



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions in the first quarter remained positive attributed to improvements in emerging market economies which offset the slowdown in advanced economies. However, geopolitical tensions heightened after the United States (US) pulled out from the Iran nuclear deal is expected to add upward pressure on fuel prices. Nonetheless, the current accommodative financial conditions, expectations of increased personal consumption and generally low unemployment rates are projected to support the positive global growth outlook (3.9%) for this year.

Movements in global commodity prices were mixed in April as crude oil and food prices¹ rose while gold and sugar prices noted declines. The impending closure of the Venezuelan oil company² and the US imposed sanctions placed upward pressure on oil prices while gold and sugar prices declined due to a stronger US dollar. Meanwhile, the increase in food prices was underpinned by continued higher prices noted for both dairy and cereals.

Domestically, sectoral performances were generally positive with firm recovery noted in some sectors. Cumulative to April, visitor arrivals grew by 1.4 percent with increased arrivals from New Zealand, US, China, India and the rest of Asia. In addition, gold and timber production continued to show significant improvements in the same period. Likewise, electricity generation also grew by 0.9 percent, with 70.5 percent of total generation sourced from renewable sources. However, fish production fell by 5.3 percent in the year to March but is expected to pick up in the months ahead as weather conditions are anticipated to be more favourable.

In terms of aggregate demand, consumption activity remains strong while partial indicators for investment revealed mixed outcomes over the month. In the year to April, partial indicators for consumption activity portrayed positive results as new lending by commercial banks for consumption purposes noted a growth of 18.0 percent led by an increase in lending to the wholesale, retail, hotels & restaurant (21.1%) and private individuals (8.7%) categories. Similarly, new (61.3%) and second hand (12.0%) vehicle registrations, together with domestic (9.7%) and net (6.9%) VAT collections also increased in the same period. Looking ahead, consumer spending is expected to remain strong largely supported by the prevailing accommodative monetary policy and Government's expansionary fiscal policy.

Partial indicators for investment activity revealed mixed results in the review period. Cumulative to April, cement production and domestic cement sales both declined by 31.3 percent and 24.4 percent, respectively. Similarly, new commercial bank lending for investment purposes also fell cumulative to April (-25.5%) underpinned by declines in lending to both the real estate (-14.7%) and the building and construction (-39.6%) sectors. Despite the temporary slowdown, construction and investment related activities are anticipated to pick up in the coming months underpinned by post disaster rehabilitation works as well as the ongoing private and public sector projects. Investment as a percent of GDP is projected to be around 28.0 percent this year.

Labour market conditions continued to be favourable. As per the RBF's survey on job advertisements, the total number of vacant jobs advertised in both the Fiji Times and the Fiji Sun grew by an annual 3.3 percent cumulative to April. Higher recruitment intentions were noted from the manufacturing, electricity & water, transport, storage & communications, and the community, social & personal services sectors. In general,

¹ Based on the Food and Agriculture Organisation Food Price Index (FFPI).

² Petróleos de Venezuela, S.A. (PDVSA) is a Venezuelan state-owned oil and natural gas company and is the fifth largest oil exporter. Oil reserves in Venezuela are the largest in the world.

employment prospects are expected to remain favourable in line with the domestic economic growth outlook.

Financial conditions remained sound and conducive to growth. Private sector credit grew at a slower pace (7.7%) in April 2018 to \$7,517.2 million, compared to a 13.6 percent growth a year earlier, largely led by lower growth in commercial bank lending to the private sector. Lending rates generally remained low while deposit rates rose. The weighted average outstanding lending rate of commercial banks rose over the month to 5.68 percent in April 2018 but remained low compared to 5.74 percent in April 2017. The commercial banks' weighted average new lending rate fell to 5.90 percent over the month (from 6.24%) as well as over the year (from 5.93%). However, in the same period, commercial banks' existing and new time deposit rates rose to 3.34 percent and 3.44 percent respectively, from 3.30 percent and 3.17 percent noted in March.

Liquidity in the banking system (measured by commercial banks' demand deposits) remained adequate at \$543.9 million in April led by an increase in foreign reserves (\$28.0m) coupled with a decrease in statutory reserves deposits (-\$10.1m). As at 30 May, liquidity stood at \$526.2 million.

Over the month in April, the Fijian dollar rose against the Japanese Yen (1.1%), the New Zealand (0.9%) dollar, the Euro (0.6%) and the Australian dollar (0.2%), but fell against the US (-0.9%) dollar. The Nominal Effective Exchange Rate (NEER)³ fell marginally by 0.03 percent over the month and a higher 1.3 percent over the year, indicating the weakening of the Fiji dollar against the major trading partner currencies in April. The Real Effective Exchange Rate (REER)⁴ rose both over the month and over the year in April, by 1.2 percent and 0.9 percent respectively, indicating deterioration in our international competitiveness.

Foreign reserves (RBF Holdings) increased over the month of April to \$2,183.3 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services (MORI). As at 31 May, foreign reserves were \$2,163.3 million, sufficient to cover 5.0 MORI and are forecast to remain at comfortable levels by year-end.

In light of the latest global and domestic economic developments and the stable outlook for inflation and foreign reserves, the Reserve Bank Board maintained the Overnight Policy Rate at 0.5 percent in May.

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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.

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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	May-17	Feb-18	Mar-18	Apr-18	May-18
Visitor Arrivals	7.0	2.4	5.1	1.4	n.a
Electricity Production	8.7	4.9	3.9	0.9	n.a
Gold Production	-23.3	84.9	91.2	42.1	n.a
Cane Production [^]	n.a	n.a	n.a	n.a	n.a
Sugar Production [^]	n.a	n.a	n.a	n.a	n.a
Pinewood Intake	-54.0	2,947.8	979.5	386.7	n.a
Woodchip	-68.5	5,005.1	4,283.7	705.3	n.a
Mahogany	-97.4	565.8	653.4	762.3	n.a
Cement Production	2.6	-14.7	-27.3	-31.3	n.a

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections	18.2	15.0	20.1	6.9	n.a
New Consumption Lending	1.7	16.3	15.9	18.0	n.a
New Vehicle Registrations****	13.9	88.0	59.1	61.3	n.a
Second Hand Vehicle Registrations****	-24.2	5.0	10.8	12.0	n.a
Personal Remittances	-4.6	-0.6	n.a	n.a	n.a
Electricity Consumption	7.0	6.1	7.6	5.2	n.a

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales	26.2	-10.7	-20.2	-24.4	n.a
New Investment Lending	56.2	13.7	-23.3	-25.5	n.a

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	11.2	-3.0	5.4	3.3	n.a
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5. Consumer Prices *

(year-on-year % change)

All Items	2.5	2.3	2.6	4.0	n.a
Food and Non-Alcoholic Beverage	-4.8	-2.1	0.2	6.1	n.a
Alcoholic Beverages, Tobacco & Narcotics	28.9	21.3	16.3	17.2	n.a

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2,226.9	2,159.9	2,157.8	2,183.3	2,163.3
Months of retained imports of goods and non-factor services (MORI)	5.6	4.9	4.9	5.0	5.0

7. Exchange Rates ****

(mid rates, FSI equals)

(end of period)

US dollar	0.4798	0.4913	0.4885	0.4842	0.4822
Australian dollar	0.6425	0.6304	0.6376	0.6391	0.6362
New Zealand dollar	0.6759	0.6788	0.6775	0.6838	0.6898
Euro	0.4285	0.4017	0.3969	0.3994	0.4133
Japanese yen	53.14	52.74	52.21	52.81	52.52
Nominal Effective Exchange Rate	85.08	84.11	84.06	84.03	n.a
Real Effective Exchange Rate	100.68	100.94	101.44	102.64	n.a

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	717.6	562.9	536.5	543.9	526.2
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9. Money and Credit ****

(year-on-year % change)

Broad Money	7.2	8.3	7.5	6.8	n.a
Net Foreign Assets	9.1	17.1	16.5	10.6	n.a
Domestic Credit	8.2	6.7	6.7	6.9	n.a
Private Sector Credit	14.3	8.1	7.8	7.7	n.a
Narrow Money	7.8	12.4	10.2	7.8	n.a

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.78	5.65	5.66	5.68	n.a
Savings Deposit Rate	1.33	1.18	1.22	1.29	n.a
Time Deposit Rate	3.25	3.21	3.30	3.34	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	1.35	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	6.00	n.i	6.00	n.i	n.a

11. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1,244.5	1,331.5	1,273.7	1,337.4	1,306.6
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	15.7	13.6	13.0	11.8	11.5
Crude Oil/US\$ per barrel	51.4	65.7	66.6	71.9	76.7

^{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