



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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In its July World Economic Outlook (WEO), the International Monetary Fund further downgraded the global growth forecast for 2019 to 3.2 percent, 0.1 percentage point lower than the April projection. This was on account of further escalation in the United States (US) China trade war, US sanctions threatening global technology supply, Brexit-related uncertainty and geo-political tensions. Global risks remain tilted to the downside as the uncertainty generated by the trade and technology disputes impinge on investment and business confidence. Consequently, growth for 2020 has also been revised downwards by 0.1 percentage point to 3.5 percent.

Major commodity prices generally rose in June. Crude oil prices increased due to production cuts by the Oil Petroleum Exporting Countries given the imposition of tighter US sanctions on Iranian shipments. Also, world market gold prices rose owing to a weaker US dollar on prospects of monetary easing by the Federal Reserve amid rising US-Iran tensions that drove demand for safe-haven assets. Sugar prices rose due to the reduced sugar output in Brazil. In contrast, the FAO¹ food price index fell in June, underpinned by the significant decline in dairy and edible oil prices.

Domestic sectoral performances with the exception of visitor arrivals and electricity production have been weak. Sugar, gold and timber production fell in the year to June due to a combination of transport, technical and weather related issues while electricity output rose. However, in the services sector, cumulative to June, visitor arrivals grew by an annual 6.1 percent.

Partial indicators for domestic consumption reflect a slowdown in the first half of the year. Cumulative to June, domestic and import VAT collections grew at a slower rate of 1.2 percent and 1.1 percent respectively over the year. The growth in banks' new consumption lending to the wholesale, retail, hotels

& restaurant sector and private individuals category was also lower annually. Similarly new and second-hand vehicle registrations fell in the year to June.

Latest partial indicators for investment/construction activity softened further in the review period. In the year to June, commercial banks new lending for investment purposes declined, attributed to a contraction in lending to the real estate and the building & construction sectors. Additionally, domestic cement sales fell by 7.8 percent in the same period.

Broad money fell by an annual 0.7 percent in June driven by the decline in net foreign assets and a further slowdown in net domestic assets. The annual growth in net domestic credit slowed for the fourth consecutive month to 7.2 percent due to the contraction in net credit to nonfinancial public sector and the slowdown in private sector credit in June, relative to May.

Liquidity in the banking system (measured by commercial banks' demand deposits) grew over the month in June by 34.3 percent (\$110.8m) to \$434.0 million, due to the increase in foreign reserves (\$41.0m) coupled with a slight decline in statutory reserve deposits (-\$7.2m). As at 31 July, liquidity in the banking system amounted to \$506.1 million.

Over the month in June, the Fijian dollar (FJD) strengthened against the US dollar (1.3%) but weakened against the New Zealand (NZ) dollar (-1.7%), Euro (-0.9%), Yen (-0.4%) and the Australian dollar (-0.2%). Annual movements indicated that the FJD appreciated against the Australian Dollar (+3.1%) but was lower against the Yen (-3.8%), USD (-1.6%), and the NZ dollar (-0.2%).

¹ Food and Agriculture Organisation.

In June, the Nominal Effective Exchange Rate (NEER)² noted a marginal increase over the month (0.02%) but was lower over the year (0.2%). Similarly, the Real Effective Exchange Rate (REER)³ increased over the month (1.6 %) and on an annual basis (0.7%). Higher domestic inflation over the month underpinned the loss in trade competitiveness.

The merchandise trade deficit (excluding aircraft) narrowed by 8.4 percent to \$989.4 million in the year to April compared with a widening of 15.1 percent in the same period last year.

Total exports (excluding aircraft) rose by 12.8 percent due to a significant growth in re-exports⁴ (31.2%) which more-than-offset the decline in domestic exports (-1.7%). Total imports (excluding aircraft) fell by 0.9 percent led by lower imports of machinery & transport equipment, chemicals and animal & vegetable oils & fats.

Annual inflation in June stood at 2.8 percent, higher than the 2.1 percent in May, but lower than the 4.6 percent registered in June last year.

The higher inflation outcome was due to the increase in prices of food & non-alcoholic beverages; alcoholic beverages; tobacco & narcotics; education; and the housing water, electricity, gas and other fuels categories. The year-end inflation forecast for 2019 remains at 3.2 percent.

Foreign reserves (RBF holdings) was \$1,973.4 million in June, sufficient to cover 4.5 months of retained imports (MORI). As at 31 July, foreign reserves stood at \$2,086.3 million, sufficient to cover 4.8 MORI.

Considering the stable near-term outlook for inflation and foreign reserves, the Reserve Bank maintained its Overnight Policy Rate at 0.5 percent.

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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 FJD against the basket of currencies. An increase in this index indicates a slight appreciation of the FJD 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 FJD against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

⁴ Largely driven by re-exports of mineral fuel (49.1%).

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS**1. Sectoral Performance Indicators**

(year-on-year % change)

	Jun-18	Mar-19	Apr-19	May-19	Jun-19
Visitor Arrivals	3.0	0.2	5.8	6.5	6.1
Electricity Production	0.0	3.8	6.6	6.1	5.1
Gold Production	11.6	-21.0	-15.8	-13.3	-13.2
Cane Production [^]	n.a	n.a	n.a	n.a	-47.5
Sugar Production [^]	n.a	n.a	n.a	n.a	-62.3
Pinewood Intake	180.1	-3.6	-1.1	-5.9	-13.1
Woodchip	304.4	-22.9	-11.6	-19.9	-26.6
Mahogany	1100.8	-40.5	11.4	53.6	94.3
Cement Production	-20.6	11.1	7.2	0.1	-2.9

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections	9.1	16.6	14.8	9.9	12.2
New Consumption Lending	19.0	-7.4	-2.2	7.8	1.8
New Vehicle Registrations****	47.6	-38.7	-38.4	-37.8	-33.6
Second Hand Vehicle Registrations****	8.8	-2.1	1.8	0.6	-1.8
Personal Remittances	8.4	8.5	5.7	10.1	6.6
Electricity Consumption	2.9	5.1	6.8	6.0	5.3

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales	-20.6	-3.5	-5.7	-6.2	-7.8
New Investment Lending	-8.0	-15.6	-8.4	-20.1	-19.0

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	8.2	8.6	-4.5	-6.9	-6.8
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5. Consumer Prices *

(year-on-year % change)

All Items	4.6	4.0	2.1	2.1	2.8
Food and Non-Alcoholic Beverage	5.1	7.7	2.0	3.0	7.3
Alcoholic Beverages, Tobacco & Narcotics	22.3	14.4	13.1	13.8	7.8

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2139.1	1921.9	1944.3	1933.2	1973.4
Months of retained imports of goods and non-factor services (MORI)	4.7	4.4	4.5	4.4	4.5

7. Exchange Rates ***

(mid rates, FS1 equals)

(end of period)

US dollar	0.4741	0.4679	0.4655	0.4607	0.4665
Australian dollar	0.6459	0.6611	0.6597	0.6666	0.6656
New Zealand dollar	0.6976	0.6893	0.6981	0.7080	0.6962
Euro	0.4102	0.4168	0.4163	0.4139	0.4103
Japanese yen	52.3	51.8	52.0	50.5	50.3
Nominal Effective Exchange Rate	84.8	84.7	84.6	84.6	84.6
Real Effective Exchange Rate	105.0	105.1	104.3	104.1	105.7

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	470.2	290.6	360.1	323.1	434.0
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9. Money and Credit ***

(year-on-year % change)

Broad Money	4.5	1.3	0.3	-0.1	-0.7
Net Foreign Assets	-0.8	-16.7	-16.1	-16.9	-16.8
Domestic Credit	7.7	8.2	7.9	7.6	7.2
Private Sector Credit	7.4	8.5	8.5	8.8	8.4
Narrow Money	6.7	-2.3	0.0	-3.1	-3.8

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

(monthly weighted average)

Lending Rate (Excluding Staff)	5.7	5.7	5.8	6.0	6.0
Savings Deposit Rate	1.4	1.2	0.9	1.1	1.1
Time Deposit Rate	3.4	3.9	3.7	4.0	4.1
14-day RBF Note Rate (month end)	0.4	1.0	1.2	1.4	1.4
Minimum Lending Rate (MLR) (month end)	1.0	1.0	1.0	1.0	1.0
Overnight inter-bank Rate	n.t	1.0	1.0	1.2	1.0
3 month Government T-Bills	1.4	0.0	2.4	2.7	2.8
12 month Government T-Bills	n.i	n.i	n.i	5.0	5.0
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i

11. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1250.5	1295.4	1282.3	1295.5	1409.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	11.9	12.5	12.3	11.2	12.3
Crude Oil/barrel	79.4	68.4	72.8	64.5	66.6

^{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