



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Vol. 36

No. 05

Month Ended May 2019

Global economic growth is expected to slow down to 3.3 percent in 2019, after expanding by 3.6 percent in 2018. Increased trade tensions between China and the United States (US), declining business confidence, tightening financial conditions and policy uncertainty in most economies remain as key downside risks to the growth outlook. Nonetheless, a slight rebound in global growth to 3.6 percent is expected for 2020.

Movements in global commodity prices were mixed in April as crude oil and food prices increased while gold and sugar prices declined. Tightening supply by the Organisation of Petroleum Exporting Countries coupled with prolonged disruptions in Venezuela and a slowdown in US shale oil production placed upward pressure on oil prices while food prices rose due to higher prices of dairy, meat, vegetable oil and sugar. In contrast, the world market sugar price fell due to oversupply in India and gold prices dipped due to a strong demand for the US dollar.

Domestically, the economy is on track to register its tenth consecutive year of economic expansion, however at a slower pace of 2.7 percent in 2019. Latest sectoral outcomes have been mixed so far in the year. Visitor arrivals increased by 5.8 percent cumulative to April owing to higher arrivals from New Zealand, Japan, US, Australia and Rest of Asia. In the year to April, pine log production declined by 1.1 percent which led to a consequent decline in woodchip production. However, sawn timber production was higher and mahogany output noted a turnaround after declining in the first quarter. In the same period, electricity generation grew while gold production declined.

Partial indicators for consumption and investment also point towards slowing domestic demand. New consumption lending by commercial banks' contracted by 2.2 percent cumulative to April while new vehicle registrations fell by 38.4 percent in the same period. However, second hand vehicle registrations grew by a marginal 1.8 percent in the

year to April. Net Value Added Tax (VAT) collections grew by 14.8 percent in the first four months largely attributed to higher customs import VAT and lower VAT refunds. Domestic VAT collections in the same period grew by a marginal 0.8 percent. New bank lending for investment purposes declined by 8.4 percent cumulative to April due to reduced lending to both real estate and the building & construction sectors.

Following a relatively robust labour market in the first quarter, recent results of the RBF Job Advertisements Survey point to a softening in labour market conditions. Cumulative to April, vacant jobs advertised in both the Fiji Times and Fiji Sun fell by 4.5 percent with lower recruitment intentions noted in the transport, storage & communications, community, social & personal services, wholesale & retail trade, restaurants & hotels, electricity & water, manufacturing and the mining & quarrying sectors.

Domestic credit growth slowed in April to 7.7 percent from 8.0 percent in March. Growth in private sector credit (8.3%) remained unchanged over the month but was slightly higher than 8.0 percent noted in April 2018. Commercial banks' new lending contracted by 10.7 percent in the same period due to declines in lending to the transport & storage, private individuals, electricity, gas & water and real estate sectors. Commercial banks' outstanding lending rates increased over the month to April while new lending rates fell.

Liquidity (measured by banks' demand deposits) averaged around \$360.1 million in April. As at 29 May, liquidity was \$329.7 million which is sufficient to support economic activity.

In April, the Fijian dollar (FJD) strengthened against the NZ dollar (+1.3%) and the Yen (+0.4%) but weakened against the US (-0.5%) and Australian (-0.2%) dollars and the Euro (-0.1%). The Nominal Effective Exchange Rate index noted a marginal decrease over the month (-0.05%) but rose over the

year (+0.7%), suggesting a general strengthening of the Fiji dollar on an annual basis. The Real Effective Exchange Rate (REER) fell over the month (-0.7 %) but rose on an annual basis (+1.7%) due to higher domestic inflation when compared to the weighted trading partner inflation, leading to a loss in trade competitiveness.

In the year to February, merchandise trade deficit (excluding aircraft) narrowed by 2.9 percent when compared to the 7.2 percent widening a year ago. Total exports (excluding aircraft) grew by 13.4 percent largely underpinned by growth in re-exports (33.9%) while domestic exports declined (-1.2%) due to lower exports of woodchip, gold, bauxite, chemicals, garments, kava, molasses and sugar. In the same period, total imports (excluding aircraft) rose by 2.9 percent to \$852.7 million, led by higher imports of mineral fuel, manufactured goods, food & live animals and other commodities.

Annual inflation in April stood at 2.1 percent, lower than the 4.0 percent registered in both March 2019 and April last year. Over the month, consumer prices decreased by 0.2 percent due to lower prices of food & non-alcoholic beverages; housing, water, electricity, gas & other fuels and the transport categories.

Foreign reserves (RBF holdings) rose in April to \$1,943.4 million, sufficient to cover 4.2 months of retained imports (MORI) of goods and non-factor services. As at 31 May, foreign reserves were \$ 1,930.9m million, sufficient to cover 4.2 months of MORI.

Taking into consideration developments in the domestic and international economy and the outlook for inflation and foreign reserves, the Reserve Bank Board left the overnight policy rate unchanged at 0.5 percent.

## **RESERVE BANK OF FIJI**

## FIJI: ECONOMIC &amp; FINANCIAL STATISTICS

**KEY INDICATORS****1. Sectoral Performance Indicators**

(year-on-year % change)

|                               | Apr-18 | Jan-19 | Feb-19 | Mar-19 | Apr-19 |
|-------------------------------|--------|--------|--------|--------|--------|
| Visitor Arrivals              | 1.4    | 1.9    | 1.0    | 0.2    | 5.8    |
| Electricity Production        | 0.9    | 3.3    | 4.8    | 3.8    | 6.6    |
| Gold Production               | 42.1   | -33.3  | -25.7  | -21.0  | -15.8  |
| Cane Production <sup>^</sup>  | n.a    | n.a    | n.a    | n.a    | n.a    |
| Sugar Production <sup>^</sup> | n.a    | n.a    | n.a    | n.a    | n.a    |
| Pinewood Intake               | 386.7  | -32.2  | -2.2   | -3.6   | -1.1   |
| Woodchip                      | 705.3  | -25.4  | -17.7  | -22.9  | -11.6  |
| Mahogany                      | 762.3  | -100.0 | -37.7  | -40.5  | 11.4   |
| Cement Production             | -31.3  | -15.5  | 3.2    | 11.1   | 7.2    |

**2. Consumption Indicators**

(year-on-year % change)

|                                      |      |       |       |       |       |
|--------------------------------------|------|-------|-------|-------|-------|
| Net VAT Collections                  | 6.9  | 33.2  | 24.7  | 16.6  | 14.8  |
| New Consumption Lending              | 18.0 | 10.8  | 0.4   | -7.4  | -2.2  |
| New Vehicle Registrations****        | 61.3 | -14.2 | -39.4 | -38.7 | -38.4 |
| Secondhand Vehicle Registrations**** | 12.0 | -2.5  | -4.4  | -2.1  | 1.8   |
| Personal Remittances                 | 6.2  | -4.5  | 9.9   | 8.5   | 5.7   |
| Electricity Consumption              | 5.2  | 6.6   | 5.2   | 5.1   | 6.8   |

**3. Investment Indicators**

(year-on-year % change)

|                        |       |       |       |       |      |
|------------------------|-------|-------|-------|-------|------|
| Domestic Cement Sales  | -26.1 | -19.5 | -8.6  | -3.5  | -5.7 |
| New Investment Lending | -25.5 | -5.9  | -20.2 | -15.6 | -8.4 |

**4. Labour Market**

(year-on-year % change)

|                              |     |      |      |     |      |
|------------------------------|-----|------|------|-----|------|
| RBF Job Advertisement Survey | 3.3 | 14.9 | 16.1 | 8.6 | -4.5 |
|------------------------------|-----|------|------|-----|------|

**5. Consumer Prices \***(year-on-year % change)<sup>1/</sup>

|  |      |      |      |      |      |
|--|------|------|------|------|------|
| All Items                                | 4.0  | 5.1  | 5.1  | 4.0  | 2.1  |
| Food and Non-Alcoholic Beverage          | 6.1  | 7.9  | 10.4 | 7.7  | 2.0  |
| Alcoholic Beverages, Tobacco & Narcotics | 17.2 | 17.6 | 16.1 | 14.4 | 13.1 |

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

(end of period)

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| Foreign Reserves (\$m) <sup>2/</sup>                               | 2,183.3 | 2,030.2 | 1,944.0 | 1,921.9 | 1,943.7 |
| Months of retained imports of goods and non-factor services (MORI) | 4.8     | 4.4     | 4.2     | 4.2     | 4.2     |

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

(mid rates, F\$1 equals)

(end of period)

|                                 |        |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|--------|
| US dollar                       | 0.4842 | 0.4740 | 0.4700 | 0.4679 | 0.4655 |
| Australian dollar               | 0.6391 | 0.6533 | 0.6584 | 0.6611 | 0.6597 |
| New Zealand dollar              | 0.6838 | 0.6872 | 0.6872 | 0.6893 | 0.6981 |
| Euro                            | 0.3994 | 0.4127 | 0.4134 | 0.4168 | 0.4163 |
| Japanese yen                    | 52.81  | 51.65  | 52.19  | 51.76  | 51.98  |
| Nominal Effective Exchange Rate | 84.03  | 84.66  | 84.68  | 84.69  | 84.65  |
| Real Effective Exchange Rate    | 102.66 | 108.08 | 105.60 | 105.15 | 104.43 |

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

(end of period)

|                              |       |       |       |       |       |
|------------------------------|-------|-------|-------|-------|-------|
| Banks' Demand Deposits (\$m) | 543.9 | 398.1 | 298.8 | 290.6 | 360.1 |
|------------------------------|-------|-------|-------|-------|-------|

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

(year-on-year % change)

|                       |      |       |       |       |       |
|-----------------------|------|-------|-------|-------|-------|
| Broad Money           | 6.9  | 2.5   | 1.6   | 2.7   | 0.3   |
| Net Foreign Assets    | 10.6 | -14.9 | -20.4 | -16.4 | -15.8 |
| Domestic Credit       | 7.2  | 9.4   | 9.7   | 8.0   | 7.7   |
| Private Sector Credit | 8.0  | 8.4   | 9.3   | 8.3   | 8.3   |
| Narrow Money          | 7.9  | 0.4   | -1.8  | -1.0  | 0.3   |

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

(monthly weighted average)

|  |      |      |      |      |      |
|--|------|------|------|------|------|
| Lending Rate (Excluding Staff)         | 5.68 | 5.70 | 5.65 | 5.66 | 5.81 |
| Savings Deposit Rate                   | 1.29 | 1.20 | 1.17 | 1.21 | 0.90 |
| Time Deposit Rate                      | 3.34 | 3.74 | 3.79 | 3.93 | 3.70 |
| 14-day RBF Note Rate (month end)       | n.i  | 0.60 | 1.00 | 1.00 | 1.20 |
| 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 | n.i  | n.i  | n.i  | 2.35 |
| 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          | n.i  | 6.00 | 6.00 | n.i  | n.i  |

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

(end of period)

|  |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| UK Gold Price/fine ounce                             | 1,313.2 | 1,323.3 | 1,319.2 | 1,295.4 | 1,282.3 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/pound) | 11.5    | 12.7    | 12.7    | 12.5    | 12.0    |
| Crude Oil/barrel                                     | 75.2    | 61.9    | 66.0    | 68.4    | 72.8    |

<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    |