



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Month Ended December 2017

Global economic prospects in the near-term remain favourable supported by an improved outlook for advanced and emerging market economies. For our major trading partners, a rebound in government investment in the United States (US) propelled growth in the third quarter while expansion in manufacturing and services output contributed to firmer growth in the Euro zone economy. For Japan, a pick-up in manufacturing activity strengthened growth while continuation of policies by the Abe-led government indicates sustained growth prospects. Growth in China continued to be supported by services and consumption activity while increased investment and manufacturing output boosted growth in India. For Australia, the economy is still expanding albeit at a slower pace while economic activity in New Zealand is anticipated to improve further in the near term.

Domestically, sectoral performances to date remained generally mixed. Total tonnes of sugarcane crushed and sugar produced by the end of the 2017 sugarcane crushing season (20 November), was higher than last year's comparable season. Electricity production rose while gold and timber production contracted cumulative to November. In the same period, visitor arrivals increased by 6.4 percent mainly led by strong growth in New Zealand and US tourist arrivals.

Robust consumption and investment activity continue to drive aggregate demand. Favourable monetary and labour market conditions, higher disposable incomes and inward remittances remain supportive of business investment and consumer spending. Consumption indicators such as new lending for consumption purposes increased in the first eleven months, led by higher growth in the wholesale, retail, hotels & restaurants sector.

Similarly, partial indicators for investment activity recorded improved outcomes as new lending to commercial banks grew cumulative to November, mainly attributed to lending to the real estate and

building & construction sectors. However, domestic cement sales declined in the same period due to a slowdown in production. The near term forecast for investment is positive owing to new private sector projects and continued rehabilitation works post Tropical Cyclone Winston.

Labour market conditions remain favourable. According to the RBF's Job Advertisement Survey, the number of advertised vacancies recorded an annual increase cumulative to November 2017. Higher recruitment intentions were noted in the wholesale & retail trade & restaurants & hotels; constructions and finance, insurance, real estates & business services sectors. The near-term employment outlook remains optimistic backed by the firm domestic economic performance.

Monetary conditions continue to support growth and the financial system is relatively stable. In the year to November, the commercial banks' outstanding lending rate declined over the year to 5.66 percent while the new lending rate rose to 5.94 percent over the same period. In terms of funding costs, the outstanding time deposit rate increased to 3.21 percent while the new time deposit rate declined to 2.55 percent relative to the same period last year. Domestic credit growth decelerated further in the review period although remaining firm at 6.4 percent, following a slowdown in private sector credit. The outturn was underpinned by the slower lending to the building & construction and private individuals sectors coupled with contractions in the transport & storage and nonbank financial institutions sectors.

Liquidity in the banking system remained adequate, although it fell over the month of November. As at 28 December, liquidity stood at \$597.7 million.

In November, the Fiji dollar strengthened against the US (4.1%) dollar but weakened against the Euro (-3.9%), Australian (-2.7%) and New Zealand (-2.1%) dollars and the Yen (-2.0%).

As a result, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index fell in the same month (-0.4%), indicating a general weakening of the Fiji dollar against major trading partner currencies. Despite the higher domestic inflationary outturn relative to that of trading partners, the weaker Fiji dollar led to a decline (-1.0%) in the Real Effective Exchange Rate (REER)<sup>2</sup> over the month of November.

Annual inflation anchored at 2.6 percent in November, same as the previous month. Over the year, prices were higher for alcoholic beverages, tobacco & narcotics; housing, water, electricity, gas & other fuels; transport; restaurants & hotels; and clothing & footwear.

Merchandise exports based on the Overseas Exchange Large Transactions report, declined annually by 4.2 percent cumulative to November 2017, compared to the same period in 2016.

The outturn was mainly led by lower receipts from timber, sugar and gold which more-than-offset the increase in earnings from mineral water and fish. Similarly, merchandise imports fell marginally by 1.8 percent over the same period led by declines in fuel and food payments. Despite the deteriorating current account over the medium term, the overall external position remains comfortable.

In November, foreign reserves fell by \$98.3 million to \$2,311.8 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services (MORI). As at 29 December, foreign reserves stood at \$2,275.9 million, sufficient to cover 5.5 MORI.

## **RESERVE BANK OF FIJI**

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<sup>1</sup> 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.

<sup>2</sup> 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 &amp; FINANCIAL STATISTICS

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**KEY INDICATORS**
**1. Sectoral Performance Indicators**

(year-on-year % change)

	Dec-16	Sep-17	Oct-17	Nov-17	Dec-17
Visitor Arrivals	5.0	6.6	6.6	6.4	n.a
Electricity Production	3.5	7.2	7.2	7.0	n.a
Gold Production	13.7	-6.7	-5.7	-5.7	n.a
Cane Production <sup>^</sup>	-24.8	34.8	26.3	17.6	n.a
Sugar Production <sup>^</sup>	-37.1	44.9	37.4	29.3	n.a
Pinewood Intake	-35.9	-53.1	-53.2	n.a	n.a
Woodchip	-43.5	-38.6	-25.3	n.a	n.a
Mahogany	-33.3	-97.1	-94.5	-94.2	n.a
Cement Production	10.9	-8.7	-14.9	-20.1	n.a

**2. Consumption Indicators**

(year-on-year % change)

Net VAT Collections	-26.9	13.7	n.a	n.a	n.a
New Consumption Lending	9.7	9.7	12.1	8.9	n.a
New Vehicle Registrations*	27.5	4.4	3.3	5.2	n.a
Second Hand Vehicle Registrations*	7.8	-32.6	-32.5	-30.9	n.a
Personal Remittances	10.2	1.7	n.a	n.a	n.a
Electricity Consumption	1.9	7.5	7.4	7.1	n.a

**3. Investment Indicators**

(year-on-year % change)

Domestic Cement Sales	11.1	9.2	5.6	-1.1	n.a
New Investment Lending	-10.3	26.9	25.5	22.2	n.a

**4. Labour Market**

(year-on-year % change)

RBF Job Advertisement Survey	0.7	10.0	7.6	12.4	n.a
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**5. Consumer Prices\***

(year-on-year % change)

All Items	3.9	2.0	2.6	2.6	n.a
Food and Non-Alcoholic Beverage	2.9	-4.2	-3.7	-3.0	n.a
Alcoholic Beverages, Tobacco & Narcotics	35.3	23.5	27.5	25.4	n.a

**6. Reserves \*\*\***

(end of period)

Foreign Reserves (\$m) <sup>1/</sup>	1,921.2	2,406.8	2,410.2	2,311.8	2,275.9
Months of retained imports of goods and non-factor services (MORI)	5.3	5.8	5.8	5.5	5.5

**7. Exchange Rates \*\*\***

(mid rates, FS1 equals)

(end of period)

US dollar	0.4695	0.4906	0.4820	0.4804	0.4874
Australian dollar	0.6517	0.6245	0.6268	0.6343	0.6254
New Zealand dollar	0.6755	0.6778	0.7004	0.6972	0.6880
Euro	0.4475	0.4164	0.4136	0.4051	0.4077
Japanese yen	54.73	55.14	54.54	53.74	54.02
Nominal Effective Exchange Rate	85.15	85.32	85.17	85.05	n.a
Real Effective Exchange Rate	102.31	103.85	102.94	101.94	n.a

**8. Liquidity \*\*\***

(end of period)

Banks' Demand Deposits (\$m)	412.3	801.1	800.5	689.5	597.7
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**9. Money and Credit \*\*\***

(year-on-year % change)

Broad Money	4.7	10.6	11.6	11.1	n.a
Net Foreign Assets	3.0	27.4	27.4	26.0	n.a
Domestic Credit	7.4	6.6	6.7	6.4	n.a
Private Sector Credit	12.7	11.6	10.7	9.1	n.a
Narrow Money	4.0	15.8	14.6	13.5	n.a

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.80	5.72	5.69	5.66	n.a
Savings Deposit Rate	0.97	1.41	1.37	1.33	n.a
Time Deposit Rate	2.95	3.30	3.28	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.a
3 month Government T-Bills	1.37	n.i	n.i	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	6.45	n.i	n.i	n.i	n.a

**11. Commodity Prices (US\$) \*\***

(monthly average)

UK Gold Price/fine ounce	1,151.4	1,315.0	1,279.1	1,282.3	1,291.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	18.80	13.90	14.36	15.04	15.00
Crude Oil/barrel	54.90	55.52	57.65	62.87	66.72

<sup>1/</sup> 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  
 ^ Fiji Sugar Corporation

The figures for December are the latest available.