



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Vol. 34

No. 02

Month Ended February 2017

Global economic conditions are expected to remain subdued in 2017, led by slow recovery in emerging and developing economies. However, sentiments for advanced economies signal favourable conditions, especially for the United States (US), Japan, New Zealand (NZ) and the United Kingdom. Most major trading partner central banks have kept their monetary policies accommodative as geopolitical risks and policy uncertainties prevail on the global front. Commodity prices also rose as the Organisation of the Petroleum Exporting Countries agreed to cut oil production in November last year while higher gold prices stemmed from the uncertainty surrounding the Federal Reserve interest rate hike. In addition, production shortfalls in Brazil and India also led to higher world market sugar prices.

Domestically, latest sectoral data depicted mixed performances. Visitor arrivals rose notably by 12.5 percent in January this year driven by strong arrivals from New Zealand, China while increases were also noted from Australia, US, Pacific Islands and the Rest of Asia. Electricity generation increased (+3.5%) in 2016 while garment production was higher (+10.4%) in the cumulative to June, 2016 period. On the contrary, gold production dipped on an annual basis by 47.1 percent in January due to down time for maintenance of mining machinery. Similarly, woodchip production declined by 89.0 percent in January while log production fell by 35.9 percent in 2016, due to unfavourable external demand.

Consumption activity rose in the review period. Higher registrations of new (+30.3%) and second hand (+1.6%) vehicles, mainly associated with the change in duties in the current fiscal year, were noted in January when compared to the same period last year. In 2016, commercial banks' new lending for consumption purposes grew by 7.9 percent along with imports of consumption related goods (+14.7%).

Partial indicators for investment remained buoyant as noted in the strong growth in imports of investment goods (+15.7%) and domestic cement sales (+11.1%) in 2016. Similarly, the number of building permits issued were higher (+2.1% cumulative to September, 2016), signalling the likelihood of increased construction activity in subsequent quarters. On the downside, commercial banks new investment lending fell by 10.3 percent in 2016, in contrast to the 77.7 percent increase in 2015 due to base effects. The contraction this year was led by the lower credit to both the real estate (-17.9% from 86.4%) and the building & construction (-1.0% from 68.1%) sectors.

Financial conditions continue to be influenced by annual slowdown in credit, largely driven by the slower growth in commercial banks' lending to the private sector. Private sector credit growth slowed to 12.6 percent (\$756.4m) from the 14.4 percent (\$758.2m) noted in 2015. This reflected the lower outturn in both commercial banks' new and outstanding annual lending growth in 2016, which fell to 6.2 percent (\$145.8m) and 9.2 percent (\$506.6m), respectively. At the same time, interest rates on commercial banks' new lending and deposit rates generally rose in the review period. The weighted average new lending rate increased to 6.17 percent in December 2016, from 5.38 percent in November but fell from 6.77 percent in December 2015. The time deposit rate rose slightly in December to 2.95 percent from 2.94 percent in November and from 2.71 percent noted a year ago.

Liquidity fell over the month of January by a marginal 0.8 percent (\$3.4m) to \$408.9 million, underpinned by an increase in statutory reserves deposits (\$43.0m) which offset the decline in currency in circulation (\$41.7m) and foreign reserves (\$1.6m). Currently (24 February), liquidity is at \$469.8 million.

Over the month to January, the Fiji dollar (FJD) appreciated against the US dollar (+2.7%), the Euro

(+0.7%) and the Japanese Yen (+0.1%). However, the FJD depreciated against the Australian (-2.0%) and the NZ (-2.0%) dollars as the surge in commodity prices favoured these currencies. Over the year, the FJD depreciated against the NZ dollar (-7.0%), the Australian dollar (-2.0%) and the Japanese Yen (-0.1%) but appreciated against the Euro (+7.0%) and the US dollar (+4.4%).

In terms of the Fiji dollar basket, the Nominal Effective Exchange Rate (NEER)¹ index rose slightly both over the month (+0.1%) and over the year (+0.4%). However, due to the recent spike in Fiji's inflation rate (6.8%) in January, the Real Effective Exchange Rate (REER)² appreciated by 2.8 percent over the month and by 5.6 percent over the year.

Inflation rose to 6.8 percent in January from 3.9 percent in December 2016 and 0.2 percent in January 2016, the highest level since October 2011 (7.7%).

On an annual basis, higher prices were noted in the alcoholic beverages, tobacco & narcotics; education; food & non-alcoholic beverages; restaurants & hotels; furnishings, household, equipment & routine household maintenance; and clothing & footwear categories while prices were lower for miscellaneous goods & services; housing, water, electricity gas & other fuels; recreation & culture and communication. Inflationary pressures this year are expected to be driven by domestic factors while price pressures from imported inflation are expected to remain low.

Currently (27 February), foreign reserves are around \$1,976.4 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services.

The Reserve Bank Board maintained the Overnight Policy Rate at 0.5 percent in February in consideration of the latest economic developments and comfortable outlook for the Bank's monetary policy objectives.

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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

	Jan-17	Dec-16	Nov-16	Jan-16
1. Consumer Prices * (year-on-year % change)				
All Items	6.8	3.9	4.3	0.2
Food and Non-Alcoholic Beverage	7.1	2.9	2.7	2.6
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,919.0 (p)	1,921.2	1,896.1	2,012.6
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4821	0.4695	0.4788	0.4616
Pound sterling	0.3863	0.3834	0.3830	0.3214
Australian dollar	0.6386	0.6517	0.6399	0.6516
New Zealand dollar	0.6620	0.6755	0.6717	0.7122
Swiss francs	0.4798	0.4802	0.4843	0.4679
Euro	0.4508	0.4475	0.4499	0.4215
Japanese yen	54.78	54.73	53.81	54.84
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	3.8	3.9	6.5
Banks' Demand Deposits (\$m)	408.9	412.3	420.6	574.4
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,198.0	1,151.4	1,236.0	1,097.4
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	20.4	18.5	20.3	14.3
Crude Oil/barrel	55.5	54.9	48.1	33.5
6. Money and Credit *** (year-on-year % change)				
Narrow Money	n.a	6.2	6.1	14.9
Broad Money	n.a	6.3	5.1	14.9
Currency in Circulation	n.a	9.7	11.2	13.2
Quasi-Money (Time & Saving Deposits)	n.a	6.3	4.8	15.0
Domestic Credit	n.a	7.4	7.8	13.3
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	n.a	5.80	5.74	5.87
Savings Deposit Rate	n.a	0.97	0.98	0.95
Time Deposit Rate	n.a	2.95	2.94	2.69
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	6.55	6.45	6.39	n.i

^{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
(p)	provisional

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