



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The outlook for the global economy has weakened given the deceleration in both advanced and emerging & developing economies. Consequently, the International Monetary Fund downgraded the global growth forecast for 2019 to 3.5 percent from 3.7 percent envisaged earlier. The softening in global growth is stemming from weaker international trade, industrial production and investment as well as continuing trade tensions and heightened financial market stress. Risks to the outlook are significantly elevated to the downside and include intensification of international trade tensions and the possibility of a larger deceleration in the Chinese economy, further financial market stress, and overall policy and geopolitical uncertainty.

Commodity prices have noted mixed movements recently. Oil prices rose early this month after major producers reduced supply to arrest the falling prices in the last two months of 2018. International food prices¹ declined on an annual basis in December last year owing to lower prices of cooking oil, sugar, dairy and meat products but remained largely unchanged from the previous month. Amongst the export commodities, gold prices increased due to the Federal Reserve's interest rate hike, while drought driven supply shortages in Brazil, pushed up prices for sugar early this year.

Domestically, 2018 was another year of positive growth and the economy is estimated to have expanded by 3.2 percent. Primary production was upbeat as major industries such as cane (4.0%), mahogany (+683.2%), pine (+152.4%) and woodchips (+95.4%) noted significant

annual gains. Industrial production² noted a turnaround in the third quarter of 2018 and expanded by 14.5 percent compared to a marginal decline in the same period in 2017. Annually, sugar (-11.2%) and gold (-7.3%) production declined but manufacturing of food & beverages, alcohol & tobacco, sawmilling and manufacture of wood products noted annual gains. In the services sector, the tourism industry noted a new record year and visitor arrivals totalled 870,309, a 3.3 percent growth from 2017. The growth in visitor arrivals was led by higher arrivals from New Zealand (NZ), Japan, United States (US) and Continental Europe.

Aggregate demand continues to expand and partial indicators reveal upbeat consumption and investment spending in 2018, supported by accommodative monetary and fiscal policies. Net Value Added Tax (VAT) collections (+6.1%) and the new (+7.2%, excluding government) and second-hand (+11.5%) vehicle registrations rose annually. Similarly, new consumption lending by commercial banks' expanded by 9.2 percent, led by higher lending to the wholesale, retail, hotels & restaurants sector.

Investment spending was also quite buoyant in 2018. New investment lending rose by 1.4 percent led by higher lending for real estate. Similarly, the value of work put in place noted a significant 11.5 percent increase up to the third quarter of 2018 while the value of completion certificates (\$163.7m) more than doubled compared from a year ago. A large number of private sector projects are currently in progress

¹ Food and Agriculture Organisation's Food Price Index

² This is based on the Industrial Production Index (IPI)

and should support investment spending this year.

Labour market conditions remain favourable. According to the RBF's Job Advertisement Survey, the number of jobs advertised increased by 4.4 percent in 2018. Going forward, employment prospects remain largely positive and will be supported by robust domestic demand.

Broad money expanded by 3.1 percent in December 2018, led by a pick-up in net domestic credit (+9.4%) but slowed over the year due to contraction in net foreign assets (-15.2%). Nonetheless, private sector credit expanded by 7.1 percent. The commercial banks' weighted average lending and deposit rates rose over the year to 5.69 percent and 3.61 percent, respectively. Banking system liquidity measured by bank demand deposit is currently around \$382.5 million (29/01), adequate to support economic activity this year.

Over the month of December, the Fiji dollar strengthened against the Australian (+2.2%) and NZ (+0.7%) dollars but weakened against the Yen (-4.0%), Euro (-1.9%) and the US dollar (-1.3%). Annually, the Fiji dollar appreciated against the Australian (+5.8%), NZ dollar (+1.1%) and Euro (+0.1%) but was lower against the Yen (-6.3%) and the US dollar (-4.2%). The Nominal Effective Exchange Rate (NEER)³ index noted a marginal increase over the month (+0.01%) and also over the year (+0.9%), while the Real Effective Exchange Rate (REER)⁴ rose over the month (+1.0%) and on an annual basis (+4.2%) signifying a loss in trade competitiveness. The annual increase in the REER index was due to higher domestic inflation compared to our trading partners.

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.

Annual headline inflation was 4.9 percent in December, slightly lower than 5.2 percent recorded in November. Higher prices were noted for alcohol, tobacco, kava, fuel and vegetables.

Domestic exports declined by 5.7 percent in the year to October 2018, led by lower exports of sugar, molasses, gold and preserved fish. In the same period, imports⁵ rose by 13.1 percent led by higher imports of machinery & transport equipment, mineral fuels, chemicals, crude materials and manufactured goods. Consequently, the merchandise trade deficit widened by around 22.0 percent to over \$2.7 billion.

Foreign reserves (RBF Holdings) are currently \$2,031.3 million (31/01), sufficient to cover 4.5 months of retained imports of goods and services.

In light of the latest global and domestic economic conditions and the comfortable outlook for inflation and foreign reserves, the Reserve Bank maintained the Overnight Policy Rate unchanged at 0.5 percent in January.

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⁴ 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.

⁵ Excluding aircraft imports

FJI: ECONOMIC & FINANCIAL STATISTICS

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KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

Visitor Arrivals
Electricity Production
Gold Production
Cane Production^a
Sugar Production^a
Pinewood Intake
Woodchip
Mahogany
Cement Production

	Jan-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Visitor Arrivals	-3.5	4.3	4.0	3.6	3.3	n.a
Electricity Production	5.3	0.6	0.7	0.2	0.9	n.a
Gold Production	107.6	-4.6	-4.7	-7.2	-7.3	n.a
Cane Production ^a	n.a	-1.6	-8.2	3.1	4.0	n.a
Sugar Production ^a	n.a	-5.1	-15.9	-11.5	-11.2	n.a
Pinewood Intake	4577.3	225.9	237.4	179.3	152.4	n.a
Woodchip	2818.2	174.0	134.8	107.0	95.4	n.a
Mahogany	232.2	1226.8	549.5	601.5	683.2	n.a
Cement Production	11.7	-19.7	-15.8	-14.9	-13.5	n.a

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections
New Consumption Lending
New Vehicle Registrations***
Second Hand Vehicle Registrations****
Personal Remittances
Electricity Consumption

Net VAT Collections	18.1	7.0	8.2	6.0	6.1	n.a
New Consumption Lending	16.1	15.2	16.6	12.3	9.2	n.a
New Vehicle Registrations***	29.8	31.5	31.2	24.8	19.4	n.a
Second Hand Vehicle Registrations****	3.0	12.1	13.9	11.4	11.4	n.a
Personal Remittances	17.9	6.7	6.0	n.a	n.a	n.a
Electricity Consumption	6.2	2.4	3.0	2.2	2.5	n.a

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales
New Investment Lending

Domestic Cement Sales	-10.2	-27.6	-27.2	-26.9	-26.7	n.a
New Investment Lending	13.6	1.3	1.9	2.9	1.4	n.a

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey

RBF Job Advertisement Survey	7.3	9.3	9.3	3.7	4.4	n.a
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5. Consumer Prices *

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage
Alcoholic Beverages, Tobacco & Narcotics

All Items	1.5	4.6	5.2	5.2	4.9	n.a
Food and Non-Alcoholic Beverage	-6.0	4.9	7.7	7.3	5.1	n.a
Alcoholic Beverages, Tobacco & Narcotics	23.5	18.6	16.1	16.6	17.17	n.a

6. Reserves ***

(end of period)

Foreign Reserves (\$m)^{1/}
Months of retained imports of goods and non-factor services (MORI)

Foreign Reserves (\$m) ^{1/}	2,181.2	2,116.0	2,125.9	2,056.7	2,009.3	2,031.3
Months of retained imports of goods and non-factor services (MORI)	4.8	4.7	4.7	4.5	4.4	4.5

7. Exchange Rates ***

(mid rates, FSI equals)

(end of period)

US dollar
Australian dollar
New Zealand dollar
Euro
Japanese yen
Nominal Effective Exchange Rate
Real Effective Exchange Rate

US dollar	0.4984	0.4682	0.4648	0.4732	0.4669	0.4710
Australian dollar	0.6167	0.6497	0.6543	0.6473	0.6617	0.6570
New Zealand dollar	0.6799	0.7081	0.7094	0.6907	0.6955	0.6895
Euro	0.4020	0.4021	0.4097	0.4159	0.4080	0.4128
Japanese yen	54.24	53.09	52.51	53.70	51.54	51.57
Nominal Effective Exchange Rate	84.12	84.63	84.60	84.69	84.70	n.a
Real Effective Exchange Rate	103.56	106.26	105.92	105.21	106.31	n.a

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)

Banks' Demand Deposits (\$m)	562.8	418.2	456.6	366.5	306.1	382.5
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9. Money and Credit ****

(year-on-year % change)

Broad Money
Net Foreign Assets
Domestic Credit
Private Sector Credit
Narrow Money

Broad Money	9.3	3.9	2.7	2.1	3.1	n.a
Net Foreign Assets	19.1	-13.2	-17.0	-16.9	-15.2	n.a
Domestic Credit	6.9	10.6	10.8	10.0	9.4	n.a
Private Sector Credit	8.4	8.2	8.7	8.3	7.1	n.a
Narrow Money	14.0	1.2	-0.3	2.3	1.5	n.a

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

(monthly weighted average)

Lending Rate (Excluding Staff)
Savings Deposit Rate
Time Deposit Rate
14-day RBF Note Rate (month end)
Minimum Lending Rate (MLR) (month end)
Overnight inter-bank Rate
3 month Government T-Bills
12 month Government T-Bills
5-year Government Bond Yield
10-year Government Bond Yield

Lending Rate (Excluding Staff)	5.64	5.70	5.68	5.67	5.69	n.a
Savings Deposit Rate	1.36	1.35	1.40	1.34	1.32	n.a
Time Deposit Rate	3.18	3.47	3.52	3.55	3.61	n.a
14-day RBF Note Rate (month end)	n.i	0.45	n.i	n.i	n.i	n.a
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.00	n.a
Overnight inter-bank Rate	n.t	1.00	0.91	1.00	1.00	n.a
3 month Government T-Bills	n.i	1.45	n.i	1.45	1.45	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	6.0	n.i	n.i	n.i	n.i	n.a

11. Commodity Prices (US\$) **

(end of period)

UK Gold Price/fine ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)
Crude Oil (US\$/barrel)

UK Gold Price/fine ounce	1,345.1	1,187.3	1,215.0	1,217.6	1,279.0	1,293.9
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	13.2	10.4	13.2	12.8	12.1	12.5
Crude Oil (US\$/barrel)	69.1	82.7	74.6	58.7	53.8	61.5

^{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 No 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