



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic growth is anticipated to remain subdued in 2019 amid the weak growth prospects in advanced and emerging market economies. Downside risks to growth have also increased emanating from tightening financial conditions, extended Brexit negotiations, geopolitical tensions and trade conflicts. However, there seems to be some optimism on the current trade negotiations between the United States (US) and China.

International commodities noted mixed movements in February. Brent crude oil price rose further to US\$66.03 per barrel, from US\$60.84 per barrel in January due to production cuts by the Organisation of Petroleum Exporting Countries together with the US sanctions against Iran and Venezuela. Similarly, the increase in FAO¹ food price index was led by higher prices of dairy, cereal, vegetable oil and sugar. In contrast, gold prices fell due to weaker demand, while sugar price was unchanged.

Latest business expectations survey (BES) results point to a likely moderation in domestic economic activity, although overall growth is expected to remain positive. Sectoral performances in the review period were also mixed. Visitor arrivals cumulative to February grew by 1.0 percent underpinned by higher arrivals from New Zealand, Japan, Hong Kong and Rest of Asia which more than offset the decline in arrivals from Australia, Europe and the US. For the timber industry, production was lower for pine wood supply and woodchip, while sawn timber rose cumulative to February. Electricity production also increased in the same period while gold output declined.

Consumption activity remains firm, with partial indicators such as net Value Added Tax collections (24.7%) and new consumption lending (0.4%) noting increases cumulative to February. However, new and second hand vehicle registrations in the same period declined. Consumption spending continues to be supported by higher remittance inflows (9.9%)

and improved income as suggested by the marginal growth in Pay As you Earn collections (0.6%) cumulative to February. According to the latest Retail Sales Survey, retail sales rose by 8.5 percent in 2018.

New investment lending by commercial banks' contracted cumulative to February, underpinned by declines in lending to the real estate and the building & construction sectors. On a positive note, a turnaround was noted for cement production (3.2%), while domestic cements sales (-8.6%) fell further cumulative to February. Business investment sentiments also remain positive but expected to soften in the short to medium term as per the results of the December 2018 Business Expectations Survey.

According to the RBF's Job Advertisements Survey results, the total number of vacant jobs advertised rose by 16.1 percent cumulative to February. This was largely underpinned by the higher recruitment intentions in the community, social & personal services, finance, insurance and real estate & business services.

Annual outstanding domestic credit picked up over the month in February underpinned by the higher credit extended to the private sector. However, new lending by commercial banks' contracted in the year to February compared with the same period last year. The weighted average interest rates for commercial banks' were generally mixed, with new lending rates noting an uptick, while the new time deposit rates declined over the month in February.

Liquidity in the banking system (measured by banks' demand deposits) was just under \$300.0 million in February. As at 29 March, liquidity amounted to \$290.6 million.

In February, the Fiji dollar strengthened against the Japanese Yen (1.0%), Australian dollar (0.8%) and

¹ Food and Agriculture Organisation.

the Euro (0.2%) but weakened against the US dollar (-0.8%). The Nominal Effective Exchange Rate (NEER)² noted a marginal increase over the month (0.03%) and year (0.7%) in February, suggesting a general strengthening of the domestic currency. In contrast the Real Effective Exchange Rate (REER)³ declined over the month (-2.4%), but rose on an annual basis (4.4%) due to higher domestic inflation relative to trading partners.

The merchandise trade deficit⁴ widened by 20.2 percent in 2018 compared to a 0.1 percent narrowing in 2017. The outcome was due to higher imports (14.6%) which outpaced growth in exports (6.5%). Tourism earnings grew by 4.5 percent last year to a record high of \$2,010.3 million, attributed to higher earnings from the US, China, United Kingdom and Canada. Similarly, personal remittances grew by 5.8 percent to a record high of \$564.0 million in 2018

underpinned by personal immigrant transfers.

Inflation in February was unchanged at 5.1 percent from January, underpinned by increased prices of yaqona, food, alcohol & tobacco, fuel and tertiary education fees.

Currently (02/04), foreign reserves were \$1,918.4 million, sufficient to cover 4.1 months of retained imports.

Following the assessments of recent economic developments and the outlook for inflation and foreign reserves, the RBF Board agreed to maintain the Overnight Policy Rate at 0.5 percent in March. However, the Bank will continue to carefully monitor risks to its monetary policy objectives and align monetary policy accordingly.

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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.

⁴ Excluding aircraft.

FIJ: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators
(year-on-year % change)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Visitor Arrivals	2.4	4.0	3.6	3.3	1.9	1.0
Electricity Production	4.9	0.7	0.2	0.9	3.3	4.8
Gold Production	84.9	-4.7	-7.2	-7.3	-33.3	-25.7
Cane Production [^]	n.a	-8.2	3.1	4.0	n.a	n.a
Sugar Production [^]	n.a	-15.9	-11.5	-11.2	n.a	n.a
Pinewood Intake	2947.8	237.4	179.3	152.4	-32.2	-2.2
Woodchip	5005.1	134.8	107.0	95.4	-25.4	-17.7
Mahogany	565.8	549.5	601.5	683.2	-	-37.7
Cement Production	-14.7	-15.8	-14.9	-13.5	-15.5	3.2

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Net VAT Collections	15.0	8.2	6.0	6.1	33.2	24.7
New Consumption Lending	16.3	16.6	12.3	9.2	10.8	0.4
New Vehicle Registrations****	88.0	31.2	24.8	19.4	-14.2	-39.4
Second Hand Vehicle Registrations****	5.0	13.9	11.4	11.4	-2.5	-4.4
Personal Remittances	-0.6	6.0	7.7	6.5	-4.5	9.9
Electricity Consumption	6.1	3.0	2.2	2.5	6.6	5.2

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Domestic Cement Sales	-13.0	-27.2	-26.9	-26.7	-19.5	-8.6
New Investment Lending	13.7	1.9	2.9	1.4	-5.9	-20.2

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
RBF Job Advertisement Survey	-3.0	9.3	3.7	4.4	14.9	16.1

5. Consumer Prices *
(year-on-year % change)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
All Items	2.3	5.2	5.2	4.9	5.1	5.1
Food and Non-Alcoholic Beverage	-2.1	7.7	7.3	5.1	7.8	10.5
Alcoholic Beverages, Tobacco & Narcotics	21.3	16.1	16.6	17.2	17.6	16.1

6. Reserves ***
(end of period)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Foreign Reserves (\$m) ^{1/}	2,159.9	2,125.9	2,056.7	2,009.3	2,030.2	1,944.0
Months of retained imports of goods and non-factor services (MORI)	4.8	4.7	4.5	4.4	4.3	4.1

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
US dollar	0.4913	0.4648	0.4732	0.4669	0.4740	0.4700
Australian dollar	0.6304	0.6543	0.6473	0.6617	0.6333	0.6584
New Zealand dollar	0.6788	0.7094	0.6907	0.6955	0.6872	0.6872
Euro	0.4017	0.4097	0.4159	0.4080	0.4127	0.4134
Japanese yen	52.74	52.51	53.70	51.54	51.65	52.19
Nominal Effective Exchange Rate	84.11	84.60	84.69	84.70	84.66	84.68
Real Effective Exchange Rate	100.94	105.92	105.21	106.23	108.04	105.39

8. Liquidity ***
(end of period)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Banks' Demand Deposits (\$m)	562.9	456.6	366.5	306.1	398.1	298.8

9. Money and Credit ***
(year-on-year % change)

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Broad Money	8.4	2.6	2.1	2.8	2.5	1.6
Net Foreign Assets	17.1	-16.9	-16.8	-15.1	-14.9	-20.4
Domestic Credit	6.7	10.9	10.1	9.7	9.4	9.7
Private Sector Credit	8.1	8.7	8.5	7.3	8.4	9.3
Narrow Money	12.6	-0.2	2.3	1.1	0.4	-1.8

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Lending Rate (Excluding Staff)	5.65	5.68	5.67	5.69	5.70	5.65
Savings Deposit Rate	1.18	1.40	1.34	1.32	1.20	1.17
Time Deposit Rate	3.21	3.52	3.55	3.61	3.74	3.79
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i	n.i	n.a
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	1.0	0.91	1.00	1.00	1.00	1.00
3 month Government T-Bills	n.i	n.i	1.45	1.45	n.i	n.i
12 month Government T-Bills	n.i	n.i	n.i	n.i	n.i	n.i
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	n.i	n.i	n.i	6.00	6.00

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

	Feb-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
UK Gold Price/fine ounce	1,317.9	1,215.0	1,217.6	1,279.0	1,323.3	1,319.2
CSCE No. 11 Sugar Spot Price/Global [US cents/pound]	13.5	13.2	12.8	12.1	12.7	12.7
Crude Oil/barrel	65.8	74.6	58.7	53.8	60.8	66.0

Note:
n.a Not available
n.i No issue
n.f No trade
p.a Per annum

Sources:
* Fiji Bureau of Statistics
** Bloomberg
*** Reserve Bank of Fiji
**** Land Transport Authority
Fiji Sugar Corporation