that the RBF's twin monetary policy objectives of stable inflation and adequate foreign reserves remain intact. The annual inflation rate stayed in negative territory in April (-2.4%). Looking ahead, factors such as consumable goods shortages induced by panic buying coupled with increased business costs as firms adhere to new COVID-19 operating protocols, as well as higher commodity and food prices internationally may place some upward pressure on consumer prices in the coming months. Foreign reserves reached a historical high in May, surpassing the three billion-dollar mark and currently (28/05) stands at \$3,134.0 million, sufficient to cover 9.7 months of imports. The outturn is largely due to external Government loan drawdowns, lower import payments, higher inflows of personal remittances and foreign direct investment in Energy Fiji Limited.

Governor Ali concluded that the RBF will closely monitor developments and risks to both the global and domestic economic outlook and align monetary policy accordingly.

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