



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy continues to grow, albeit at a slightly slower pace as a result of weakening growth prospects in China and emerging market and developing economies. Uncertainty over the economic outlook continues and globally, monetary policy remains accommodative.

International commodity prices generally remain weak though slight increases were noted in April for some commodities, led by some reduction in oil supply, drought conditions in India (the world's second largest sugar producer) and poor performance of stock markets which saw investors turning to gold as a safe haven.

Following an estimated growth of 4.2 percent in 2015, the Fijian economy is forecast to record its seventh consecutive year of growth in 2016. The economy is now projected to grow by 2.4 percent this year, lower than earlier anticipated (3.5%) due to the negative impact of tropical cyclone (TC) Winston and flooding in April.

Sectoral performances have been generally mixed, according to latest data. Visitor arrivals cumulative to April rose by 6.8 percent underpinned by higher tourists from New Zealand, Australia, China and the Pacific Islands. Increased arrivals are anticipated in the coming months given the tourism peak season (June - October) and the commencement of Fiji Airways' direct flights to Singapore (from April) and to San Francisco (from June). In the year to April, electricity generation picked up by 0.4 percent while electricity consumption declined by 2.4 percent from a year earlier, as electricity to many homes is yet to be restored after the cyclone. Gold production fell marginally (0.6%) and mahogany production also declined in the first four months of the year (-24.3%) due to bad weather conditions that hindered harvesting. Similarly, pine log and woodchip production

declined annually by 52.2 percent and 52.3 percent, respectively, due to the closure of Tropik Wood Industries' Drasa mill for maintenance work.

Aggregate demand continued to be supported by higher income, increasing inward remittances and accommodative financial conditions. Personal remittances were higher in April (+10.3%) as families and friends remitted funds to assist with post-TC Winston rehabilitation work. Labour market conditions remain positive, confirmed by the increased number (19.1% growth) of advertised vacancies in the year to April 2016. Recruitment intentions were particularly strong for the construction sector (242 vacancies), on account of demand for reconstruction and rehabilitation work post-TC Winston.

Consumption and investment indicators reflected higher activity in recent months. Annual gains were noted in both new vehicle (+15.2%) and second hand vehicle registrations (+3.5%) in the year to March, and new lending for consumption purposes (5.4%), cumulative to April. For investment, cement sales grew by 6.3 percent in the year to April and are expected to trend upward in the coming months in line with the expected surge in construction activity post-TC Winston. In contrast, new lending for investment purposes fell by an annual 22.1 percent underpinned by declines in new loans to the real estate (-23.4%) and the building & construction sectors (-20.8%). The \$275 million payout by the Fiji National Provident Fund to its members and inflow of aid and donations following TC Winston is expected to support consumption and investment activity for most of this year. In addition, the Government's recent \$70 million grant under its 'Help for Homes' initiative is expected to boost reconstruction activity in the economy.

Monetary conditions continue to be accommodative as credit growth stayed firm, albeit slower in April, underpinned by lower private sector credit growth (12.4%). Over the same period, the commercial banks' interest rate spread narrowed as outstanding lending rates declined further while deposit rates rose during the month.

Liquidity in the banking system fell over the month of April 2016 by 10.0 percent (\$55.1m) to \$498.7 million, led by the decline in foreign reserves (-\$29.9m) and increases to both currency in circulation (\$16.3m) and Statutory Reserve Deposits (\$6.9m). Currently (26 May), liquidity is around \$546.2 million.

In the international currency market, the US dollar continued to underperform against major currencies in April. In contrast, the Japanese Yen appreciated significantly during the month, partly due to the weaker US dollar and the Bank of Japan making minor changes to its lending facilities. Given these movements in the international currency market, the Fiji dollar in April appreciated against the Australian (0.7%) and the US (0.1%) dollars but weakened against the Japanese Yen (-3.8%), the New Zealand dollar (-0.3%) and the Euro (-0.1%). Overall, the Nominal Effective Exchange Rate (NEER)¹ index rose slightly in April by 0.1 percent.

However, the Real Effective Exchange Rate (REER)² index increased by a notable 1.4 percent over the month of April, given the higher domestic inflation in April compared to Fiji's trading partner economies.

On trade, OET³ data cumulative to April showed that the merchandise trade deficit narrowed by 0.5 percent on an annual basis. This outcome was driven by the increase in export receipts (18.2%) led by sugar, timber, fish and other exports, which more-than-offset the rise in import payments (4.0%) underpinned by higher food, beverages & tobacco, transport and other imports.

Inflation in April rose to 3.8 percent from 0.8 percent in March, amid domestic supply shortages and temporary price hikes in agricultural market products caused by the recent natural disasters. Price increases over the month were noticeable in the Western (1.9%) and Central (1.8%) Divisions, with a marginal rise (0.9%) in the Northern Division. In the coming months, food inflation is expected to taper off as supply of agricultural market items normalise.

Foreign reserves declined over the month by \$29.9 million in April but continue to remain adequate. As at 27 May, foreign reserves totalled \$2,005.1 million, sufficient to cover 5.6 months of retained imports of goods and non-factor services.

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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.

³ Overseas Exchange Transactions

FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

Apr-16	Mar-16	Feb-16	Apr-15
3.8	0.8	1.2	1.5
9.6	1.6	2.9	5.5

2. Reserves ***

(end of period)

Foreign Reserves (\$m)^{1/}

1,975.5(p)	2,005.4	2,017.7	1,856.5
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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

0.4821	0.4818	0.4657	0.4953
0.3301	0.3349	0.3356	0.3209
0.6322	0.6281	0.6522	0.6175
0.6929	0.6953	0.7014	0.6439
0.4659	0.4650	0.4647	0.4654
0.4246	0.4249	0.4263	0.4455
52.12	54.17	53.05	58.97

4. Liquidity ***

(end of period)

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

5.0	5.9	6.1	3.3
498.7	553.8	581.1	603.7

5. Commodity Prices (US\$) **

(monthly average)

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

1,242.3	1,246.3	1,197.1	1,198.0
15.7	15.4	13.3	12.9
43.3	40.4	34.2	59.4

6. Money and Credit ***

(year-on-year % change)

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

16.5	18.9	16.3	0.3
14.4	15.3	15.1	10.0
24.7	32.4	11.0	12.2
13.4	14.1	15.6	10.2
13.1	13.8	12.6	12.1

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)^{2/}
Overnight Inter-bank Rate
5-Year Government Bond Yield
10-Year Government Bond Yield

5.86	5.88	5.89	5.70
0.90	0.85	0.92	0.46
2.76	2.72	2.68	2.46
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
5.33	5.29	5.23	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
p.a. Per annum
(p) provisional

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