



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy is expected to gain momentum this year on the back of improved performances by advanced economies, led by the United States (US) while prospects for emerging and developing economies remain uneven. Global financial conditions and monetary policies amongst Fiji's major trading partners remain accommodative, although the anticipated interest rate hike by the Federal Reserve later this year may add more uncertainty to market reactions and policy movements. Moreover, the ongoing geopolitical tensions in the Middle East and North Korea could potentially bump up crude oil prices and in turn have implications on Fiji's external sector.

Supply and demand factors drove the recent decline in commodity prices, except for gold, which strengthened in April. Gold prices trended upwards after March end, largely influenced by recent lower-than-expected US economic indicators and escalating tensions with North Korea, backing up demand for the metal as a safe haven.

In 2017, the Fijian economy is forecast to record an unprecedented eighth year of consecutive positive growth post-independence. The economy is projected to grow by 3.8 percent this year, slightly higher than previously anticipated (3.6%).

In terms of sectoral performances, the latest outcomes have been mixed while the overall outlook remains optimistic. In the first four months of the year, electricity production grew annually by 8.3 percent, in line with higher consumption (6.0%) for the same period. Cumulative to April, visitor arrivals rose over the year by 7.2 percent, backed by higher arrivals from the US, New Zealand, the Pacific Islands and Australia. In contrast, gold production fell on an annual basis by 32.9 percent, cumulative to April, but rose over the month from March (146.8%). The recent halt to the Vatukoula Gold Mines Limited's underground operations may affect gold production outturn for 2017 while the

timber industry performed below par with declines noted in mahogany, pine log and woodchips production.

Nonetheless, aggregate demand indicators remained generally positive in the recent months. Cumulative to April, new vehicle registrations increased annually by 16.5 percent, while second hand vehicle registrations declined by 20.1 percent, reflecting the impact of new import duties imposed on hybrid vehicles this year. In the same period, commercial banks' new bank lending for consumption purposes increased annually by 10.3 percent, underpinned by increased lending to the wholesale, retail, hotels & restaurants sector (25.1%). Investment spending also continued to be broadly upbeat in the review period, as new investment related lending by commercial banks expanded (52.9%) compared to a year ago. Growth in new loans was registered for both the real estate (68.4%) and building & construction (36.7%) sectors. Domestic cement sales also grew (34.0%) in the same period, reflective of increased construction activity.

Higher recruitment intentions were observed in the wholesale & retail trade & restaurants & hotels; community, social & personal services; agriculture and mining & quarrying sectors in April and the number of jobs advertised was higher by 11.4 percent on an annual basis.¹

Financial conditions remain accommodative as growth in monetary aggregates have recently picked up but remain lower than last year's expansion. Broad money growth slowed further to 3.9 percent in April from 14.5 percent in the same month last year. The slowdown was mainly driven by the decline in credit to the public sector (-51.9%) over the year coupled with the annual slowdown in growth to the private sector to 13.2 percent in April (from 15.3%). The slower outcome in private sector lending was mostly underpinned by slower

¹This includes jobs advertised in the Fiji Times and the Fiji Sun.

expansion in commercial banks' lending. Nonetheless, there were notable increases in licensed credit institutions' lending to the private sector over the year. The commercial banks' interest rate spread narrowed in April as the weighted average lending rate fell to 5.74 percent (from 5.82% in March) while the time deposit rate rose to 3.22 percent (from 3.19% in March).

Excess liquidity in the banking system rose by 20.0 percent (\$94.2m) to \$565.0 million at the end of April, led by increases in foreign reserves (\$84.1m) coupled with a decrease in statutory reserve deposits (-\$23.2m). Currently (26 May), liquidity has increased further to around \$727.8 million.

In April, the Fiji dollar (FJD) depreciated against the Euro (-2.7%), the Japanese Yen (-1.6%) and the US dollar (USD) (-1.0%) from a month earlier. However, the FJD appreciated against the Australian dollar (1.4%) and the New Zealand dollar (0.8%). Over the year, the FJD appreciated against the Euro (3.1%), the Japanese Yen (1.6%) and the Australian dollar (0.8%), but depreciated against the USD (-1.3%) and the New Zealand dollar (-0.1%).

Taking into account these bilateral exchange rate movements, the Nominal Effective Exchange Rate (NEER)² index depreciated slightly over the month (0.1%) but remained unchanged over the year. The Real Effective Exchange Rate (REER)³ depreciated by 0.3 percent over the month, although rose over the year by 2.0 percent as Fiji's inflation rate remained higher relative to its trading partners.

Inflation fell to 4.1 percent in April 2017 from 5.6 percent in March, after remaining above the 5.0 percent mark in the first quarter of this year. However, inflation still remains high compared to the trend in the last few years and the outturn is mainly attributed to higher prices for yaqona due to supply shortages and increase in fuel prices.

Foreign reserves rose in April to \$2,065.5 million from \$1,977.5 million in March, sufficient to cover 5.1 months of retained imports of goods and non-factor services (MORI). On 29 May, foreign reserves were around \$2,238.0 (5.6 MORI).

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

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²The 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.

³The 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

	Apr-17	Mar-17	Feb-17	Apr-16
1. Consumer Prices * (year-on-year % change)				
All Items	4.1	5.6	5.5	3.8
Food and Non-Alcoholic Beverage	-3.5	3.0	4.3	9.6
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	2,065.5	1,977.5	1,973.8	1,976.1
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4760	0.4807	0.4834	0.4821
Pound sterling	0.3687	0.3855	0.3886	0.3301
Australian dollar	0.6373	0.6284	0.6297	0.6322
New Zealand dollar	0.6921	0.6864	0.6719	0.6929
Swiss francs	0.4731	0.4811	0.4878	0.4659
Euro	0.4377	0.4500	0.4566	0.4246
Japanese yen	52.94	53.78	54.51	52.12
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	4.7	3.7	3.7	5.0
Banks' Demand Deposits (\$m)	565.0	470.8	473.6	498.7
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,265.8	1,231.1	1,234.2	1,242.3
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	16.4	18.1	20.4	15.0
Crude Oil/barrel	53.8	53.0	56.0	43.3
6. Money and Credit *** (year-on-year % change)				
Narrow Money	5.2	2.3	7.2	16.6
Broad Money	3.9	2.8	5.8	14.5
Currency in Circulation	-1.4	-0.1	7.3	24.6
Quasi-Money (Time & Saving Deposits)	4.7	3.4	5.8	13.5
Domestic Credit	8.4	9.1	9.9	13.3
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.74	5.82	5.76	5.84
Savings Deposit Rate	1.28	1.12	1.00	0.90
Time Deposit Rate	3.22	3.19	3.13	2.76
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
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	n.i	6.60	6.60	5.33

^{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