



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global growth for 2018 remains on track as investment and trade have picked up, particularly for emerging market economies. However, risks for the current global outlook remain including trade protectionist measures by the United States (US) on China, Canada, Mexico and the Euro zone and the associated retaliatory measures by these countries along with the rising price of some commodities such as crude oil.

In June, mixed movements was observed for global commodity prices as gold and sugar prices fell while price of crude oil rose. The upward pressure on oil prices is underpinned by the supply shortages from Venezuela, Libya and Iran—the latter, following the US imposed sanctions. The fall in sugar prices is attributed to the increase in production from India to an already oversupplied global market, while the decline in gold prices was mainly due to easing political tensions in Italy and the stronger Euro.

Domestically, sectoral performances remained broadly positive. Cumulative to May, visitor arrivals grew by 2.1 percent backed by higher arrivals from New Zealand (NZ), US, China, India, Hong Kong and the rest of Asia. Similarly, gold and timber productions continued to improve. Electricity production however declined by 0.3 percent, with 68.2 percent of total generation sourced from renewable energy. Moreover, fish production fell in the year to April by 12.3 percent but is anticipated to pick up as favourable weather conditions are expected in the coming months.

Nonetheless, firm consumption activity continued to support aggregate demand while investment activity portrayed mixed outcomes. Cumulative to May, partial indicators for consumption revealed positive results as commercial banks' new lending for consumption rose by 25.0 percent due to increases in lending to the wholesale, retail, hotels & restaurant (30.4%) and private individuals (10.3%) sectors. In addition, new (54.6%) & second hand

(9.1%) vehicle registrations and net VAT collections (9.7%) also rose in the same period. In the months ahead, consumer spending is expected to remain strong largely supported by accommodative monetary policy and Government's expansionary fiscal policy.

Investment outcomes were mixed in the review period as per partial indicators. Cumulative to February, import of investment goods grew by 25.5 percent. In contrast, domestic cement production and sales declined by 27.2 percent and 25.4 percent, respectively in the year to May. In the same period, new commercial banks' lending to the building & construction sector declined by 43.7 percent while new lending to the real estate sector (11.5%) rose. Despite the slowdown, construction and investment related activities are expected to pick up in the coming months underpinned by post disaster rehabilitation works and ongoing private and public sector projects. Investment as a percent of GDP is projected to be around 28.0 percent this year.

Labour market conditions remained favourable. The RBF's Job Advertisements Survey reveals a 4.7 percent growth in the total number of vacant jobs advertised in both the Fiji Times and the Fiji Sun in the year to May. Higher recruitment intentions were noted in the manufacturing; community, social & personal services; electricity & water; mining & quarrying and the transport, storage & communication sectors. In the near term, employment prospects are generally positive.

Monetary conditions remained supportive of growth. Private sector credit growth slowed to 7.8 percent in May, compared to a 14.3 percent growth in the same period last year driven largely by lower growth in commercial banks' lending to the private sector. Interest rate movements were mixed in May. The commercial banks' weighted average outstanding lending rate declined over the month to 5.66 percent but remained low compared to 5.78 percent in May last year. The commercial banks'

weighted average new lending rate rose over the month to 5.94 percent (from 5.90%) as well as over the year (from 5.80%). Moreover, commercial banks' existing time deposit rate rose over the month to 3.37 percent (from 3.34% in April) while the new time deposit rate fell over the month to 3.13 percent (from 3.44% in April).

Liquidity in the banking system (measured by commercial banks' demand deposits) fell by 9.9 percent (to \$470.2m) in June led by a decline in foreign reserves (-\$33.2m) coupled with an increase in currency in circulation (\$7.9m) and statutory reserves deposits (\$4.7m).

Over the month of June, the Fiji dollar strengthened against the Australian (1.5%) and the NZ dollar (1.1%) but weakened against the US dollar (-1.7%), Euro (-0.8%) and the Japanese Yen (-0.5%). The Nominal Effective Exchange Rate (NEER)¹ fell over the month (-0.2%) and year (-1.4%) reflecting a general weakening of the Fiji dollar against its major trading partner currencies in May. The Real Effective Exchange Rate (REER)² fell over the month by 0.1 percent and rose over the year by 1.8 percent on account of high domestic inflation recorded in May.

Inflation rose further to 5.1 percent in May from 4.0 percent in April and 2.5 percent in May last year. This was due to higher prices of kava, alcohol, vegetables and fuel items. However, over the month of May, prices for vegetables fell showing signs of normalisation in prices of market items. Both domestic and external factors continue to drive inflation in the first five months of this year while the year-end inflation forecast of around 3.0 percent is upward biased. Higher global food & oil prices and adverse weather conditions remain key risks to the inflation outlook; hence price developments will be closely monitored in the coming months.

Foreign reserves (RBF Holdings) fell over the month of May to \$2,162.8 million, though sufficient to cover 5.0 months of retained imports of goods and non-factor services (MORI). As at 28 June, foreign reserves were \$2,129.5 million, sufficient to cover 4.9 MORI and are forecast to remain at comfortable levels throughout the year.

Taking into account the recent global and domestic economic developments and the stable outlook for inflation and foreign reserves, the Reserve Bank Board kept the Overnight Policy Rate at 0.5 percent in June.

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¹ 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.

² 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)

	Jun-17	Mar-18	Apr-18	May-18	Jun-18
Visitor Arrivals	6.6	5.1	1.4	2.1	n.a
Electricity Production	8.2	3.9	0.9	-0.3	n.a
Gold Production	-18.1	91.2	42.1	26.4	n.a
Cane Production [^]	111.3	n.a	n.a	n.a	n.a
Sugar Production [^]	104.8	n.a	n.a	n.a	n.a
Pinewood Intake	-46.3	979.5	386.7	253.0	n.a
Woodchip	-59.0	4,283.7	705.3	476.4	n.a
Mahogany	-97.8	653.4	762.3	976.3	n.a
Cement Production	-4.8	-27.3	-31.3	-27.2	n.a

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections	15.7	20.1	6.9	n.a	n.a
New Consumption Lending	5.2	15.9	18.0	25.0	n.a
New Vehicle Registrations****	4.9	59.1	61.3	54.6	n.a
Second Hand Vehicle Registrations****	-31.3	10.8	12.0	9.1	n.a
Personal Remittances	3.1	3.7	6.2	8.5	n.a
Electricity Consumption	7.7	7.6	5.2	3.8	n.a

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales	14.0	-22.2	-26.1	-25.4	n.a
New Investment Lending	46.5	-23.3	-25.5	-13.7	n.a

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	13.6	5.4	3.3	4.7	n.a
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5. Consumer Prices *

(year-on-year % change)

All Items	2.0	2.6	4.0	5.1	n.a
Food and Non-Alcoholic Beverage	-6.0	0.2	6.1	6.4	n.a
Alcoholic Beverages, Tobacco & Narcotics	25.8	16.3	17.2	23.3	n.a

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2,283.2	2,157.8	2,183.3	2,162.8	2,129.5
Months of retained imports of goods and non-factor services (MORI)	4.9	4.9	5.0	5.0	4.9

7. Exchange Rates ***

(mid rates, FSI equals)

(end of period)

US dollar	0.4864	0.4885	0.4842	0.4822	0.4741
Australian dollar	0.6365	0.6376	0.6391	0.6362	0.6459
New Zealand dollar	0.6655	0.6775	0.6838	0.6898	0.6976
Euro	0.4274	0.3969	0.3994	0.4133	0.4102
Japanese yen	54.61	52.21	52.81	52.52	52.26
Nominal Effective Exchange Rate	85.22	84.06	84.03	83.90	n.a
Real Effective Exchange Rate	102.34	101.44	102.64	102.53	n.a

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	735.8	536.5	543.9	521.6	470.2
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9. Money and Credit ***

(year-on-year % change)

Broad Money	8.2	7.6	6.9	5.0	n.a
Net Foreign Assets	8.7	16.5	10.6	-2.1	n.a
Domestic Credit	9.1	6.8	7.2	8.4	n.a
Private Sector Credit	14.1	8.0	8.0	7.8	n.a
Narrow Money	9.1	10.3	7.9	6.9	n.a

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.77	5.66	5.68	5.66	n.a
Savings Deposit Rate	1.19	1.22	1.29	1.43	n.a
Time Deposit Rate	3.34	3.30	3.34	3.37	n.a
14-day RBF Note Rate (month end)	n.i	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	1.35	1.35	1.35	1.36	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	5.98	6.00	n.i	n.i	n.a

11. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1,260.30	1,273.74	1,334.74	1,303.32	1,281.57
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	13.50	13.00	11.00	11.83	12.06
Crude Oil/US\$ per barrel	47.64	66.60	71.89	77.01	75.92

^{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