RESERVE BANK OF FIJI

PRESS RELEASE

Press Release No.	**: 32/2016**	**Telephone**	**: (679) 331 3611**
		Facsimile	**: (679) 330 2094**
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MONETARY POLICY PRESS STATEMENT DECEMBER 2016

In determining its monetary policy stance, the Reserve Bank of Fiji (RBF) actively monitors both global and domestic developments and their impact on the Fijian economy, particularly on the outlook for the Bank's twin monetary policy objectives, foreign reserves and inflation.

Developments during the year show that the global economy continues to grow at a moderate pace, with recent data signalling a further softening in major economies other than the United States. Inflation remains below target in most advanced economies due to spare capacity while commodity prices remain relatively low. Consequently, monetary policy stances amongst Fiji's trading partner economies are expected to remain accommodative for some time. Looking ahead, the International Monetary Fund projects global growth at 3.4 percent for 2017, following the 3.1 percent expansion forecast for this year.

Domestically, this year's growth projection was further revised down to 2.0 percent, from an earlier anticipated growth of 2.4 percent. The downward revision reflected the larger-than-expected negative impact of both Tropical Cyclones (TCs) Winston and Zena in February and April this year. The key sectors negatively affected by these natural disasters were agriculture (especially sugar cane); sugar manufacturing; utilities such as electricity and water and the forestry industry. Growth is expected to recover to 3.6 percent in 2017.

In spite of the negative shocks earlier in the year, consumption spending has remained strong supported by the various policy initiatives that were implemented post TC Winston, including the Fiji National Provident Fund's $275.0 million pay-out, and rehabilitation initiatives provided by Government, the donor community and the private sector. Additionally, the reduction in the value added tax (VAT) rate in 2016, firm labour market conditions and relatively cheaper credit supported the buoyant wholesale and retailing activity this year.

Investment activity remained firm in 2016 with the continuation of some major private sector projects and Government's infrastructure spending. Annually, higher value of work put-in-place and domestic cement sales so far this year are indicative of robust construction-led investment activity. Nonetheless, post TC Winston reconstruction has been affected by delays in the supply of certain building materials. Labour market indicators show higher recruitment intentions as per the RBF's Job Advertisements Survey and suggest favourable conditions, particularly in the electricity & water; transport, storage & communication; construction and wholesale & retail trade sectors.

While commercial banks' new credit growth remained positive during the year, this has slowed from a year ago. Nonetheless, double digit growth in new lending has been noted for licensed credit institutions during the year, given elevated demand for car and personal loans. Commercial banks' lending rates are still low by historical standards; however, recent liquidity developments have resulted in some upward movements in deposit rates.

RBF’s Monetary Policy Objectives

Inflation this year has been relatively high contrary to earlier trends of subdued inflation outcomes which were driven by weak global inflation and lower international oil and food prices. Annual inflation rose strongly in April and remained above 5.0 percent for five consecutive months from May before slowing to 4.3 percent in November. The higher inflation was mainly due to supply shortages of agriculture market items such as fruit, vegetables and yaqona, caused by the first quarter natural disasters. On the inflation outlook, the 2016 year-end inflation rate is expected to be between 4.0 to 5.0 percent, as high yaqona prices and the higher fiscal duties on certain consumer goods in the new fiscal year are likely to keep domestic prices elevated. In 2017, inflation is expected to fall to around 2.5 percent, notwithstanding any unexpected shocks.

On foreign reserves, levels have continued to hold up on the back of positive tourism earnings, remittance inflows as well as some domestic exports. Even then, imports have continued to increase, particularly following strong consumer demand and the post-TC Winston reconstruction efforts. Consequently, this year’s current account deficit (excluding aircraft) is forecast to widen to around 3.3 percent of GDP, reflecting the deterioration in the trade balance as well as the slower growth in tourism receipts and inward remittances. Nevertheless, Fiji’s overall external position is expected to remain stable, helped by the offshore concessional borrowing by Government this year, which has offset some increases in payments. Foreign reserves are currently (30 December 2016) around $1,921.4 million, sufficient to cover 5.4 months of retained imports of goods and non-factor services. For 2017, foreign reserves are expected to remain stable at around similar levels.

Looking ahead, the RBF will continue to monitor risks to the macroeconomic outlook in determining its monetary policy stance over the medium term. Some of these risks include the slow recovery in the world economy, uncertainties relating to political developments in some of Fiji’s key trading partner countries, knock-on effects from China’s economic rebalancing on Australia and New Zealand (Fiji’s two major tourism sources), increases in global fuel prices and more severe and frequent natural disasters.

Given the current developments and the positive outlook for both inflation and foreign reserves into 2017, monetary policy is expected to continue to remain accommodative into the medium term, unless domestic and international developments alter the macroeconomic prospects.

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