



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global growth in 2018-2019 is expected to remain firm and similar to 2017, however, the pace of growth is not as strong and balanced compared to the earlier projections made in July. In the third quarter of this year, positive outcomes were noted for Fiji's major trading partner economies with the exception of China. The United States (US), Australia, New Zealand and Indian economies continued with solid economic performances supported by strong private consumption activity, external demand, higher investment and favourable labour market conditions. The Chinese economy however decelerated as a result of the US trade sanctions. Going forward, downside risks, particularly from tighter financial conditions, higher trade costs and geopolitical tensions have the potential to derail global growth.

Movements in global commodity prices were mixed in October as crude oil and food prices declined while gold and sugar prices rose. Increased oil supply from Saudi Arabia and Libya placed downward pressure on oil prices while the fall in food prices was underpinned by lower prices for dairy, meat and vegetable oil. The rise in gold and sugar prices was mainly driven by increased demand.

The Fijian economy is on track to register its ninth consecutive year of economic expansion in 2018. Latest sectoral outcomes have been mixed but generally positive so far in the year. Visitor arrivals increased by 4.0 percent cumulative to October led by higher arrivals from New Zealand, US, Japan and Continental Europe. A total of 79,077 visitors came to Fiji in October – a record high for the months of October. In addition, mahogany, sawn timber and woodchip production increased significantly while electricity generation was also higher (+0.7%) in the same period. On the downside, gold production fell (-4.7%) in the year to October while cane (-3.9%) and sugar (-14.7%) outputs noted contractions for the week ending 26 November.

Domestic demand has remained firm as shown by the latest partial indicators. New consumption lending (+16.6%) and registrations of non-Government new (+12.4%) and second-hand (+13.9%) vehicles increased in the year to October. On the same note, net VAT collections increased by 7.0 percent cumulative to the third quarter of this year.

Partial indicators for investment activity picked over the review period. New lending for investment purposes picked up pace from September and grew by 1.9 percent in the year to October, after consecutive declines from March to August this year, underpinned by increased lending to the real estate sector (+22.5%). On the other hand, domestic cement production (-15.8%) and sales (-27.2%) were lower in the year to October attributed to transportation setbacks. Nevertheless, the value of work put-in-place increased by an annual 11.4 percent, cumulative to June, underpinned by construction activities in both private and public sectors.

Employment prospects as indicated by the RBF's Job Advertisement Survey results remain firm. In the year to October, the total number of vacant jobs advertised¹ increased by an annual 9.3 percent led by higher recruitment intentions in the manufacturing; community, social & personal services; transport, storage & communications; electricity & water; construction and mining & quarrying sectors.

Financial conditions remained supportive of the growth momentum. Net domestic credit grew by 10.8 percent in October mainly due to the expansion in private sector credit (+8.7%). Lending rates generally remained low while deposit rates rose in October. Commercial banks' weighted average outstanding lending rate fell over the month to 5.68

¹ The RBF's Job Advertisement Survey includes the number of jobs advertised in both the Fiji Times and Fiji Sun newspapers.

percent (from 5.70% in September) and the new lending rate fell to 5.49 percent (from 5.83% in September). In contrast, the commercial banks' outstanding time deposit rate rose to 3.52 percent (from 3.47% in September) and new time deposit rate edged-up to 3.66 percent (from 3.56% in September) in October.

Liquidity in the banking system (measured by commercial banks' demand deposits) rose in October by 9.2 percent to \$456.6 million largely due to an increase in foreign reserves (+\$9.9m). As at 29 November, overall liquidity within the banking system stood at \$387.2 million.

Over the month of October, the Fiji dollar strengthened against the Euro (+1.9%), Australian (+0.7%) and New Zealand (+0.2%) dollars, but weakened against the Japanese Yen (-1.1%) and the US dollar (-0.7%). The Nominal Effective Exchange Rate (NEER)² index fell marginally over the month (-0.04%) in October, however remains higher (+0.7%) over the year implying a general strengthening of the Fiji dollar. Similarly, the Real Effective Exchange Rate (REER)³ index fell (-0.2%) over the month indicating a gain in trade competitiveness but was higher over the year (+4.1%) due to higher domestic inflation.

Headline inflation increased to 5.2 percent in October from 4.6 percent in September underpinned by higher prices for yaqona, vegetables, fuel, alcohol and tobacco. Over the month, consumer prices also increased by 0.6 percent as prices of fruits and vegetables increased coupled with the impact of the upward revisions of fuel prices in mid-October.

Foreign reserves (RBF Holdings) rose in October to \$2,125.9 million, sufficient to cover 4.7 months of retained imports of goods and non-factor services (MORI). As at 30 November, foreign reserves were \$2,062.9 million, sufficient to cover 4.5 MORI and are expected to remain at comfortable levels by year-end.

In light of the latest global and domestic economic conditions and the stable outlook for the Bank's twin monetary policy objectives, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent in November.

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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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

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KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Visitor Arrivals	6.4	4.2	4.3	4.0	n.a
Electricity Production	7.0	0.2	0.6	0.7	n.a
Gold Production	-5.7	0.9	-4.6	-4.7	n.a
Cane Production [^]	16.8	-3.1	-1.7	-6.7	-3.9
Sugar Production [^]	28.7	-4.9	-6.1	-15.0	-14.7
Pinewood Intake	-41.5	192.9	225.9	237.4	n.a
Woodchip	-14.7	199.3	174.0	134.8	n.a
Mahogany	-94.2	2471.6	1226.8	n.a	n.a
Cement Production	-17.8	-21.7	-19.7	-15.8	n.a

2. Consumption Indicators

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Net VAT Collections	14.1	6.6	7.0	n.a	n.a
New Consumption Lending	8.9	16.3	15.2	16.6	n.a
New Vehicle Registrations****	5.2	37.9	31.5	31.2	n.a
Second Hand Vehicle Registrations****	-30.9	12.3	12.1	13.9	n.a
Personal Remittances	-1.9	10.6	n.a	n.a	n.a
Electricity Consumption	7.3	2.7	2.4	n.a	n.a

3. Investment Indicators

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Domestic Cement Sales	8.4	-23.0	-27.6	-27.2	n.a
New Investment Lending	22.2	-0.1	1.3	1.9	n.a

4. Labour Market

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
RBF Job Advertisement Survey	9.2	8.6	9.3	9.3	n.a

5. Consumer Prices *

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
All Items	2.6	4.3	4.6	5.2	n.a
Food and Non-Alcoholic Beverage	-3.0	3.3	4.9	7.7	n.a
Alcoholic Beverages, Tobacco & Narcotics	25.4	20.2	18.6	16.1	n.a

6. Reserves ***

(end of period)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Foreign Reserves (\$m) ^{1/}	2,311.0	2,182.8	2,116.0	2,125.9	2,062.9
Months of retained imports of goods and non-factor services (MORI)	5.8	4.8	4.7	4.7	4.5

7. Exchange Rates ***

(mid rates, F\$1 equals)
(end of period)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
US dollar	0.4804	0.4705	0.4682	0.4648	0.4732
Australian dollar	0.6343	0.6476	0.6497	0.6543	0.6473
New Zealand dollar	0.6972	0.7078	0.7081	0.7094	0.6907
Euro	0.4051	0.4031	0.4021	0.4097	0.4159
Japanese yen	53.74	52.23	53.09	52.51	53.70
Nominal Effective Exchange Rate	83.92	84.67	84.63	84.60	n.a
Real Effective Exchange Rate	100.62	106.38	106.26	106.02	n.a

8. Liquidity ***

(end of period)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Banks' Demand Deposits (\$m)	689.5	512.8	418.2	456.6	387.2

9. Money and Credit ***

(year-on-year % change)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Broad Money	11.2	3.4	3.9	2.7	n.a
Net Foreign Assets	26.0	-6.2	-13.2	-17.0	n.a
Domestic Credit	6.5	7.4	10.7	10.8	n.a
Private Sector Credit	8.8	7.9	8.2	8.7	n.a
Narrow Money	13.5	3.9	1.2	-0.3	n.a

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

(monthly weighted average)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
Lending Rate (Excluding Staff)	5.66	5.72	5.70	5.68	n.a
Savings Deposit Rate	1.33	1.38	1.35	1.40	n.a
Time Deposit Rate	3.21	3.44	3.47	3.52	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	1.00	0.91	n.a
3 month Government T-Bills	n.i	n.i	1.45	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	n.i	n.i	n.i	n.i	n.a

11. Commodity Prices (US\$) **

(end of period)

	Nov-17	Aug-18	Sep-18	Oct-18	Nov-18
UK Gold Price/fine ounce	1,280.2	1,202.5	1,187.3	1,215.0	1,223.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	15.1	10.6	10.4	13.2	12.5
Crude Oil/barrel	63.6	77.4	82.7	74.6	59.2

^{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