



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy continued to recover at a slower pace constrained by the subdued performance in developing and emerging market economies. This slowdown is mostly led by the slower-than-expected structural rebalancing in China and weaker performances anticipated in advanced economies following the Brexit vote. Although the initial impact of the Brexit vote on financial markets is wearing off, economic and political uncertainties persist. For our trading partner economies, latest data show New Zealand continued to perform strongly while Australia registered a moderate growth. At the same time, the US economy has improved while weaker outcomes were recorded for the Euro zone and Japan.

On the domestic sectors, most indicators noted increases in the review period. Cumulative to July, visitor arrivals rose annually (4.9%) led by higher arrivals from New Zealand and China. Increases were also noted in gold output (5.3%) and electricity production (3.4%) over the same period. In contrast, cane and sugar output declined significantly by 55.7 percent and 62.0 percent respectively in the first 10 weeks of production reflecting the damage sustained by the cyclones earlier in the year. Similarly, there was a contraction in wood intake (-38.2%) by Tropik Wood Industries Limited which resulted in lower woodchip production (-44.7%). This was partly driven by the closure of the Drasa mill for the first four months of the year. Mahogany production also declined over the same period (-8.9%) due to bad weather conditions affecting access to the mahogany forests.

Consumption activity remained firm as revealed by the buoyant performances of most partial indicators. Cumulative to July, new consumption lending expanded by 9.0 percent on an annual basis led by higher loans to private individuals (16.6%) and the wholesale, retail, hotels and restaurants (5.8%) sectors. Similarly, new and second hand vehicle registrations increased annually by 27.3 percent and

18.0 percent respectively in the year to June. However, net VAT declined by 26.3 percent in the year to July, largely due to the reduction in the VAT rate¹ that was effective from January this year. A buoyant labour market, higher incomes reflected by higher Pay As You Earn tax collections (3.7% cumulative to July) and inward remittances (5.9% in the year to June) continue to support consumption spending.

Investment indicators showed mixed outcomes in the year to July. Domestic cement sales – an indicator for local construction activity noted a growth of 9.3% in the review period. However, new credit for investment purposes declined (-16.6%) led by annual contractions in new lending to the real estate (-24.2%) and building & construction (-8.2%) sectors.

Labour market conditions remained upbeat as revealed by the Reserve Bank's Job Advertisements Survey. The number of advertised vacancies rose by 8.8 percent cumulative to July led by higher demand for workers particularly in the construction; wholesale & retail trade, restaurants & hotels; finance, insurance, real estates & business services; community, social & personal services and transport, storage & communication sectors.

On monetary developments, growth in credit was sustained in the first seven months, albeit at a slower pace than last year. Private sector credit grew by 10.6 percent (\$597.1m) in the year to July, compared to the 13.8 percent growth (\$687.8m) a year ago. Interest rates remained favourable as the commercial banks' weighted average new lending rate fell in July to 5.82 percent from 6.35 percent in June. However, the time and savings deposit rates increased to 2.85 percent and 0.95 percent from 2.79 percent and 0.90 percent, respectively, over the same period.

¹ From 15 percent to 9 percent.

Liquidity in the banking system rose slightly by 0.8 percent to \$499.5 million in July. This was led by a decrease in currency in circulation (\$16.3m) and a marginal increase in foreign reserves (\$6.2m) which resulted from lower payments especially for mineral fuels and profit & dividends. As at 31 August, liquidity was around \$423.8 million.

Exchange rate movements over the month of July showed the Fiji dollar remained unchanged against the US dollar while it appreciated against the Japanese yen (2.4%), the New Zealand dollar (0.5%) and the Euro (0.4%) and weakened against the Australian dollar (-0.7%). Over the year, the Fiji dollar strengthened against the US dollar (3.1%), the Euro (1.7%) and the Australian dollar (0.1%) but fell against the Japanese Yen (-12.5%) and the New Zealand (-3.8%) dollar.

Consequently, the Nominal Effective Exchange Rate (NEER)² index rose over the month (0.1%) and the year (0.6%). Similarly, the Real Effective Exchange Rate (REER)³ index rose over the month (0.5%) and the year (5.5%) given the higher domestic inflation compared to Fiji's trading partner economies.

Inflation rose for the fourth consecutive month in July to 5.5 percent. This was led by shortages in market related items following the natural disasters earlier this year, higher excise duty on alcoholic beverages and tobacco and the increase in fuel prices in July. Higher prices were noted in the alcoholic beverages, tobacco & narcotics; food & non-alcoholic beverages; education; health; restaurants & hotels; clothing & footwear; and recreation & culture categories. The year-end inflation forecast remains at around 3.5 percent. Over the medium term, the impact from the natural disasters is expected to taper. Notwithstanding any significant risks from higher commodity prices, particularly crude oil and food, inflation is expected to normalise.

Currently (31 August), foreign reserves are around \$1903.8 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services.

Given the latest economic developments and the stable outlook for our twin objectives of monetary policy over the review period, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in July.

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² 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.

³ 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

	Jul-16	Jun-16	May-16	Jul-15
1. Consumer Prices * (year-on-year % change)				
All Items	5.5	5.3	5.2	1.4
Food and Non-Alcoholic Beverage	10.0	9.8	9.9	5.1
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,982.4	1,974.7	2,004.8	2,000.9
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4811	0.4810	0.4684	0.4667
Pound sterling	0.3654	0.3574	0.3200	0.2992
Australian dollar	0.641	0.6458	0.6518	0.6401
New Zealand dollar	0.6794	0.6762	0.6998	0.7064
Swiss francs	0.4720	0.4713	0.4649	0.4525
Euro	0.4342	0.4324	0.4205	0.4270
Japanese yen	50.69	49.51	52.06	57.94
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	6.5	6.1	6.9	9.2
Banks' Demand Deposits (\$m)	499.5	495.7	557.1	679.6
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,337.3	1,276.4	1,259.4	1,130.0
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	19.2	18.8	17.1	11.9
Crude Oil/barrel	47.1	50.5	48.1	55.9
6. Money and Credit *** (year-on-year % change)				
Narrow Money	6.3	9.8	12.5	15.5
Broad Money	8.3	10.1	11.3	14.0
Currency in Circulation	16.6	16.7	14.2	11.6
Quasi-Money (Time & Saving Deposits)	7.5	9.6	10.8	14.3
Domestic Credit	8.3	9.9	10.9	12.9
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.89	5.88	5.87	5.88
Savings Deposit Rate	0.95	0.90	0.91	0.90
Time Deposit Rate	2.85	2.79	2.83	2.56
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) ^{2/}	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	6.02	5.67	5.40	5.19

^{1/} 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.

^{2/} 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