RESERVE BANK OF FIJI

PRESS RELEASE

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Recent Developments and Outlook

The near to medium term global economic outlook remains favourable. The International Monetary Fund revised its 2017 global growth projection to 3.6 percent in October, as the growth momentum from the first half of the year is expected to continue, led by a better-than-expected rebound in advanced economies and higher growth envisaged in emerging markets and developing economies (EMDEs). The outlook for 2018 is also upward biased driven by better growth prospects for EMDEs, particularly on expectations of continued strong growth for the Chinese economy.

On the domestic front, the Fijian economy is anticipated to grow by 4.2 percent in 2017 after expanding by 0.4 percent in 2016, supported by expansionary monetary and fiscal policies alongside ongoing structural reforms. For 2018, expectations are largely positive, with an anticipated broad-based growth of 3.6 percent. The positive momentum is expected to continue with the economy projected to grow by 3.2 percent, in 2019 and 2020 respectively.

Aggregate demand remained upbeat in the latter half of 2017 evident in positive outturns in both consumption and investment indicators. Consumption activity strengthened further as revealed by higher net Value Added Tax collections, uptick in new vehicle registrations and the rise in commercial banks' new consumption lending. Similarly, investment was also firm as commercial banks' new investment credit and domestic cement sales rose over the same period. The robust investment activity is expected to continue into the medium-term given the ongoing post Tropical Cyclone (TC) Winston reconstruction works and Government-led construction, which is partly attributed to increased capital expenditure in the 2017/18 National Budget, and the roll out of new private sector projects.

For the external sector, the current account deficit (CAD) is expected to widen to 5.7 percent of GDP in 2017 on account of a larger trade deficit and a larger primary income deficit. The CAD forecast reflects higher import demand associated with the post TC Winston rehabilitation works and a rebound in mineral fuel prices which is expected to offset the growth in exports. However, tourism earnings remain robust coincident with the increased tourism arrivals while remittances growth has moderated. Over the medium-term, narrowing the current account gap by reining in the trade deficit, raising tourism earnings and remittances as well as attracting foreign direct investment will be vital for preserving external stability.

Labour market conditions should remain positive in the foreseeable future, as the 2017/18 National Budget policies are expected to provide impetus for more job creation in the economy. The continuation of rehabilitation works post TC Winston is also expected to keep recruitment intentions high over the near-term. Current developments indicate increased labour demand as the latest RBF Job Advertisement Survey showed a 7.6 percent growth in the number of jobs advertised. Financial stability risks have remained manageable given improved debt repayment abilities and adequate capital buffers of financial institutions. Interest rates continue to hover at low levels and liquidity is adequate. Going forward, credit growth is expected to remain positive and supportive of current growth projections.

Monetary Policy

The RBF maintained its accommodative monetary policy stance in 2017 leaving the Overnight Policy Rate (OPR) unchanged at 0.5 percent as there were no immediate threats to its twin objectives of low inflation and adequate foreign reserves, as well as to support economic growth which was adversely impacted by last year's natural disasters.

The outlook for the RBF's twin objectives remains stable. Domestic inflation has remained low in recent months and in the absence of temporary shocks, should be around 2.5 percent at the end of 2017. Notably, medium-term inflation expectations remain well anchored. Foreign reserves hit an all-time high in September this year and current forecasts point to comfortable levels over the near and medium term.

Going forward, the RBF will continue to monitor both domestic and international developments and align monetary policy accordingly.

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