



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic growth remains favourable but is expected to decelerate in the coming months following the worsening trade impasse between the United States (US) and China. In advanced economies, growth divergences are widening between the US on one side and Europe and Japan on the other. Similarly, uneven growth is also evident among emerging markets and developing economies as a result of rising oil prices, higher yields in the US, sentiment shifts, and domestic political and policy uncertainties.

Mixed movement of commodity prices was noted over the month of August. Gold prices fell after the strengthening of the US dollar (USD) while crude oil prices increased due to supply shortages and the rapid decline in Iranian oil supply following the US sanction against Tehran. Similarly, the world sugar price increased resulting from strong demand and tight supplies in India.

Domestically, the economy grew by 3.0 percent in 2017, 1.2 percentage points (pp) lower than the earlier forecast. The growth was mainly contributed by the agriculture (0.84pp); wholesale & retail activities (0.57pp); financial & insurance (0.51pp); construction (0.32pp); information & communication (0.29pp); accommodation & food services activities (0.28pp); real estate (0.26pp); education (0.25pp); public administration & defence (0.17pp) and health (0.10pp) sectors.

Sectoral performances were generally mixed in the review period. The tourism industry continued to thrive with an annual increase of 4.2 percent in visitor arrivals cumulative to August. This was led by higher arrivals from New Zealand, the US, Japan and Australia. Timber production remained strong cumulative to August with annual increases noted in sawn timber (20,597 cubic metres from 11,731 cubic metres), woodchip (234,298 tonnes from 78,292 tonnes) and mahogany (10,197 cubic metres from 396 cubic metres) outputs when compared to the same period a year ago. Electricity production also rose by a marginal 0.2 percent in

the same period whereas cane (-1.6%) and sugar (-5.1%) production fell.

Consumption activity remains firm as shown by the latest partial indicators. Net VAT collections rose cumulative to July (11.1%) while new (37.9%) and second-hand vehicle (12.3%) registration also increased in the year to August. Likewise, commercial banks' new consumption lending grew cumulative to August (16.3%), on account of increased lending to the wholesale, retail, hotels & restaurants and private individuals sectors.

Annual decline were noted in investment activity as shown by the partial indicators. Both domestic cement production (-21.7%) and sales (-23.0%) dropped cumulative to August. In addition, new investment lending by commercial banks fell (-0.1%) due to the decline over the year, in lending to the building & construction sector. Notwithstanding the decline, the June 2018 Business Expectation Survey had shown a positive investment outlook for the next 12 months.

Labour market conditions continue to remain favourable. According to the RBF Job Advertisement Survey results, the number of vacant jobs rose annually by 8.6 percent cumulative to August due to higher recruitment intentions in the manufacturing, community, social & personal services, electricity & water, transport & storage, mining & quarrying and construction sectors.

After continued slowdown since the beginning of the year, private sector credit growth expanded by a stronger 7.9 percent over the month of August led by a rise in commercial bank lending to private sector business entities. The banking sector liquidity measured by banks' demand deposits (BDD) rose over the month underpinned by the increase in foreign reserves. As at 28 September 2018, BDD remained adequate at \$418.2 million.

In August, the Fiji dollar (FJD) appreciated against the New Zealand (1.4%), and the

Australian (0.8%) dollars but depreciated against the Yen (-1.2%), the USD (-1.1%) and the Euro (-0.9%). The Nominal Effective Exchange Rate (NEER)¹ index fell over the month (-0.1%) indicating a general weakening of the FJD in August. Nevertheless, the Real Effective Exchange rate (REER)² increased over the month (0.8%) indicating a loss in trade competitiveness resulting from increased relative price differential between Fiji and its major trading partners.

Cumulative to June, total exports (excluding aircraft) rose by 5.1 percent led by the increase in re-exports, and exports of gold and woodchips. In the same period total imports (excluding aircraft) rose by 10.2 percent mainly attributed to higher imports of machinery & transport equipment, chemicals, mineral fuels and other commodities.

Inflation fell to 4.3 percent in August from the 4.7 percent in July; however it was higher than 1.9 percent in the same period last year. Higher prices were noted for yaqona, alcoholic drinks & tobacco, vegetables and fuel items.

Foreign reserves level increased further in August to \$2,180.2 million, sufficient to cover 5.0 months of retained imports of goods & non-factor services (MORI). As at 2 October 2018, foreign reserves were noted at \$2,114.3 million, sufficient to cover 4.9 MORI.

Following its assessment of outlook and risks to inflation and foreign reserves, the Reserve Bank Board agreed to keep the overnight policy rate unchanged at 0.5 percent in September 2018.

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.

KEY INDICATORS

1. Sectoral Performance Indicators
(year-on-year % change)

	Sep-17	Jun-18	Jul-18	Aug-18	Sep-18
Visitor Arrivals	6.6	3.0	3.5	4.2	n.a
Electricity Production	7.2	0.0	0.3	0.2	n.a
Gold Production	-6.7	11.6	9.0	0.9	n.a
Cane Production [^]	n.a	n.a	1.8	-3.1	-1.6
Sugar Production [^]	n.a	n.a	1.2	-4.9	-5.1
Pinewood Intake	-53.1	180.1	208.6	192.9	n.a
Woodchip	-38.6	304.4	223.2	199.3	n.a
Mahogany	-97.1	1,100.8	1,765.5	2,475.0	n.a
Cement Production	-8.7	-20.6	-21.8	-21.7	n.a

2. Consumption Indicators
(year-on-year % change)

Net VAT Collections	13.7	9.1	11.1	n.a	n.a
New Consumption Lending	9.7	19.0	21.4	16.3	n.a
New Vehicle Registrations****	4.4	47.6	43.5	37.9	n.a
Second Hand Vehicle Registrations****	-32.6	8.8	9.7	12.3	n.a
Personal Remittances	1.7	8.4	7.4	n.a	n.a
Electricity Consumption	7.5	2.9	3.1	2.7	n.a

3. Investment Indicators
(year-on-year % change)

Domestic Cement Sales	17.2	-20.6	-23.7	-23.0	n.a
New Investment Lending	26.9	-8.0	-2.6	-0.1	n.a

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	7.6	8.2	6.3	8.6	n.a
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5. Consumer Prices *

(year-on-year % change)

All Items	2.0	4.6	4.7	4.3	n.a
Food and Non-Alcoholic Beverage	-4.2	5.1	4.2	3.3	n.a
Alcoholic Beverages, Tobacco & Narcotics	23.5	22.3	21.6	20.2	n.a

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2,406.8	2,139.1	2,161.9	2,180.2	2,117.5
Months of retained imports of goods and non-factor services (MORI)	5.1	4.9	5.0	5.0	4.9

7. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

US dollar	0.4906	0.4741	0.4759	0.4705	0.4703
Australian dollar	0.6245	0.6459	0.6427	0.6476	0.6477
New Zealand dollar	0.6778	0.6976	0.6977	0.7078	0.7066
Euro	0.4164	0.4102	0.4066	0.4031	0.4005
Japanese yen	55.14	52.26	52.86	52.23	53.01
Nominal Effective Exchange Rate	84.13	84.79	84.72	84.67	n.a
Real Effective Exchange Rate	102.7	105.05	105.45	106.3	n.a

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	801.1	470.2	496.9	512.8	471.9
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9. Money and Credit ***

(year-on-year % change)

Broad Money	10.6	4.5	2.8	2.7	n.a
Net Foreign Assets	27.4	-0.8	-5.6	-6.1	n.a
Domestic Credit	6.6	7.8	7.3	7.0	n.a
Private Sector Credit	11.6	7.5	5.6	7.9	n.a
Narrow Money	15.9	6.7	3.0	3.1	n.a

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.72	5.70	5.68	5.72	n.a
Savings Deposit Rate	1.41	1.43	1.41	1.38	n.a
Time Deposit Rate	3.30	3.36	3.40	3.44	n.a
14-day RBF Note Rate (month end)	n.i	0.42	n.i	n.i	n.a
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	n.a
Overnight inter-bank Rate	n.t	n.t	n.t	n.t	n.a
3 month Government T-Bills	n.i	1.41	1.45	n.a	n.a
12 month Government T-Bills	n.i	n.i	n.i	n.a	n.a
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.a
10-year Government Bond Yield	n.i	n.i	6.00	n.i	n.a

11. Commodity Prices (US\$) **

(end of period)

UK Gold Price/fine ounce	1,283.1	1,250.5	1,221.0	1,202.5	1,198.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	13.5	11.9	10.6	10.6	10.8
Crude Oil/barrel	57.5	79.4	74.3	77.4	78.8

^{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.

Note:
n.a Not available
n.i No issue
n.t No trade
p.a. Per annum

Sources:
* Fiji Bureau of Statistics
** Bloomberg
*** Reserve Bank of Fiji
**** Land Transport Authority
^ Fiji Sugar Corporation