



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global growth momentum is expected to remain subdued in 2019 following a downward revision to the global growth forecast by the International Monetary Fund. The downgrade is on the back of muted growth prospects for both advanced and emerging market & developing economies. Downside risks remain such as the uncertainty of trade negotiations, downturn in financial market sentiments, geopolitical tensions and the pervasive effects of climate change.

Generally, movements in major global commodity prices trended upwards over the month in January. Brent crude oil prices rose owing to a cut in production. Food prices¹ also increased attributed to higher prices of dairy, vegetable oil, sugar and cereals. In addition, gold prices rose due to weakened consumer sentiments in the United States (US) while supply setbacks in Brazil pushed up the sugar prices.

On the domestic front, sectoral performances over the review month were mixed. Visitor arrivals noted an annual growth of 1.9 percent in January, driven by higher tourist numbers from New Zealand (NZ), Japan, China, Canada, US and Hong Kong. Similarly, electricity production grew on an annual basis by 3.3 percent of which 69.4 percent was sourced from renewable energy stations. Unfavourable weather conditions and accessibility issues affected the timber industry outcomes in the first month of the year. Production of sawn timber increased while pine log and woodchip production fell. Gold production was also affected in January and noted a substantial decline of 33.3 percent.

Consumption activity also portrayed mixed results in the review period. In January, commercial banks' new lending for consumption purposes grew by 10.8 percent, mainly supported by an increase in lending to the wholesale, retail, hotels & restaurants sector. However, in the same period, new and second-hand vehicle registrations (excluding Government vehicles) fell by 12.5 percent and 2.4 percent, respectively.

Investment activity also revealed varied outcomes as suggested by partial indicators. In January commercial banks' new lending for investment purposes fell by 5.9 percent underpinned by a contraction in lending to both the real estate and building & construction sectors. In addition, cement production and sales also dropped by 15.5 and 19.5 percent respectively. Nonetheless, ongoing private sector projects and higher government capital expenditure allocation are anticipated to provide impetus to investment/construction sentiments going forward.

Labour market conditions remained favourable in January. The Reserve Bank of Fiji's (RBF) Job Advertisement Survey indicated an annual growth of 14.9 percent in the number of jobs advertised led by higher recruitment intentions in the community, social & personal services and the finance, insurance, real estates & business services sectors.

Monetary conditions remain supportive of growth as private sector credit expanded by an annual 8.1 percent in January. Commercial banks' new loans grew by 1.5 percent albeit lower than the 17.5 percent growth last year. The commercial banks' weighted average new lending rate fell to 5.88 percent in January while new time deposit rate rose to 3.79 percent.

Liquidity, as measured by banks' demand deposits (BDD), rose in January by 30.1 percent to \$398.1 million, led by an increase in foreign reserves of \$17.8 million coupled with declines in currency in circulation (-\$45.5m) and statutory reserve deposits (-\$0.5m). As at 27 February 2019, BDD stood at \$286.6 million.

Over the month of January, the Fiji dollar (FJD) appreciated against the US dollar (+1.5%), Euro (+1.2%) and the Japanese Yen (+0.2%), but depreciated against the Australian (-1.3%) and NZ (-1.2%) dollars. Over the year, the FJD strengthened against the Australian dollar (+5.9%), Euro (+2.7%) and the NZ dollar (+1.1%), but weakened against the US dollar (-4.9%) and the Yen (-4.8%).

¹ Food and Agriculture Organisation's Food Price Index.

In January, the Nominal Effective Exchange Rate (NEER)² index fell marginally by 0.05 percent, but increased over the year by 0.6 percent, suggesting a general strengthening of the domestic currency. The Real Effective Exchange Rate (REER)³ appreciated slightly by 1.6 percent in January due to a higher domestic inflation which suggests a loss in trade competitiveness.

The merchandise trade deficit⁴ widened by 20.4 percent to \$3,053.0 million in the year to November 2018, led by a higher increase in imports compared to exports. Domestic exports declined slightly by 0.6 percent in the same period led by lower exports of sugar and gold, while imports rose by 13.9 percent on account of higher imports of machinery & transport equipment, mineral fuels, chemicals, crude materials and manufactured goods.

Annual inflation stood at 5.1 percent in January, higher than the 4.9 percent recorded in December 2018 and much higher than the 1.5 percent registered in January 2018. Higher annual price movements of yaqona, alcohol, tobacco, vegetables and fuel contributed to this outcome.

Currently (01/03), foreign reserves are \$1944.9 million providing 4.1 months of retained imports cover.

Taking into account the recent economic developments and the comfortable outlook for inflation and foreign reserves, the RBF Board left the Overnight Policy Rate unchanged at 0.5 percent in February.

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² The NEER is the sum of the indices of each trading partner country's currency against the FJD, adjusted by their respective weights in the basket. This index measures the overall movement of the FJD against the basket of currencies. An increase in this index indicates a slight appreciation of the FJD 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 FJD against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

⁴ Excluding aircraft.

KEY INDICATORS

1. Sectoral Performance Indicators
(year-on-year % change)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Visitor Arrivals	2.4	4.0	3.6	3.3	1.9	n.a
Electricity Production	4.9	0.7	0.2	0.9	3.3	n.a
Gold Production	84.9	-4.7	-7.2	-7.3	-33.3	n.a
Cane Production ^a	n.a	-8.2	3.1	4.0	n.a	n.a
Sugar Production ^a	n.a	-15.9	-11.5	-11.2	n.a	n.a
Pinewood Intake	2947.8	237.4	179.3	152.4	-32.2	n.a
Woodchip	5005.1	134.8	107.0	95.4	-25.4	n.a
Mahogany	565.8	549.5	601.5	683.2	-	n.a
Cement Production	-14.7	-15.8	-14.9	-13.5	-15.5	n.a

2. Consumption Indicators
(year-on-year % change)

Net VAT Collections	15.0	8.2	6.0	6.1	n.a	n.a
New Consumption Lending	16.3	16.6	12.3	9.2	10.8	n.a
New Vehicle Registrations****	88.0	31.2	24.8	19.4	-14.2	n.a
Second Hand Vehicle Registrations****	5.0	13.9	11.4	11.4	-2.5	n.a
Personal Remittances	-0.6	6.0	7.7	6.5	-4.5	n.a
Electricity Consumption	6.1	3.0	2.2	2.5	6.6	n.a

3. Investment Indicators
(year-on-year % change)

Domestic Cement Sales	-13.0	-27.2	-26.9	-26.7	-19.5	n.a
New Investment Lending	13.7	1.9	2.9	1.4	-5.9	n.a

4. Labour Market
(year-on-year % change)

RBF Job Advertisement Survey	-3.0	9.3	3.7	4.4	14.90	n.a
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5. Consumer Prices *
(year-on-year % change)

All Items	2.3	5.2	5.2	4.9	5.10	n.a
Food and Non-Alcoholic Beverage	-2.1	7.7	7.3	5.1	7.83	n.a
Alcoholic Beverages, Tobacco & Narcotics	21.3	16.1	16.6	17.17	17.55	n.a

6. Reserves ***
(end of period)

Foreign Reserves (\$m) ^{1/}	2,159.9	2,125.9	2,056.7	2,009.3	2,030.2	1,946.9
Months of retained imports of goods and non-factor services (MORI)	4.8	4.7	4.5	4.4	4.3	4.2

7. Exchange Rates ****
(mid rates, FS1 equals)
(end of period)

US dollar	0.4913	0.4648	0.4732	0.4669	0.4740	0.4700
Australian dollar	0.6304	0.6543	0.6473	0.6617	0.6533	0.6584
New Zealand dollar	0.6788	0.7094	0.6907	0.6955	0.6872	0.6872
Euro	0.4017	0.4097	0.4159	0.4080	0.4127	0.4134
Japanese yen	52.74	52.51	53.70	51.54	51.65	52.19
Nominal Effective Exchange Rate	84.11	84.60	84.69	84.70	84.66	n.a
Real Effective Exchange Rate	100.94	105.92	105.21	106.23	107.89	n.a

8. Liquidity ***
(end of period)

Banks' Demand Deposits (\$m)	562.9	456.6	366.5	306.1	398.1	286.6
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9. Money and Credit ***
(year-on-year % change)

Broad Money	8.4	2.7	2.1	3.1	2.7	n.a
Net Foreign Assets	17.1	-17.0	-16.9	-15.2	-15.0	n.a
Domestic Credit	6.7	10.8	10.0	9.4	9.1	n.a
Private Sector Credit	8.1	8.7	8.3	7.1	8.1	n.a
Narrow Money	12.6	-0.3	2.3	1.5	0.8	n.a

10. Interest Rates (% p.a.) ***
(monthly weighted average)

Lending Rate (Excluding Staff)	5.65	5.68	5.7	5.7	5.7	n.a
Savings Deposit Rate	1.18	1.40	1.3	1.3	1.2	n.a
Time Deposit Rate	3.21	3.52	3.5	3.6	3.7	n.a
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i	n.i	n.a
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.0	n.a
Overnight inter-bank Rate	1.0	0.91	1.00	1.00	1.0	n.a
3 month Government T-Bills	n.i	n.i	1.45	1.45	n.i	n.a
12 month Government T-Bills	n.i	n.i	n.i	n.i	n.i	n.a
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i	n.a
10-year Government Bond Yield	n.i	n.i	n.i	n.i	6.0	n.a

11. Commodity Prices (US\$) **
(end of period)

UK Gold Price/fine ounce	1,317.9	1,215.0	1,217.6	1,279.0	1,293.9	1,325.5
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	13.5	13.2	12.8	12.1	12.5	13.2
Crude Oil/barrel	65.8	74.6	58.7	53.8	61.5	66.5

^{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