



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Vol. 33

No. 02

Month Ended February 2016

Global growth prospects have weakened, following the trimming of the International Monetary Fund's 2016 central forecasts for advanced and emerging market economies and the international outlook. Despite the boost from lower oil prices and interest rates, recent data and indicators point to slower growth in major advanced economies. For most emerging market economies, the China-driven commodity cycle is ending and the need to restructure economies and reduce leverage is key for securing stronger economic growth. Financial sector volatility and geopolitical risks are also adding to global uncertainty, evident in the significant decline in sovereign bond yields and equity prices since last year.

Domestically, the Fijian economy was projected to grow by 3.5 percent this year. However, the recent devastation by tropical cyclone (TC) Winston may put a damper on growth, outside of the anticipated positive impact on GDP of the post-disaster reconstruction effort. Looking at recent sectoral outcomes in January 2016, visitor arrivals (15%), gold output (5.7%) and mahogany logs (83.4%) grew annually, while total pine log (-47.3%) and woodchip production (-36.0%) contracted.

Consumer demand remained firm in 2015, evident in the annual growth in net VAT collections (12.4%). Improved incomes as suggested by the 13.6 percent growth in Pay As You Earn (PAYE) collections and higher remittance inflows (28.3%) continued to support consumption activity in 2015. The increases in new loans for investment purposes (77.7%) during 2015 and domestic cement sales (10.0%) cumulative to January 2016 pointed to continued solid investment outcomes.

Higher recruitment intentions in January (14.9%) as per the Reserve Bank of Fiji's Job Advertisements Survey indicate favourable labour market conditions, particularly in the manufacturing, wholesale, retail trade & restaurants & hotels and

finance, insurance, real estates & business services sectors.

Monetary conditions remained supportive of credit growth. Despite some recent uptick, commercial banks' lending rates remained around historic lows, consistent with strong competition in the banking sector. The commercial banks' weighted average outstanding and new lending rates noted over-the-month increases to 5.90 percent (from 5.86%) and 6.78 percent (from 6.61%), respectively in December. In contrast, the commercial banks' existing time deposit rate was unchanged at 2.71 percent in December, while the savings deposit rate edged up a little to 1.01 percent in December from 1.00 percent in November.

Liquidity remained ample at \$574.4 million in January amid over-the-month growth in foreign reserves (\$68.9m). Currently (25 February), liquidity is \$580.5 million.

In January, while the Fiji dollar appreciated against the New Zealand (3.6%) and the Australian dollars (0.9%), it depreciated against the Japanese Yen (-3.3%), the Euro (-2.1%) and the US dollar (-1.8%). As a result, the Nominal Effective Exchange Rate (NEER)¹ fell over the month by 0.1 percent. Likewise, the Real Effective Exchange Rate (REER)² index fell by 0.1 percent due to the fall in the NEER index and the lower January inflation outcome in Fiji compared to its trading partners.

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.

Inflation in January 2016 eased to 0.2 percent, underpinned by lower prices in the housing, water, electricity, gas & other fuels and the transport categories, following reductions in domestic fuel prices by the Fiji Commerce Commission in January 2016. As expected, contributions from the food & non-alcoholic beverages category to overall inflation slowed in January reflecting the net impact of the reduction in the VAT rate from 15 to 9 percent from 1 January 2016. However, supply disruptions following the impact of cyclone Winston are anticipated to temporarily put upward pressure on prices of agricultural market items in the coming months. Nonetheless, inflation is expected to remain subdued in 2016 below 3.0 percent mainly due the reduction in the VAT rate and the low global oil price outlook.

Foreign reserves (RBF holdings) were \$2,013.1 million in January, sufficient to cover 5.6 months of retained imports of goods and non-factor services. As at 29 February, foreign reserves are comfortable at \$2,019.0 million, sufficient to cover 5.7 months

of retained imports of goods and non-factor services.

Given that the Reserve Bank's twin objectives of low inflation and comfortable foreign reserves remained intact in the review period, the Overnight Policy Rate was kept unchanged at 0.5 percent in February.

Moreover, the Reserve Bank has reintroduced its Natural Disaster Rehabilitation Facility (NDRF) to support national relief efforts following the devastation by TC Winston. The facility provides funding for businesses faced with either production loss requiring replacement of stock or damaged inventory, or asset loss which may include repairs for damage to business premises as a result of the TC. The funding is also extended to homeowners for repairs and reconstruction. The facility is available through the commercial banks, Fiji Development Bank and licensed credit institutions (LCIs).³ NDRF loans are limited to \$0.5 million per business and approval is left to the discretion of the respective financial institutions.

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³ LCIs include Credit Corporation Fiji Limited, Merchant Finance Limited, BSP Finance (Fiji) Limited and Kontiki Finance Limited.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items	0.2	1.6	1.8	0.2
Food and Non-Alcoholic Beverage	2.6	5.0	4.8	2.7

2. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2,013.1	1,943.7	1,955.6	1,846.3
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3. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

US dollar	0.4616	0.4701	0.4631	0.4859
Pound sterling	0.3214	0.3170	0.3080	0.3224
Australian dollar	0.6516	0.6456	0.6436	0.6250
New Zealand dollar	0.7122	0.6876	0.7085	0.6687
Swiss francs	0.4679	0.4646	0.4773	0.4490
Euro	0.4215	0.4307	0.4373	0.4292
Japanese yen	54.84	56.69	56.90	57.50

4. Liquidity ***

(end of period)

Liquid Assets Margin to Deposit Ratio (%)	6.54	5.64	6.93	6.22
Banks' Demand Deposits (\$m)	574.4	488.4	548.2	597.4

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1,097.4	1,068.3	1,085.7	1,251.8
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	14.3	15.0	14.9	15.1
Crude Oil/barrel	30.8	37.7	44.4	48.1

6. Money and Credit ***

(year-on-year % change)

Narrow Money	n.a	13.4	15.0	4.6
Broad Money	n.a	14.0	15.1	12.0
Currency in Circulation	n.a	11.5	9.4	9.8
Quasi-Money (Time & Saving Deposits)	n.a	14.3	15.9	12.5
Domestic Credit	n.a	13.6	13.9	17.4

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.88	5.90	5.86	5.68
Savings Deposit Rate	0.95	1.01	1.00	0.67
Time Deposit Rate	2.69	2.71	2.71	2.24
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

(monthly weighted average)

5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	n.i	n.i	5.20	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.i	No Issue
n.t	No Trade
n.a	Not Available

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