



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Growth in the global economy remain soft amidst the prevailing economic uncertainty. The performance of Fiji's major trading partner countries remain uneven, although upbeat performances were noted in some of the major economies towards the end of the year. The favourable labour market condition and stable inflation outlook in the United States (US) economy led the Federal Reserve to raise the target range for the federal funds rate to 0.50-0.75 percent (from 0.25-0.50%) on 14 December. Despite the uptick in global commodity prices, the inflation outlook for many of Fiji's trading partner economies remained subdued and accommodative monetary policies are expected to continue.

Domestically, sectoral outcomes have been generally mixed as per latest data. In the year to November 2016, gold and electricity production increased by an annual 18.3 percent and 3.7 percent, respectively. In the same period, visitor arrivals increased by 4.5 percent over the year mainly led by strong growth in tourist arrivals from New Zealand and China. However, annual declines were noted in sugarcane (-25.2%) and sugar (-37.4%) production from the start of crushing to 12 December. Likewise, cumulative to August, pine log and woodchip production fell by 38.0 percent and 43.9 percent respectively, on a year-on-year basis, while mahogany production declined by 12.8 percent in the year to September.

Aggregate demand continued to trend upwards as indicated by consumption and investment indicators supported by accommodative financial conditions, steady incomes and increasing remittances. Annual increases were noted in both the new (32.0%) and second hand (9.2%) vehicle registrations, cumulative to November 2016 as well as higher lending by commercial banks for consumption related purposes (7.8%), cumulative to October 2016. In addition, domestic cement sales noted an annual growth of 11.4 percent in the year to

November 2016. In contrast, new bank loans for investment purposes declined (-13.7%) in the year to October.

Conditions in the labour market remain positive as indicated by the RBF's Job Advertisements Survey. Cumulative to November 2016, the number of advertised vacancies rose by 11.6 percent underpinned by higher recruitment intentions from the electricity & water; wholesale & retail trade & hotel; construction; transport, storage & communication; agriculture, forestry & fishing sectors; and finance, insurance, real estates & business services.

Exports, based on the Overseas Exchange Transactions (OET) report, rose by an annual 5.1 percent to \$718.8 million cumulative to October 2016, compared to a 17.8 percent fall in the same period in 2015. This was attributed to higher re-exports; fish; mineral water; textile, clothing & footwear (TCF) and other export receipts, which more-than-offset the declines in timber; sugar and gold. Similarly, imports increased by 10.0 percent to \$2,916.1 million compared to a decline of 4.3 percent in the same period in 2015. The outturn was due to higher imports of duty-free goods; transport equipment; food, beverages & tobacco; machinery & electrical equipment; TCF; chemicals and other imports. In the year to October, inward remittances rose by 6.8 percent to \$435.4 million, driven by gifts, maintenance & donations and immigrant transfers.

Monetary conditions remained accommodative in support of economic activity, despite the slowdown in major credit aggregates. In October, private sector credit growth slowed to 10.7 percent (\$632.9m) to total \$6,540.1 million, compared to the 14.8 percent (\$761.8m) increase noted in October 2015. Growth in commercial banks' new lending also slowed to 5.1 percent (\$99.4m) to \$2.0 billion in October from a growth of 20.0 percent

(\$322.6m) in the same period last year.

Interest rates movements over the month suggested further narrowing of commercial banks' interest spreads. The commercial banks' weighted average outstanding lending rate fell to 5.81 percent in October from 5.86 percent in September. In contrast, the commercial banks' existing time deposit rate rose to 2.94 percent from 2.90 percent.

Liquidity in the banking system fell by 16.8 percent to \$420.6 million over the month of November, led by a decline in foreign reserves (-\$80.7m) coupled with increases in both statutory reserves deposit (\$7.9m) and currency in circulation (\$1.0m). Currently (28 December), overall banking liquidity is \$417.6 million.

The Fiji dollar (FJD) depreciated against the US (-0.8%) and New Zealand (-0.9%) dollars over the month of November. However, the FJD appreciated against the Japanese Yen (5.9%), the Euro (1.5%) and the Australian dollar (0.6%). The Nominal Effective Exchange Rate (NEER)¹ index dipped slightly over the month (-0.03%) but rose by 0.6 percent over the year. Moreover, with the price differential between Fiji and its trading partners narrowing further in November, the Real Effective Exchange Rate (REER)² index declined by 0.8

percent over the month but was higher by 4.2 percent over the year.

Inflation fell to 4.3 percent in November from the 4.7 percent recorded in October 2016. Over the year, higher prices were contributed by the alcoholic beverages, tobacco & narcotics; health; and furnishing, household equipment and routine household maintenance categories. However, lower prices were contributed by the food & non-alcoholic beverages; clothing & footwear, recreation & culture; miscellaneous goods & services; and communications categories. Nonetheless, inflation remains relatively high when compared to 1.8 percent recorded in November 2015. Looking ahead, the inflation forecast is further impacted by the recent Tropical Depression (TD04F) which would affect supply of market items and this is expected to keep year-end inflation high at around 4-5 percent.

Foreign reserves (RBF holdings) declined in November by \$80.7 million to \$1,896.7 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services. Currently (30 December), foreign reserves are around \$1,921.4 million, sufficient to cover 5.4 months of retained imports of goods and non-factor services.

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¹ 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.

² 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

	Nov-16	Oct-16	Sep-16	Nov-15
1. Consumer Prices * (year-on-year % change)				
All Items	4.3	4.7	5.6	1.8
Food and Non-Alcoholic Beverage	2.7	3.6	7.0	4.8
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,896.7	1,977.4	1,902.7	1,955.6
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4788	0.4829	0.4875	0.4631
Pound sterling	0.3830	0.3968	0.3759	0.3080
Australian dollar	0.6399	0.6362	0.6382	0.6436
New Zealand dollar	0.6717	0.6781	0.6717	0.7085
Swiss francs	0.4843	0.4800	0.4709	0.4773
Euro	0.4499	0.4431	0.4344	0.4373
Japanese yen	53.81	50.80	49.83	56.90
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	4.95	4.58	6.93
Banks' Demand Deposits (\$m)	420.6	505.3	421.6	548.2
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,236.0	1,267.1	1,326.0	1,085.7
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	20.3	22.2	21.3	14.9
Crude Oil/barrel	48.0	52.1	47.4	49.4
6. Money and Credit *** (year-on-year % change)				
Narrow Money	n.a	3.7	2.2	15.0
Broad Money	n.a	5.5	4.9	15.1
Currency in Circulation	n.a	13.2	16.6	9.4
Quasi-Money (Time & Saving Deposits)	n.a	3.0	3.7	15.9
Domestic Credit	n.a	6.1	6.7	13.9
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	n.a	5.81	5.86	5.85
Savings Deposit Rate	n.a	0.90	0.91	1.00
Time Deposit Rate	n.a	2.94	2.90	2.71
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	6.39	6.30	6.27	5.20

^{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.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