



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global economic conditions remain firm, supported by positive outcomes in both advanced and emerging market and developing economies. Notably, strengthening labour market conditions and growing confidence in the United States (US) economy, the Federal Open Market Committee raised the target range for its federal funds rate to 1.00-1.25 percent (from 0.75-1.00%) on 14 June.

International commodity price movements were mixed in May. While the FAO<sup>1</sup> food price index increased over the month, Brent crude and sugar prices declined largely due to a supply glut. Gold prices also declined in May due to lower demand on account of the anticipated increase in the US Federal Reserve interest rate in June.

Domestically, the Fijian economy is on track to achieve a higher growth of 3.8 percent in 2017 after an estimated growth of 2.0 percent last year. Higher visitor arrivals from New Zealand and the US underpinned the 7.7 percent annual growth in total tourists in the year to May. Electricity production (8.7%) and consumption (7.0%) rose on a yearly basis in the first five months of this year due to increased demand. The cane crushing season also commenced on 1 June, with expectations for higher cane and sugar production in 2017, as the industry recovers from the impact of Tropical Cyclone Winston last year. On the downside, annual contractions were noted for mahogany production (-96.6%), cumulative to April and pine log (-54.0%) and woodchip (-68.5%) production, cumulative to May. While gold production picked up in May, it was not enough to offset the declines noted in the earlier months of the year, as total production declined (23.3%) year-on-year, in the first five months of 2017.

Private consumption and investment activities continue to hold up aggregate demand. Consumption activity has been supported by higher

incomes, improvement in labour market conditions and inward remittances. Pay as you earn tax collections (a partial indicator for income) increased by an annual 13.9 percent cumulative to April while personal remittances noted a growth of 3.7 percent (to \$123.6m) in the first quarter. Value Added Tax (VAT) collections (17.2%) and new vehicle registrations (13.9%) both grew on an annual basis, cumulative to April and May, respectively. Additionally, cumulative to May, increased lending to the wholesale, retail, hotels & restaurants sector (20.7%) underpinned the annual rise in new bank lending for consumption purposes (3.8%).

Investment remains firm given the strong growth in new bank lending to the real estate (75.9%) and building & construction (38.1%) sectors. This is consistent with ongoing construction activity as domestic cement sales registered solid growth (26.2%) in the year to May 2017. However, in the coming months cement production and sales will depend on the restoration of full production capacity at the Pacific Cement Limited and additional production by Tengy Cement Limited, which may impact on construction and investment activity.

Labour market conditions remain favourable. Higher recruitment intentions in the wholesale & retail trade & restaurants & hotels; community, social & personal services; agriculture and electricity & water sectors underpinned the annual growth (15.0%) in the number of jobs advertised, cumulative to May 2017.<sup>2</sup>

Financial conditions continue to be supportive of economic activity. Increased lending by commercial banks, licensed credit institutions (LCIs), the Fiji Development Bank and Housing

<sup>1</sup> Food and Agriculture Organisation.

<sup>2</sup> The RBF Job Advertisements Survey is undertaken to gauge sentiments in the labour market given the absence of high frequency data on the labour market by Fiji Bureau of Statistics. It excludes same jobs advertised more than once during the month and large number of temporary jobs such as those for general elections and census.

Authority underpinned the 14.1 percent annual growth (\$864.4m) in private sector credit in the year to May. Looking at interest rates in the same period, the commercial banks' new lending rate fell, similar to the downward movement in deposit rates. The weighted average new lending rate declined to 5.80 percent in May, from 5.93 percent in April. The new time deposit rate fell to 2.86 percent in May from 3.23 percent a month ago. In contrast, both the new lending and time deposit rates for LCIs trended upwards on a monthly basis.

Liquidity in the banking system rose by 27.0 percent (\$152.6m) to \$717.6 million in May 2017, led by the increase in foreign reserves (\$161.3m) coupled with a decrease in statutory reserve deposits (-\$11.7m). Currently (29 June), liquidity remains high at \$735.8 million.

In May, the Fiji dollar rose against the Japanese Yen (1.6%), the US (0.8%) and Australian (0.8%) dollars but fell against the New Zealand dollar (-2.3%) and the Euro (-2.1%). Over the year, the Fiji dollar appreciated against the US dollar (2.4%), the Japanese Yen (2.1%) and the Euro (1.9%) but weakened against the New Zealand (-3.4%) and Australian (-1.4%) dollars. Consequently, the Nominal Effective Exchange Rate (NEER)<sup>3</sup> Index depreciated by 0.1 percent over the month while the Real Effective Exchange Rate (REER)<sup>4</sup> index depreciated by 1.1 percent over the same period due to a notable decline in domestic inflation relative to trading partner inflation.

Based on Fiji Bureau of Statistics January 2017 trade data, the merchandise trade deficit (excluding aircraft) widened by 66.6 percent to \$281.6 million. Total exports (excluding aircraft) fell by 3.4 percent to \$137.1 million, due to a drop in domestic exports (-12.2%), led by reduced fish, timber, garments, gold and other domestic export receipts. In the same month, total imports (excluding aircraft) rose by 34.7 percent from the decline of 9.6 percent in 2016, led by higher imports of investment (12.7%), intermediate (11.7%) and consumption (10.2%) goods.

Annual inflation fell further to 2.5 percent in May, from 4.1 percent in the previous month. The lower monthly inflation outturn was underpinned by declines in the food & non-alcoholic beverages; clothing & footwear; communication; recreation & culture and miscellaneous goods & services categories. Inflation is expected to be around 3.0 percent by the end of the year.

Foreign reserves grew over the month by \$161.3 million in May and continued to remain adequate. As at 3 July foreign reserves stood at \$2,290.9 million, sufficient to cover 5.7 months of retained imports of goods and non-factor services.

Given the comfortable outlook for both foreign reserves and inflation, the Reserve Bank maintained an accommodative monetary policy stance, and kept the Overnight Policy Rate (OPR) unchanged at 0.5 percent in June.

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<sup>3</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>4</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****1. Consumer Prices\***

(year-on-year % change)

|                                 | May-17 | Apr-17 | Mar-17 | May-16 |
|---------------------------------|--------|--------|--------|--------|
| All Items                       | 2.5    | 4.1    | 5.6    | 5.2    |
| Food and Non-Alcoholic Beverage | -4.8   | -3.5   | 3.0    | 9.9    |

**2. Reserves\*\*\***

(end of period)

|                                      |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|
| Foreign Reserves (\$m) <sup>1/</sup> | 2,226.9 | 2,065.5 | 1,977.5 | 2,004.8 |
|--------------------------------------|---------|---------|---------|---------|

**3. Exchange Rates\*\*\***

(mid rates, F\$1 equals)

(end of period)

|                    |        |        |        |        |
|--------------------|--------|--------|--------|--------|
| US dollar          | 0.4798 | 0.4760 | 0.4807 | 0.4684 |
| Pound sterling     | 0.3731 | 0.3687 | 0.3855 | 0.3200 |
| Australian dollar  | 0.6425 | 0.6373 | 0.6284 | 0.6518 |
| New Zealand dollar | 0.6759 | 0.6921 | 0.6864 | 0.6998 |
| Swiss francs       | 0.4674 | 0.4731 | 0.4811 | 0.4649 |
| Euro               | 0.4285 | 0.4377 | 0.4500 | 0.4205 |
| Japanese yen       | 53.14  | 52.94  | 53.78  | 52.06  |

**4. Liquidity\*\*\***

(end of period)

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Liquid Assets Margin to Deposit Ratio (%) | 6.9   | 4.7   | 3.7   | 6.9   |
| Banks' Demand Deposits (\$m)              | 717.6 | 565.0 | 470.8 | 557.1 |

**5. Commodity Prices (US\$) \*\***

(monthly average)

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| UK Gold Price/fine ounce                             | 1,244.5 | 1,265.8 | 1,231.1 | 1,259.4 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/pound) | 15.7    | 16.4    | 18.1    | 16.7    |
| Crude Oil/barrel                                     | 51.4    | 53.8    | 53.0    | 48.1    |

**6. Money and Credit\*\*\***

(year-on-year % change)

|                                      |     |      |      |      |
|--------------------------------------|-----|------|------|------|
| Narrow Money                         | 7.6 | 5.2  | 2.3  | 12.5 |
| Broad Money                          | 7.2 | 3.9  | 2.8  | 11.3 |
| Currency in Circulation              | 2.2 | -1.4 | -0.1 | 14.2 |
| Quasi-Money (Time & Saving Deposits) | 7.9 | 4.7  | 3.4  | 10.8 |
| Domestic Credit                      | 8.4 | 8.4  | 9.1  | 10.9 |

**7. Interest Rates (% p.a.) \*\*\***

(monthly weighted average)

|  |      |      |      |      |
|--|------|------|------|------|
| Lending Rate (Excluding Staff)                       | 5.78 | 5.74 | 5.82 | 5.87 |
| Savings Deposit Rate                                 | 1.33 | 1.31 | 1.12 | 0.91 |
| Time Deposit Rate                                    | 2.60 | 3.22 | 3.19 | 2.83 |
| 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                        | 6.00 | n.i  | 6.60 | 5.40 |

<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      |