



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Vol. 33

No. 06

Month Ended June 2016

Global economic conditions improved slightly as performances in some advanced economies picked up during the first quarter of this year. For our trading partner economies, better-than-expected performances were recorded during the quarter for the United States (US), Euro zone, Japan and Australia while China posted one of its weakest performances in years. Nevertheless, global growth remains weak and below potential. In addition, downside risks remain including emerging concerns on the effects of Britain's exit from the European Union.

International commodity prices recovered slowly but were more reflective of temporary supply side factors and speculations rather than a persistent increase in demand. Month-on-month increases were noted for Brent crude, sugar and the FAO<sup>1</sup> food price index while gold prices declined in May.

Aggregate demand continued to be supported by higher income, increasing inward remittances and credit growth. Personal remittances rose by an annual 6.8 percent (to \$210.2m) cumulative to May this year. Labour market conditions remain positive in the review period. The RBF's Job Advertisement survey revealed an annual increase (10.7%) in the number of jobs advertised during the first five months of the year. Recruitment intensions were particularly strong in the transport, storage & communication (796 vacancies; +95.1%) and the construction sectors (820 vacancies; +71.9%) - partly due to reconstruction and rehabilitation activity post Tropical Cyclone (TC) Winston, the floods in April and TC Zena.

Consumer spending and investment activity indicators have improved following the effects of the natural disasters. Net VAT collections increased by 54.1 percent over the month in May, underpinned by higher imports. Imports of consumer goods rose by an annual 22.0 percent

cumulative to May, on account of higher demand for food, beverages & tobacco, motor vehicles and other goods. New credit growth for consumption purposes rose to 8.8 percent in the year to May (from 5.4% in April) led by increased lending to the wholesale, retail, hotels & restaurants sector (6.8%). Both new and second-hand vehicle registrations by the Land Transport Authority spiked over the month in May, led by all vehicle categories particularly private purpose vehicles. Similarly, for investment, imports of investment goods grew by an annual 1.5 percent during the first five months. Cement sales in the domestic market also noted an annual growth of 8.6 percent in the year to May, closely correlating with the increase in construction related investment activity. Over the month to May, new bank investment related credit was higher by 23.1 percent due to increases in the real estate (13.2%) and building & construction (33.5%) sectors.

Monetary conditions remained accommodative although overall credit growth has generally slowed in the first five months of 2016. The annual growth in private sector credit slowed to 11.4 percent in May from 12.4 percent in April, largely driven by the lower outturn in commercial banks' lending to the private sector (11.3% from 12.5%). Lending rates remained historically low in spite of the monthly increases noted in both the commercial banks' weighted average outstanding and new lending rates in May. In the same month, commercial banks' funding costs rose for the third consecutive month, with increases in the savings, as well as existing and new time deposit rates.

Liquidity in the banking system rose over the month of May by 11.7 percent (\$58.5m) to \$557.1 million, led by the increase in foreign reserves (\$29.8m) coupled with decreases to both the Statutory Reserves Deposit (\$11.8m) and currency in circulation (\$10.6m). Currently (4 July), liquidity is around \$499.9 million.

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

In the international currency market, the US dollar initially fell in early May to its lowest level since January 2015, following the disappointing outcome of the US April ISM<sup>2</sup> manufacturing index. However, it quickly recovered and edged higher later during the month on the back of improving US economic activity and higher US interest rate expectations. As a result, the Fiji dollar appreciated against the Australian (3.1%) and New Zealand (1.0%) dollars but weakened against the US dollar (-2.8%), the Euro (-1.0%) and the Japanese Yen (-0.1%). Overall, both the Nominal Effective Exchange Rate (NEER)<sup>3</sup> and the Real Effective Exchange Rate (REER)<sup>4</sup> indexes declined by 1.6 percent and 1.3 percent, respectively, over the month.

On trade, OET<sup>5</sup> data cumulative to May showed that the merchandise trade deficit narrowed by 1.1 percent on an annual basis. This outcome was driven by the increase in export receipts (7.1%) of sugar, fish, mineral water, timber, textiles, clothing & footwear, re-exports and other exports, which more-than-offset the rise in import payments (1.0%) underpinned by higher food, beverages & tobacco, duty-free goods, transport and other imports. Excluding mineral fuel, import payments rose by an annual 10.5 percent over the same period.

Inflation in May rose to 5.2 percent from 3.8 percent in April, amid domestic supply shortages and temporary price hikes in agricultural market products caused by the recent natural disasters. Geographically, prices rose by 5.6 percent in both the Central and Western Divisions while prices in the Northern Division were higher by 3.3 percent when compared to a year ago. In the coming months, food inflation is expected to taper off as the supply of agricultural market items normalise except for those items that require longer production time, posing the risk of continued upward pressure on inflation in the remaining months of 2016. Given these developments, the year-end inflation forecast of 2.0 percent is upward biased.

Foreign reserves rose over the month of May by \$28.7 million and continued to remain adequate. As at 5 July, foreign reserves stood at \$1,966 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services.

Considering the stable outlook for its monetary policy objectives, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in June.

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<sup>2</sup> Institute of Supply Management.

<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.

<sup>5</sup> Overseas Exchange Transactions.

## FIJI: FINANCIAL STATISTICS

**KEY INDICATORS**

	May-16	Apr-16	Mar-16	May-15
<b>1. Consumer Prices *</b> (year-on-year % change)				
All Items	5.2	3.8	0.8	0.6
Food and Non-Alcoholic Beverage	9.9	9.6	1.6	4.2
<b>2. Reserves ***</b> (end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	2,004.8	1,976.1	2,005.4	1,889.5
<b>3. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)				
US dollar	0.4684	0.4821	0.4818	0.4807
Pound sterling	0.3200	0.3301	0.3349	0.3140
Australian dollar	0.6518	0.6322	0.6281	0.6285
New Zealand dollar	0.6998	0.6929	0.6953	0.6696
Swiss francs	0.4649	0.4659	0.4650	0.4538
Euro	0.4205	0.4246	0.4249	0.4390
Japanese yen	52.06	52.12	54.17	59.60
<b>4. Liquidity ***</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	6.9	5.0	5.9	3.5
Banks' Demand Deposits (\$m)	557.1	498.7	553.8	633.5
<b>5. Commodity Prices (US\$) **</b> (monthly average)				
UK Gold Price/fine ounce	1,259.4	1,242.3	1,246.3	1,199.1
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	17.1	15.7	15.4	12.7
Crude Oil/barrel	48.1	43.3	40.4	64.6
<b>6. Money and Credit ***</b> (year-on-year % change)				
Narrow Money	13.9	16.5	18.9	1.9
Broad Money	12.1	14.4	15.3	10.4
Currency in Circulation	15.0	24.7	32.4	13.3
Quasi-Money (Time & Saving Deposits)	11.7	13.4	14.1	10.7
Domestic Credit	10.9	13.1	13.8	13.6
<b>7. Interest Rates (% p.a.) ***</b> (monthly weighted average)				
Lending Rate (Excluding Staff)	5.89	5.86	5.88	5.78
Savings Deposit Rate	0.91	0.90	0.85	0.87
Time Deposit Rate	2.83	2.76	2.72	2.48
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) <sup>2/</sup>	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	5.40	5.33	5.29	5.19

<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