



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Globally, economic conditions remained subdued and uneven in many of Fiji's trading partner countries. While economic activity in the United States (US) gained traction in the third quarter, economic fundamentals in the Euro zone and Japan remain sluggish. Growth prospects in Australia were modest, while leading indicators in New Zealand suggested robust performance. In China and India, economic activity has been strong despite some moderation in the former. In light of the sluggish global demand and muted inflationary pressures amid low commodity prices, central banks in many advanced economies have maintained very accommodative monetary policies with low interest rates.

Domestically, real sector outcomes were mixed in the review period. Visitor arrivals increased by an annual 4.4 percent in the year to October mainly led by strong growth in tourist arrivals from New Zealand and China. In the same period, gold and electricity production rose by an annual 11.9 percent and 3.7 percent, respectively. However, cane and sugar outputs declined significantly, while pine log, woodchip and mahogany production also fell. Consistent with the weaker than expected performance in certain key sectors of the economy, the growth projection for 2016 has now been downgraded to 2.0 percent.

In terms of aggregate demand, consumer spending continues to trend upwards supported by accommodative monetary conditions, increases in remittances and favourable labour market environment. In addition, investment activity remained broadly positive on the back of ongoing reconstruction activity after Tropical Cyclone Winston. Moreover, higher spending by Government as outlined in the National Budget is expected to provide further stimulus to aggregate demand in the near term.

Labour market conditions were favourable as indicated by the RBF's Job Advertisements Survey.

Cumulative to October 2016, the number of advertised vacancies rose by 9.5 percent underpinned by higher recruitment intentions from the wholesale & retail trade & restaurants & hotels; construction; transport, storage & communication; electricity & water and agriculture, forestry & fishing sectors.

Exports, based on the Overseas Exchange Transactions (OET) report, rose by an annual 5.1 percent to \$718.8 million cumulative to October 2016, compared to a 17.8 percent fall in the same period in 2015. This was attributed to higher re-exports; fish; mineral water; textile, clothing & footwear (TCF) and other export receipts, which more-than-offset the declines in timber; sugar and gold. Similarly, imports increased by 10.0 percent to \$2,916.1 million compared to a decline of 4.3 percent in the same period in 2015. The outturn was due to higher imports of duty-free goods; transport equipment; food, beverages & tobacco; machinery & electrical equipment; TCF; chemicals and other imports. In the year to October, inward remittances rose by 6.8 percent to \$435.4 million, driven by gifts, maintenance & donations and immigrant transfers.

Monetary conditions remained accommodative in support of economic activity, despite the slowdown in major credit aggregates. In October, private sector credit growth slowed to 10.7 percent (\$632.9m) to total \$6,540.1 million, compared to the 14.8 percent (\$761.8m) increase noted in October 2015. Growth in commercial banks' new lending also slowed to 5.1 percent (\$99.4m) to \$2.0 billion in October from a growth of 20.0 percent (\$322.6m) in the same period last year.

Interest rates movements over the month suggested further narrowing of commercial banks' interest spreads. The commercial banks' weighted average outstanding lending rate fell to 5.81 percent in October from 5.86 percent in September. In contrast, the commercial banks'

existing time deposit rate rose to 2.94 percent from 2.90 percent.

Liquidity in the banking system rose by 19.8 percent to \$505.3 million over the month of October, led by an increase in foreign reserves (\$74.7m), which more than offset the increase in currency in circulation (\$7.6m) and statutory reserves deposit (\$6.1m). Currently (30 November), overall banking liquidity is \$420.6 million.

The Fiji dollar (FJD) depreciated against the US (-0.9%) and Australian (-0.3%) dollars over the month of October. However, the FJD appreciated against the Japanese Yen (3.1%), the Euro (2.0%) and the New Zealand dollar (1.0%). The Nominal Effective Exchange Rate (NEER)¹ index dipped slightly over the month (-0.1%) but rose by 0.7 percent over the year. Moreover, with the price differential between Fiji and its trading partners narrowing further in October, the Real Effective Exchange Rate (REER)² index declined by 1.3 percent over the month but was higher by 4.8

percent over the year.

Inflation fell below the 5.0 percent mark for the first time since May 2016 (5.2%) to 4.7 percent in October, down from 5.6 percent in September 2016. Over the year, higher prices were noted in the alcoholic beverages, tobacco & narcotics; education; restaurants & hotels; food & non-alcoholic beverages and clothing & footwear categories. Nonetheless, inflation remains relatively high when compared to 1.4 percent recorded in October 2015.

Foreign reserves (RBF holdings) rose in October by \$74.7 million to \$1,977.4 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services. Currently (30 November), foreign reserves are around \$1,901.9 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services.

Given the latest economic developments and outlook, the Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in November.

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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

	Oct-16	Sep-16	Aug-16	Oct-15
1. Consumer Prices * (year-on-year % change)				
All Items	4.7	5.6	5.9	1.4
Food and Non-Alcoholic Beverage	3.6	7.0	9.8	4.8
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,977.4	1,902.7	1,903.3	1,974.0
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4829	0.4875	0.4837	0.4640
Pound sterling	0.3968	0.3759	0.3699	0.3030
Australian dollar	0.6362	0.6382	0.6442	0.6556
New Zealand dollar	0.6781	0.6717	0.67	0.6933
Swiss francs	0.4800	0.4709	0.4761	0.4591
Euro	0.4431	0.4344	0.434	0.4229
Japanese yen	50.8	49.28	49.83	56.2
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	4.9	4.5	5.2	7.1
Banks' Demand Deposits (\$m)	505.3	421.6	414.5	573.8
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,267.1	1,326.0	1,341.1	1,159.2
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	22.2	21.3	19.9	14.1
Crude Oil/barrel	52.1	47.4	47.2	52.9
6. Money and Credit *** (year-on-year % change)				
Narrow Money	5.5	2.2	4.9	13.4
Broad Money	3.7	4.9	7.1	15.3
Currency in Circulation	13.2	16.6	16.6	13.5
Quasi-Money (Time & Saving Deposits)	3.0	3.7	6.1	15.8
Domestic Credit	6.1	6.7	8.6	12.8
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.81	5.86	5.92	5.82
Savings Deposit Rate	0.90	0.91	0.91	1.00
Time Deposit Rate	2.94	2.90	2.83	2.59
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	0.75	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	6.30	6.27	6.24	5.17

^{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