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According to the International Monetary Fund World Economic Outlook January Update, the global growth forecast for 2016 was revised down to 3.4 percent from an earlier projection of 3.6 percent. The downward revision was mainly underpinned by the expected deceleration in emerging and developing economies as well as the modest and uneven recovery in advanced economies. Furthermore, increased financial market volatility, slowdown in China and other BRICS¹ nations, weak commodity prices and geopolitical tensions represent major downside risks to global growth. Consequently, the growth forecast for 2017 was also revised down to 3.6 percent from an earlier projection of 3.8 percent.

Domestically, latest data on 2015 sectoral performances continue to validate the 4.0 percent growth estimated for the year. Sectoral performances were broadly positive underpinned by increased activity in electricity, gold and tourism. In contrast, output in the sugar, timber and fish industries declined.

Aggregate demand remained solid in 2015 driven by strong consumer spending and firm investment activity. For 2016, consumption activity is expected to gain further momentum due to the reduction in the Value Added Tax (VAT) rate to 9.0 percent (from 15.0%), higher remittances and supportive labour market conditions. Investment activity is expected to be positive this year backed by higher capital spending by the government and increased private investments which include some spill-over private sector projects from last year.

Overall, a broad-based growth of 3.5 percent and 3.1 percent is forecast for 2016 and 2017, respectively.

In line with the robust economic performance in 2015, labour market conditions were favourable. According to the RBF's Job Advertisements Survey, the number of vacant positions rose by an annual 18.7 percent last year. Higher vacancies in the agriculture, forestry & fishing; finance, insurance, real estate & business services; mining & quarrying; construction; wholesale & retail and restaurants & hotels and the transport, storage & communication sectors more-than-offset the declines in the manufacturing and the community & social personal services sectors. Looking ahead, employment prospects are largely positive in line with the economy's expected growth path.

Monetary conditions remained accommodative in the review period. Broad money (M3) rose on an annual basis by 14.0 percent in 2015 led by the growth in narrow money (7.8%) and other deposits (6.0%). In terms of lending, the higher growth in private sector credit (14.4%) underpinned the annual increase in net domestic credit (13.6%) in December. Commercial banks' new lending also noted an annual increase of 14.5 percent in December.

Interest rates remained generally low despite some uptick towards the end of the year. The commercial banks' weighted average outstanding lending rate increased to 5.90 percent in December from 5.86 percent in November.

¹ BRICS includes Brazil, Russia, India, China and South Africa.

Similarly, the commercial banks' savings deposit rate rose to 1.01 percent from 1.00 percent in November. The commercial banks' weighted average new lending rate also increased over the month to 6.78 percent, from 6.61 percent in November while the existing time deposit rate remained unchanged at 2.71 percent.

Liquidity in the banking system fell by 10.9 percent to \$488.4 million in December 2015 largely due to the increase in currency in circulation (\$36.6m). As at 28 January, liquidity was around \$562.2 million.

In December, the Fiji dollar strengthened against the US (1.5%) and the Australian (0.3%) dollars, but weakened against the New Zealand dollar (-2.9%), the Euro (-1.5%) and the Japanese Yen (-0.4%). Over the year, the Fiji dollar rose against the New Zealand (7.0%) and Australian (5.1%) dollars and the Euro (4.1%), but fell against the US dollar (-6.6%) and the Japanese Yen (-5.7%).

The Nominal Effective Exchange Rate (NEER)² index rose over the month in December by 0.3 percent indicating an overall appreciation of the Fiji dollar against the major trading partner currencies. Over the year, the NEER index rose by 0.2 percent.

The Real Effective Exchange Rate (REER)³ index rose by 2.8 percent over the month in December representing an overall loss in Fiji's international competitiveness. On an annual basis, the REER index rose by 1.2 percent.

Inflation was 1.6 percent in December underpinned by higher prices in the food & non-alcoholic beverages; alcoholic beverages, tobacco & narcotics and the others categories, which more-than-offset the impact of low domestic fuel prices in the transport and the housing, water, electricity, gas & other fuels categories. Inflation is expected to remain subdued in 2016 owing to continued weak global oil prices and the structural decline in the domestic VAT rate.

Foreign reserves (RBF holdings) were \$1,944.3 million in December, sufficient to cover 5.9 months of retained imports of goods and non-factor services. As at 1 February 2016, foreign reserves were around \$2,029.8 million, sufficient to cover 5.7 months of retained imports of goods and non-factor services.

The Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in January.

RESERVE BANK OF FIJI

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

	Dec-15	Nov-15	Oct-15	Dec-14
1. Consumer Prices * (year-on-year % change)				
All Items	1.6	1.8	1.4	0.1
Food and Non-Alcoholic Beverage	5.0	4.8	4.8	1.5
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1,944.3(p)	1,955.6	1,974.0	1,810.7
3. Exchange Rates *** (mid rates, FSI equals) (end of period)				
US dollar	0.4701	0.4631	0.4640	0.5031
Pound sterling	0.3170	0.3080	0.3030	0.3231
Australian dollar	0.6456	0.6436	0.6556	0.6144
New Zealand dollar	0.6876	0.7085	0.6933	0.6424
Swiss francs	0.4646	0.4773	0.4591	0.4974
Euro	0.4307	0.4373	0.4229	0.4136
Japanese yen	56.69	56.90	56.20	60.10
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	5.6	6.9	7.1	6.2
Banks' Demand Deposits (\$m)	488.4	548.2	573.8	514.2
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,068.3	1,085.7	1,159.2	1,202.3
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	15.0	14.9	14.1	15.0
Crude Oil/barrel	37.7	44.4	48.1	62.4
6. Money and Credit *** (year-on-year % change)				
Narrow Money	13.4	15.0	13.4	5.5
Broad Money	14.0	15.1	15.3	10.4
Currency in Circulation	11.5	9.4	13.5	11.0
Quasi-Money (Time & Saving Deposits)	14.3	15.9	15.8	10.6
Domestic Credit	13.6	13.9	12.8	18.7
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.90	5.86	5.84	5.72
Savings Deposit Rate	1.01	1.00	1.00	0.57
Time Deposit Rate	2.71	2.71	2.59	2.15
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	n.t
(monthly weighted average)				
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	n.i	5.20	5.17	4.94

^{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: (p) provisional
n.i No Issue
n.t No Trade

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