



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global growth momentum is expected to continue in 2018 with the International Monetary Fund projecting the global economy to grow by 3.9 percent in its April World Economic Outlook, slightly higher than the October 2017 forecast of 3.7 percent. Strong performances in advanced, emerging and developing economies in the last three quarters supported this outcome. For 2019, the world economy is expected to grow by 3.9 percent.

Generally, movements in commodity prices have trended upwards over the month owing to oil supply side effects and escalating trade war concerns between the United States (US) and China, with the latter raising the demand for gold as a safe haven. Sugar prices however declined aided by increased supply.

On the domestic front, the Fijian economy is envisaged to grow for the ninth consecutive year, albeit at a slightly slower pace due to the recent spate of natural disasters. Sectoral performances over the review month were largely positive. Visitor arrivals noted an annual growth of 5.1 percent cumulative to March, driven by higher tourist numbers from New Zealand, US, Australia, China and Continental Europe. Gold production grew substantially by 91.2 percent in the year to March on account of base effects and efficiency gains derived from the recent upgrades. Electricity production also grew on an annual basis by 4.9 percent cumulative to February of which 73.9 percent was sourced from renewable energy. The timber industry performed strongly in the first two months of the year with significant increases in production of mahogany, pine logs and woodchip.

Partial indicators for consumption and investment activity were mixed in the review period. Cumulative to March, commercial banks' new lending for consumption purposes grew by 15.9 percent supported by an increase in lending to the wholesale, retail, hotels & restaurants sector by 17.1

percent, and private individuals by 12.1 percent. In the same period, new and second-hand vehicle registrations rose by 59.1 percent and 10.8 percent, respectively.

Investment activity is expected to remain firm in 2018 and forecasted to be around 28.0 percent of GDP. However, over the month of March, investment activity was somewhat subdued. Domestic cement sales, an indicator for construction sector activity, declined by 20.2 percent cumulative to March. The decline in cement sales is expected to be temporary and should pick up in the months ahead. In the same period, lending for investment purposes also declined by 23.3 percent largely due to base-related effects. Nonetheless, construction and investment related activities are expected to gain momentum as a result of post disaster rehabilitation works as well as the ongoing private sector projects.

Labour market conditions were favourable in March. The Reserve Bank of Fiji's (RBF) Job Advertisement Survey indicated an annual growth of 5.4 percent in the number of jobs advertised cumulative to March, led by higher recruitment intentions in the manufacturing, electricity & water and mining & quarrying sectors.

Monetary conditions remain supportive of growth as private sector credit expanded by 7.8 percent in March, a moderation from 8.1 percent noted in the previous month. Commercial banks' new lending slowed to 7.1 percent owing to negative growth in sectors such as building & construction and real estate, combined with lower credit growth to the wholesale, retail, hotels & restaurants sector. Interest rates movements trended upwards in March. The commercial banks' weighted average new lending rate rose to 6.25 percent in March from 5.85 in February, and was also higher than 5.50 percent noted a year ago. New time deposit rate rose to 3.17 percent in March from 2.84 percent in February, although lower than 3.46 percent recorded

in March 2017.

Liquidity, as measured by banks' demand deposits (BDD), fell in March by 4.7 percent to \$536.5 million, led by a decline in foreign reserves of \$3.1 million coupled with increases in currency in circulation by \$11.3 million and statutory reserve deposits by \$5.2 million. As at 27 April 2018, BDD stood at \$540.6 million.

Over the month of March, the Fiji dollar rose against the Australian dollar (1.1%), but fell against the Euro (-1.2%), the Japanese Yen (-1.0%), the US (-0.6%), and the New Zealand (-0.2%) dollars. Over the year, the Fiji dollar strengthened against the US (1.6%), and the Australian (1.5%) dollars, but weakened against the Euro (-11.8%) the Japanese Yen (-2.9%) and the New Zealand dollar (-1.3%).

The Nominal Effective Exchange Rate (NEER)¹ index fell in March by 0.1 percent. Over the year, the NEER also fell but by a higher 1.3 percent in March, owing to the weakening of the Fiji dollar against its major trading partner currencies. The Real Effective Exchange Rate (REER)² appreciated slightly by 0.5 percent in March due to higher domestic inflation which indicates a worsening in our international competitiveness.

Inflation edged-up slightly to 2.6 percent in March, from 2.3 percent in February, but remained lower than the 5.6 percent registered a year ago. Higher annual price movements in the alcoholic beverages, tobacco & narcotics; housing, water, electricity, gas & other fuels; transport; restaurants & hotels and food & non-alcoholic beverages categories contributed to this outcome.

The recent natural disasters are expected to raise prices of agricultural market items. However, the price increase is anticipated to generally subside within the year when supply normalises. Nonetheless, given the devastation in Kadavu, kava supply is expected to be affected and this will potentially raise kava prices in the coming months.

Foreign reserves (RBF holdings) fell over the month to around \$2,157.7 million in March, sufficient to cover 4.9 months of retained imports of goods and non-factor services. As at 30 April 2018, foreign reserves was \$2,185.0 million providing 5.0 months of retained imports cover.

Taking into account the recent economic developments and the comfortable outlook for inflation and foreign reserves, the RBF Board left the Overnight Policy Rate unchanged at 0.5 percent in April.

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¹ 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.

² 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)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Visitor Arrivals	7.2	-3.5	2.4	5.1	n.a
Electricity Production	8.3	5.3	4.9	n.a	n.a
Gold Production	-32.9	107.6	84.9	91.2	n.a
Pinewood Intake	-64.5	4,577.3	2,947.8	n.a	n.a
Woodchip	-77.1	2,818.2	5,005.1	n.a	n.a
Mahogany	-96.6	232.2	565.8	n.a	n.a
Cement Production	5.5	11.7	-14.7	-27.3	n.a

2. Consumption Indicators

(year-on-year % change)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Net VAT Collections	17.2	18.1	15.0	n.a	n.a
New Consumption Lending	8.1	16.1	16.3	15.9	n.a
New Vehicle Registrations****	16.5	29.8	88.0	59.1	n.a
Second Hand Vehicle Registrations****	-20.1	3.0	5.0	10.8	n.a
Personal Remittances	-2.9	17.9	-0.6	n.a	n.a
Electricity Consumption	6.0	6.2	6.1	7.6	n.a

3. Investment Indicators

(year-on-year % change)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Domestic Cement Sales	34.0	-9.9	-10.7	-20.2	n.a
New Investment Lending	52.9	13.6	13.7	-23.3	n.a

4. Labour Market

(year-on-year % change)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
RBF Job Advertisement Survey	8.5	7.3	-3.0	5.4	n.a

5. Consumer Prices *

(year-on-year % change)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
All Items	4.1	1.5	2.3	2.6	n.a
Food and Non-Alcoholic Beverage	-3.5	-6.0	-2.1	0.2	n.a
Alcoholic Beverages, Tobacco & Narcotics	44.1	23.5	21.3	16.3	n.a

6. Reserves ***

(end of period)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Foreign Reserves (\$m) ^{1/}	2,065.6	2,181.2	2,159.9	2,157.8	2,181.4
Months of retained imports of goods and non-factor services (MORI)	5.0	5.0	4.9	4.9	5.0

7. Exchange Rates ****

(mid rates, FSI equals)

(end of period)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
US dollar	0.4760	0.4984	0.4913	0.4885	0.4855
Australian dollar	0.6373	0.6167	0.6304	0.6376	0.6385
New Zealand dollar	0.6921	0.6799	0.6788	0.6775	0.6819
Euro	0.4377	0.4020	0.4017	0.3969	0.3968
Japanese yen	52.94	54.24	52.74	52.21	52.81
Nominal Effective Exchange Rate	85.15	84.12	84.11	84.06	n.a
Real Effective Exchange Rate	101.73	103.56	100.94	101.44	n.a

8. Liquidity ****

(end of period)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Banks' Demand Deposits (\$m)	565.0	562.8	562.9	536.5	540.6

9. Money and Credit ****

(year-on-year % change)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Broad Money	4.3	9.3	8.3	7.5	n.a
Net Foreign Assets	-0.4	19.1	17.1	16.5	n.a
Domestic Credit	8.9	6.9	6.7	6.7	n.a
Private Sector Credit	13.6	8.3	8.1	7.8	n.a
Narrow Money	5.6	13.9	12.4	10.2	n.a

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

(monthly weighted average)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
Lending Rate (Excluding Staff)	5.74	5.64	5.65	5.66	n.a
Savings Deposit Rate	1.31	1.36	1.18	1.22	n.a
Time Deposit Rate	3.22	3.18	3.21	3.30	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	1.35	n.i	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	n.i	6.00	n.i	6.00	n.a

11. Commodity Prices (US\$) **

(monthly average)

	Apr-17	Jan-18	Feb-18	Mar-18	Apr-18
UK Gold Price/fine ounce	1,265.8	1,331.7	1,331.5	1,273.7	1,337.4
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	16.4	14.0	13.6	13.0	12.2
Crude Oil/barrel	53.8	69.1	65.7	66.6	69.8

^{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