



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 34

No. 03

Month Ended March 2017

Global economic activity is expected to pick-up pace in 2017 after a subdued performance in 2016. World growth this year is projected at 3.4 percent, led by emerging market and developing economies and a turnaround in some advanced economies. All our major trading partner economies expect improved performances in 2017. With the exception of the US which recently raised its policy interest rate further, Australia, New Zealand, Eurozone and Japan continue to maintain accommodative monetary policies, keeping their key interest rates unchanged amidst global uncertainties arising from trade protectionism, elevated debts levels and geo-political instabilities.

Commodity prices have generally picked up in the first two months of 2017. Gold prices continued to trend upwards, rising further in March amidst uncertainties over the US Federal Reserve interest rate hike. Similarly, oil prices remain higher on an annual basis, although have tapered on a monthly basis due to increased drilling in the US. Comparatively, world market sugar prices eased in March as Brazil and India are expected to boost production to meet supply shortfalls.

Domestically, sectoral performances remain generally upbeat despite declines in a few key sectors. Visitor arrivals noted an annual growth of 6.6 percent cumulative to February 2017, led by higher tourist numbers from the US, New Zealand, Australia and the Pacific Islands. Similarly, electricity production rose (+3.1%) in the first two months of 2017, in line with increased economic activity. Contrastingly, the mining & quarrying sector performed weakly due to setbacks in gold production caused by unfavourable weather conditions and breakdowns in the processing plant. Similarly, the timber industry has been producing below sustainable levels owing to lower harvest of native, mahogany and pine logs as a result of adverse weather conditions, delay in securing new

licensed buyers for mahogany and low demand for pine chips from the Asian market.

Nonetheless, buoyant consumption and investment activity continue to support aggregate demand. As per the RBF December 2016 Retail Sales Survey, retail sales grew by an estimated historical high of 17.2 percent in 2016, mostly led by the food, drinks & tobacco and building, materials & hardware categories. A further growth in sales of 6.7 percent is expected in 2017. Other partial indicators for consumption remained upbeat with increased registrations of new (+27.8%) and second-hand (+0.2%) vehicles cumulative to February 2017. In the same period, commercial bank lending for consumption purposes also rose by an annual 10.8 percent. In contrast, net Value Added Tax (VAT) collections fell by a significant 39.6 percent in January 2017, due to a contraction in domestic VAT receipts (-49.6%)<sup>1</sup>, which reflected the higher VAT rate of 15 percent in the VAT collections in January last year.

Investment activity remained positive in the first two months of 2017. This was evident in the turnaround in new investment lending (+29.6%) cumulative to February, led by the real estate sector while domestic cement sales also noted an annual increase of 23.8 percent in the same period. The current investment trend is consistent with the positive business sentiments for investment in plant & machinery and buildings in the medium-term as per the December 2016 Business Expectations survey.

Monetary conditions remain supportive of growth as private sector credit grew further on an annual basis by 13.3 percent (\$807.8m) to \$6,868.3 million

---

<sup>1</sup> The decline is a result of higher domestic VAT collected in January 2016 as a result of collections that included VAT charged at the earlier higher rate of 15.0 percent for the sales in December 2015. The growth rate for domestic VAT is expected to normalise from February onwards.

cumulative to February. The growth in credit, while lower over the year, was mostly driven by commercial banks' sustained lending to the private sector. New commercial bank credit grew by a notable 11.7 percent (\$39.6m) to \$377.6 million in the year to February compared to the 1.8 percent (\$6.0m) growth in the same period last year. Interest rates movements were mixed in February. The commercial banks' weighted average new lending rate fell to 5.49 percent from 6.09 percent in January and 6.69 percent in February 2016. Conversely, the new time deposit rate rose to 3.22 percent from 2.88 percent in January 2017 and 1.85 percent a year ago.

Liquidity rose over the month of February by 15.8 percent (\$64.4m) to \$473.6 million, led by an increase in foreign reserves (\$55.3m) coupled with decreases in both currency in circulation (\$15.6m) and statutory reserves deposits (SRD) (\$5.2m). Currently (30 March), liquidity is around \$481.5 million.

In February, the Fiji dollar appreciated slightly against the New Zealand dollar (+1.5 %), the Euro (+1.3%) and the US dollar (+0.3%). However, it depreciated against the Australian dollar (-1.4%) and the Japanese Yen (-0.5%). Over the year, the Fiji dollar depreciated against the New Zealand (-4.2%) and Australian (-3.4%) dollars but appreciated against the Euro (+7.1%), the US dollar (+3.8%) and the Japanese Yen (+2.8%).

In terms of the Fiji dollar basket, the Nominal Effective Exchange Rate (NEER)<sup>2</sup> index rose slightly over the month (+0.1%) and over the year

(+0.5%). However, with the dip in Fiji's inflation rate in February, the Real Effective Exchange Rate (REER)<sup>3</sup> depreciated by 3.1 percent in the same month. Nonetheless, the REER appreciated over the year by 4.3 percent as Fiji's inflation remained relatively higher against its trading partners.

Inflation eased to 5.5 percent in February 2017 from 6.8 percent in January but remained high when compared to the 1.2 percent recorded in February last year, mainly driven by supply shortages of market items amidst adverse weather conditions and the consistently high yaqona prices post Tropical Cyclone Winston.

Over the month to February, prices fell in the food & non-alcoholic beverages and miscellaneous goods & services categories which offset the higher prices noted in the alcoholic beverages, tobacco & narcotics; health; furnishings, household, equipment & routine household maintenance; recreation & culture and clothing & footwear categories. Inflationary pressures continue to be dominated by domestic factors while imported inflation remains subdued on account of lower trading partner inflation.

Foreign reserves currently (30 March) stand at \$1,991.0 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services.

Taking into account the recent economic developments and the stable outlook for inflation and foreign reserves, the Reserve Bank Board left the Overnight Policy Rate unchanged at 0.5 percent.

## **RESERVE BANK OF FIJI**

---

<sup>2</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>3</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**

	Feb-17	Jan-17	Dec-16	Feb-16
<b>1. Consumer Prices *</b> (year-on-year % change)				
All Items	5.5	6.8	3.9	1.2
Food and Non-Alcoholic Beverage	4.3	7.1	2.9	2.9
<b>2. Reserves ***</b> (end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	1,973.8	1,918.5	1,921.2	2,017.7
<b>3. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)				
US dollar	0.4834	0.4821	0.4695	0.4657
Pound sterling	0.3886	0.3863	0.3834	0.3356
Australian dollar	0.6297	0.6386	0.6517	0.6522
New Zealand dollar	0.6719	0.6620	0.6755	0.7014
Swiss francs	0.4878	0.4798	0.4802	0.4647
Euro	0.4566	0.4508	0.4475	0.4263
Japanese yen	54.51	54.78	54.73	53.05
<b>4. Liquidity ***</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	3.7	3.2	3.8	6.3
Banks' Demand Deposits (\$m)	473.6	408.9	412.3	581.1
<b>5. Commodity Prices (US\$) **</b> (monthly average)				
UK Gold Price/fine ounce	1,234.2	1,198.0	1,151.4	1,197.1
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	20.4	20.5	18.8	13.3
Crude Oil/barrel	56.0	55.5	54.9	34.2
<b>6. Money and Credit ***</b> (year-on-year % change)				
Narrow Money	7.2	3.3	4.0	16.3
Broad Money	5.8	3.4	4.7	15.1
Currency in Circulation	7.3	6.5	9.7	11.0
Quasi-Money (Time & Saving Deposits)	5.8	3.3	4.6	15.6
Domestic Credit	9.9	8.6	7.4	12.6
<b>7. Interest Rates (% p.a.) ***</b> (monthly weighted average)				
Lending Rate (Excluding Staff)	5.76	5.83	5.80	5.88
Savings Deposit Rate	1.00	0.98	0.97	0.92
Time Deposit Rate	3.13	3.05	2.95	2.68
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	6.60	6.55	6.45	5.23

<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
(p)	provisional

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