



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions remain firm, supported by positive outcomes in major advanced economies, including Fiji's main trading partners. Global demand is expected to strengthen on the back of faster economic growth while inflationary pressures remain contained. Commodity prices remain low, softening in the second quarter and are expected to remain relatively steady in the second half of 2017. Reinforcing the positive growth outlook are the generally accommodative monetary policies among major economies in light of low inflation and modest growth projections.

Domestically, provisional estimates released by the Fiji Bureau of Statistics (FBOS) showed growth for 2016 at 0.4 percent. The lower than expected growth was largely due to weaker performances in the forestry and fish, real estate, accommodation and financial and insurance activities sectors. However, the growth outlook for the next two years remains positive with the economy expected to expand for the eighth consecutive year in 2017.

To date, sectoral outcomes have been mixed while partial indicators for demand point to strong business and consumer confidence. Performances by the sugar and tourism sectors remain positive while gold and timber production grew on a monthly basis but declined on an annual basis.

Consistent with the favourable growth outlook, results of the June 2017 Business Expectations Survey (BES) show that more firms in the industrial and services sectors¹ anticipate business conditions to improve in the short and medium term. This is supported by improved prospects for domestic and export sales, lower expectations for an increase in input costs (price of raw materials) and positive sentiments for investment.

¹ The services sector includes financial & insurance services, transport & storage, wholesale & retail trade, accommodation & food services, information & communication, education, professional business services, real estate and human health & social work activities.

Aggregate demand remains buoyant as indicated by increases in partial consumption indicators such as Pay As You Earn (PAYE) collections and net Value Added Tax (VAT) which rose annually by 12.5 percent and 14.0 percent, respectively to July whereas new vehicle registrations grew by 2.7 percent cumulative to August. Moreover, new lending for consumption purposes rose by 10.5 percent (to \$599.8m) in the year to August 2017.

Similarly, partial indicators for investment also rose during the review period. Commercial banks' new investment lending grew by 31.8 percent (\$356.4m) cumulative to August, underpinned by new loans to the real estate (60.4% to \$207.8m) and building & construction (5.4% to \$148.6m) sectors.

Labour market conditions remain upbeat as per the RBF Job Advertisement Survey which showed a 15.1 percent annual increase in the number of jobs advertised in August, led by the wholesale & retail trade & restaurants & hotels and community, social & personal services sectors. Furthermore, the June BES results indicated firms are optimistic about employment intentions in the medium-term with part-time job opportunities expected to rise.

Financial conditions continue to be conducive for investment and growth. Private sector credit expanded further by 13.0 percent (\$823.8m) in the year to August driven by the turnaround noted in bank lending to the wholesale, retail, hotels & restaurants and the pickup in credit growth to the manufacturing, real estate and the mining & quarrying sectors. Bank liquidity increased to a high of \$836.0 million in September. In line with this, commercial banks' weighted average lending rate was 5.71 percent in August, below the past 10-year average, while the weighted average time deposit rates generally picked up. Currently (28 September), liquidity is at \$803.7 million.

Over the month of August, the Fiji dollar rose against the New Zealand dollar (3.1%) but fell

against the Euro (-2.2%), the Yen (-1.4%), the US dollar (-1.1%) and the Australian dollar (-0.1%) dollars. On an annual basis, the Fiji dollar strengthened against the Japanese Yen (8.9%), the New Zealand (2.0%) and the US (1.6%) dollars, but weakened against the Euro (-4.7%) and the Australian dollar (-3.4%).

In overall terms, the Nominal Effective Exchange Rate (NEER)² index remained unchanged over the month of August but rose over the year (0.1%) reflecting the strengthening of the Fiji dollar against Fiji's trading partner currencies. Consequently, the Real Effective Exchange Rate (REER)³ appreciated by 1.2 percent over the month and marginally over the year to August.

Inflationary pressures remain low with annual headline inflation falling further to 1.9 percent in August, from 2.0 percent a month earlier. Higher prices of alcohol and tobacco in the review period were partly offset by restrained crude oil prices and

food prices, which have been on the decline for the past four months.

Looking ahead, year-end inflation is now expected to be 2.5 percent, supported by low commodity prices and subdued trading partner inflation, which would help offset any uptick in prices resulting from the expansionary National Budget policies and adverse weather conditions.

Foreign reserves (RBF holdings) rose by \$53.9 million over the month to around \$2,406.3 million in September, sufficient to cover 5.9 months of retained imports, led by tourism and sugar receipts.

Given the latest favourable developments in the global and domestic economies and no immediate threats to the monetary policy objectives outlook, the Reserve Bank Board agreed to maintain the Overnight Policy Rate at 0.5 percent in September.

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² 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.

³ 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-17	Jul-17	Jun-17	Aug-16
1. Consumer Prices * (year-on-year % change)				
All Items	1.9	2.0	2.0	5.9
Food and Non-Alcoholic Beverage	-5.2	-6.2	-6.0	9.8
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	2,352.4	2,313.7	2,283.2	1,903.3
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4915	0.4971	0.4864	0.4837
Pound sterling	0.3804	0.3787	0.3762	0.3699
Australian dollar	0.6223	0.6227	0.6365	0.6442
New Zealand dollar	0.6832	0.6624	0.6655	0.6700
Swiss francs	0.4739	0.4816	0.4667	0.4761
Euro	0.4136	0.4231	0.4274	0.4340
Japanese yen	54.24	55.01	54.61	49.83
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	7.7	7.5	6.6	5.2
Banks' Demand Deposits (\$m)	756.1	740.4	735.8	414.1
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,282.3	1,236.2	1,260.3	1,341.1
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	13.8	14.1	13.5	20.0
Crude Oil/barrel	51.9	49.2	47.6	47.2
6. Money and Credit *** (year-on-year % change)				
Narrow Money	15.2	13.6	8.6	4.9
Broad Money	10.8	10.4	8.0	7.1
Currency in Circulation	3.0	0.3	3.1	16.6
Quasi-Money (Time & Saving Deposits)	11.3	11.3	8.4	6.1
Domestic Credit	8.1	8.6	8.8	8.6
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.71	5.75	5.77	5.92
Savings Deposit Rate	1.36	1.28	1.19	0.91
Time Deposit Rate	3.35	3.35	3.34	2.83
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	n.t	0.75
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	n.i	6.00	5.98	6.24

^{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