RESERVE BANK OF FIJI

ECONOMIC REVIEW

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According to the International Monetary Fund's January World Economic Outlook update, global growth for 2017 is estimated at 3.7 percent, higher than the 3.2 percent growth recorded in 2016, on account of better-than-expected third quarter performances in several advanced economies such as Germany, Japan, South Korea and the United States (US) as well as some emerging and developing economies including China. In 2018, the global economy is projected to accelerate further by 3.9 percent, supported by an improved outlook for advanced economies. Additionally, the US tax policy reform[1] is anticipated to enhance global output via temporary improvements in the US domestic growth combined with favourable demand spill overs for its trading partners. Nonetheless, risks to the global growth are broadly balanced in the near term and skewed to the downside in the medium term as threats remain from higher inflationary pressures, build-up of financial vulnerabilities and the tightening of global financing terms.

Commodity prices revealed mixed outcomes in January. Oil prices continued to surge led by higher global demand. Similarly, gold prices rose after the US dollar weakened and raised the demand for the precious metal as a safe haven asset. However, sugar prices dropped due to increased supply from major producers such as India and Thailand. The FAO[2] food price index fell in December, owing to the decline in prices of dairy, vegetable oils and sugar.

On the domestic front, sectoral performances were mixed but generally positive in 2017. Visitor arrivals increased by 6.4 percent, reaching a new record high of 842,844 visitors in 2017, mainly due to higher tourist arrivals from New Zealand and the US. Likewise, electricity production rose while timber and gold production fell last year. However, these sectors are expected to rebound in 2018.

Consumption activity stayed firm in 2017 as suggested by various partial indicators. This is mainly due to favourable monetary and labour market conditions and higher disposable incomes. New lending for consumption purposes rose annually in 2017, mainly due to higher disbursements to the wholesale, retail, hotel & restaurants sector.

Investment activity remained upbeat throughout 2017 as illustrated by partial indicators. New lending by commercial banks for investment purposes rose on an annual basis in 2017, backed by growth in the real estate and building & construction sectors. In the same period, domestic cement sales rose at a slower pace and is expected to improve in the months ahead. Ongoing and new private sector projects, rehabilitation works post TC Winston and increased capital expenditure in the financial year 2017-18 National Budget are expected to support the 8.7 percent growth forecast for construction activity in 2018.

Labour market conditions remained favourable in 2017. The RBF's Job Advertisement Survey revealed an annual increase of 7.8 percent in the number of vacant positions advertised in 2017. Higher recruitment intentions were noted from the wholesale & retail trade & restaurants & hotels; community, social & personal services; transport, storage & communication and construction sectors. This was supported by the decline in unemployment rate as revealed by the recent census results. Going forward, employment prospects remain largely positive and are expected to be supported by the positive growth momentum.

Monetary conditions remained accommodative in 2017 as credit continued to grow. Domestic credit rose by 5.8 percent largely led by the growth in private sector credit which expanded by 9.1 percent. This reflected the rise in both commercial banks'

[1] The recent changes to US tax policy by the Trump administration mainly involve cuts to corporate income tax which is expected to attract investments and boost economic activity both in the US and globally.

[2] Food and Agriculture Organisation.

new and outstanding annual lending in 2017, which increased by 9.6 percent and 8.4 percent, respectively. Lower interest rates continue to support credit growth. On an annual basis, both the commercial banks outstanding lending rate (5.65%) and the new lending rate (5.84%) fell. In terms of funding costs, the outstanding time deposit rate (3.21%) rose while the new time deposit rate (2.65%) fell relative to the same period last year.

Excess liquidity measured by bank demand deposits fell over the month in December 2017 by 12.1 percent ($83.4m) to $606.0 million, due to a decline in foreign reserves ($38.2m) coupled with increases to statutory reserves deposits ($1.7m) and currency in circulation ($40.3m). Currently (30 January), liquidity remains high at $561.6 million.

The Fiji dollar rose over the month in December 2017 against the Yen (2.4%), the US dollar (1.5%) and the Euro (0.6%), but depreciated against the Australian (-1.4%) and the New Zealand (-1.3%) dollars. Following this, the Nominal Effective Exchange Rate (NEER)[3] index remained unchanged over the month indicating that the Fiji dollar remained firm against its major trading partner currencies. The Real Effective Exchange Rate (REER)[4] however rose over the month (1.3%), indicating higher price differentials between Fiji and its major trading partner countries, as domestic inflation (2.8%) remained above the trading partners inflation (1.9%) in December.

The merchandise trade deficit (excluding aircraft) narrowed by 2.2 percent to $2,261.4 million in the year to October, 2017. Total exports (excluding aircraft) rose by 8.6 percent led by the increase in exports of sugar, molasses, mineral water and re-exports which more-than-offset the decrease in the exports of timber and fish. Total imports (excluding aircraft) grew by 2.2 percent from an increase of 4.7 percent in the same period in 2016. The outturn was driven by increased imports of mineral fuels and miscellaneous manufactured articles which more-than-offset the lower imports of machinery & transport equipment and crude materials.

Inflation was 2.8 percent in December 2017, slightly higher than the 2.6 percent recorded in the previous month and the forecast of 2.5 percent for 2017. Higher yaqona and tobacco prices persisted throughout the year and are likely to continue in the months ahead. While inflation in the near term is expected to be domestically driven, any sharp increase in oil and food prices as well as adverse weather conditions such as the recent flooding in the West could put further upward pressure on prices.

The external sector was stable in 2017 and foreign reserves increased over the year by $351.6 million to $2,272.8 million at the end of 2017, sufficient to cover 5.4 months of retained imports. Currently (31 January), foreign reserves stand at $2,181.6 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services.

In light of the latest global and domestic economic developments and with no immediate risks to the twin monetary objectives outlook, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent in January.

RESERVE BANK OF FIJI

[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.

Vol.35 No.1 2018

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Jan-17	Oct-17	Nov-17	Dec-17	Jan-18
1. Sectoral Performance Indicators						
(year-on-year % change)						
	Visitor Arrivals	12.5	6.6	6.4	6.4	n.a
	Electricity Production	-1.9	7.2	7.0	6.5	n.a
	Gold Production	-47.1	-5.7	-5.7	-6.0	n.a
	Cane Production^	n.a	26.3	17.6	n.a	n.a
	Sugar Production^	n.a	37.4	29.3	n.a	n.a
	Pinewood Intake	-93.9	-53.2	-41.5	-32.1	n.a
	Woodchip	-89.0	-25.3	-14.7	-6.4	n.a
	Mahogany	-94.8	-94.5	-94.2	-94.3	n.a
	Cement Production	-34.1	-14.9	-17.8	-19.8	n.a
2. Consumption Indicators						
(year-on-year % change)						
	Net VAT Collections	-39.6	14.3	14.1	13.9	n.a
	New Consumption Lending	4.6	12.1	8.9	12.1	n.a
	New Vehicle Registrations****	30.3	3.3	5.2	8.7	n.a
	Second Hand Vehicle Registrations****	1.6	-32.5	-30.9	-30.2	n.a
	Personal Remittances	-3.4	0.6	-1.9	-1.6	n.a
	Electricity Consumption	0.01	7.4	7.3	7.2	n.a
3. Investment Indicators						
(year-on-year % change)						
	Domestic Cement Sales	31.5	5.6	2.5	2.2	n.a
	New Investment Lending	21.3	25.5	22.2	25.0	n.a
4. Labour Market						
(year-on-year % change)						
	RBF Job Advertisement Survey	8.3	7.5	11.1	7.8	n.a
5. Consumer Prices *						
(year-on-year % change)						
	All Items	6.8	2.6	2.6	2.8	n.a
	Food and Non-Alcoholic Beverage	7.1	-3.7	-3.0	-2.8	n.a
	Alcoholic Beverages, Tobacco & Narcotics	41.5	27.5	25.4	26.1	n.a
6. Reserves * **						
(end of period)						
	Foreign Reserves ($m)[1/]	1,918.5	2,410.2	2,311.0	2,272.8	2,181.6
	Months of retained imports of goods and non-factor services (MORI)	4.6	5.8	5.5	5.4	5.0
7. Exchange Rates * **						
(mid rates, F$1 equals)						
(end of period)						
	US dollar	0.4821	0.4820	0.4804	0.4874	0.4963
	Australian dollar	0.6386	0.6268	0.6343	0.6254	0.6208
	New Zealand dollar	0.6620	0.7004	0.6972	0.6880	0.6754
	Euro	0.4508	0.4136	0.4051	0.4077	0.4039
	Japanese yen	54.78	54.54	53.74	55.02	54.78
	Nominal Effective Exchange Rate	85.20	85.17	85.05	85.06	n.a
	Real Effective Exchange Rate	104.97	102.97	101.77	103.11	n.a
8. Liquidity * **						
(end of period)						
	Banks' Demand Deposits ($m)	408.9	800.5	689.5	606.0	561.6
9. Money and Credit * **						
(year-on-year % change)						
	Broad Money	3.4	11.6	11.1	8.2	n.a
	Net Foreign Assets	-2.7	27.4	26.0	17.7	n.a
	Domestic Credit	8.6	6.7	6.4	5.8	n.a
	Private Sector Credit	12.6	10.7	8.8	9.1	n.a
	Narrow Money	3.4	14.6	13.5	13.7	n.a
10. Interest Rates (% p.a.) * **						
(monthly weighted average)						
	Lending Rate (Excluding Staff)	5.83	5.69	5.66	5.65	n.a
	Savings Deposit Rate	0.98	1.37	1.33	1.34	n.a
	Time Deposit Rate	3.05	3.28	3.21	3.21	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.t
	3 month Government T-Bills	n.i	n.i	n.i	n.i	n.i
	12 month Government T-Bills	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
	10-year Government Bond Yield	6.55	n.i	n.i	6.00	n.a
11. Commodity Prices (US$) **						
(monthly average)						
	UK Gold Price/fine ounce	1,192.6	1,279.1	1,282.3	1,261.3	1,329.6
	CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	20.5	14.4	15.0	14.4	14.1
	Crude Oil/barrel	55.50	57.6	62.9	64.3	69.1

[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*

The figures for December are the latest available.