



ECONOMIC REVIEW

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Global growth remained below average in 2015, mirrored by a broad decline in commodity prices, slower growth in China, uneven performances in developed economies and turbulence in emerging markets. For the United States (US), recent improvement in economic conditions led the Federal Reserve to raise its benchmark interest rate by 25 basis points, the first increase since June 2006. The new target interest rate range is 0.25% - 0.50%. Generally, most economies continue to maintain accommodative monetary policies to support improvements in labour market conditions, inflation targets and overall economic growth.

Looking ahead, further slowdown in the Chinese economy and turmoil in emerging markets in response to higher US interest rates remain the downside risks to the 2016 global growth outlook.

Recent data for the Fijian economy indicate that overall economic activity remains relatively strong supported by robust domestic demand and the economy is on track to achieve the 4.0 percent growth projected for 2015.

Latest available partial indicators revealed buoyant consumption activity. Commercial banks' new lending for consumption purposes grew by an annual 4.0 percent in the year to October, largely underpinned by increased lending to private individuals (45.7%). Additionally, second-hand vehicle registrations increased by an annual 44.5 percent cumulative to November. Imports of consumption goods also grew by an annual 3.3 percent cumulative to August.

Investment activity remained firm in the review period largely driven by strong growth in construction activity. In the year to November, domestic cement sales rose by 44.9 percent on an annual basis, while new investment loans grew by 98.1 percent in the year to October. The value of work put-in-place also registered a better outcome, increasing by 11.4 percent cumulative to September,

led by growth in both private (9.5%) and public (14.2%) sector construction activities. Furthermore, imports of investment goods (excluding aircraft) grew by an annual 3.1 percent in the year to August.

Real sector performances were mixed in the review period. Recent data on industrial production highlighted positive outcomes in gold (9.7%), electricity (3.5%) and cement (18.9%) production cumulative to November. In the same period, visitor arrivals rose by 8.8 percent, led by higher arrivals from New Zealand (12.0%), US (9.5%), Australia (4.5%), China (40.9%) and Pacific Islands (24.4%). Based on performance so far, it is highly likely that total visitor arrivals for 2015 will surpass the 8.0 percent growth projected by the Macroeconomic Committee. Likewise, sugarcane and sugar production also surpassed the Macroeconomic Committee's projected declines of 2.8 percent and 2.6 percent, respectively, despite the prolonged drought conditions. As at 23 November, cane production increased by a marginal 0.4 percent while sugar output declined by an annual 2.5 percent. On the downside, mahogany logs and wood chip production declined by 8.5 percent and 9.7 percent, respectively in the year to November.

In line with increased economic activity, developments in the labour market continue to be favourable. The latest Reserve Bank's Job Advertisements Survey showed that the number of vacancies advertised in the year to November increased by an annual 18.4 percent. This reflected higher recruitment intentions in the agriculture, forestry & fishing; construction; mining & quarrying; wholesale & retail trade & restaurants & hotels; transport, storage & communication and the finance, insurance, real estates & business services.

Financial conditions remained accommodative during the review period. The expansion in broad money (15.3%) was mainly driven by the growth in other deposits (19.1%) and narrow money (13.4%). Net domestic credit grew by 12.8 percent in

October, attributed by a 14.8 percent growth in private sector credit. The commercial banks' weighted average new lending rate rose over the month to 6.98 percent, from 5.53 percent in September. During the same period, the existing time deposit rate fell to 2.59 percent from 2.63 percent in September while the savings deposit rate rose to 1.00 percent in October from 0.87 percent in September.

Liquidity in the banking system fell slightly in November by 4.5 percent to \$548.2 million, largely led by a decrease in foreign reserves. As at 29 December, liquidity was around \$485.2 million.

During November, the Fiji dollar strengthened against the Euro (3.4%), New Zealand dollar (2.2%) and the Japanese Yen (1.2%) but weakened against the Australian (-1.8%) and the US (-0.2%) dollars.

The Nominal Effective Exchange Rate (NEER)¹ index fell over the year in November by 0.3 percent indicating an overall depreciation of the Fiji dollar against the major trading partner currencies. Over

the same period, the Real Effective Exchange Rate (REER)² rose by 0.3 percent reflecting a loss in Fiji's international competitiveness.

Inflation rose to 1.8 percent in November from 1.4 percent in October, driven by the food & non-alcoholic beverages and miscellaneous goods & services categories. Similarly, higher prices in the alcoholic beverages, tobacco & narcotics category owing to the partial impact of higher taxes on alcohol and tobacco as announced in the 2016 National Budget, underpinned the inflation outcome.³ Given further likely increases in alcohol and tobacco prices to meet higher demand during the December festive season, year-end inflation could be slightly above the 2.0 percent forecast.

As at 30 November, foreign reserves (RBF holdings) were \$1,948.6 million, sufficient to cover 5.9 months of retained imports of goods and non-factor services. Currently (31 December), foreign reserves are \$1,946.8 million, sufficient to cover 5.9 months of retained imports of goods and non-factor services.

RESERVE BANK OF FIJI

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 Increased tax on alcohol and tobacco by 18.5 percent (12.5% excise duty and 6% health levy).

FJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items	1.8	1.4	1.5	-0.2
Food and Non-Alcoholic Beverage	4.8	4.8	5.3	1.8

2. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	1,948.6(p)	1,974.0	2,034.5	1,773.5
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3. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

US dollar	0.4631	0.4640	0.4590	0.5117
Pound sterling	0.3080	0.3030	0.3029	0.3252
Australian dollar	0.6436	0.6556	0.6567	0.5986
New Zealand dollar	0.7085	0.6933	0.7229	0.6499
Swiss francs	0.4773	0.4591	0.4463	0.4933
Euro	0.4373	0.4229	0.4080	0.4103
Japanese yen	56.90	56.20	54.99	60.29

4. Liquidity ***

(end of period)

Liquid Assets Margin to Deposit Ratio (%)	n.a	7.1	5.4	7.1
Banks' Demand Deposits (\$m)	548.2	573.8	669.8	571.1

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1,085.7	1,159.2	1,124.6	1,176.3
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	14.9	14.1	12.1	15.9
Crude Oil/barrel	44.4	48.1	47.2	78.4

6. Money and Credit ***

(year-on-year % change)

Narrow Money	n.a	13.4	14.6	4.5
Broad Money	n.a	15.3	12.9	10.3
Currency in Circulation	n.a	13.5	11.1	8.3
Quasi-Money (Time & Saving Deposits)	n.a	15.8	13.8	10.8
Domestic Credit	n.a	12.8	12.1	18.8

7. Interest Rates (% p.a.) ***

(monthly weighted average)

Lending Rate (Excluding Staff)	n.a	5.84	5.82	5.69
Savings Deposit Rate	n.a	1.00	0.87	0.59
Time Deposit Rate	n.a	2.59	2.63	2.03
14-day RBF Note Rate (month end)	n.a	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) ^{2/}	n.a	1.00	1.00	1.00
Overnight Inter-bank Rate	n.a	n.t	n.t	n.t

(monthly weighted average)

5-Year Government Bond Yield	n.a	n.i	n.i	n.i
10-Year Government Bond Yield	n.a	5.17	5.18	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
n.a	Not Available

Sources: * Fiji Bureau of Statistics

** Bloomberg

*** Reserve Bank of Fiji