



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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According to the April 2017 World Economic Outlook Report, the International Monetary Fund has projected a 3.5 percent expansion in the global economy in 2017 slightly higher than the 3.4 percent forecast earlier, after a 3.1 percent expansion in 2016. The outlook for advanced economies has improved further while it remains unchanged for emerging & developing economies. The United States (US) is expected to be the main driver of growth in advanced economies with activity improving in the second half of 2017 driven by expansionary fiscal policy, recovery in inventory accumulation and consumption growth. Risks to the global economic outlook remain on the downside on account of widening global imbalances, structural problems, coupled with exchange rate strains, increased financial volatility, weak demand and low inflation, while geopolitical risks in the Middle East, North Africa and the Korean peninsula pose additional challenges.

Global commodity prices noted mixed movements in March. Gold prices have trended upwards on uncertainty over US's tax and investment plans and the European elections which fuelled demand for bullion as a safe haven. World market sugar prices and the FAO¹ food price index fell on anticipation of a glut in sugar markets due to commencement of harvests in Brazil. Rising US shale output and crude stocks also led to a decline of Brent crude oil prices. However, oil prices rose in April due to strong demand and political uncertainty after the US missile strikes in Syria.

Domestically, sectoral performances have been mixed in the first quarter of the year. The tourism industry remained robust as visitor arrivals increased by 3.3 percent on an annual basis led by

higher visitors from the USA, New Zealand and Pacific Islands. Electricity production by the Fiji Electricity Authority (7.0%) and supply by Independent Power Producers² (4.9%) to the national grid also increased. Gold mining continued to face setbacks related to mine maintenance as production declined by 45.8 percent. Woodchip and mahogany production has fallen due to lower demand for woodchips and harvesting and licensing related issues in the mahogany industry.

However, aggregate demand indicators continued to be positive in the first quarter. Consumption spending rose further as new vehicle registrations (25.0%) and new consumption lending by commercial banks (9.2%) expanded compared to a year ago. In contrast, sales of second hand vehicles dipped (-7.8%) probably due to the increased fiscal and excise duty effective from 1 January 2017 on hybrid vehicles. Net Value Added Tax (VAT) collections fell in the first two months (-8.1%) largely due to the base effect from the higher amount of VAT collected in January 2016. Investment spending also continued to be broadly upbeat in the first quarter as new investment related lending by commercial banks expanded (65.7%) compared to a year ago. Higher new loans were registered for both real estate (104.9%) and building & construction (37.1%). Domestic cement sales also increased (37.3%) on an annual basis during the quarter.

Higher recruitment intentions were observed in wholesale & retail trade and restaurants & hotels; mining & quarry; transport; storage & communications; social & personal service sectors in March and the number of jobs advertised was higher by 8.6 percent on an annual basis.³

¹Food and Agriculture Organisation (FAO) Food Price Index is a measure of the international prices of a basket of food commodities.

² Data for Independent Power Producer's is up to February 2017.

³ This includes jobs advertised in the Fiji Times and the Fiji Sun.

Broad money expanded (2.8%) in March, albeit at a slower pace than a month earlier, led by a decline in net foreign assets (-9.2%) and a slowdown in net domestic assets (6.6%). Total domestic credit expanded by 9.1 percent while loans to the private sector were 14.0 percent higher than the same period in 2016. Commercial banks' outstanding interest rate spread remained unchanged at 2.63 percent as both lending and time deposit rates increased by 6 basis points over the month. Banking system liquidity rose to \$470.8 million at the end of the first quarter, from a low of \$371.1 million in mid-January 2017. As at 24 April, liquidity increased further to \$546.9 million.

In March, the Fiji dollar (FJD) depreciated against the Euro (-1.4%), the Japanese Yen (-1.3%), the USD (-0.6%) and the Australian dollar (-0.2%) from a month earlier. However, the FJD appreciated against the New Zealand dollar (2.2%) over the same period after whole milk prices plunged by around 12.4 percent in the March Global Dairy Trade auction. Over the year, the FJD appreciated against the Euro (5.9%), remained unchanged against the Australian dollar, but depreciated against the New Zealand dollar (-1.3%), the Japanese Yen (-0.7%) and the USD (-0.2%).

Within the Fiji dollar basket, the Nominal Effective Exchange Rate (NEER)⁴ index depreciated slightly

over the month (0.1%) but appreciated over the year (0.2%). The Real Effective Exchange Rate (REER)⁵ appreciated by 0.1 percent over the month, as well as over the year by a notable 3.8 percent as Fiji's inflation rate remained high relative to its trading partners.

Inflation increased to 5.6 percent in March from 5.5 percent in February 2017, driven by higher prices in the alcoholic beverages, tobacco & narcotics; furnishings, household, equipment & routine household maintenance; food & non-alcoholic beverages; restaurants & hotels; and clothing & footwear categories. These more than offset the price declines in the housing, water, electricity, gas & other fuels; miscellaneous goods & services and communication categories compared to March 2016. The temporary effects of the price hikes post Tropical Cyclone Winston are expected to taper off around April and the inflation rate is expected to decline and stabilise around 3.0 percent by year-end.

Foreign reserves rose marginally to \$1,977.5 million in March from \$1,973.8 million in February, sufficient to cover 5.3 months of retained imports of goods and non-factor services (MORI). On 26 April, foreign reserves reached a new record of \$2,060.2 million (5.5 MORI), surpassing the previous high of \$2,042.2 million in 2015.

RESERVE BANK OF FIJI

⁴ 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.

⁵ 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

	Mar-17	Feb-17	Jan-17	Mar-16
1. Consumer Prices * (year-on-year % change)				
All Items	5.6	5.5	6.8	0.8
Food and Non-Alcoholic Beverage	3.0	4.3	7.1	1.6
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	1977.5	1,973.8	1,918.5	2,005.4
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4807	0.4834	0.4821	0.4818
Pound sterling	0.3855	0.3886	0.3863	0.3349
Australian dollar	0.6284	0.6297	0.6386	0.6281
New Zealand dollar	0.6864	0.6719	0.6620	0.6953
Swiss francs	0.4811	0.4878	0.4798	0.4650
Euro	0.4500	0.4566	0.4508	0.4249
Japanese yen	53.78	54.51	54.78	54.17
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	3.7	3.7	3.2	5.9
Banks' Demand Deposits (\$m)	470.8	473.6	408.9	553.8
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1231.1	1,234.2	1,192.6	1,246.3
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	18.1	20.4	20.5	15.4
Crude Oil/barrel	53.0	56.0	55.5	40.4
6. Money and Credit *** (year-on-year % change)				
Narrow Money	2.3	7.2	3.3	19.1
Broad Money	2.8	5.8	3.4	15.4
Currency in Circulation	-0.1	7.3	6.5	32.4
Quasi-Money (Time & Saving Deposits)	3.4	5.8	3.3	14.2
Domestic Credit	9.1	9.9	8.6	13.8
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.82	5.76	5.83	5.87
Savings Deposit Rate	1.12	1.00	0.98	0.85
Time Deposit Rate	3.19	3.13	3.05	2.72
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	6.60	6.60	6.55	5.29

^{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