



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund in its latest April World Economic Outlook further downgraded its global growth projections. The world economy is now projected to grow by 3.2 percent in 2016 and 3.5 percent in 2017, lower than the earlier forecasts of 3.4 percent and 3.6 percent respectively, in January this year. The downward revision is the result of prolonged weak global economic activity amidst increasing financial turbulence, falling asset and commodity prices and longer-than-expected rebalancing of the Chinese economy.

Domestically, despite damages caused by Tropical Cyclone (TC) Winston in February and floods in early April, the economy is still expected to expand this year, albeit at a slower pace. Available data suggest mixed sectoral outcomes in the review period. In the first quarter, annual increases were noted in gold (7.9%) and electricity production (0.1%). However, electricity consumption declined (-2.8%) largely due to power outages in the Western Division which affected most households and businesses. For the timber industry, reduced intake of pine logs (-52.4%), cumulative to March led to lower woodchip production (-52.6%) while mahogany production increased (19.9%) in the year to February. Visitor arrivals cumulative to March rose by 10.2 percent underpinned by higher tourist arrivals from New Zealand, Australia, China and the Pacific Islands. In line with this, Overseas Exchange Transactions (OET) data, tourism (travel) receipts rose by an annual 21.7 percent over the same period. Remittances also rose cumulative to March by 2 percent, over a record year of 28 percent growth in 2015.

Partial indicators for consumption and investment activity were mixed in the review period. Annual contractions were noted in new vehicle registrations (2.4%) in the year to February as well as net Value Added Tax collections (17.5%) cumulative to March although this masks a 40 percent reduction in the VAT rate from 15 to 9 percent. However, new consumption lending rose (5.2%) over the month to

March, underpinned by higher lending to private individuals (18.1%) and wholesale, retail, hotels and restaurants (0.6%) sectors. Similarly, second-hand vehicle registrations increased (1.6%) cumulative to February. Furthermore, the Fiji National Provident Fund disaster relief payout of \$273.0 million (as at 29 April) and higher annual personal remittances in the first quarter (2.0%) helped boost consumption activity.

On investment, domestic cement sales - a partial indicator for construction activity grew by 10.6 percent cumulative to March. New loans for investment purposes declined by 30.2 percent in the year to March, due to annual contractions in new lending to the real estate (-45.5%) and building & construction sectors (-12.1%). Nevertheless, higher construction projects are expected this year given an annual 5.8 percent increase in the number of building permits issued (437 permits valued at \$67.6 million) in the fourth quarter of 2015 - which is a forward indicator for construction activity.

Labour market conditions remained positive as indicated by the Reserve Bank of Fiji's Job Advertisements Survey. In the year to March, the number of vacant jobs advertised rose by 3.6 percent, underpinned by higher labour demand from the construction; wholesale & retail trade & restaurants & hotels and electricity & water sectors. In contrast, recruitment intentions were lower for the agriculture, forestry & fishing; mining & quarrying; manufacturing; transport, storage & communication; finance, insurance, real estates & business services and community, social & personal services sectors.

Monetary and credit conditions remained favourable in March. Broad money grew by 15.3 percent in March, underpinned by the growth in net domestic credit (13.6%) led by the growth in private sector credit (12.4%). Over the same period, the commercial banks' weighted average outstanding

and new lending rates declined to 5.88 percent and 5.67 percent from 5.89 percent and 6.70 percent in February. In contrast, the commercial banks' existing time and savings deposit rates increased to 2.72 percent and 0.96 percent from 2.68 percent and 0.92 percent in February, respectively.

Bank liquidity fell over the month of March by 4.7 percent (\$27.3m) to \$553.8 million, led by the decline in foreign reserves (-\$10.9m) and an increase in currency in circulation (\$50.9m). Currently (29 April), liquidity is around \$498.7 million.

Exchange rate movements in March showed that the Fiji dollar appreciated against the US dollar (3.5%) and the Japanese Yen (2.1%), but weakened against the Australian (-3.7%) and New Zealand dollars (-0.9%), and the Euro (-0.3%). In overall terms, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index rose marginally in March by 0.1 percent, while the Real Effective Exchange Rate (REER)<sup>2</sup> index rose by 0.3 percent.

On trade, OET data cumulative to March showed that the merchandise trade deficit narrowed by 21.9 percent on an annual basis. This outcome was driven by the decline in import payments (-11.7%) led by lower payments for mineral fuel, other imports, raw materials and chemicals while exports

rose (25.0%) underpinned by higher sugar, timber, mineral water and fish receipts.

Inflation was 0.8 percent in March compared with 1.2 percent in February. The outturn was driven by higher prices in the alcoholic beverages, tobacco & narcotics, education, restaurants & hotels and food and non-alcoholic categories which more-than offset continued lower prices in the transport and housing, water, electricity, gas & other fuels categories.

In the months ahead, a temporary uptick in prices is expected given the supply shortages following the recent floods in the Western Division and earlier TC Winston. Nevertheless, inflationary pressures should remain subdued mainly on account of low imported inflation especially from low oil prices and subsequent reductions in domestic fuel prices by the Fiji Commerce Commission including the recent announcements on 15 April. The year-end inflation is projected at around 2.0 percent.

Foreign reserves continue to be comfortable. As at 29 April, foreign reserves were at \$1,975.7 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services.

The Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in April.

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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.

## FIJI: FINANCIAL STATISTICS

**KEY INDICATORS**

	Mar-16	Feb-16	Jan-16	Mar-15
<b>1. Consumer Prices *</b> (year-on-year % change)				
All Items	0.8	1.2	0.2	2.4
Food and Non-Alcoholic Beverage	1.6	2.9	2.6	5.6
<b>2. Reserves ***</b> (end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	2,005.4	2,017.7	2,012.6	1,744.4
<b>3. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)				
US dollar	0.4818	0.4657	0.4616	0.4844
Pound sterling	0.3349	0.3356	0.3214	0.3274
Australian dollar	0.6281	0.6522	0.6516	0.6339
New Zealand dollar	0.6953	0.7014	0.7122	0.6464
Swiss francs	0.4650	0.4647	0.4679	0.4688
Euro	0.4249	0.4263	0.4215	0.4476
Japanese yen	54.17	53.05	54.84	58.23
<b>4. Liquidity ***</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	5.9	6.1	6.5	5.8
Banks' Demand Deposits (\$m)	553.8	581.1	574.4	479.6
<b>5. Commodity Prices (US\$) **</b> (monthly average)				
UK Gold Price/fine ounce	1,246.3	1,197.1	1,097.4	1,178.6
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	15.4	13.3	14.3	12.8
Crude Oil/barrel	40.4	34.2	33.5	55.8
<b>6. Money and Credit ***</b> (year-on-year % change)				
Narrow Money	19.0	16.3	14.9	-0.1
Broad Money	15.3	15.2	14.9	9.0
Currency in Circulation	32.5	11.1	13.2	4.4
Quasi-Money (Time & Saving Deposits)	14.1	15.7	15.0	9.8
Domestic Credit	13.6	12.7	13.3	10.3
<b>7. Interest Rates (% p.a.) ***</b> (monthly weighted average)				
Lending Rate (Excluding Staff)	5.88	5.89	5.88	5.71
Savings Deposit Rate	0.85	0.92	0.95	0.87
Time Deposit Rate	2.72	2.68	2.69	2.37
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	5.29	5.23	n.i	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.i No issue  
n.t No trade  
p.a. Per annum

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