



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund in its April World Economic Outlook has downgraded the global growth forecast for 2019 to 3.3 percent from 3.5 percent on the back of lower growth forecasts in advanced and emerging market & developing economies. Going forward, the mounting uncertainties relating to Brexit, lingering trade tensions between United States (US) and China, declining business confidence, tightening of financial conditions and higher policy uncertainties across many economies are anticipated to weigh on growth prospects. Consequently, lower growth (relative to forecasts released in January) is now anticipated for all of Fiji's major trading partners except China.

Commodity prices noted mixed movements over the month. Brent crude oil price rose further in March on the back of supply cuts by the Organization of the Petroleum Exporting Countries and US sanctions on oil exporters - Iran and Venezuela, plus escalating conflict in Libya. On the other hand, the Food and Agriculture Organisation Food Price Index declined over the month led by lower prices of vegetable oil, cereals, sugar and meat. Gold prices fell amidst positive sentiments in the US manufacturing sector, while world sugar prices rose due to increase in demand for sugar as crude oil price rose and El Nino concerns in India.

On the domestic front, latest sectoral performance suggest some moderation in economic activity. Cumulative to March, visitor arrivals grew by a marginal 0.2 percent to 171,861, driven by higher tourist arrivals from Japan, US and New Zealand (NZ) which offset the declines from Australia, China and Continental Europe. In the same period, production of electricity, woodchip and sawn timber rose while declines were noted in gold and pine output.

Similarly, partial indicators for consumption and investment activity point to subdued aggregate

demand. Contractions were noted in commercial banks' new consumption lending and registrations for new and second hand vehicles. Moreover, declines in commercial banks' new lending to the real estate and building & construction sectors as well as domestic cement sales suggest sluggish investment activity in the review period. The increase in building permits issued in 2018 should support construction and investment activity in the months ahead.

Despite the moderation in economic activity, labour market conditions remain favourable. According to the Reserve Bank of Fiji's Job Advertisement Survey, the number of jobs advertised increased by 8.6 percent on account of higher recruitment intentions for the community, social & personal services; finance, insurance, real estate & business service and the agriculture, fishery & forestry sectors.

Domestic credit growth slowed in March to 8.0 percent when compared to 9.7 percent in February. This was led by private sector credit which expanded by a slower 8.3 percent in the same period, mainly attributed to lower growth in commercial banks' lending. Growth in commercial Banks' outstanding credit decelerated to 5.6 percent in the review month from 8.2 percent in February. The weighted average new and outstanding lending and deposit rates noted increases over the month.

Liquidity (measured by banks' demand deposits) averaged around \$336.4 million in March. As at 30 April, liquidity was \$360.1 million which is sufficient to support credit growth and economic activity.

In March, the Fiji dollar (FJD) strengthened against the EURO (+0.8%), Australian (+0.4%) and NZ dollars (+0.3%) but weakened against the Japanese YEN (-0.8%) and the US dollar (-0.4%). The Fiji dollar remained stable as the Nominal Effective

Exchange Rate (NEER)<sup>1</sup> index noted only a marginal increase over the month (0.01%) and year (0.7%). In contrast the Real Effective Exchange Rate (REER)<sup>2</sup> fell (-0.4%) over the month but rose (+3.2%) on an annual basis due to higher domestic inflation when compared to the weighted trading partners' inflation.

In January 2019, merchandise trade deficit (excluding aircraft) widened by 0.8 percent compared to 12.9 percent in the same period last year. Domestic exports rose by 2.0 percent led by mineral water, fresh fish and kava. Including re-exports, total exports (excluding aircraft) rose by 22.6 percent. In the same period, total imports (excluding aircraft) rose (7.4%) led by higher imports of mineral fuels, food and live animals and manufactured goods.

Annual inflation in March fell to 4.0 percent from 5.1 percent recorded in the first two months of 2019. Over the month, lower prices were noted for food & non-alcoholic beverages, wine & yaqona and pharmaceutical & medical products, while prices for clothing & footwear and restaurant & hotel categories rose.

Foreign reserves (RBF holdings) fell over the month to \$1,921.9 million in March, sufficient to cover 4.1 months of retained imports (MORI) of goods and non-factor services. As at 30 April foreign reserves was \$1,943.4 million, sufficient to cover 4.1 MORI.

In light of the global and domestic economic developments and the current outlook for inflation and foreign reserves, the Reserve Bank Board maintained the overnight policy rate at 0.5 percent.

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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.

**KEY INDICATORS**

**1. Sectoral Performance Indicators**

(year-on-year % change)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Visitor Arrivals	5.1	3.3	1.9	1.0	0.2
Electricity Production	3.9	0.9	3.3	4.8	3.8
Gold Production	91.2	-7.3	-33.3	-25.7	-21.0
Cane Production <sup>^</sup>	n.a	4.0	n.a	n.a	n.a
Sugar Production <sup>^</sup>	n.a	-11.2	n.a	n.a	n.a
Pinewood Intake	979.5	152.4	-32.2	-2.2	-3.6
Woodchip	4283.7	95.4	39.4	12.6	21.1
Mahogany	653.4	683.2	-100.0	-37.7	n.a
Cement Production	-27.3	-13.5	-15.5	3.2	-25.1

**2. Consumption Indicators**

(year-on-year % change)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Net VAT Collections	20.1	6.1	33.2	24.7	16.6
New Consumption Lending	15.9	9.2	10.8	0.4	-7.4
New Vehicle Registrations****	59.1	19.4	-14.2	-39.4	-38.7
Secondhand Vehicle Registrations****	10.8	11.4	-2.5	-4.4	-2.1
Personal Remittances	3.7	6.5	-4.5	9.9	n.a
Electricity Consumption	7.6	2.5	6.6	5.2	n.a

**3. Investment Indicators**

(year-on-year % change)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Domestic Cement Sales	-22.2	-26.7	-19.5	-8.6	-31.7
New Investment Lending	-23.3	1.4	-5.9	-20.2	-15.6

**4. Labour Market**

(year-on-year % change)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
RBF Job Advertisement Survey	5.4	4.4	14.9	16.1	8.6

**5. Consumer Prices \***

(year-on-year % change)<sup>1/</sup>

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
All Items	2.6	4.9	5.1	5.1	4.0
Food and Non-Alcoholic Beverage	0.2	5.1	7.8	10.5	7.7
Alcoholic Beverages, Tobacco & Narcotics	16.3	17.2	17.6	16.1	14.4

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

(end of period)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Foreign Reserves (\$m) <sup>2/</sup>	2,157.8	2,009.3	2,030.2	1,944.0	1,921.9
Months of retained imports of goods and non-factor services (MORI)	4.9	4.4	4.3	4.1	4.1

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

(mid rates, FS1 equals)

(end of period)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
US dollar	0.4885	0.4669	0.4740	0.4700	0.4679
Australian dollar	0.6376	0.6617	0.6533	0.6584	0.6611
New Zealand dollar	0.6775	0.6955	0.6872	0.6872	0.6893
Euro	0.3969	0.4080	0.4127	0.4134	0.4168
Japanese yen	52.21	51.54	51.65	52.19	51.76
Nominal Effective Exchange Rate	84.06	84.70	84.66	84.68	84.69
Real Effective Exchange Rate	101.42	106.23	108.04	105.39	105.13

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

(end of period)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Banks' Demand Deposits (\$m)	536.5	306.1	398.1	298.8	290.6

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

(year-on-year % change)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Broad Money	7.6	2.8	2.5	1.6	2.7
Net Foreign Assets	16.5	-15.1	-14.9	-20.4	-16.4
Domestic Credit	6.8	9.7	9.4	9.7	8.0
Private Sector Credit	8.0	7.3	8.4	9.3	8.3
Narrow Money	10.3	1.1	0.4	-1.8	-1.0

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

(monthly weighted average)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
Lending Rate (Excluding Staff)	5.66	5.69	5.70	5.65	5.66
Savings Deposit Rate	1.22	1.32	1.20	1.17	1.21
Time Deposit Rate	3.30	3.61	3.74	3.79	3.93
14-day RBF Note Rate (month end)	0.40	n.i	n.i	n.a	n.i
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	n.t	1.00	1.00	1.00	1.00
3 month Government T-Bills	1.35	1.45	n.i	n.i	n.i
12 month Government T-Bills	n.i	n.i	n.i	n.i	n.i
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	6.00	n.i	6.00	6.00	n.i

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

(end of period)

	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19
UK Gold Price/fine ounce	1,323.9	1,279.0	1,323.3	1,319.2	1,295.4
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.8	12.1	12.7	12.7	12.5
Crude Oil/barrel	69.3	53.8	60.8	66.0	68.3

<sup>1/</sup> 2014 rebase. Previous data have 2011 base.

<sup>2/</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