RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Vol. 33 No. 10 Month Ended October 2016

The global economic outlook is expected to remain subdued in 2016. The International Monetary Fund in its October World Economic Outlook, kept its global growth forecast for this year unchanged at 3.1 percent. Growth in emerging markets and developing economies is anticipated to strengthen slightly in 2016 on the back of a stabilising Russian economy, robust growth in India and reduced concerns about China's near-term prospects following its growth supportive policies. However, growth for advanced economies has been revised downwards due to weaker-than-expected performance in the United States (US) and a projected reduction in trade and financial flows between the United Kingdom and the European Union over the medium term following the 'Brexit' vote. For 2017, growth is projected to pick up on account of an improved outlook for some emerging markets and developing economies and expectations of a rebounding US economy.

Domestically, sectoral outcomes have generally been mixed. The growth in visitor arrivals (4.2%) cumulative to September was lower compared to the same period in 2015 (9.2%). While arrivals from New Zealand and China continued to grow, visitor numbers from Fiji's major tourist market, Australia, have been on a declining trend since April 2016. Cane and sugar production were lower by 35.3 percent and 40.2 percent, respectively, in the first 17 weeks of crushing, reflective of the negative impact of Tropical Cyclone Winston. Similarly, mahogany (-12.8%) and fish (-22.7%) production declined in the year to September and June, respectively. On a positive note, the Industrial Production Index showed improved manufacturing activity over the June quarter (10.0%) as well as over the same period in 2015 (0.3%). On the industrial front, electricity production noted an annual growth (3.5%) in the nine months to September, consistent with higher electricity consumption (0.3%) in the year to August. Gold production also noted an annual increase (14.3%) cumulative to September.

Overall, given the lower than anticipated performances in key sectors to date, the current GDP growth projection of 2.4 percent for this year, which is currently under review, is downward biased.

Aggregate demand continued to be supported by steady incomes, increasing inward remittances and accommodative financial conditions. Personal remittances were higher in the year to September (7.4%) underpinned by growth in gifts & maintenance and immigrant transfer receipts. Labour market conditions remained positive, as per the RBF's Job Advertisements survey which noted an annual increase (7.2%) in the number of advertised vacancies cumulative to September 2016. Higher recruitment intentions were noted in the wholesale & retail trade & restaurants & hotels; construction; transport, storage & communication; agriculture, forestry & fishing; and the electricity & water sectors.

Consumption and investment activity registered continued growth in the review period. Annual increases were noted in both new (32.1%) and second hand (10.7%) vehicle registrations coupled with higher new lending by commercial banks for consumption purposes (11.1%) in the year to September. In addition, domestic cement sales grew by 10.0 percent in the same period, while the value of work put-in-place by the construction sector increased by 10.3 percent ($249.6m) cumulative to the June quarter. In contrast, new loans for investment purposes contracted (-13.9%) in the year to September.[1]

In line with growth in aggregate demand, the Overseas Exchange Transactions (OET) report showed an increase in overall imports (13.0%) cumulative to September, largely led by higher payments for transport equipment; food, beverages & tobacco; duty-free goods; machinery & electrical

[1] However, this is base-related as high value investment related loans were extended in the January-September period in 2015.

equipment; textile, clothing & footwear (TCF); chemicals and other imports. Similarly, exports also rose (5.1%) in the same period, contributed by higher earnings from fish; re-exports; mineral water; TCF and other exports.

Monetary conditions remained accommodative although overall credit growth has slowed compared to similar levels noted in 2015. Private sector credit grew by a slower 10.3 percent ($604.5m) to $6,457.1 million, compared to a growth of 14.3 percent ($731.5m) a year ago. Interest rates remained favourable as the commercial banks' weighted average new lending rate fell to 5.34 percent in September, from 6.68 percent in August. However, the new time deposit rate rose to 2.64 percent in the same period, from 2.45 percent in August.

Liquidity in the banking system rose over the month of September by 1.7 percent to $421.6 million, led by decreases in currency in circulation ($13.8m) and statutory reserves deposits ($9.2m). As at 28 October 2016, liquidity was $505.3 million.

The Fiji dollar basket remained stable against the basket of trading partner currencies over the month of September. In terms of bilateral movements, the local currency appreciated against the US dollar (0.8%), New Zealand dollar (0.3%) and Euro (0.1%) but depreciated against the Japanese Yen (-1.1%) and Australian dollar (-0.9%). Over the year, the Fiji dollar strengthened against the Euro (6.5%) and the US dollar (6.2%) but weakened against the Yen (-10.4%) and New Zealand (-7.1%) and the Australian (-2.8%) dollars.

The Nominal Effective Exchange Rate (NEER)[2] index was almost unchanged over the month but rose over the year (0.7%). Moreover, given the narrowing price differential between Fiji and its trading partner countries in September, the Real Effective Exchange Rate (REER)[3] index fell by 0.3 percent over the month but remained higher over the year, by 5.9 percent.

Inflation has remained above the 5.0 percent mark, for five consecutive months since May, largely on account of cyclone-related effects on the domestic supply of agricultural produce – especially yaqona. Inflation fell to 5.6 percent in September, from a high of 5.9 percent in August. Contributions to the September 2016 inflation outturn were higher prices mainly in the alcoholic beverages, tobacco & narcotics – particularly yaqona; food & non-alcoholic beverages and education categories. High yaqona prices have persisted and unexpectedly grew further in September. If prices remain at similar levels, there is a higher likelihood of continued inflationary pressure towards the end of 2016. Consequently, the 2016 year-end headline inflation forecast has been revised upward to 5.0 percent, from the 3.5 percent expected earlier. Excluding the impact from higher prices of volatile items such as food, yaqona and energy, underlying inflation for September was around 3.3 percent.

Foreign reserves rose in September to $1,902.7 million, equivalent to 5.3 months of retained imports of goods and non-factor services. As at 28 October 2016, foreign reserves were $1,983.5 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services.

Given the latest economic developments and outlook, the Reserve Bank Board kept the Overnight Policy rate unchanged at 0.5 percent in October.

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[2] 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.

[3] 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.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS

	Sep-16	Aug-16	Jul-16	Sep-15
1. Consumer Prices *				
(year-on-year % change)				
All Items	5.6	5.9	5.5	1.5
Food and Non-Alcoholic Beverage	7.0	9.8	10.0	5.3
2. Reserves ***				
(end of period)				
Foreign Reserves ($m)[1/]	1,902.7	1,903.3	1,982.4	2,034.5
3. Exchange Rates ***				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.4875	0.4837	0.4811	0.4590
Pound sterling	0.3759	0.3699	0.3654	0.3029
Australian dollar	0.6382	0.6442	0.6410	0.6567
New Zealand dollar	0.6717	0.6700	0.6794	0.7229
Swiss francs	0.4709	0.4761	0.4720	0.4463
Euro	0.4344	0.4340	0.4342	0.4080
Japanese yen	49.28	49.83	50.69	54.99
4. Liquidity ***				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	4.6	5.2	6.5	5.4
Banks' Demand Deposits ($m)	421.6	414.5	499.5	669.8
5. Commodity Prices (US$) **				
(monthly average)				
UK Gold Price/fine ounce	1,326.0	1,341.1	1,337.3	1,124.6
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	21.3	19.9	19.2	12.1
Crude Oil/barrel	47.4	47.2	47.1	47.2
6. Money and Credit ***				
(year-on-year % change)				
Narrow Money	2.9	5.7	4.8	14.8
Broad Money	5.4	7.7	7.4	13.0
Currency in Circulation	15.3	15.6	16.6	11.1
Quasi-Money (Time & Saving Deposits)	4.2	6.7	6.6	13.9
Domestic Credit	6.6	8.6	8.4	12.2
7. Interest Rates (% p.a.) ***				
(monthly weighted average)				
Lending Rate (Excluding Staff)	5.86	5.92	5.89	5.84
Savings Deposit Rate	0.91	0.91	0.95	0.87
Time Deposit Rate	2.90	2.83	2.85	2.63
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	0.75	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	6.27	6.24	6.02	5.18

[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.i	*No issue*
n.t	*No trade*
p.a.	*Per annum*

Sources:

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