



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global growth is projected at 3.7 percent for both 2018 and 2019. However, major global economies noted a slowdown in the second half of the year due to a combination of internal and external factors with the notable exception of the United States (US). Growth in the US remained solid led by private spending while lower consumption, higher oil prices and concerns regarding Brexit affected economic conditions in Europe. In Asia, the Japanese economy contracted in the third quarter due to a series of natural disasters while China continued to grapple with the ongoing trade impasse with the US. Rising oil prices and the subsequent slowdown in consumption affected output in India. Closer to home, the Australian economy slowed in the third quarter due to falling house prices, tightening financing conditions and sluggish wage growth while New Zealand has been affected by higher oil prices and stagnant activity in the construction sector.

Global commodity price movements were mostly on the downside in November as oil, sugar and food prices declined while only gold price increased. The large (-18.2%) decline in world market crude oil price in November was slightly reversed by mid-December as prices rose to US\$60.25<sup>1</sup>, after major producers agreed to cut production to arrest the plummeting prices. Future prices for the first quarter of 2019 average around similar levels<sup>2</sup>. Sugar prices continue to fall resulting from weak demand in India as it heads into winter while gold prices

shot up due to increased investor demand as well as the start of the wedding season in India.

The Fijian economy is envisaged to grow above 3.0 percent over the medium term. Growth will continue to be supported by robust consumption and public spending and further improvement in private investment spending post elections. Sectoral performances have been generally positive this year. Amongst the major industries, cane production increased annually by 3.1 percent as at 17 December but sugar production declined (-11.5%) due to low cane quality. Sawn timber and woodchips advanced further till November while mahogany production rose cumulative to October despite accessibility issues. Industrial production<sup>3</sup> declined marginally (-1.2%) in the first half of the year. However, excluding sugar it noted a growth (2.5%).

Domestically, aggregate demand has remained firm during the year. In the year to October, partial indicators of consumption such as new consumption lending (+16.6%), new vehicle registrations (+12.4%), second hand vehicle registrations (+13.9%) and Net VAT collections (+7.0%)<sup>4</sup> noted annual gains.

Partial indicators for investment continue to show mixed results. While lending for investment rose (+1.9%) up to October, cement production (-15.8%) and sales (-27.2%) fell due to transportation setbacks.

<sup>1</sup> As at 14 December, 2018.

<sup>2</sup> US\$60.3 per barrel

<sup>3</sup> As measured by the Industrial Production Index which measures changes in production volumes for the mining & quarrying, manufacturing, electricity and water industries. In

2017, all mills started operations in the first week of June but in 2018, Lautoka and Rarawai mills started operations in July.

<sup>4</sup> In the year to September 2018.

The deceleration in credit growth has turned around. Growth in private sector credit rose to 8.7 percent in October after falling to a low of 5.6 percent in July. Similarly, growth in commercial banks new lending increased to 9.5 percent from 8.7 percent a year ago. Commercial banks' outstanding and new time deposit rates have edged-up over the year while outstanding and new lending rates continued to nudge slightly lower in October.

Liquidity in the banking system (measured by banks' demand deposits) has been declining in line with the fall in foreign reserves. At the end of November, liquidity was \$366.5 million and fell further \$308.0 million by 24 December.

Over the month of November, the Fiji dollar strengthened against the Yen (+2.3%), US dollar (+1.8%) and Euro (+1.5%), but weakened against the New Zealand (-2.6%) and Australian dollar (-1.1%). Annually, the Fiji dollar appreciated against the Euro (+2.7%) and Australian (+2.0%) dollar but was lower against the US (-1.5%), NZ dollar (-0.9%) and the Yen (-0.1%). The Nominal Effective Exchange Rate (NEER)<sup>5</sup> index increased over the month (+0.1%) and over the year (+0.9%) indicating a general strengthening of the Fiji dollar. In contrast, the Real Effective Exchange Rate (REER)<sup>6</sup> fell over the month (-0.8%) but gained (+4.5%) over the year due to higher domestic inflation compared to trading partners' inflation.

Annual headline inflation was 5.2 percent in November, unchanged from October. Higher prices were noted for alcohol, tobacco, kava, fuel and vegetables. However, over the month consumer prices declined by 0.3 percent, led by food and non-alcoholic beverages.

Foreign reserves (RBF Holdings) are currently \$2,009.3 million (31 December) and sufficient

to cover 4.4 months of retained imports of goods and services.

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<sup>5</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>6</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.

**KEY INDICATORS**

**1. Sectoral Performance Indicators**

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Visitor Arrivals	6.4	6.4	4.3	4.0	n.a	n.a
Electricity Production	7.0	6.5	0.6	0.7	0.2	n.a
Gold Production	-5.7	-6.0	-4.6	-4.7	-7.2	n.a
Cane Production <sup>^</sup>	15.6	17.6	-1.6	-8.2	3.1	n.a
Sugar Production <sup>^</sup>	27.7	29.3	-5.1	-15.9	-11.5	n.a
Pinewood Intake	-41.5	-32.1	225.9	237.4	179.3	n.a
Woodchip	-14.7	-6.4	174.0	134.8	107.0	n.a
Mahogany	-94.2	-94.3	1226.8	549.5	n.a	n.a
Cement Production	-17.8	-19.8	-19.7	-15.8	n.a	n.a

**2. Consumption Indicators**

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Net VAT Collections	14.1	13.9	7.0	n.a	n.a	n.a
New Consumption Lending	8.9	12.1	15.2	16.6	12.3	n.a
New Vehicle Registrations****	5.2	8.7	31.5	31.2	n.a	n.a
Second Hand Vehicle Registrations****	-30.9	-30.2	12.1	13.9	n.a	n.a
Personal Remittances	-1.9	-1.6	6.7	6.0	n.a	n.a
Electricity Consumption	7.3	7.2	2.4	3.0	n.a	n.a

**3. Investment Indicators**

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Domestic Cement Sales	8.4	7.5	-27.6	-27.2	n.a	n.a
New Investment Lending	22.2	25.0	1.3	1.9	2.9	n.a

**4. Labour Market**

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
RBF Job Advertisement Survey	9.2	6.8	9.3	9.3	n.a	n.a

**5. Consumer Prices \***

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
All Items	2.6	2.8	4.6	5.2	5.2	n.a
Food and Non-Alcoholic Beverage	-3.0	-2.8	4.9	7.7	7.3	n.a
Alcoholic Beverages, Tobacco & Narcotics	25.4	26.1	18.6	16.1	16.6	n.a

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

(end of period)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Foreign Reserves (\$m) <sup>1/</sup>	2,311.0	2,272.8	2,116.0	2,125.9	2,056.7	2,009.3
Months of retained imports of goods and non-factor services (MORI)	5.8	5.7	4.7	4.7	4.5	4.4

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

(mid rates, F\$1 equals)

(end of period)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
US dollar	0.4804	0.4874	0.4682	0.4648	0.4732	0.4667
Australian dollar	0.6343	0.6254	0.6497	0.6543	0.6473	0.6611
New Zealand dollar	0.6972	0.6880	0.7081	0.7094	0.6907	0.6946
Euro	0.4051	0.4077	0.4021	0.4097	0.4159	0.4108
Japanese yen	53.74	55.02	53.09	52.51	53.70	51.78
Nominal Effective Exchange Rate	83.92	83.93	84.63	84.60	84.69	n.a
Real Effective Exchange Rate	100.62	102.02	106.26	105.92	105.11	n.a

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

(end of period)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Banks' Demand Deposits (\$m)	689.5	606.0	418.2	456.6	387.2	306.7

**9. Money and Credit \*\*\***

(year-on-year % change)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Broad Money	11.2	8.3	3.9	2.7	n.a	n.a
Net Foreign Assets	26.0	18.0	-13.2	-17.0	n.a	n.a
Domestic Credit	6.5	5.9	10.7	10.8	n.a	n.a
Private Sector Credit	8.8	9.3	8.2	8.7	n.a	n.a
Narrow Money	13.5	13.9	1.2	-0.3	n.a	n.a

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

(monthly weighted average)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
Lending Rate (Excluding Staff)	5.66	5.65	5.70	5.68	n.a	n.a
Savings Deposit Rate	1.33	1.34	1.35	1.40	n.a	n.a
Time Deposit Rate	3.21	3.21	3.47	3.52	n.a	n.a
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i	n.a	n.a
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	n.a	n.a
Overnight inter-bank Rate	n.t	1.0	1.00	0.91	n.a	n.a
3 month Government T-Bills	n.i	n.i	1.45	n.i	n.a	n.a
12 month Government T-Bills	n.i	n.i	n.i	n.i	n.a	n.a
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.a	n.a
10-year Government Bond Yield	n.i	6.0	n.i	n.i	n.a	n.a

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

(end of period)

	Nov-17	Dec-17	Sep-18	Oct-18	Nov-18	Dec-18
UK Gold Price/fine ounce	1,280.2	1,291.0	1,187.3	1,215.0	1,223.7	1,235.4
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	15.1	15.2	10.4	13.2	12.5	12.7
Crude Oil/barrel	63.6	66.9	82.7	74.6	59.2	60.3

<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  
 \*\*\*\* Land Transport Authority  
 ^ Fiji Sugar Corporation