



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Globally, economic activity is expected to pick-up in the near-term as most advanced and emerging market economies are projected to sustain the current momentum or accelerate growth. The uptick in consumer demand, recovering non-residential investment and faster growth in exports supported overall activity in the United States. Similarly, surging credit growth and recent increases in manufacturing activity underlied the strong recovery in the Euro zone and Japan. While China performed strongly due to healthy external demand, the Indian economy recovered from a weak start earlier in the year. Closer to home, the Australian economy is showing signs of slowing heading into Quarter 4, 2017 while expansion in New Zealand is expected to gain momentum despite a few setbacks related to the recently concluded National Elections.

Domestically, the Fijian economy is expected to grow by 4.2 percent in 2017 after expanding by 0.4 percent last year. Recent indicators point to mixed sectoral performances. Positive outturns were noted for the cane and sugar sectors as of November while electricity and fish production expanded in the year to October. Visitor arrivals also increased by 6.6 percent in the year to October underpinned by strong growth in tourist arrivals from New Zealand and the US. On the downside, output in the cement, gold and timber industries contracted cumulative to October.

Aggregate demand remains firm reflected in favourable outturns for consumption and investment indicators. Consumer spending continues to trend upwards supported by higher incomes, favourable labour market conditions and accommodative monetary conditions. New lending for consumption purposes rose in the first ten months of the year underpinned by higher lending to the wholesale, retail, hotels & restaurants sector. Similarly, net Value Added Tax collections grew cumulative to September indicating strong underlying demand.

Although the increase in the income tax threshold resulted in a slower growth for Pay As You Earn collections since August, it bodes well for future consumption activity.

Investment levels remained positive as indicated by partial indicators. Commercial banks' new lending for investment purposes rebounded strongly cumulative to October driven by higher lending to the real estate and building & construction sectors. Similarly, domestic cement sales grew in the same period, owing to a rise in local construction activity. The commissioning of new private sector projects together with the continued rehabilitation work post-Tropical Cyclone Winston and Government's increased capital expenditure augurs well for investment outcomes going forward.

Labour market conditions remain favourable. Higher recruitment intentions in the community, social & personal services; wholesale & retail trade & restaurants & hotels; electricity & water and mining & quarrying sectors underpinned the annual growth in the number of jobs advertised, cumulative to October 2017. Going forward, employment prospects remain largely positive and will be supported by the strong growth momentum.

Monetary conditions are conducive to growth and the financial system is stable. Lending rates currently hover at low levels after declining over the year while time deposit rates have increased relative to the same period last year. Domestic credit slowed further in the review period owing to a deceleration in private sector credit which was attributed, in turn, to the slowdown in commercial bank lending to the building & construction and private individuals sectors. Evidently, total commercial banks' lending grew at a slightly lower pace in the year to October compared to the corresponding period in 2016.

Despite falling over the month of November,

liquidity in the banking system remains adequate to cater for an upswing in credit. As at 30 November, liquidity stood at \$689.5 million.

In October, the Fiji dollar rose against the Australian and the New Zealand dollars, but fell against the US dollar, Yen and the Euro. Reflecting the general weakening of the Fiji dollar against major trading partner currencies, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index fell in October. Although domestic inflationary outcomes were higher than trading partners, the weaker Fiji dollar led to the decline in the Real Effective Exchange Rate (REER)<sup>2</sup> over the review month.

Inflation rose to 2.6 percent in October from 2.0 percent in September, but remained lower than the 4.7 percent registered a year ago. Higher annual price movements in the alcoholic beverages, tobacco & narcotics category mostly contributed to this outcome. The 2017 year-end forecast for inflation is 2.5 percent.

Exports, based on the Overseas Exchange Large

Transactions report, fell by 3.7 percent cumulative to October 2017, compared to the same period in 2016. The decline was mainly led by lower receipts for sugar, gold and timber which more-than-offset the increase in the exports of mineral water and fish. However, imports rose marginally over same period due to increases in food and fuel payments. Moving forward, reining in the trade deficit, raising tourism earnings and remittances as well attracting foreign direct investment is key to safeguarding external stability.

Foreign reserves fell over the month of November to \$2,311.4 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services (MORI). As at 01 December, foreign reserves were \$2,310.1 million, sufficient to cover 5.5 MORI and are forecast to remain at comfortable levels by year-end.

Given the comfortable outlook for both foreign reserves and inflation, the Reserve Bank maintained an accommodative monetary policy stance, and kept the Overnight Policy Rate unchanged at 0.5 percent in November.

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<sup>1</sup> 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.

<sup>2</sup> 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.

**KEY INDICATORS**

**1. Sectoral Performance Indicators**

(year-on-year % change)

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

	Nov-16	Aug-17	Sep-17	Oct-17	Nov-17
Visitor Arrivals	4.46	6.52	6.62	6.57	n.a
Electricity Production	3.75	7.33	7.16	7.24	n.a
Gold Production	18.34	-6.71	-6.73	-5.73	n.a
Cane Production	-27.15	46.36	34.80	26.27	20.80
Sugar Production	-38.86	53.65	44.90	37.43	32.30
Pinewood Intake	-35.98	-47.69	-53.08	-53.17	n.a
Woodchip	-42.96	-46.06	-38.62	-25.53	n.a
Mahogany	-28.25	-98.37	-97.07	-94.53	n.a
Cement Production	12.10	-3.80	-8.70	-14.90	n.a
<b>2. Consumption Indicators</b>					
(year-on-year % change)					
Net VAT Collections	-25.71	16.52	13.75	n.a	n.a
New Consumption Lending	15.01	7.13	9.66	12.11	n.a
New Vehicle Registrations	32.04	2.67	4.40	3.34	n.a
Second Hand Vehicle Registrations	9.16	-31.90	-32.63	-32.52	n.a
Personal Remittances	52.59	42.73	55.01	n.a	n.a
Electricity Consumption	2.06	7.32	7.47	n.a	n.a
<b>3. Investment Indicators</b>					
(year-on-year % change)					
Domestic Cement Sales	11.36	16.00	9.20	5.58	n.a
New Investment Lending	-11.25	31.77	26.92	25.53	n.a
<b>4. Labour Market</b>					
(year-on-year % change)					
RBF Job Advertisement Survey	-3.50	15.10	10.00	7.60	n.a
<b>5. Consumer Prices *</b>					
(year-on-year % change)					
All Items	4.30	1.90	2.00	2.60	n.a
Food and Non-Alcoholic Beverage	2.67	-5.20	-4.22	-3.72	n.a
Alcoholic Beverages, Tobacco & Narcotics	37.43	27.72	23.54	27.48	n.a
<b>6. Reserves ***</b>					
(end of period)					
Foreign Reserves (\$m) <sup>1/</sup>	1,896.15	2,352.43	2,406.85	2,409.19	2,311.40
Months of retained imports of goods and non-factor services (MORI)	5.2	5.6	5.8	5.8	5.5
<b>7. Exchange Rates ***</b>					
(mid rates, FS1 equals)					
(end of period)					
US dollar	0.4788	0.4915	0.4906	0.4820	0.4816
Australian dollar	0.6399	0.6223	0.6245	0.6268	0.6329
New Zealand dollar	0.6717	0.6832	0.6778	0.7004	0.6974
Euro	0.4499	0.4136	0.4164	0.4136	0.4046
Japanese yen	53.81	54.24	55.14	54.54	53.46
Nominal Effective Exchange Rate	85.22	85.35	85.32	85.17	n.a
Real Effective Exchange Rate	101.23	104.37	103.85	102.94	n.a
<b>8. Liquidity ***</b>					
(end of period)					
Banks' Demand Deposits (\$m)	420.58	756.06	801.07	800.48	689.50
<b>9. Money and Credit ***</b>					
(year-on-year % change)					
Broad Money	4.93	10.76	10.62	11.58	n.a
Net Foreign Assets	3.85	21.60	27.39	27.38	n.a
Domestic Credit	7.77	8.06	6.60	6.73	n.a
Private Sector Credit	12.92	13.04	11.58	10.67	n.a
Narrow Money	5.80	15.16	15.78	14.60	n.a
<b>10. Interest Rates (% p.a.) ***</b>					
(monthly weighted average)					
Lending Rate (Excluding Staff)	5.74	5.71	5.72	5.69	n.a
Savings Deposit Rate	0.98	1.36	1.41	1.37	n.a
Time Deposit Rate	2.94	3.35	3.30	3.28	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	n.i	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	6.39	n.i	n.i	n.i	n.a
<b>11. Commodity Prices (US\$) **</b>					
(monthly average)					
UK Gold Price/fine ounce	1,235.98	1,282.30	1,314.98	1,279.13	1,291.85
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	20.80	13.80	13.90	14.36	15.04
Crude Oil/barrel	48.10	51.90	55.52	57.65	63.49

<sup>1/</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

The figures for November are the latest available.