



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Despite varied performance in Fiji's major trading partners in the last quarter of 2017, global economic conditions are forecast to improve further in 2018. The recent stock market decline in United States (US) and the subsequent declines in Japan and Australia are expected to be temporary as fundamentals of major economies remain strong. Looking ahead, the global outlook is favourable but still subject to substantial downside risks, including the possibility of financial stress, increased protectionism, and rising geo-political tensions.

Global commodity prices showed mixed movements in January as prices for crude oil and gold rose while sugar and FAO¹ food price index fell. The oversupply of sugar led to a decline in sugar prices in January and this combined with lower dairy prices also contributed to the decline in FAO food price index. Crude oil prices rose due to tighter global supplies, declines in US crude inventories and the weak US dollar which also kept gold prices up. However, the gains in oil prices started reversing in February on concerns over US government shutdown and stock market slide.

Domestically, sectoral performances were mixed but generally positive in 2017. While visitor arrivals increased by 6.4 percent last year underpinned by strong growth in tourist arrivals from New Zealand (NZ), the US and Australia, it dipped slightly in January (-3.5%) due to lower arrivals from China, Australia, Rest of Asia and Japan. Positive outturn was also noted for cane (17.6%), sugar (29.3%) and electricity production (6.5%) while gold (-6.0%), pine sawn timber (-32.1%), mahogany (-94.3%) and cement production (19.8%) noted annual contractions. However, gold, woodchip and sawn timber production picked up in January and a rebound is also expected for mahogany production this year.

Aggregate demand continues to expand and partial indicators reveal upbeat consumption and investment spending in 2017, supported by accommodative monetary and fiscal policies. Net VAT collections (13.9%) rose in 2017 while new (29.5%) and second-hand (3.0%) vehicle registrations also increased in January 2018. Similarly, new consumption lending by commercial banks (16.1%) expanded in January 2018 led by higher lending to the wholesale, retail, hotels & restaurants sector.

Investment activity remains positive as indicated by partial indicators. New investment lending (13.6%) rose further in January 2018 following a 25.0 percent annual growth last year. A large number of private sector projects are currently in progress and should support investment spending this year.

Labour market conditions remain favourable. The RBF's Job Advertisement Survey, revealed that the number of jobs advertised increased by 31.4 percent in January 2018 compared to the previous month, but was marginally lower by 0.7 percent compared to the same period in 2017. Going forward, employment prospects remain largely positive and will be supported by robust aggregate demand.

Private sector credit expanded by 8.1 percent in January while the commercial banks' weighted average lending rate declined to 5.64 percent from 5.83 percent a year ago. Liquidity in the banking system remained high despite declines in foreign reserves and increases in statutory reserve deposits. As at 26 February, excess liquidity was \$561.2 million, compared to \$562.8 million at the end of January 2018.

In January, the Fijian dollar rose against the US dollar, but depreciated against the Euro, the Yen,

¹ Food and Agriculture Organisation.

the Australian and the NZ dollars. Compared to a year ago, the Fijian dollar has strengthened against the US and the NZ dollars, but weakened against the Euro, the Australian dollar and the Yen. Consequently, the Real Effective Exchange Rate (REER)² rose further by 1.6 percent reflecting the inflation differential between Fiji and its major trading partners. The Nominal Effective Exchange Rate (NEER)³ also rose by a negligible 0.2 percent.

Annual inflation was 1.5 percent in January, down from 2.8 percent in December and much lower than the 6.8 percent a year ago. Compared to January 2017, prices were higher for alcoholic beverages, tobacco & narcotics; housing, water, electricity, gas & other fuels; and transport.

Exports (excluding aircraft) grew by 8.4 percent cumulative to November 2017, compared to the same period in 2016. This was mainly led by

increase in exports of sugar, molasses, mineral water and re-exports which more-than-offset the decrease in the exports of timber and fish. Similarly, imports (excluding aircraft) also rose over same period due to increases in mineral fuel imports. As such, merchandise trade deficit (excluding aircraft) narrowed by 5.2 percent to \$2,516.0 million, compared to a 14.7 percent widening in 2016.

Foreign reserves continue to remain at comfortable levels and were around \$2,160.0 million at 28 February, sufficient to cover 4.9 months of retained imports.

In light of the latest global and domestic economic developments and no immediate risks to the outlook for the monetary policy objectives, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent in February.

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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.

³ 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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

	Feb-17	Nov-17	Dec-17	Jan-18	Feb-18
1. Sectoral Performance Indicators (year-on-year % change)					
Visitor Arrivals	6.6	6.4	6.4	-3.5	n.a
Electricity Production	3.1	7.0	6.5	n.a	n.a
Gold Production	-33.4	-5.7	-6.0	107.6	n.a
Cane Production [^]	n.a	17.6	n.a	n.a	n.a
Sugar Production [^]	n.a	29.3	n.a	n.a	n.a
Pinewood Intake	-92.6	-41.5	-32.1	4,577.3	n.a
Woodchip	-95.3	-14.7	-6.4	2,818.2	n.a
Mahogany	-96.6	-94.2	-94.3	n.a	n.a
Cement Production	-21.2	-17.8	-19.8	n.a	n.a
2. Consumption Indicators (year-on-year % change)					
Net VAT Collections	-8.1	14.1	13.9	n.a	n.a
New Consumption Lending	11.3	8.9	12.1	16.1	n.a
New Vehicle Registrations****	27.8	5.2	8.7	29.5	n.a
Second Hand Vehicle Registrations****	0.2	-30.9	-30.2	3.0	n.a
Personal Remittances	4.8	-1.9	-1.6	n.a	n.a
Electricity Consumption	1.8	7.3	7.2	6.2	n.a
3. Investment Indicators (year-on-year % change)					
Domestic Cement Sales	23.8	2.5	2.2	n.a	n.a
New Investment Lending	34.2	22.2	25.0	13.6	n.a
4. Labour Market (year-on-year % change)					
RBF Job Advertisement Survey	10.3	11.1	7.8	-0.7	n.a
5. Consumer Prices * (year-on-year % change)					
All Items	5.5	2.6	2.8	1.5	n.a
Food and Non-Alcoholic Beverage	4.3	-3.0	-2.8	-6.0	n.a
Alcoholic Beverages, Tobacco & Narcotics	42.9	25.4	26.1	23.5	n.a
6. Reserves *** (end of period)					
Foreign Reserves (\$m) ^{1/}	1,973.8	2,311.0	2,272.8	2,181.7	2,160.0
Months of retained imports of goods and non-factor services (MORI)	4.7	5.5	5.4	5.2	4.9
7. Exchange Rates *** (mid rates, FSI equals) (end of period)					
US dollar	0.4834	0.4804	0.4874	0.4984	0.4738
Australian dollar	0.6297	0.6343	0.6254	0.6167	0.6289
New Zealand dollar	0.6719	0.6972	0.6880	0.6799	0.6752
Euro	0.4566	0.4051	0.4077	0.4020	0.4010
Japanese yen	54.51	53.74	55.02	54.24	52.81
Nominal Effective Exchange Rate	85.32	83.92	83.93	84.12	n.a
Real Effective Exchange Rate	101.85	100.62	102.02	103.65	n.a
8. Liquidity *** (end of period)					
Banks' Demand Deposits (\$m)	473.6	689.5	606.0	561.6	561.2
9. Money and Credit *** (year-on-year % change)					
Broad Money	3.8	11.1	8.2	9.3	n.a
Net Foreign Assets	-6.7	26.0	17.9	19.1	n.a
Domestic Credit	9.9	6.4	5.8	6.7	n.a
Private Sector Credit	13.5	8.8	9.1	8.1	n.a
Narrow Money	4.7	13.5	13.7	13.7	n.a
10. Interest Rates (% p.a.) *** (monthly weighted average)					
Lending Rate (Excluding Staff)	5.76	5.66	5.65	5.64	n.a
Savings Deposit Rate	1.00	1.33	1.34	1.36	n.a
Time Deposit Rate	3.13	3.21	3.21	3.18	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	n.i	n.i	n.i	1.35	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	n.i	6.00	6.00	n.a
11. Commodity Prices (US\$) ** (monthly average)					
UK Gold Price/fine ounce	1,234.2	1,282.3	1,261.3	1,329.6	1,332.6
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	20.4	15.0	14.4	14.0	13.6
Crude Oil/barrel	56.00	62.9	64.3	69.1	65.7

^{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 January/February are the latest available.