



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions in early 2018 remained positive following the strong performance by most emerging and advanced economies last year. Among our major trading partners, recent data revealed mixed, albeit generally positive performances over the month of February. The positive global outlook is expected to sustain in the near term although challenges such as the United States (US) interest rate hikes, increased trade protectionism and volatility in equity markets remain.

In the commodities market, supply side shocks lowered the prices of oil and sugar in February while gold prices slipped lower on a stronger US dollar. In the same period, food prices as measured by the FAO¹ Food Price Index (FFPI) rose, underpinned by the higher prices of dairy and cereals.

Domestically, sectoral performances were broadly positive. Cumulative to February, visitor arrivals rose by 2.4 percent led by increased arrivals from New Zealand, US, Continental Europe and China. Electricity production expanded over the year by 4.9 percent while gold production noted a significant improvement, increasing by 84.9 percent on account of improved mine efficiency. The timber industry has recovered well from periods of lower output following Tropical Cyclone (TC) Winston, with mahogany, pine log, and woodchip production rising significantly in the first two months of 2018.

Aggregate demand remains firm as suggested by partial consumption and investment indicators. Consumption activity was robust with Net Value Added Tax collections rising by 15.0 percent cumulative to February. Similarly, commercial banks' new lending for consumption purposes rose by 16.3 percent led by higher lending to the wholesale, retail, hotels & restaurants (18.5%) sector. Moreover, new vehicle registrations rose

considerably by 88.0 percent while second hand vehicles registrations recovered by 5.0 percent in the same period after contracting in 2017. Looking ahead, buoyant consumption activity is expected as revealed by the sales projections in the RBF's December 2017 Retail Sales Survey.

Investment activity remained upbeat in the first two months of 2018 as evident by the strong growth in commercial banks' new investment lending (13.7%) cumulative to February. Furthermore, results from the RBF's December 2017 Business Expectation Survey (BES) point to positive business sentiments for investment in plant & machinery and buildings in the medium term. Also, the continued TC Winston rehabilitation works coupled with private sector projects and higher capital expenditure allocations in the FY 2017/2018 budget are expected to boost investment further.

Labour market conditions softened slightly in early 2018 due to base effects underlying the lower recruitment intentions noted in the RBF Job Advertisement Survey. The total number of jobs advertised in both the Fiji Times and the Fiji Sun fell by an annual 3.0 percent cumulative to February which was mainly attributable to effects of one-off recruitment drives last year. Nevertheless, going forward, employment prospects remain largely favourable in line with the positive sentiments expressed in the RBF's December 2017 BES.

Conditions in the financial sector remained conducive to investment and growth as credit expanded, albeit at a slower pace, in the review period. Private sector credit grew by 8.1 percent to \$7,432.2 million compared to 13.5 percent in February last year. New commercial bank credit remained upbeat as it expanded by 16.0 percent to \$438.0 million in the year to February compared to 11.7 percent in the same period last year. Interest rates movements were mixed as the weighted new

¹ Food & Agriculture Organisation.

lending rate for commercial banks rose to 5.78 percent from 5.68 percent in January while the weighted outstanding rate remained unchanged at 5.64 percent. Funding cost for the banks rose as increases were noted in the weighted outstanding time deposit (3.21%) and new time deposit (2.84%) rate.

Excess liquidity measured by banks' demand deposits (BDD) fell marginally in February 2018 to \$562.9 million, as the declines in statutory reserve deposits (-\$18.9m) and currency in circulation (-\$3.3m) more than offset the decline in foreign reserves (-\$21.2m) over the month. As at 28 March, BDD stood at \$537.0 million.

In February, the Fiji dollar rose against the Australian dollar and depreciated against the Japanese Yen, the Euro, the US and the NZ dollars compared to the previous month. Over the year, the Fiji dollar strengthened against the US, the New Zealand and the Australian dollars, but weakened against the Euro and the Japanese Yen. Consequently, the Nominal Effective Exchange Rate (NEER)² fell marginally over the month by 0.02 percent. The Real Effective Exchange Rate (REER)³ fell both over the month and over the year, by 2.4 percent and 0.8 percent respectively indicating an improvement in our international

competitiveness.

Inflation rose to 2.3 percent in February from 1.5 percent in January, although it remained lower than the 5.5 percent registered in the same period last year. Higher prices for kava, alcohol and tobacco coupled with the increase in domestic fuel prices contributed to this outcome. The year-end inflation is now forecast at 3.0 percent on account of higher actual inflation outcomes in the first two months of the year coupled with upside risks such as increases in global commodity prices and trading partner inflation.

Foreign reserves fell over the month of February to \$2,159.9 million, sufficient to cover 4.9 months of retained imports of goods and non-factor services (MORI). As at 29 March, foreign reserves were \$2,156.9 million, sufficient to cover 4.9 MORI and are forecast to remain at comfortable levels by year-end.

Taking into account recent economic developments along with the stable near term outlook and subdued risks to the inflation and foreign reserves outlook, the Reserve Bank Board maintained its accommodative monetary policy by leaving the Overnight Policy Rate unchanged at 0.5 percent in March.

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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: ECONOMIC & FINANCIAL STATISTICS

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KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Visitor Arrivals	3.3	6.4	-3.5	2.4	n.a
Electricity Production	7.0	6.5	5.3	4.9	n.a
Gold Production	-45.8	-6.0	107.6	84.9	n.a
Cane Production [^]	n.a	n.a	n.a	n.a	n.a
Sugar Production [^]	n.a	n.a	n.a	n.a	n.a
Pinewood Intake	-81.4	-32.1	4,577.3	2,947.8	n.a
Woodchip	-94.9	-6.4	2,818.2	5,005.1	n.a
Mahogany	-96.4	-94.3	232.2	565.8	n.a
Cement Production	2.5	-19.8	n.a	n.a	n.a

2. Consumption Indicators

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Net VAT Collections	-5.3	13.9	18.1	15.0	n.a
New Consumption Lending	9.1	12.1	16.1	16.3	n.a
New Vehicle Registrations****	25.0	8.7	29.8	88.0	n.a
Second Hand Vehicle Registrations****	-7.8	-30.2	3.0	5.0	n.a
Personal Remittances	3.7	-1.6	17.9	-0.6	n.a
Electricity Consumption	6.0	7.2	6.2	6.1	n.a

3. Investment Indicators

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Domestic Cement Sales	37.3	2.2	n.a	n.a	n.a
New Investment Lending	65.7	25.0	13.6	13.7	n.a

4. Labour Market

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
RBF Job Advertisement Survey	4.6	6.8	7.3	-3.0	n.a

5. Consumer Prices *

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
All Items	2.5	2.8	1.5	2.3	n.a
Food and Non-Alcoholic Beverage	-4.8	-2.8	-6.0	-2.1	n.a
Alcoholic Beverages, Tobacco & Narcotics	28.9	26.1	23.5	21.3	n.a

6. Reserves ***

(end of period)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Foreign Reserves (\$m) ^{1/}	1,977.5	2,272.8	2,181.2	2,159.9	2,156.9
Months of retained imports of goods and non-factor services (MORI)	4.7	5.4	5.0	4.9	4.9

7. Exchange Rates ***

(mid rates, FSI equals)

(end of period)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
US dollar	0.4807	0.4874	0.4984	0.4913	0.4901
Australian dollar	0.6284	0.6254	0.6167	0.6304	0.6385
New Zealand dollar	0.6864	0.6880	0.6799	0.6788	0.6748
Euro	0.4500	0.4077	0.4020	0.4017	0.3951
Japanese yen	53.78	55.02	54.24	52.74	51.66
Nominal Effective Exchange Rate	85.20	83.93	84.12	84.11	n.a
Real Effective Exchange Rate	101.99	102.02	103.55	101.08	n.a

8. Liquidity ***

(end of period)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Banks' Demand Deposits (\$m)	470.8	606.0	562.8	562.9	537.0

9. Money and Credit ***

(year-on-year % change)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Broad Money	3.0	8.2	9.3	8.3	n.a
Net Foreign Assets	-9.1	18.0	19.1	17.1	n.a
Domestic Credit	9.4	5.9	6.9	6.7	n.a
Private Sector Credit	14.4	9.3	8.3	8.1	n.a
Narrow Money	2.5	13.9	13.9	12.4	n.a

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

(monthly weighted average)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
Lending Rate (Excluding Staff)	5.82	5.65	5.64	5.64	n.a
Savings Deposit Rate	1.12	1.34	1.36	1.18	n.a
Time Deposit Rate	3.19	3.21	3.18	3.21	n.a
14-day RBF Note Rate (month end)	0.50	n.i	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	1.36	n.i	1.35	n.i	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	6.60	6.00	6.00	n.i	n.a

11. Commodity Prices (US\$) **

(monthly average)

	Mar-17	Dec-17	Jan-18	Feb-18	Mar-18
UK Gold Price/fine ounce	1,231.1	1,261.3	1,331.7	1,331.5	1,323.3
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	18.1	14.4	14.0	13.6	13.1
Crude Oil/barrel	53.0	64.1	69.1	65.7	66.2

^{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

The figures for March are the latest available.