



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund in its October 2018 World Economic Outlook downgraded the global growth forecast to 3.7 percent from 3.9 percent projected in July, following the escalation of trade tensions and stress in emerging markets. Risks to the global outlook have increased in recent months due to the US-China trade tensions with further threats emanating from sharper than expected increases in interest rates.

Global commodities prices were mixed in September. Sugar prices declined due to oversupply from India and gold prices fell due to lower demand resulting from the strengthening US dollar. Global food prices measured by the Food and Agriculture Organisation index also declined due to increased supply of cereals, vegetable oil and dairy products. Meanwhile, the US-Iran sanctions pushed oil prices to levels not seen since 2014. However, as at 26 October, oil price fell to US\$77.62 per barrel amidst concerns of oversupply from Saudi Arabia and falling outlook for fuel demand.

Domestically, the services sector continues to perform well led by the tourism industry. Visitor arrivals registered an annual growth of 4.3 percent cumulative to September led by higher arrivals from New Zealand (NZ), US, Japan, Continental Europe and China. In addition, turnover in the wholesale & retail trade sector rose by an annual 4.0 percent, cumulative to March. In the industrial sector, positive performances were noted for electricity production (+0.6%) cumulative to September and the manufacturing sector as the industrial production index increased by 3.4 percent, cumulative to March. In contrast, gold production declined in the first nine months of the year and sugar output was also lower annually at this point of the season. In the primary sector, mahogany, sawn timber and woodchip production increased significantly up to September while fish catches and harvested cane declined.

Aggregate demand remained buoyant supported mainly by robust consumption activity and a pick-up in investment spending. Both new (+31.5%) and second hand (+12.1%) vehicle registrations, continued to grow in the year to September along with consumption-related bank credit (+15.2%). Firm consumption activity was also boosted by higher inward remittances (+10.6%) in the year to August as well as favourable labour market conditions evidenced by the increase in number of jobs advertised (+9.3%) cumulative to September.

On the investment front, new loans for investment purposes noted a turnaround increasing by 1.3 percent in the year to September, led by higher loans for real estate activities (+20.9%) which more-than-offset the dip noted in credit for building & construction (-22.0%) purposes. However, cement sales (-27.6%) noted a decline in the same period. Nevertheless, cumulative to June, increases were recorded for number (+9.6% to 856) and value (+17.6% to \$196.9m) of building permits issued suggesting a pick-up in construction activity in the medium term.

Financial conditions remain conducive for economic activity as broad money picked-up (+3.3%) in September. Net domestic credit expanded by 10.2 percent in the same period underpinned by growth in private sector credit. Lending rates slowed in the same period with downward movement noted in the commercial banks' outstanding and new lending rates. Movements in funding costs were mixed as the weighted outstanding time deposit rate increased slightly while the new time deposit rate fell over the month.

Excess liquidity in the banking system (measured by commercial banks' demand deposits with RBF) declined in September by 18.4 percent (-\$94.6m) to \$418.2 million largely due to the fall in foreign reserves (-\$66.8m) coupled with an increase in currency in circulation (+\$3.7m) and statutory

reserves deposits (+\$3.1m). As at 29 October, liquidity levels have recovered to \$477.2 million.

In September, movements showed that the Fiji dollar (FJD) strengthened against the Japanese Yen (+1.6%), Australian (+0.3%) and NZ dollars (+0.04%), but weakened against the US dollar (-0.5%) and the Euro (-0.2) over the month. The overall Fiji dollar remained relatively stable with only a marginal decline (-0.05%) in the Nominal Effective Exchange Rate (NEER)<sup>1</sup> over the month. The Real Effective Exchange Rate (REER)<sup>2</sup> index also fell (-0.3%) as the price differential between Fiji and its trading partner countries narrowed in September.

The merchandise trade deficit<sup>3</sup> (excluding aircraft) widened by 17.2 percent in the year to July to \$1,893.4 million. Total exports (excluding aircraft) rose by 4.5 percent due to higher re-exports (+12.0 %) while domestic exports declined (-1.1 %). The outturn in domestic exports was led by lower sugar, molasses and mahogany exports which more than offset increases in mineral water, woodchips, gold and kava exports. Imports (excluding aircraft) rose by 12.0 percent in the same period led mainly by higher imports of machinery & transport equipment, chemicals and mineral fuels.

The annual headline inflation increased to 4.6 percent in September from 4.3 percent in August underpinned by higher prices for kava, tobacco, alcohol, vegetables and fuel. Over the month, consumer prices also increased by 0.5 percent partly attributed to the impact of the drought conditions in the Western Division as prices of fruit and vegetables rose. Nevertheless, underlying inflation remains low. Looking ahead, inflationary pressures are expected to remain elevated in the remaining months of the year largely due to higher global oil prices and trading partner inflation expectations.

Foreign reserves (RBF Holdings) decreased in September to \$2,118.2 million, sufficient to cover 4.9 months of retained imports of goods and non-factor services (MORI). As at 31 October, foreign reserves were \$2,126.8 million, sufficient to cover 4.9 MORI and are expected to remain at comfortable levels by year-end.

Given the recent global and domestic economic developments and the stable outlook for inflation and foreign reserves, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent in October.

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Estimates by RBF.

## FIJI: ECONOMIC &amp; FINANCIAL STATISTICS

## KEY INDICATORS

**1. Sectoral Performance Indicators**

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Visitor Arrivals	6.6	3.5	4.2	4.3	n.a
Electricity Production	7.2	0.3	0.2	0.6	n.a
Gold Production	-5.7	9.0	0.9	-4.6	n.a
Cane Production <sup>^</sup>	n.a	1.8	-3.1	-1.7	-5.1
Sugar Production <sup>^</sup>	n.a	1.2	-4.9	-6.1	-11.3
Pine wood Intake	-53.2	208.6	192.9	225.9	n.a
Woodchip	-25.3	223.2	199.3	174.0	n.a
Mahogany	-94.5	1,765.5	2,471.6	1,226.8	n.a
Cement Production	-14.9	-21.8	-21.7	-19.7	n.a

**2. Consumption Indicators**

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Net VAT Collections	14.3	11.1	n.a	n.a	n.a
New Consumption Lending	12.1	21.4	16.3	15.2	n.a
New Vehicle Registrations****	3.3	43.5	37.9	31.5	n.a
Second Hand Vehicle Registrations****	-32.5	9.7	12.3	12.1	n.a
Personal Remittances	0.6	7.4	10.6	n.a	n.a
Electricity Consumption	7.4	3.1	2.7	2.4	n.a

**3. Investment Indicators**

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Domestic Cement Sales	12.8	-23.7	-23.0	-27.6	n.a
New Investment Lending	25.5	-2.6	-0.1	1.3	n.a

**4. Labour Market**

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
RBF Job Advertisement Survey	5.5	6.3	8.6	9.3	n.a

**5. Consumer Prices \***

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
All Items	2.6	4.7	4.3	4.6	n.a
Food and Non-Alcoholic Beverage	-3.7	4.2	3.3	4.9	n.a
Alcoholic Beverages, Tobacco & Narcotics	27.5	21.6	20.2	18.6	n.a

**6. Reserves \*\*\***

(end of period)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Foreign Reserves (\$m) <sup>1/</sup>	2,410.2	2,161.9	2,182.8	2,118.2	2,126.8
Months of retained imports of goods and non-factor services (MORI)	6.1	5.0	5.0	4.9	4.9

**7. Exchange Rates \*\*\*\***

(mid rates, F\$1 equals)

(end of period)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
US dollar	0.4820	0.4759	0.4705	0.4682	0.4664
Australian dollar	0.6268	0.6427	0.6476	0.6497	0.6554
New Zealand dollar	0.7004	0.6977	0.7078	0.7081	0.7050
Euro	0.4136	0.4066	0.4031	0.4021	0.4050
Japanese yen	54.54	52.86	52.23	53.09	52.49
Nominal Effective Exchange Rate	84.01	84.72	84.67	84.63	n.a
Real Effective Exchange Rate	101.81	105.47	106.38	106.10	n.a

**8. Liquidity \*\*\***

(end of period)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Banks' Demand Deposits (\$m)	800.5	496.9	512.8	418.2	477.2

**9. Money and Credit \*\*\***

(year-on-year % change)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Broad Money	11.3	2.8	2.7	3.3	n.a
Net Foreign Assets	27.4	-5.6	-6.1	-13.2	n.a
Domestic Credit	6.8	7.3	7.0	10.2	n.a
Private Sector Credit	10.7	5.6	7.9	8.1	n.a
Narrow Money	14.2	3.0	3.1	0.5	n.a

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

(monthly weighted average)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
Lending Rate (Excluding Staff)	5.69	5.68	5.72	5.70	n.a
Savings Deposit Rate	1.37	1.41	1.38	1.35	n.a
Time Deposit Rate	3.28	3.40	3.44	3.47	n.a
14-day RBF Note Rate (month end)	n.i	n.i	n.i	0.5	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	1.00	n.a
3 month Government T-Bills	n.i	1.45	n.i	1.45	n.a
12 month Government T-Bills	n.i	n.i	n.i	n.i	n.a
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.a
10-year Government Bond Yield	n.i	6.00	n.i	n.i	n.a

**11. Commodity Prices (US\$) \*\***

(end of period)

	Oct-17	Jul-18	Aug-18	Sep-18	Oct-18
UK Gold Price/fine ounce	1,270.2	1,221.0	1,202.5	1,187.3	1,233.9
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	16.6	10.6	10.6	10.4	13.8
Crude Oil/barrel	61.4	74.3	77.4	82.7	77.6

<sup>1/</sup> 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