



## ECONOMIC REVIEW

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Global growth prospects remain firm, supported by accommodative monetary policies and less tight fiscal policies. However, medium term risks prevail, largely tilted to the downside. These include widening global trade imbalances, increased protectionism and geopolitical tensions. Nonetheless, the positive outlook for Fiji's major trading partners' should augur well for the domestic economy.

Commodity prices rose in July, following the surge in oil prices after a decline in the United States' (US) crude oil supplies and Saudi Arabia's plans to reduce oil exports. Similarly, higher prices of cereal, sugar and dairy owing to supply constraints and currency movements underpinned the third consecutive monthly increase in the FAO<sup>1</sup> food price index. The rise in demand for gold as a safe haven asset amid the tension between North Korea and US, and weakness in the US dollar resulted in an increase in gold prices.

Domestic economic activity remained steady on the back of expanding aggregate demand and better performances in the tourism and sugar industries. Visitor arrivals rose (6.3%) cumulative to July supported by higher arrivals from New Zealand, Australia, the US, Rest of Asia and the Pacific Islands. Production of cane (52.6%) and sugar (60.4%) increased in the first 13 weeks of crushing, buoyed by improvements in cane supply and recovery from last year's adverse weather conditions. Electricity production noted a 7.5 percent annual increase cumulative to July. On the downside, gold (-9.6%), pine log (-52.9%) and woodchip (-51.4%) output declined in the year to July.

Aggregate demand continues to expand and partial indicators reveal upbeat consumption and investment spending into the second half of the year. New consumption lending by commercial

banks expanded in the year to July (7.9% to \$506.9m), led by higher lending to wholesale, retail, hotels & restaurants sector (27.6% to \$409.4m). Similarly, new vehicle registrations (4.9%) and Net VAT collections (15.7%) increased cumulative to June. Consumer demand in the medium term is expected to be boosted further by increases in disposable incomes and additional job creation from various investment projects.

Investment spending has surged from last year. Commercial bank's new investment lending grew (36.7% to \$316.7m) cumulative to July, underpinned by increased new loans to the real estate (58.1% to \$177.2m) and the building & construction (16.6% to \$139.5m) sectors. Domestic cement sales which indicates the level of construction sector activity also increased (15.2%) cumulative to July. Consequently, the RBF's Investment Survey projects investment at 26.0 percent of GDP<sup>2</sup> in 2017, from an estimated 23.0 percent of GDP in 2016 and this includes new private sector projects, ongoing Tropical Cyclone Winston rehabilitation projects and new and ongoing government funded infrastructure projects.

Employment creation is tracking overall GDP performance and various new investment projects are adding to employment numbers. In the year to July, the number of vacancies advertised noted a 17.2 percent annual increase attributed to increased demand for labour in the wholesale & retail trade & restaurants & hotels; community, social & personal services; electricity & water; agriculture, forestry & fishing and mining & quarrying sectors.

Credit conditions are conducive and reflect the expansion in aggregate demand. Private sector credit growth expanded further (15.2% to \$949.7m) in July while lending rates trended downwards. Commercial banks' weighted average outstanding lending rate fell to 5.75 percent (from 5.77% in

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

<sup>2</sup> Gross Domestic Product.

June) and the new lending rate fell to 5.78 percent (from 6.23% in June). In contrast, the commercial banks' time deposit rate edged up slightly to 3.35 percent in July (from 3.34% in June).

Excess liquidity in the banking system increased to \$740.4 million in July, led by a rise in foreign reserves (\$28.8m) but dampened by increases in statutory reserve deposits (\$18.8m) and currency in circulation (\$18.0m). As at 31 August, excess liquidity rose further to \$756.1 million

In July, the Fiji dollar strengthened over the month against the US (2.2%) dollar and the Japanese Yen (0.7%) but weakened against the Australian dollar (-2.2%), the Euro (-1.0%) and the New Zealand dollar (-0.5%). On an annual basis, the Fiji dollar strengthened against the Japanese Yen (8.5%) and the US dollar (3.3%), but weakened against the Australian dollar (-2.9%), the Euro (-2.6%) and the New Zealand (-2.5%) dollar.

Consequently, the Nominal Effective Exchange Rate (NEER)<sup>3</sup> index rose over the month (0.1%) and over the year (0.2%) indicating the strengthening of the Fiji dollar against its major trading partner currencies. This also led to a 0.6

percent monthly and annual increase in the Real Effective Exchange Rate (REER)<sup>4</sup> despite the lower domestic inflation in July.

Inflationary pressures have subsided and annual headline inflation was 2.0 percent in July, unchanged from a month earlier. Higher prices of alcohol and tobacco were offset to some extent by lower food prices, which have been declining for the past four months. Nonetheless, subdued global oil prices, low trading partner inflation and domestic spare capacity should keep a tab on inflationary pressures and maintain inflation around 3.0 percent by year-end.

Foreign reserves (RBF holdings) increased to \$2,314 million in July, sufficient to cover 5.8 months of retained imports of goods & non-factor services (MORI). As at 31 August, foreign reserves stood at \$2,349 million, sufficient to cover 5.8 MORI.

In light of the latest global and domestic economic developments and no immediate risks to the monetary policy objectives outlook, the Reserve Bank Board agreed to maintain the Overnight Policy Rate at 0.5 percent in August.

## **RESERVE BANK OF FIJI**

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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.

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<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)

All Items  
Food and Non-Alcoholic Beverage

Jul-17	Jun-17	May-17	Jul-16
2.0	2.0	2.5	5.5
-6.2	-6.0	-4.8	10.0

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

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

2,313.7	2,283.2	2,226.9	1,982.4
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3. **Exchange Rates** \*\*\*

(mid rates, FSI equals)

(end of period)

US dollar  
Pound sterling  
Australian dollar  
New Zealand dollar  
Swiss francs  
Euro  
Japanese yen

0.4971	0.4864	0.4798	0.4811
0.3787	0.3762	0.3731	0.3654
0.6227	0.6365	0.6425	0.6410
0.6624	0.6655	0.6759	0.6794
0.4816	0.4667	0.4674	0.4720
0.4231	0.4274	0.4285	0.4342
55.01	54.61	53.14	50.69

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

(end of period)

Liquid Assets Margin to Deposit Ratio (%)  
Banks' Demand Deposits (\$m)

7.5	6.6	6.9	6.5
740.4	735.8	717.6	499.5

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

(monthly average)

UK Gold Price/fine ounce  
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)  
Crude Oil/barrel

1,236.2	1,260.3	1,244.5	1,337.3
14.1	13.5	15.7	19.7
49.2	47.6	51.4	47.1

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

(year-on-year % change)

Narrow Money  
Broad Money  
Currency in Circulation  
Quasi-Money (Time & Saving Deposits)  
Domestic Credit

13.6	8.6	7.8	4.8
10.4	8.0	7.4	7.3
0.3	3.1	2.1	16.6
11.3	8.4	8.0	6.6
8.6	8.8	8.4	8.3

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

(monthly weighted average)

Lending Rate (Excluding Staff)  
Savings Deposit Rate  
Time Deposit Rate  
14-day RBF Note Rate (month end)  
Minimum Lending Rate (MLR) (month end)<sup>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

5.75	5.77	5.78	5.89
1.28	1.19	1.33	0.95
3.35	3.34	3.25	2.85
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t	n.t	n.t	n.t
n.i	n.i	n.i	n.i
6.00	5.98	6.00	6.02

<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