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Global economic conditions remain firm despite growth becoming uneven for major economies. Growth is diverging between major advanced economies due to internal fundamentals and in emerging market & developing economies due to the upswing in oil prices over recent months, higher yields in the United States (US), dollar appreciation, trade and geopolitical tensions.

In July, world market prices for crude oil, gold, sugar and the FAO¹ food price index fell from a month ago. The lower oil price was due to the increase in US crude inventories and record production from Saudi Arabia while the strengthening of the US dollar kept gold prices down. The oversupply of sugar led to a decline in sugar prices over the month and the lower FAO food price index was driven by the lower sugar and stabilisation in oil prices.

Domestically, performances of major sectors were generally positive. In the year to July, gold and electricity production increased whilst mahogany, pine, woodchip and sawn timber production more than doubled. Additionally, around 36.2 percent of the Macroeconomic Committee's sugar output forecast has been achieved by 27 August.² Visitor arrivals increased by 3.5 percent in the year to July led by higher visitors from New Zealand (NZ), US and Japan.

Aggregate demand continues to expand supported by firm consumption activity. In the first seven months of this year, significant gains were noted for partial indicators of consumption such as new consumption lending (+21.4%), new vehicle registrations (+14.3%, excluding government), second hand vehicle registrations (+9.7%), and net VAT collections (+11.1%). Similarly, significant spending by Government post Tropical Cyclone

Josie and Keni should have stimulated consumption activity in the second and third quarters of the year.

Investment spending declined as noted by partial indicators. In the year to July, commercial banks' new investment lending fell by 2.6 percent led by decline in credit to the building & construction (-30.0%) sector which offset the growth in lending to the real estate (+19.0%) sector. Similarly, domestic cement sales (-23.7%) declined in the same period. The dip in investment expenditure is expected to be temporary and a turnaround is expected towards the latter part of the year as reflected by forward looking indicators such as the value of building permits issued (+26.9%) up to the first quarter and the higher budgeted capital expenditure by Government for the fiscal year 2018-19.

Consistent with the favourable growth outlook, results from the Reserve Bank of Fiji (RBF) June 2018 Business Expectations Survey show that a net 80.0 percent of respondents expect overall economic conditions to be positive in the next 6 to 12 months, the highest rating since December 2015. Similarly, the RBF June Retail Sales Survey notes an 8.3 percent expected increase in retail sales this year compared to the 5.1 percent growth envisaged in the December 2017 Survey.

Recruitment intentions remain positive as the number of jobs advertised rose by an annual 6.3 percent in the year to July. Higher recruitment intentions were noted in the manufacturing, community, social & personal services, electricity & water, transport & storage, and mining & quarrying sectors.

In the year to May, the merchandise trade deficit (excluding aircraft) expanded by 16.6 percent to \$1,395.4 million, compared to a 24.4 percent widening in the same period in 2017. Total exports (excluding aircraft) increased by 3.9 percent compared to a decline of 1.5 percent in 2017 which

¹ Food and Agriculture Organisation.

² As per the Macroeconomic Committee's May 2018 forecast, 1.63 million tonnes of cane and 171,353 tonnes of sugar are expected to be produced in 2018.

was mainly contributed by the increase in re-exports and domestic exports of woodchips, gold, chemicals, animal & vegetables oils & fats and miscellaneous manufactured articles which more-than-offset the decline in exports of sugar, mineral water, cement, and machinery & transport equipment. Over the same period, total imports (excluding aircraft) rose by 11.7 percent led by higher imports of machinery & transport equipment, chemicals, mineral fuels, crude materials, manufactured goods, beverages & tobacco, animal & vegetable oils & fats and other commodities which more-than-offset the decline in imports of miscellaneous manufactured articles and food & live animals.

Private sector credit expanded by a lower 5.6 percent on an annual basis in July, this was led by a slowdown in commercial banks' lending to the private sector business entities. Over the month, commercial banks' weighted outstanding lending rate and weighted average new lending rate both declined in July to 5.68 percent and 5.80 percent while the commercial banks' new time deposits rate rose to 3.51 percent. The banking system liquidity as measured by Banks Demand Deposits remain adequate and rose over the month of July by 5.7 percent to \$496.9 million, led by increase in foreign reserves (+\$22.8m). As at 28 August, banking system liquidity remained adequate at \$504.2 million.

Over the month of July, the Fiji dollar rose against the Japanese Yen, the US and the NZ dollars, but depreciated against the Euro and the Australian (AU) dollar. Compared to a year ago, the Fiji dollar has strengthened against the NZ and AU dollars, but weakened against the US dollar, the Euro and the Japanese Yen. Consequently, the Nominal Effective Exchange Rate (NEER)³ rose over the year by 0.7 percent. The Real Effective Exchange Rate (REER)⁴ rose by 3.6 percent over the year largely due to higher domestic inflation relative to trading partners.

Annual inflation rose to 4.7 percent in July from 4.6 percent in June and was higher than the 2.0 percent recorded in July last year. The annual increase was led by higher prices of kava, fuel, alcohol, tobacco and vegetables.

Foreign reserves increased over the month of July to \$2,161.9 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services (MORI). As at 31 August, foreign reserves were \$2,180.5 million, sufficient to cover 5.0 MORI and are forecast to remain at comfortable levels by year-end.

In light of the latest global and domestic economic developments and given that there are no immediate risks to the monetary policy objectives outlook, the Reserve Bank Board agreed to maintain the Overnight Policy Rate at 0.5 percent in August.

RESERVE BANK OF FIJI

³ 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.

⁴ 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: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Visitor Arrivals	6.5	2.1	3.0	3.5	n.a
Electricity Production	7.3	-0.3	0.0	0.3	n.a
Gold Production	-6.7	26.4	11.6	9.0	n.a
Cane Production [^]	22.0	n.a	n.a	1.8	-2.7
Sugar Production [^]	24.6	n.a	n.a	1.2	-4.7
Pinewood Intake	-47.7	253.0	180.1	208.6	n.a
Woodchip	-46.1	476.4	304.4	223.2	n.a
Mahogany	-98.4	976.3	1,100.8	1,765.5	n.a
Cement Production	-3.8	-27.2	-20.6	-21.8	n.a

2. Consumption Indicators

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Net VAT Collections	16.5	11.7	9.1	11.1	n.a
New Consumption Lending	7.1	25.0	19.0	21.4	n.a
New Vehicle Registrations****	2.7	54.6	47.6	43.5	n.a
Second Hand Vehicle Registrations****	-31.9	9.1	8.8	9.7	n.a
Personal Remittances	3.1	8.5	8.4	n.a	n.a
Electricity Consumption	7.3	3.8	2.9	3.1	n.a

3. Investment Indicators

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Domestic Cement Sales	16.0	-25.4	-20.6	-23.7	n.a
New Investment Lending	31.8	-13.7	-8.0	-2.6	n.a

4. Labour Market

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
RBF Job Advertisement Survey	12.5	4.7	8.2	6.3	n.a

5. Consumer Prices *

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
All Items	1.9	5.1	4.6	4.7	n.a
Food and Non-Alcoholic Beverage	-5.2	6.4	5.1	4.2	n.a
Alcoholic Beverages, Tobacco & Narcotics	27.7	23.3	22.3	21.6	n.a

6. Reserves ***

(end of period)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Foreign Reserves (\$m) ^{1/}	2,352.4	2,162.8	2,139.1	2,161.9	2,180.5
Months of retained imports of goods and non-factor services (MORI)	5.9	5.0	4.9	5.0	5.0

7. Exchange Rates ***

(mid rates, FS1 equals)

(end of period)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
US dollar	0.4915	0.4822	0.4741	0.4759	0.4729
Australian dollar	0.6223	0.6362	0.6459	0.6427	0.6445
New Zealand dollar	0.6832	0.6898	0.6976	0.6977	0.7048
Euro	0.4136	0.4133	0.4102	0.4066	0.4044
Japanese yen	54.24	52.52	52.26	52.86	52.58
Nominal Effective Exchange Rate	84.13	83.90	84.79	84.72	n.a
Real Effective Exchange Rate	103.17	102.40	105.05	105.47	n.a

8. Liquidity ***

(end of period)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Banks' Demand Deposits (\$m)	756.1	521.6	470.2	496.9	504.2

9. Money and Credit ***

(year-on-year % change)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Broad Money	10.8	5.0	4.6	2.9	n.a
Net Foreign Assets	21.6	-2.1	-0.9	-5.6	n.a
Domestic Credit	8.1	8.4	8.0	7.5	n.a
Private Sector Credit	13.0	7.8	7.5	5.6	n.a
Narrow Money	15.2	6.9	6.7	3.1	n.a

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

(monthly weighted average)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
Lending Rate (Excluding Staff)	5.71	5.66	5.70	5.68	n.a
Savings Deposit Rate	1.36	1.43	1.43	1.41	n.a
Time Deposit Rate	3.35	3.37	3.36	3.40	n.a
14-day RBF Note Rate (month end)	n.i	n.i	0.42	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	1.36	1.41	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	n.i	n.i	6.00	n.a

11. Commodity Prices (US\$) **

(end of period)

	Aug-17	May-18	Jun-18	Jul-18	Aug-18
UK Gold Price/fine ounce	1,311.8	1,305.4	1,250.5	1,221.0	1,196.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	14.4	12.8	11.9	10.6	10.2
Crude Oil/barrel	52.4	77.6	79.4	74.3	74.8

^{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