



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Despite improved economic outcomes for some advanced and emerging market economies recently, global financial and economic conditions remain weak mainly due to the impact of the surprise British exit vote from the European Union (EU). Consequently, the International Monetary Fund revised its 2016 global growth projection downward to 3.1 percent from the 3.2 percent forecast in April. This reflected increased uncertainty that is envisaged to adversely affect consumer and investor confidence not only in the UK and EU, but also the global economy. On a positive note, the impact of 'Brexit' on Fiji through direct and indirect (via our major trading partner countries) channels is, for now, expected to be small as Fiji's trade and foreign exchange earnings from both the UK and EU is relatively small.

Domestically, notwithstanding the Tropical Cyclone Winston/weather-related contractions, real sector activity remained positive in the year to date. Additionally, the 2016 growth projection is expected to be slightly upward biased following the announcement of an expansionary budget for the new fiscal year. Visitor arrivals have remained strong in the year to May (5.2%), influenced by higher tourist numbers from New Zealand and China. In addition, capital investments are yielding benefits for the Vatukoula Gold Mines Limited and underpinned stronger gold output (8.7%) in the first six months of 2016. In contrast, lower electricity consumption (-1.0%), woodchip (-44.8%), pine log (-40.4%) and mahogany (-11.2%) production were affected mainly by supply-related factors in the review period.

Consumption spending continues to remain robust as suggested by various partial indicators. Cumulative to June this year, new (27.3%) and second hand (18.0%) vehicle registrations both grew strongly. Commercial banks' new consumption-related credit also expanded, by 7.8 percent in the same period. Moreover, the projected 8.5 percent growth in retail sales as per the RBF's

June 2016 Retail Sales Survey further accentuates the strong consumption spending to date.

Investment spending showed mixed results in the year so far but is expected to grow further for the year. While domestic cement sales rose (10.6%) annually cumulative to June, commercial banks' new investment lending contracted (-22.7%) in the same period. The RBF's June 2016 Business Expectations Survey highlighted that businesses are largely optimistic on planned investment in plant & machinery and buildings. Looking ahead, Government's planned capital spending for post-cyclone reconstruction is expected to boost investment in the new fiscal year.

Recruitment intentions were up in June (18.7%) as per the RBF's Job Advertisements Survey, reflecting firm labour market demand, especially in the community, social & personal services, construction, finance, insurance, real estate and the business services sectors.

Credit growth has moderated in the first half of this year. Private sector credit grew by 10.7 percent (\$598.9m), compared to 14.6 percent (\$715.0m) a year ago. Cumulative to June 2015, commercial banks' new and outstanding credit grew by 15.2 percent (\$140.7m) and 14.9 percent (\$667.7m), respectively. Interest rates remained relatively low as the commercial banks' weighted average new lending rate fell over the month of June to 6.36 percent. The weighted average time and savings deposit rates also fell in June to 2.79 percent and 0.90 percent, respectively.

Liquidity in the banking system fell by 11.0 percent to \$495.7 million in June, led by a decline in foreign reserves (\$29.9m) coupled with increases in both Statutory Reserve Deposits (\$7.9m) and currency in circulation (\$17.0m). Currently (28 July), liquidity is around \$506.0 million.

In June, the international currency market saw some

large movements following the reduced expectations for another interest rate hike in the US this year and the outcome of the Brexit vote. Over the month to June, the Fiji dollar appreciated against the Euro (2.8%) and the US dollar (2.7%) but weakened against the Japanese Yen (-4.9%), the New Zealand (-3.4%) and the Australian (-0.9%) dollars. Over the year, the Fiji dollar strengthened against the Australian dollar (3.7%), the Euro (1.6%) and the US dollar (0.5%) but fell against the Japanese Yen (-15.6%) and the New Zealand (-3.1%) dollar.

The net movements in the basket of currencies resulted in the appreciation of the Nominal Effective Exchange Rate (NEER)¹ index over the month of June by 1.6 percent and by 0.5 percent over the year. The Real Effective Exchange Rate (REER)² index also rose by a larger 3.2 percent over the month and by 5.0 percent over the year, due to the higher domestic inflation in June compared to Fiji's trading partner economies.

Inflationary pressures over recent months have been driven by domestic supply factors following the natural disasters earlier in the year. As such, inflation was 5.3 percent in June, up from 5.2 percent in May 2016, underpinned by the food & non-alcoholic beverages, alcoholic beverages, tobacco & narcotics and education categories. In addition, certain fiscal measures announced via Government's national budget especially the increase in duty on alcohol, tobacco and cigarettes will put upward pressure on prices. It is also expected that the prices of market items with longer

production timeframes will remain relatively high in the remaining months of 2016, compared to prices in 2015. Consequently, inflation is now expected to be around 3.5 percent at the end of 2016.

Latest Overseas Exchange Transactions data showed that during the first half of this year, export receipts grew by 12.4 percent compared to a 14.8 percent decline in the same period in 2015. The increase in export receipts was broad based and more than offset declines noted in gold and timber earnings. Over the same period, import payments also grew by 5.5 percent, compared to a decline of 6.6 percent in the same period in 2015. The increase was led by increases in payments for food, beverages & tobacco, transport equipment and other imports which more than offset the decline in mineral fuel imports. Excluding mineral fuel, import payments grew by a larger 12.6 percent, consistent with the expected growth in domestic demand. Inward remittances rose by a slower 5.9 percent to \$246.2 million, compared to a 30.5 percent growth in the same period in 2015.

Currently (29 July), foreign reserves are around \$1,981 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services. Drawdowns of the Asian Development Bank and World Bank loans later this year are also expected to further support foreign reserves levels for 2016.

Taking recent economic developments and outlook into account, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in July.

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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

| | Jun-16 | May-16 | Apr-16 | Jun-15 |
|---|---------|---------|---------|---------|
| 1. Consumer Prices * (year-on-year % change) | | | | |
| All Items | 5.3 | 5.2 | 3.8 | 0.8 |
| Food and Non-Alcoholic Beverage | 9.5 | 9.9 | 9.6 | 4.9 |
| 2. Reserves *** (end of period) | | | | |
| Foreign Reserves (\$m) ^{1/} | 1,975.4 | 2,004.8 | 1,976.1 | 1,988.2 |
| 3. Exchange Rates *** (mid rates, F\$1 equals) (end of period) | | | | |
| US dollar | 0.4810 | 0.4684 | 0.4821 | 0.4784 |
| Pound sterling | 0.3574 | 0.3200 | 0.3301 | 0.3040 |
| Australian dollar | 0.6458 | 0.6518 | 0.6322 | 0.6225 |
| New Zealand dollar | 0.6762 | 0.6998 | 0.6929 | 0.6981 |
| Swiss francs | 0.4713 | 0.4649 | 0.4659 | 0.4430 |
| Euro | 0.4324 | 0.4205 | 0.4246 | 0.4257 |
| Japanese yen | 49.51 | 52.06 | 52.12 | 58.63 |
| 4. Liquidity *** (end of period) | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | 6.1 | 6.9 | 5.0 | 5.5 |
| Banks' Demand Deposits (\$m) | 495.7 | 557.1 | 498.7 | 688.8 |
| 5. Commodity Prices (US\$) ** (monthly average) | | | | |
| UK Gold Price/fine ounce | 1,276.4 | 1,259.4 | 1,242.3 | 1,181.5 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) | 18.8 | 17.1 | 15.7 | 12.1 |
| Crude Oil/barrel | 50.5 | 48.1 | 43.3 | 62.3 |
| 6. Money and Credit *** (year-on-year % change) | | | | |
| Narrow Money | 9.3 | 12.5 | 16.6 | 7.5 |
| Broad Money | 9.9 | 11.3 | 14.5 | 11.2 |
| Currency in Circulation | 13.2 | 14.2 | 24.6 | 12.9 |
| Quasi-Money (Time & Saving Deposits) | 9.6 | 10.8 | 13.5 | 11.3 |
| Domestic Credit | 10.2 | 10.9 | 13.3 | 13.1 |
| 7. Interest Rates (% p.a.) *** (monthly weighted average) | | | | |
| Lending Rate (Excluding Staff) | 5.90 | 5.89 | 5.86 | 5.81 |
| Savings Deposit Rate | 0.90 | 0.91 | 0.90 | 1.33 |
| Time Deposit Rate | 2.79 | 2.83 | 2.76 | 2.53 |
| 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 | 5.67 | 5.40 | 5.33 | 5.19 |

^{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