

RESERVE BANK OF FIJI

PRESS RELEASE



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RBF REDUCES THE OVERNIGHT POLICY RATE

The Reserve Bank of Fiji Board has **reduced its overnight policy rate (OPR) to 0.25 percent from 0.50 percent** following the Bank's assessment of the global effects of the recent coronavirus outbreak and its implications on Fiji's GDP growth and the RBF's twin monetary policy objectives.

The Governor and Chairman of the Board, Mr Ariff Ali noted that "in light of the negative impact of COVID-19 on global travel and trade, as well as deteriorating consumer and business confidence in recent weeks, **the reduction in the OPR is appropriate and should provide necessary stimulus to the domestic economy.**" The Governor noted that restrictions on travel within and across borders have already taken a toll on global output as market sentiments have continued to deteriorate amid the latest monetary easing by major central banks in response to the still very fluid developments around COVID-19.

Domestically, partial indicators for consumption and investment point to sustained softness in aggregate demand. Credit growth continued to decelerate, as labour market recruitment intentions contracted in the first two months of the year. The negative impact of the coronavirus has already been felt in the tourism industry, with cancelled travel and hotel bookings as well as reduced flights. Given the industry's major and deep linkages with the rest of the economy, flow-through effects will also affect the key wholesale and retail trade, construction, transport and manufacturing sectors, including Government revenue. In the RBF's baseline scenario, the domestic economy is now expected to contract in 2020 against a 1.7 percent growth earlier projected. The magnitude of the contraction in the Fijian economy will depend on how long the pandemic persists.

Nevertheless, several factors should help mitigate the impact of COVID-19 on the domestic economy. Excess bank liquidity remains adequate, totalling \$669 million as at 17 March 2020. Fiji's financial system is also assessed to be sound, underpinned by solid capitalisation and liquidity ratios. The latest outcomes for the RBF's twin monetary policy objectives of stable inflation and foreign reserves, remain intact. Prices pressures are muted as inflation in February came out at a historic low of -3.0 percent due to annually lower prices for *Yaqona*, vegetables & fruits and kerosene. Foreign reserves (RBF Holdings) are also adequate at \$2,264 million as at 18 March 2020, equivalent to 5.8 months of retained imports of goods and services cover. Year-end projections for both inflation and foreign reserves are also stable.

Against this backdrop, **a reduction in the OPR will help stimulate demand by reducing the cost of borrowing and support much-needed consumption and investment. The interest rate corridor on either side of the OPR will be reduced to 25 basis points (bps), from the previous 50 bps.** As such, the interest rate at which commercial banks may borrow from the RBF under the Repurchase Facility will now be 0.50 percent compared to 1.00 percent previously. The reduction in the Bank's overnight policy rate is effective from today.

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