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Month Ended July 2018

The global growth prospects for 2018 remain unchanged as noted by the International Monetary Fund in its World Economic Outlook. However, the downside risks to the global outlook have increased due to the escalation of the United States (US) trade tensions and the higher possibility of tightening in global financial conditions. For Fiji's trading partners, the US economy continues to strengthen backed by fiscal stimulus while the Euro Zone and Japan growth forecasts have been lowered as economic activities softened in early 2018. Amongst other emerging market and developing economies, the growth outlook for China moderated led by tightening financial conditions while India's growth forecast was revised downwards due to the negative impact of oil prices increase on domestic demand.

There were mixed movements in June for global commodity prices, as gold, food¹ and sugar prices fell while crude oil prices edged further upwards. The crude oil price rose over the month in June due to supply shortages. Oil price futures indicate that prices will average around US\$75.27 per barrel for the September-November 2018 period which is higher than the price noted at the end of 2017. Gold prices fell in June mainly due to the lack of demand following expectations of US interest rate hikes. The trade war tensions caused global food prices to fall while higher production pushed sugar prices down.

Domestically, the expansionary fiscal year (FY) 2018-2019 National Budget announced on 28 June will add further impetus to economic growth this year and the next. The FY2018-2019 net deficit is \$414.2 million, equivalent to 3.5 percent of GDP. This will emanate from the budgeted Government revenue of \$4,236.4 million (36.3% of GDP) and Government spending of \$4,650.6 million (39.8% of GDP). Consequently, Government debt is expected to increase to \$5,583.2 million at the end of July 2019, equivalent to 47.8 percent of GDP. Sectoral performances have been positive with increases noted in visitor arrivals, gold, and timber production. Visitor arrivals increased by an annual

3.0 percent to 383,982 visitors cumulative to June, as arrivals were higher from the US, New Zealand, Continental Europe, China, India, Hong Kong, Rest of Asia and Pacific Islands. Gold production noted a turnaround (+11.6%) cumulative to June, from the annual decline (-18.1%) in the same period in 2017. Over the same period, mahogany production (4,618 cubic metres from 384 cubic metres), sawn timber (14,283 cubic metres from 7,073 cubic metres), and wood chip production (168,676 tonnes from 41,707 tonnes) noted higher annual increases from the comparable period in 2017. In contrast, fish production declined in the year to May (-15.6%), compared to a strong growth (+46.6%) in the same period in 2017, attributed to lower fish catch.

Strong aggregate demand, particularly consumption spending continues to support the Fijian economy. Both new (+47.6%) and second hand (+8.8%) vehicle registrations grew in the year to June together with higher consumption-related credit (+19.0%). The turnover from wholesale and retail trade also rose on an annual basis (+4.0%) cumulative to March. Furthermore, Government spending on disaster rehabilitation programmes' post-April floods is anticipated to provide further boost to the wholesale and retail activity in the second and third quarters of 2018. Going forward consumption activity should remain robust given the accommodative monetary policy and various incentives and policies announced in the FY2018-2019 National Budget.

On the investment front, annual declines were recorded for domestic cement sales (-20.6%) and new commercial banks' lending for investment purposes (-8.0%) cumulative to June. On a positive note, increases were noted in the number (+2.2%) and value (+26.9%) of building permits in the year to March, which provides some indication of expected improvement in construction activity in the coming months. Looking ahead, post disaster rehabilitation works, increased capital spending by Government and investment initiatives announced in the FY2018-2019 National Budget is likely to spur investment and construction related activities in the medium term.

¹ Based on the Food and Agriculture Organisation Food Price Index.

Labour market conditions continue to remain positive as indicated by the RBF's Job Advertisement Survey. In the year to June, the total number of vacant jobs advertised in both the Fiji Times and the Fiji Sun increased by an annual 8.2 percent led by the manufacturing; community, social & personal services; electricity & water; transport, storage & communication and the mining & quarrying sectors.

The merchandise trade deficit widened by 12.3 percent to \$1,065.2 million, cumulative to April, compared to a 38.3 percent widening in the same period a year ago. Total exports (excluding aircraft) rose by 7.5 percent to \$602.8 million, underpinned by the higher exports of woodchips, gold, chemicals and other re-exports which more-than-offset the decline in exports of mineral water, sugar, molasses, cement, garments and re-exports of fresh fish. On the other hand, total imports (excluding aircraft) rose by 10.5 percent to \$1,668.0 million due to increased imports of machinery & transport equipment, mineral fuels, chemicals, crude materials, foods & live animals and beverages & tobacco which more-than-offset the decline in imports of manufactured goods.

Tourism earnings increased by 4.7 percent on an annual basis to \$358.2 million in quarter 1 2018, compared to the same period in 2017. This outcome is mainly led by higher earnings from the US. Cumulative to May, personal remittances rose by 8.5 percent compared to a decline a year ago (-4.6%). The growth in inward remittances was contributed largely by gifts & maintenance inflows in the review period.

Financial conditions remain conducive to the outlook for domestic growth. The growth in private sector credit remained positive albeit slower in June (+7.5%) compared to May (+7.8%), led by the lower outturn in commercial banks' lending. Despite some upticks, interest rates were still at relatively low levels in June, given the heightened competition and ample liquidity in the banking sector. However, commercial banks' new lending rate rose over the month to 6.28 percent from 5.94 percent in May. Within the same period, funding costs dropped as indicated by the decline in new time deposits rate from 3.13 percent to 2.93 percent in June.

Excess liquidity in the banking system (measured by commercial banks' demand deposits with RBF) fell in June by 9.9 percent (-\$51.4m) to \$470.2 million, led by a fall in foreign reserves (-\$22.9m) coupled with an increase in Statutory Reserves

Deposits (+\$4.7m) and currency in circulation (+\$7.9m). As at 27 July, liquidity remained adequate at \$482.3 million.

The Fijian dollar (FJD) strengthened against the Australian (1.5%) and the New Zealand dollars (1.1%) in June, but weakened against the US dollar (-1.7%), the Euro (-0.8%) and the Yen (-0.5%). The average monthly movement of the FJD was reflected in the Nominal Effective Exchange Rate (NEER)² index which rose over the month in June (+1.1%) indicating a stronger domestic currency. The Real Effective Exchange Rate (REER)³ index also increased (+2.6%) as domestic prices were higher relative to trading partners in June.

The annual headline inflation moderated to 4.6 percent from 5.1 percent in May. In June, higher prices were noted for yaqona, tobacco and alcohol. However, over the month, consumer prices fell by 0.8 percent attributed to decline in prices of fruit and vegetables indicating normalised supply after the natural disasters in April. Inflationary outcomes continued to be driven by both domestic and external factors with more pressure expected from the rise in crude oil prices combined with the impact of duty increase on alcohol & tobacco announced in the FY2018-2019 National Budget. As such, the 2018 year-end inflation forecast has been revised upwards to 5.0 percent, from the 3.0 percent projected earlier.

Foreign reserves (RBF Holdings) fell over the month of June to \$2,139.9 million, sufficient to cover 4.9 months of retained imports of goods and non-factor services (MORI). As at 31 July, foreign reserves were \$2,164.6 million, sufficient to cover 5.0 MORI and are expected to remain at comfortable levels for the remainder of the year.

RESERVE BANK OF FIJI

² 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.

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 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)

	Jul-17	Apr-18	May-18	Jun-18	Jul-18
Visitor Arrivals	6.3	1.4	2.1	3.0	n.a
Electricity Production	7.5	0.9	-0.3	0.0	n.a
Gold Production	-9.6	42.1	26.4	11.6	n.a
Cane Production [^]	76.6	n.a	n.a	n.a	n.a
Sugar Production [^]	83.3	n.a	n.a	n.a	n.a
Pinewood Intake	-52.9	386.7	253.0	180.1	n.a
Woodchip	-51.4	705.3	476.4	304.4	n.a
Mahogany	-98.3	762.3	976.3	1,100.8	n.a
Cement Production	-4.8	-31.3	-27.2	-20.6	n.a

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

Net VAT Collections	14.0	6.9	11.7	9.1	n.a
New Consumption Lending	4.5	18.0	25.0	19.0	n.a
New Vehicle Registrations****	2.9	61.3	54.6	47.6	n.a
Second Hand Vehicle Registrations****	-32.8	12.0	9.1	8.8	n.a
Personal Remittances	-1.6	6.2	8.5	n.a	n.a
Electricity Consumption	7.2	5.2	3.8	2.9	n.a

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

Domestic Cement Sales	15.2	-26.1	-25.4	-20.6	n.a
New Investment Lending	36.7	-25.5	-13.7	-8.0	n.a

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

RBF Job Advertisement Survey	13.6	3.3	4.7	8.2	n.a
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5. Consumer Prices *
(year-on-year % change)

All Items	2.0	4.0	5.1	4.6	n.a
Food and Non-Alcoholic Beverage	-6.2	6.1	6.4	5.1	n.a
Alcoholic Beverages, Tobacco & Narcotics	30.5	17.2	23.3	22.3	n.a

6. Reserves ***
(end of period)

Foreign Reserves (\$m) ^{1/}	2,313.7	2,183.3	2,162.8	2,139.1	2,164.6
Months of retained imports of goods and non-factor services (MORI)	5.8	5.0	5.0	4.9	5.0

7. Exchange Rates ***
(mid rates, F\$1 equals)
(end of period)

US dollar	0.4971	0.4842	0.4822	0.4741	0.4754
Australian dollar	0.6227	0.6391	0.6362	0.6459	0.6424
New Zealand dollar	0.6624	0.6838	0.6898	0.6976	0.6995
Euro	0.4231	0.3994	0.4133	0.4102	0.4077
Japanese yen	55.01	52.81	52.52	52.26	52.74
Nominal Effective Exchange Rate	84.10	84.03	83.90	84.79	n.a
Real Effective Exchange Rate	101.84	102.67	102.40	105.04	n.a

8. Liquidity ***
(end of period)

Banks' Demand Deposits (\$m)	740.4	543.9	521.6	470.2	482.3
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9. Money and Credit ***
(year-on-year % change)

Broad Money	10.5	6.9	5.0	4.6	n.a
Net Foreign Assets	16.4	10.6	-2.1	-0.9	n.a
Domestic Credit	9.1	7.2	8.4	8.0	n.a
Private Sector Credit	15.6	8.0	7.8	7.5	n.a
Narrow Money	14.0	7.9	6.9	6.7	n.a

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

Lending Rate (Excluding Staff)	5.75	5.68	5.66	5.70	n.a
Savings Deposit Rate	1.28	1.29	1.43	1.43	n.a
Time Deposit Rate	3.35	3.34	3.37	3.36	n.a
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.a	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.a	n.a
3 month Government T-Bills	1.35	1.35	1.36	n.a	n.a
12 month Government T-Bills	n.i	n.i	n.i	n.a	n.a
5-year Government Bond Yield	n.i	n.i	n.i	n.a	n.a
10-year Government Bond Yield	6.00	n.i	n.i	n.i	n.a

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

UK Gold Price/fine ounce	1,267.6	1,313.2	1,305.4	1,250.5	1224.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	14.9	11.5	12.8	11.9	10.9
Crude Oil/barrel	52.7	75.2	77.6	79.4	74.3

^{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 December are the latest available.