



ECONOMIC REVIEW

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Recovery in the international economy remains fragile and uneven. Downside risks have worsened with volatile financial markets and tightened financial conditions prompting fresh concerns over the health of the global economy. Consequently, the International Monetary Fund is expected to further downgrade its 2016 global growth forecast in April.

For the Fiji economy, recent partial indicators reveal mixed performances across sectors. For the timber industry, mahogany production increased (19.9%) while production of woodchips declined (-47.0%) in the year to February. In the same period, electricity generated by the Fiji Electricity Authority was higher by an annual 3.8 percent. Visitor arrivals cumulative to February also rose by 10.5 percent led by higher tourists from New Zealand, Australia, China and the United States (US).

Partial indicators for consumption and investment activity reveal a slight slowdown when compared to a year ago, but still remain above trend. New vehicle registrations fell (-2.4%) while second hand vehicle registrations increased (1.6%) in the year to February. The growth in new consumption loans slowed to 4.2 percent in February, as reduced credit to wholesale, retail, hotels & restaurants (-7.7%) offset the increase in loans to private individuals (49.1%). New loans for investment purposes, however, registered an annual contraction of 29.2 percent in February, led by a decline in both the real estate (-43.6%) and the building & construction (-7.5%) sectors.

Growth for this year is expected to be driven by significant post-cyclone reconstruction work and strong retail and tourism activity. Consumption and investment spending are anticipated to remain buoyant, supported by higher aid inflows and personal remittances, cyclone-related assistance including withdrawals from the Fiji National Provident Fund and various credit facilities provided by financial institutions.

Labour market conditions continue to be favourable as indicated by the latest Reserve Bank of Fiji's Job Advertisements Survey results. In the year to February, the number of vacant jobs advertised was higher by 0.9 percent, underpinned by the electricity & water, wholesale, retail, trade & restaurants & hotels, construction and manufacturing sectors.

Financial conditions remain conducive for economic growth as money and credit aggregates expanded further in the review month. Broad money grew by a higher 15.2 percent in February 2016, from a growth of 14.9 percent in January. This outcome was driven by the annual growth in net domestic credit (12.7%) led by an annual increase in private sector credit (13.6%). In February, both the commercial banks' weighted average outstanding and new lending rates rose over the month to 5.89 percent (from 5.88%) and 6.70 percent (from 6.21%), respectively. Commercial banks' existing time and savings deposit rates declined over the month to 2.68 percent (from 2.69%) and 0.92 percent (from 0.95%), respectively.

Bank liquidity rose over the month in February to \$581.1 million, led by an increase in foreign reserves (\$6.7m). Currently (29 March), liquidity remains sufficient at around \$552.0 million.

In February, while the Fiji dollar appreciated against the Euro (1.1%), the US (0.9%) and the Australian dollars (0.1%), it depreciated against the Japanese Yen (-3.3%) and the New Zealand dollar (-1.5%). The Nominal Effective Exchange Rate (NEER)¹ index rose marginally over the month of February by 0.04 percent. In the same month, the Real

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.

Effective Exchange Rate (REER)² index fell by 2.2 percent indicating a gain in Fiji's international competitiveness.

Inflation increased to 1.2 percent in February, from 0.2 percent in January, underpinned by the education, food & non-alcoholic beverages and alcoholic beverages, tobacco & narcotics categories. In the months ahead, prices are expected to pick up temporarily owing to shortages in supply of agricultural market produce following Tropical Cyclone Winston. Nevertheless, inflation this year is forecast to be largely subdued supported by

weak global fuel prices and low trading partner inflation.

Foreign reserves increased over the month in February to \$2,018.4 million, equivalent to 5.7 months of retained imports of goods and non-factor services. As at 31 March, foreign reserves were at \$2,009.5 million, sufficient to cover 5.6 months of retained imports of goods and non-factor services.

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

RESERVE BANK OF FIJI

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

	Feb-16	Jan-16	Dec-15	Feb-15
1. Consumer Prices * (year-on-year % change)				
All Items	1.2	0.2	1.6	2.1
Food and Non-Alcoholic Beverage	2.9	2.6	5.0	4.6
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	2,018.4 (p)	2,013.1	1,943.7	1,811.2
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4657	0.4616	0.4701	0.4887
Pound sterling	0.3356	0.3214	0.3170	0.3173
Australian dollar	0.6522	0.6516	0.6456	0.6275
New Zealand dollar	0.7014	0.7122	0.6876	0.6501
Swiss francs	0.4647	0.4679	0.4646	0.4662
Euro	0.4263	0.4215	0.4307	0.4365
Japanese yen	53.05	54.84	56.69	58.40
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	6.1	6.5	5.6	5.9
Banks' Demand Deposits (\$m)	581.1	574.4	488.4	562.6
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,197.10	1,097.38	1,068.25	1,227.20
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	13.3	14.3	15.0	14.5
Crude Oil/barrel	33.2	30.8	37.7	57.9
6. Money and Credit *** (year-on-year % change)				
Narrow Money	16.3	14.9	13.4	2.2
Broad Money	15.2	14.9	14.0	10.5
Currency in Circulation	11.1	13.2	11.5	12.0
Quasi-Money (Time & Saving Deposits)	15.7	15.0	14.3	10.6
Domestic Credit	12.7	13.3	13.6	15.2
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.89	5.88	5.90	5.75
Savings Deposit Rate	0.92	0.95	1.01	0.70
Time Deposit Rate	2.68	2.69	2.71	2.31
14-day RBF Note Rate (month end)	0.5	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	5.23	n.i	n.i	5.20

^{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) Provisional
p.a Per annum

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