



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund in its latest January 2017 World Economic Outlook Update, maintained the global growth estimate for 2016 at 3.1 percent, lower than the 3.2 percent growth recorded in 2015, on account of weaker outcomes in the emerging market and developing economies. For 2017, the global economy is projected to expand by 3.4 percent, supported by an improved outlook for advanced economies. The rebound in key advanced economies including the United States (US), the Euro zone and United Kingdom, in addition to China, in the second half of 2016 underpinned the improved outlook. Nonetheless, potential policy changes by the incoming US administration and their impact on the global economy represent a major uncertainty to this outlook.

Domestically, sectoral performances were generally mixed for most of 2016. The tourism industry remained largely unscathed from the impact of the December tropical depression as Kiwi and Chinese visitors continued to dominate annually higher (5.0%) visitor arrivals. Arrivals in 2016 reached a record 792,320. In addition, the Industrial Production Index (IPI) for mining & quarrying rose (+79.6%) in the third quarter, in line with the strong annual gold production (+13.7%) in 2016. In contrast, the aggregate IPI contracted annually (-7.3%) in the September 2016 quarter, as the impact of tropical cyclone Winston earlier in 2016 impacted the sugar (-45.9%), non-alcoholic drinks & cigarettes (-12.9%) category (especially mineral water production) and frozen poultry, meat and canned fish (-8.9%) indices. Additionally, the annual decline in the manufacture of wood-related products index (-22.6%) is consistent with the contraction in the timber industry output noted throughout last year.

Consumption spending remained strong as suggested by various partial indicators. Annually higher proceeds from wholesale & retail activity (+5.6%) cumulative to September 2016, increased

registrations of new (+32.0%) and second hand (+9.2%) vehicles and commercial banks' new lending for consumption purposes (13.2%) cumulative to November 2016 are all indicative of continued robust consumer demand.

Investment spending also held firm in 2016. Higher value of work put-in-place (+10.5%) cumulative to September and elevated import payments for investment related goods (+15.6%) and domestic cement sales (+11.1%) for the whole of 2016 confirm strong investment activity last year. While base-related effects underscored the contraction in new lending to the real estate sector (-21.6%), there has been some turnaround in new credit to the building & construction industry (+2.6%) in the year to November 2016.

Labour market conditions remain favourable. Higher recruitment intentions in the wholesale & retail trade & restaurants & hotels; construction; transport, storage & communication; finance, insurance, real estates & business services; agriculture, forestry & fishing and electricity & water sectors underpinned the annual rise (15.1%) in the Fiji Times job advertisements for 2016.

Credit growth continues to slow. Private sector credit grew by a lower 12.9 percent (\$762.4m) in the year to November 2016, compared to 14.0 percent (\$727.1m) in November 2015. This reflected the outturn in commercial banks' new and outstanding lending growth in the year to November, which slowed to 8.4 percent (\$176.8m) and 10.1 percent (\$542.5m), respectively. In the same period, commercial banks' new lending rates generally slowed, despite some upward movements in deposit rates. The weighted average new lending rate declined to 5.38 percent in November 2016, from 6.86 percent in October and 6.59 percent in November 2015. The time deposit rate remained unchanged over the month at 2.94 percent in November 2016, but rose from 2.71 percent in November 2015.

Liquidity fell over the month of December by 2.0 percent (\$8.3m) to \$412.3 million, led by increases in both currency in circulation (\$27.9m) and statutory reserves deposits (\$2.6m) which offset the increase in foreign reserves (\$25.7m) over the month. Currently (26 January), liquidity is around \$411.3 million.

Over the month to December, the Fiji dollar (FJD) depreciated against the US dollar (-1.9%) and the Euro (-0.5%). However, the FJD appreciated against the Australian dollar (+1.8%), Japanese Yen (+1.7%) and the New Zealand dollar (+0.6%). Over the year, the FJD depreciated against the Japanese Yen (-3.5%), the New Zealand (-1.8%) and the US (-0.1%) dollars but appreciated against the Euro (+3.9%) and the Australian dollar (+0.9%).

Consequently, net movements in the basket of currencies resulted in the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index dipping slightly over the month (-0.1%) but rose by 0.2 percent over the year. Moreover, with the price differential between Fiji and its trading partners narrowing further, the Real Effective Exchange Rate (REER)<sup>2</sup> index rose by 1.3 percent over the month and increased by 2.7 percent over the year.

Inflationary pressures in 2016 were influenced by domestic supply side factors following the natural disasters earlier in the year. However in December, inflation was 3.9 percent (lower than the 4.3% in November), underpinned by price increases in the alcoholic beverages, tobacco & narcotics, education, health, restaurants & hotels categories, food & non-alcoholic beverages and clothing & footwear categories. Inflation in the near term is projected to continue to be driven domestically and any sharp increase in oil and food prices as well as continued adverse weather conditions in the coming months could put upward pressure on inflation. For now,

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<sup>1</sup> The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

<sup>2</sup> The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

the year-end inflation is projected to be around 2.5 percent in 2017.

Latest Overseas Exchange Transactions data shows that, export receipts rose marginally by 1.4 percent in 2016, compared to an 18.6 percent decline in 2015. This was attributed to higher earnings from fish, mineral water, textile, clothing & footwear (TCF), other exports and total re-exports, which more-than-offset the declines in sugar, timber and gold. Over the same period, import payments grew by 6.2 percent, compared to a decline of 2.2 percent in 2015. The outturn was due to higher imports of transport equipment, duty-free goods; food, beverages & tobacco, machinery & electrical equipment, chemicals and TCF, which more-than-offset the declines in mineral fuel, raw materials, Government imports and merchanted and other goods. Excluding mineral fuel, import payments grew by a larger 10.6 percent, consistent with the expected growth in domestic demand. Inward remittances rose by a slower 10.2 percent to \$541.8 million, compared to a 28.3 percent growth in 2015.

Currently (30 January), foreign reserves are around \$1,925.0 million, sufficient to cover 5.1 months of retained imports of goods and non-factor services.

Taking all these developments into account, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in January.

## **RESERVE BANK OF FIJI**

## FIJI: FINANCIAL STATISTICS

**KEY INDICATORS**

	Dec-16	Nov-16	Oct-16	Dec-15
<b>1. Consumer Prices *</b> (year-on-year % change)				
All Items	3.9	4.3	4.7	1.6
Food and Non-Alcoholic Beverage	2.9	2.7	3.6	5.0
<b>2. Reserves ***</b> (end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	1,921.8(p)	1,896.1	1,977.4	1,943.7
<b>3. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)				
US dollar	0.4695	0.4788	0.4829	0.4701
Pound sterling	0.3834	0.3830	0.3968	0.3170
Australian dollar	0.6517	0.6399	0.6362	0.6456
New Zealand dollar	0.6755	0.6717	0.6781	0.6876
Swiss francs	0.4802	0.4843	0.4800	0.4646
Euro	0.4475	0.4499	0.4431	0.4307
Japanese yen	54.73	53.81	50.80	56.69
<b>4. Liquidity ***</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	3.90	4.95	6.0
Banks' Demand Deposits (\$m)	412.3	420.6	505.3	488.4
<b>5. Commodity Prices (US\$) **</b> (monthly average)				
UK Gold Price/fine ounce	1,151.4	1,236.0	1,267.1	1,068.3
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	18.5	20.3	22.2	15.0
Crude Oil/barrel	54.9	48.1	52.1	41.4
<b>6. Money and Credit ***</b> (year-on-year % change)				
Narrow Money	n.a	6.0	5.7	13.4
Broad Money	n.a	5.0	3.9	14.0
Currency in Circulation	n.a	10.7	13.1	11.5
Quasi-Money (Time & Saving Deposits)	n.a	4.8	3.2	14.3
Domestic Credit	n.a	7.6	6.2	13.6
<b>7. Interest Rates (% p.a.) ***</b> (monthly weighted average)				
Lending Rate (Excluding Staff)	n.a	5.74	5.81	5.89
Savings Deposit Rate	n.a	0.98	0.90	1.01
Time Deposit Rate	n.a	2.94	2.94	2.71
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) <sup>2/</sup>	1.00	1.00	1.00	1.00
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	6.45	6.39	6.30	n.i

<sup>1/</sup> Foreign reserves includes monetary gold, Special Drawing Rights, reserve position in the Fund and foreign exchange assets consisting of currency and deposits actually held by the Reserve Bank.

<sup>2/</sup> With the introduction of the new Monetary Policy Framework on 17 May 2010, the minimum lending rate was set at 50 basis points above the Overnight Policy Rate.

## Note:

n.a	Not available
n.i	No issue
n.t	No trade
p.a.	Per annum

Sources:	*	Fiji Bureau of Statistics
	**	Bloomberg
	***	Reserve Bank of Fiji