



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Recovery in the global economy seems to have taken a setback in light of mid-year performances of some advanced and emerging market economies. Among our major trading partners, there is positive activity in the New Zealand and Chinese economies while other trading partners appear to be performing below expectations. Japan is grappling with deflationary pressures, despite its recent additional stimulus measures and the Euro zone continues to face softening domestic and external demand after the 'Brexit' referendum. The Indian economy recorded a slower growth in the June quarter due to declining fixed investment and consumption.

Domestically, sectoral performances were mixed in the review period. On the industrial front, in line with aggregate demand, electricity (3.8%) and cement (12.7%) production both noted annual increases in the year to August. In addition, infrastructure development at the Vatukoula Gold Mines Ltd has boosted gold production in the year to August (10.2%). The Industrial Production Index (IPI)¹ for quarter one suggests higher manufacturing activity (3.3%) over the year. Specifically, sub indices for the manufacture of fertiliser, agrochemical, paints & varnishes (27.3%); dairy products, ice-cream (18.6%); soft drinks, mineral water, tobacco and yaqona (18.5%); wearing apparel (6.9%) and concrete & metal products (8.9%) were higher compared to the same period in 2015. Latest Overseas Exchange Transactions (OET) data indicate positive export outcomes at least for the textile, clothing & footwear (6.5%) and mineral water sectors (16.7%) cumulative to August 2016.

However, in the primary sector, lower cane (-0.6%), sugar (-46.4%) in the first 14 weeks of crushing and fish (-22.7% cumulative to June) output reflected the negative impact of TC Winston, while

cumulative to August low global demand and closure of a mill for upgrades hampered pine log (-38.2%) and woodchip (-44.7%) production.

In the services sector, visitor arrivals increased (4.8%) in the year to August largely on the back of higher arrivals from New Zealand, China, South Korea, India, the rest of Asia, Pacific Islands and the US. Notably, visitors from Australia, Fiji's largest source market, fell for the fifth consecutive month in August, underpinning the overall lower-than-expected outcome to date.²

Partial indicators for consumption and investment activity suggest demand continues to grow. In the year to August 2016, new (33.0%) and second-hand (10.9%) vehicle registrations grew robustly. Personal remittances rose by 6.6 percent (to \$343.9m) in the year to August, although this was a slower growth against the growth outcome registered in August 2015 (31.3%).

Increased economic activity following the natural disasters is reflected in higher OET import data over the year (9.4% cumulative to August) largely underpinned by higher imports of investment goods (8.7%), food, beverage & tobacco (18.5%) and duty free goods (34.5%). In addition, domestic cement sales grew by 6.8 percent over the year to August reflecting the rehabilitation work in the aftermath of TC Winston as well as other construction activity.

In line with economic activity, labour market conditions and income growth remain positive. The number of advertised vacancies in the Fiji Times increased over the year (2.6%) cumulative to August 2016. In addition, Pay as You Earn tax collections, a partial indicator for income, rose by

¹ The IPI is an indicator of economic activity. The movement of the index reflects changes in the volume of production from mining and quarrying, manufacturing, electricity and water sectors.

² Cumulative to July 2016, 3.3 percent of total Australian short-termers departures visited Fiji compared to 3.7 percent in the year to July 2015. In the same period, departures to Fiji accounted for 6.2 percent of New Zealand's total short-term departures, slightly higher than the 6.1 percent in 2015.

an annual 3.7 percent (to \$97.2m) in the year to July.

Banking system liquidity fell by 17.0 percent (\$85.0) to \$414.5 million at the end of August. This was mainly led by the decrease in foreign reserves (\$77.1m) coupled with increases in statutory reserves deposit (\$13.0m) and currency in circulation (\$9.8m). Currently (29 September), liquidity is around \$428.0 million.

Despite currency movements offshore, the month-end Fiji dollar exchange rate remained stable against the basket of major trading partner currencies. At the end of August, the Fiji dollar slightly appreciated over the month against both the US (0.5%) and Australian dollars (0.5%) but depreciated against the Japanese yen (-1.7%) and the New Zealand dollar (-1.4%) while almost unchanged against the Euro.

Consequently, the Nominal Effective Exchange Rate³ index marginally increased over the month by 0.1 percent, and also rose by 0.7 percent over the year. Moreover, reflecting the widening relative price differential between Fiji and its trading partner countries, the Real Effective Exchange Rate⁴ index rose by 1.6 percent over the month and by 6.0 percent over the year.

Inflationary pressures over recent months have mainly stemmed from cyclone-related effects on domestic supply and the impact of some 2016/2017 National Budget policies. Inflation in August rose to 5.9 percent, the fourth consecutive month above the 5.0 percent mark, underpinned by higher prices for food & non-alcoholic beverages; alcoholic beverages – particularly yaqona, tobacco & narcotics; education; health; restaurants & hotels; and clothing & footwear. Up-side risks revolve largely around supply side inflationary pressures. Persistent high yaqona prices indicate the likelihood of continued inflationary pressure towards the end of 2016. The outlook for imported inflation remains subdued with low forecasts of trading partner inflation; no sharp changes in crude oil futures and softer global growth prospects. Given the recent inflation outcome, there is upward bias to the year-end inflation forecast of 3.5 percent.

Foreign reserves fell in August by \$79.1 million from July, due to strong import demand coupled with subdued export growth and lower-than-expected tourist receipts and remittances. However, the reserves remained adequate and above international benchmarks. Currently (30 September), foreign reserves are around \$1,904.2 million, sufficient to cover 5.3 months of retained imports of goods and non-factor services..

RESERVE BANK OF FIJI

³ 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.

⁴ 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

	Aug-16	Jul-16	Jun-16	Aug-15
1. Consumer Prices * (year-on-year % change)				
All Items	5.9	5.5	5.3	1.3
Food and Non-Alcoholic Beverage	9.8	10.0	9.8	4.7
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,903.3	1,982.4	1,974.7	1,978.2
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4837	0.4811	0.4810	0.4634
Pound sterling	0.3699	0.3654	0.3574	0.3007
Australian dollar	0.6442	0.6410	0.6458	0.6472
New Zealand dollar	0.6700	0.6794	0.6762	0.7159
Swiss francs	0.4761	0.4720	0.4713	0.4463
Euro	0.4340	0.4342	0.4324	0.4148
Japanese yen	49.83	50.69	49.51	56.41
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	5.2	6.5	6.1	9.1
Banks' Demand Deposits (\$m)	414.5	499.5	495.7	634.1
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,341.1	1,337.3	1,276.4	1,117.5
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	19.9	19.2	18.8	10.7
Crude Oil/barrel	47.2	47.1	50.5	47.0
6. Money and Credit *** (year-on-year % change)				
Narrow Money	n.a.	4.8	8.5	14.0
Broad Money	n.a.	7.4	9.3	13.7
Currency in Circulation	n.a.	16.6	17.4	7.6
Quasi-Money (Time & Saving Deposits)	n.a.	6.6	8.7	14.8
Domestic Credit	n.a.	8.4	10.0	12.3
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	n.a.	5.89	5.88	5.84
Savings Deposit Rate	n.a.	0.95	0.90	0.85
Time Deposit Rate	n.a.	2.85	2.79	2.61
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	0.75	n.t	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	6.24	6.02	5.67	5.00

^{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
n.a.	Not available

Sources: * Fiji Bureau of Statistics

** Bloomberg

*** Reserve Bank of Fiji