



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global growth momentum is expected to continue in 2017 as the International Monetary Fund raised its growth projection for the world economy to 3.6 percent in its October World Economic Outlook, from the earlier forecast of 3.5 percent. Stronger rebound in the advanced economies led by faster growth in domestic demand and output in the first half of 2017 supported this outcome. For 2018, the world economy is expected to grow by 3.7 percent. Movements in commodity prices were mixed with import prices showing signs of possible tightening while export commodity prices continue to remain low. Inflationary pressures and wage outcomes remained subdued across most economies, reflective of the generally accommodative monetary and fiscal policy stances.

On the domestic front, the Fijian economy is now anticipated to expand by 4.2 percent in 2017, higher than the earlier forecast of 3.8 percent. This outturn is expected to be largely led by higher contributions from the public administration & defence; manufacturing; construction and wholesale & retail trade sectors. Similarly, the growth outlook for 2018 was revised upwards to 3.6 percent from an earlier projection of 3.0 percent.

Sectoral performances remain generally upbeat despite unfavourable outcomes in a few key sectors. Visitor arrivals noted an annual growth of 6.6 percent cumulative to September, driven by higher tourist numbers from New Zealand, United States (US), Australia, Pacific Islands and the Rest of Asia. Similarly, both cane and sugar production recorded a considerable turnaround. Total cane crushed¹ increased annually by 27.9 percent (to 1,564,293 tonnes) resulting in higher sugar production by 38.4 percent (to 174,252 tonnes). Electricity production also grew on an annual basis in the year to August by 7.3 percent. In contrast, the timber industry continued to perform weakly as a result of delays in the commencement of mahogany

production and low demand for woodchips from the Asian market. Similarly, gold production remained low in the year to September owing to the closure of operations for necessary upgrades and mine audits earlier in 2017.

Nonetheless, firm consumption and investment activity continues to support aggregate demand. Partial indicators for consumption remained upbeat with a pick-up noted in net Value Added Tax (+13.7%) and Pay As You Earn (+6.5%) collections cumulative to September. Similarly, new lending for consumption purposes grew by 13.1 percent on an annual basis, in the year to September. In the same period, demand for luxury goods also increased reflected in higher registrations for new vehicles (+4.4%).

Investment outcomes remain positive evident through a rebound in new investment lending (+26.9%) cumulative to September, led by higher lending to the real estate (+40.1%) and building and construction (+14.2%) sectors. Domestic cement sales, a direct input for construction works also grew (+1.5) in the same period, owing to a rise in local construction activity.

Labour market conditions remained favourable in September. The RBF's Job Advertisement Survey indicated a 10.0 percent annual growth in the number of jobs advertised cumulative to September led by higher labour demand in the wholesale & retail trade, restaurants & hotels; community, social & personal services; mining & quarrying and electricity & water sectors.

On the external front, trade forecasts suggest further widening of the trade deficit for the year as imports (excluding aircraft) growth was revised upward to 11.4 percent while exports are now expected to grow at a slower pace of 4.1 percent.

¹ This is after 21 weeks of crushing.

Monetary conditions remain supportive of growth as private sector credit expanded by 11.5 percent in September. This was mostly driven by growth in new commercial bank loans (+8.9%) to the electricity, gas & water; real estate; building & construction; wholesale, retail, hotels & restaurants; mining & quarrying and the central & local Government sectors. Interest rate movements were mixed in September. The commercial banks' weighted average new lending rate fell to 5.66 percent in September from 5.72 percent in August. Similarly, commercial banks' new time deposits rate fell marginally to 2.99 percent in September from 3.00 percent in August but remained above the 2.64 percent noted a year ago.

Bank excess liquidity rose in September by 6.0 percent (\$45.0m) to \$801.1 million, led by increases in foreign reserves (\$58.8m) and currency in circulation (\$4.1m) which were partially offset by declines in statutory reserve deposits (\$11.2m). As at 31 October, liquidity stood at \$800.5 million.

Over the month of September, the Fiji dollar rose against the Yen (1.7%), the Euro (0.7%) and the Australian (0.4%) dollar but depreciated against the New Zealand (-0.2 %) and the US (-0.2%), dollars. On an annual basis, the Fiji dollar strengthened against the Yen (11.9%), the New Zealand (0.9%) and the US (0.6%) dollars, but weakened against the Euro (-4.1%) and the Australian (-2.1%) dollar.

The Nominal Effective Exchange Rate (NEER)² index fell slightly in September by 0.03 percent but rose marginally over the year (+0.02%), owing to the weakening of the Fiji dollar against trading partner currencies. Likewise, the Real Effective Exchange Rate (REER)³ depreciated (-0.4%) in

September but appreciated (+0.5%) over the year.

Inflation was 2.6 percent in October compared to 2.0 percent in September, but remained lower than the 4.7 percent registered a year ago. Higher annual price movements in the alcoholic beverages, tobacco & narcotics; housing, water, electricity, gas & other fuels; restaurants & hotels and the transport categories contributed to this outturn.

Inflation outcomes remain driven by domestic factors. The recent fuel price review by the Fijian Competition & Consumer Commission is expected to have a marginal impact on overall inflation. Nonetheless, risks to the inflation outlook remain, particularly with Fiji approaching the cyclone season and the recent forecast by the Fiji Meteorological Office of approximately one to two cyclones possibly passing through the country this season.

Foreign reserves (RBF holdings) grew over the month of October by \$2.4 million to \$2,409.2 million, sufficient to cover 5.8 months of retained imports of goods and non-factor services, largely attributed to lower payments for mineral fuel and machineries.

Following the latest assessment of positive global and domestic developments and the favourable outlook for monetary policy objectives, the Reserve Bank Board agreed at its October meeting, to maintain the Overnight Policy Rate at 0.5 percent.

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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

	Oct-17	Sep-17	Aug-17	Jul-17	Sep-16
1. Consumer Prices * (year-on-year % change)					
All Items	2.6	2.0	1.9	2.0	5.6
Food and Non-Alcoholic Beverage	-3.7	-4.2	-5.2	-6.2	7.0
2. Reserves *** (end of period)					
Foreign Reserves (\$m) ^{1/}	2,409.2	2,406.8	2,352.4	2,313.7	1,902.7
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)					
US dollar		0.4906	0.4915	0.4971	0.4875
Pound sterling		0.3651	0.3804	0.3787	0.3759
Australian dollar		0.6245	0.6223	0.6227	0.6382
New Zealand dollar		0.6778	0.6832	0.6624	0.6717
Swiss francs		0.4763	0.4739	0.4816	0.4709
Euro		0.4164	0.4136	0.4231	0.4344
Japanese yen		55.14	54.24	55.01	49.28
4. Liquidity *** (end of period)					
Liquid Assets Margin to Deposit Ratio (%)		7.6	7.7	7.5	4.6
Banks' Demand Deposits (\$m)	800.5	801.1	756.1	740.4	421.6
5. Commodity Prices (US\$) ** (monthly average)					
UK Gold Price/fine ounce		1,315.0	1,282.3	1,236.2	1,326.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)		13.9	13.8	14.1	21.3
Crude Oil/barrel		55.5	51.9	49.2	47.4
6. Money and Credit *** (year-on-year % change)					
Narrow Money		15.9	15.2	14.0	2.2
Broad Money		10.6	10.8	10.5	4.9
Currency in Circulation		3.7	3.0	0.4	16.6
Quasi-Money (Time & Saving Deposits)		11.3	11.3	11.6	3.7
Domestic Credit		6.6	8.1	9.0	6.7
7. Interest Rates (% p.a.) *** (monthly weighted average)					
Lending Rate (Excluding Staff)		5.72	5.71	5.75	5.86
Savings Deposit Rate		1.41	1.36	1.28	0.91
Time Deposit Rate		3.30	3.35	3.35	2.90
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	n.i	6.00	6.27

^{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