



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund kept its global growth forecast unchanged for this year at 3.5 percent, as global growth has so far proceeded in line with expectations. Growth in emerging market and developing economies is anticipated to strengthen further in 2017, supported by the upturn in China's growth prospects. Amongst the advanced economies, the outlook for Japan and the Euro zone have been revised upwards following positive activity since late 2016, offsetting the downward revision to the United States' (US) growth prospect due to reduced expectations for fiscal expansion. In 2018, the global economy is expected to grow by 3.6 percent, similar to the earlier forecast in April.

Global commodity prices were generally weak in June, underpinned by increased oil production adding to an already oversupplied market, and the decline in gold prices following the Federal Reserve's interest rate increase on 14 June. A higher-than-expected harvest in Thailand coupled with weak demand from Brazil, China and India led to a decline in sugar prices. Conversely, higher prices for dairy products and cereal contributed to an increase in the FAO<sup>1</sup> food price index in June.

Domestically, the economic outlook remains favourable. Visitor arrivals have remained strong in the year to June (6.6% annual rise) backed by increased tourist arrivals from New Zealand, the US, Rest of Asia and the Pacific Islands. Cane and sugar production were higher by a significant 74.9 percent and 77.7 percent, respectively, in the first eight weeks of crushing, reflecting the recovery from the impact of natural disasters last year. Similarly, electricity production (8.2%) and consumption (7.7%) increased on an annual basis in the first half of this year. Conversely, output from the mining (-18.1%) and timber (mahogany production (-97.8%), woodchip production (-59.0%)

and pine log production (-43.6%) industries declined further, cumulative to June.

The National Budget announced on 29 June for the 2017-2018 fiscal year was expansionary with net deficit projected to increase to 4.5% of GDP<sup>2</sup> (\$499.5 million) from around 2.0% of GDP in 2016-2017. Expenditure for the fiscal year is budgeted at \$4,356.8 million (39.7% of GDP) while revenue is forecast at \$3,857.3 million (35.1% of GDP). Increased wages & salaries and higher capital spending underpin the rise in Government's budgeted spending for the new fiscal year. As a result, public debt for 2017-2018 is projected to rise to \$5,216.1 million (47.5% of GDP). Nonetheless, an operating savings of \$896.1 million is expected in 2017-2018, implying that the Government is able to finance its operational activities, thus, any borrowing is likely for capital spending. The notable increase in spending directed towards rebuilding efforts, salary increments for civil servants, rise in the income tax threshold, among other initiatives announced in the National Budget, are expected to provide an impetus for increased economic activity and growth in the near term.

Partial indicators also revealed firm consumer spending and improved investment outcomes in the year to date. Cumulative to June, new bank lending for consumption purposes grew (8.4%, +\$32.6m), with higher lending to the wholesale, retail, hotels & restaurants sector (29.0%, +\$76.5m). Personal remittances were higher in the year to June (3.1%) underpinned by growth in gifts & maintenance and immigrant transfer receipts. In the same period, while new vehicle registrations rose annually (4.9%), second-hand vehicle registrations contracted (-31.3%), reflective of the impact of duty changes imposed on hybrid vehicles this year. In addition, new bank loans for investment purposes also rose (46.5%, +\$87.3m), largely driven by increased

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

<sup>2</sup> GDP refers to Gross Domestic Product.

lending to the real estate (65.5%, +\$59.6m) and building & construction (28.6%, +\$27.7m) sectors. Domestic cement sales also rose (14.0%) on an annual basis, despite the production setback faced by Pacific Cement Limited in the last week of May.

Labour market conditions remained positive, as per the RBF's Job Advertisements survey, which noted an annual increase (17.1%) in the number of advertised vacancies in the first six months of 2017. Higher recruitment intentions were noted in the wholesale & retail trade & restaurants & hotels; community, social & personal services; construction; electricity & water and the mining & quarrying sectors.

Monetary conditions remained accommodative and supportive of economic activity. Private sector credit growth (13.8%) continued to be strong in June, led by increased lending towards private sector business entities. Interest rate movements were mixed in June. The commercial banks' weighted average outstanding lending rate fell to 5.77 percent (from 5.78% in May), while the new lending rate rose significantly to 6.23 percent (from 5.80% in May). In terms of funding costs, the time deposit rate rose to 3.34 percent from 3.25 percent in the previous month, while the new time deposit rate also increased to 3.43 percent from 2.86 percent in May. In contrast, the savings deposit rate declined to 1.19 percent from 1.33 percent in May.

Bank liquidity, measured by banks' demand deposits (BDD), rose over the month of June by 2.5 percent to \$735.8 million, led by an increase in foreign reserves (\$60.5m) and a decrease in currency in circulation (-\$0.5m) which offset the increase in statutory reserves deposits (\$31.9m). As at 28 July, excess liquidity within the banking system was \$737.5 million.

In June, the Fiji dollar appreciated against the Japanese Yen (2.8%) and the US dollar (1.4%), but depreciated against the New Zealand (-1.5%) and Australian (-0.9%) dollars and the Euro (-0.3%). Consequently, the Nominal Effective Exchange Rate (NEER)<sup>3</sup> index rose both over the month (0.2%) and over the year (0.1%) in June, reflecting an overall appreciation of the Fiji dollar against its trading partner currencies. As such, despite the subdued domestic inflation outturn in June, the Real Effective Exchange Rate (REER)<sup>4</sup> index also rose both over the month and over the year by 1.2 percent and 0.3 percent, respectively.

Annual inflation fell further to 2.0 percent in June, from 2.5 percent in May and from a high of 5.3 percent in June last year. The lower inflation outcome was due to the declines in prices of food & non-alcoholic beverages; health; recreation & culture; clothing & footwear; communication and miscellaneous goods & services categories. While prices are projected to remain stable in the near term, certain policy measures announced in the National Budget are expected to influence inflationary outcomes in the coming months. Nonetheless, inflation is projected to be around 3.0 percent by year-end.

Foreign reserves (RBF holdings) rose in June to \$2,283.2 million (sufficient to cover 5.7 months of retained imports of goods & non-factor services (MORI), from \$2,226.9 million in May. On 31 July, foreign reserves are expected to reach another high of around \$2,314.9 million (5.8 MORI).

Taking into account the recent economic developments and the outlook on the Bank's twin monetary policy objectives of stable inflation and foreign reserves, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in July.

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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)

All Items  
Food and Non-Alcoholic Beverage

Jun-17	May-17	Apr-17	Jun-16
2.0	2.5	4.1	5.3
-6.0	-4.8	-3.5	9.5

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

(end of period)

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

2,283.2	2,226.9	2,065.6	1,974.7
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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

0.4864	0.4798	0.4760	0.4810
0.3762	0.3731	0.3687	0.3574
0.6365	0.6425	0.6373	0.6458
0.6655	0.6759	0.6921	0.6762
0.4667	0.4674	0.4731	0.4713
0.4274	0.4285	0.4377	0.4324
54.61	53.14	52.94	49.51

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

(end of period)

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

6.6	6.9	4.8	6.1
735.8	717.6	565.0	495.7

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

(monthly average)

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

1,260.3	1,244.5	1,265.8	1,276.4
13.5	15.7	16.4	19.4
47.6	51.4	53.8	50.5

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

(year-on-year % change)

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

8.6	7.8	5.6	8.5
8.0	7.4	4.3	9.3
3.1	2.1	-1.4	17.4
8.4	8.0	5.0	8.7
8.8	8.4	8.9	10.0

**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

5.77	5.78	5.74	5.88
1.19	1.33	1.31	0.90
3.34	3.25	3.22	2.79
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
5.98	6.00	n.i	5.67

<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