



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The International Monetary Fund in June, further downgraded its global growth forecast for 2020 to -4.9 percent from the -3.0 percent projected in April. The revised growth reflects severely disrupted economic activity across the globe, following the lockdown and containment measures due to the COVID-19 pandemic in the first half of the year. Advanced economies are forecast to contract by 8.0 percent in 2020 with significant declines anticipated in major economies such as the United States (US), United Kingdom, Germany, France, Italy, Spain and Japan, while emerging market and developing economies are expected to contract by 3.0 percent. On a positive note, some countries with reduced new coronavirus cases have started to gradually ease lockdown restrictions to support economic activity. For 2021, the world economy is expected to rebound and grow by 5.4 percent.

Commodity prices broadly picked up in May. Crude oil prices rose as demand improved, following signs of economic recovery in China and easing containment measures in the US and other countries. In addition, an agreement by the Organization of the Petroleum Exporting Countries (including Russia) in April to reduce production by 10.0 percent in May and June held up oil prices. Gold prices increased further as the safe-haven demand for the metal remained strong. However, the Food and Agriculture Organisation Price Index for food decreased in May, underpinned by lower prices of dairy and sugar.

On the domestic front, the Fijian economy is anticipated to contract severely this year due to the significant decline in tourism activity and its knock-on effects to the rest of the economy.

Sectoral performances to date remained weak as electricity, cement, gold and timber production fell up to May. Annual declines in electricity (-7.4%) and cement (-28.7%) production were largely due to weak demand, while lower gold production (-7.6%)

was driven by supply chain disruptions resulting from the pandemic restrictions. In addition, double digit declines were noted in pine wood supply (-23.9%), sawn timber (-50.8%) and woodchip (-11.5%) production, due to subdued demand.

On the services front, tourism activity remains muted as visitor arrivals contracted significantly by 56.2 percent in the year to May due to the halt in international travel and tourism. On a positive note, the lifting of restrictions by Government will complement the “Love Our Locals” initiative announced by domestic tourism stakeholders and catalyse broader economic activity.

Recent partial indicators for consumption and investment point to contracting aggregate demand. Cumulative to May, contractions were noted in commercial banks’ new lending for consumption purposes (-20.2%), net VAT collections (-30.1%), as well as registrations for new (-45.3%) and second-hand (-65.5%) vehicles. In the same period, domestic cement sales (-18.8%) and new lending for building & construction purposes (-28.7%) also recorded marked declines over the year.

Given the weakening domestic economy, overall labour market conditions have worsened as reflected by partial indicators. A total of 85,959 FNPF members received around \$54.2 million under the COVID-19 withdrawal scheme in phase one, while 15,920 members will be paid around \$17.5 million in phase two over a period of 10 weeks. In addition, the number of jobs advertised¹ contracted by a significant 48.8 percent on an annual basis up to May, indicating depressed recruitment intentions and business activities.

Credit aggregates were reflective of the economic contraction in the review period. Domestic credit growth decelerated to 3.0 percent in May due to reduced lending to private sector business entities

¹ As per the RBF Job Advertisement Survey.

and private individuals coupled with lower net credit to the public non-financial corporations and state & local government. In the same period, commercial banks' outstanding lending and deposit rates both declined over the month.

Excess liquidity in the banking system remained ample at \$849.0 million at the end of May on account of RBF's investment in government bonds, higher foreign reserves and the reduction in currency in circulation over the month. As at 29 June, excess liquidity stood at \$780.5 million.

Over the month in May, the Fijian dollar (FJD) strengthened against the Japanese Yen (JPY) (1.7%) and the US dollar (USD) (0.7%) but was lower against the Euro (-1.1%), the Australian (AUD) (-0.7%) and the New Zealand dollars (NZD) (-0.6%). Annually, the FJD appreciated against the NZD (2.5%) and the AUD (1.9%) but fell against the JPY (-3.9%), the USD (-2.1%) and the Euro (-1.6%).

The Nominal Effective Exchange Rate (NEER)² index remained relatively stable in May, falling marginally over the month (-0.03%) and year (-0.3%), indicating a general weakening of the FJD. Similarly, the Real Effective Exchange Rate (REER)³ index was lower over the month (-0.04%)

and year (-3.3%), denoting a gain in trade competitiveness largely on account of the persistent negative domestic annual inflation experienced since October 2019.

Annual inflation fell further to -1.7 percent in May from -1.3 percent noted in April and was significantly lower than the 2.1 percent recorded in May 2019. The outcome was largely driven by lower prices for yaqona, fruits & vegetables, kerosene, petrol and diesel.

Over the month in May, foreign reserves rose by \$32.7 million to \$2,249.7 million, sufficient to cover 7.0 months of retained imports (MORI). As at 30 June, foreign reserves totalled \$2,181.4 million, sufficient to cover 6.8 MORI.

In light of the latest developments and the stable outlook for inflation and foreign reserves, the Reserve Bank maintained its accommodative stance and kept the Overnight Policy Rate at 0.25 percent in June.

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² The NEER is the sum of the indices of each trading partner country's currency against the FJD, 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 while an increase in the index indicates a deterioration in Fiji's international competitiveness.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators
(year-on-year % change)

| | May-19 | Feb-20 | Mar-20 | Apr-20 | May-20 |
|-------------------------------|--------|--------|--------|--------|--------|
| Visitor Arrivals | 6.5 | -0.7 | -18.7 | -43.5 | -56.2 |
| Electricity Production | 6.1 | 2.2 | 0.0 | -5.7 | -7.4 |
| Gold Production | -13.3 | 7.5 | -1.9 | -8.3 | -7.6 |
| Cane Production [^] | n.a | n.a | n.a | n.a | n.a |
| Sugar Production [^] | n.a | n.a | n.a | n.a | n.a |
| Pinewood Intake | -5.9 | -40.2 | -35.5 | -28.0 | -23.9 |
| Woodchip | -19.9 | -27.0 | -14.0 | -18.4 | -11.5 |
| Mahogany | 53.6 | 399.0 | 169.7 | 15.2 | -23.8 |
| Cement Production | -5.4 | 2.7 | -27.3 | -31.3 | -28.7 |

2. Consumption Indicators
(year-on-year % change)

| | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|
| Net VAT Collections | 9.9 | -14.7 | -19.2 | -23.4 | -30.1 |
| New Consumption Lending | 7.8 | -11.7 | 1.9 | -4.4 | -20.2 |
| New Vehicle Registrations**** | -37.8 | -26.7 | -30.8 | -40.2 | -45.3 |
| Secondhand Vehicle Registrations**** | 0.6 | -51.8 | -58.0 | -64.0 | -65.5 |
| Personal Remittances | 10.1 | 26.3 | 6.1 | -2.7 | -2.3 |
| Electricity Consumption | 6.0 | n.a | n.a | n.a | n.a |

3. Investment Indicators
(year-on-year % change)

| | | | | | |
|------------------------|-------|------|-------|-------|-------|
| Domestic Cement Sales | -6.2 | -8.7 | -17.0 | -20.4 | -18.8 |
| New Investment Lending | -20.1 | 54.6 | 41.4 | 25.5 | 21.2 |

4. Labour Market
(year-on-year % change)

| | | | | | |
|------------------------------|------|-------|-------|-------|-------|
| RBF Job Advertisement Survey | -6.9 | -27.4 | -35.8 | -42.5 | -48.8 |
|------------------------------|------|-------|-------|-------|-------|

5. Consumer Prices *
(year-on-year % change)^{1/}

| | | | | | |
|--|------|------|------|------|------|
| All Items | 2.1 | -3.0 | -2.8 | -1.3 | -1.7 |
| Food and Non-Alcoholic Beverage | 3.0 | -6.1 | -5.6 | -1.0 | -1.0 |
| Alcoholic Beverages, Tobacco & Narcotics | 13.8 | -8.1 | -7.8 | -7.5 | -8.7 |

6. Reserves ***
(end of period)

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Foreign Reserves (\$m) ^{2/} | 1,933.2 | 2,265.3 | 2,198.7 | 2,217.0 | 2,249.7 |
| Months of retained imports of goods and non-factor services (MORI) | 4.5 | 7.1 | 6.9 | 6.9 | 7.0 |

7. Exchange Rates ***
(mid rates, F\$1 equals)
(end of period)

| | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|
| US dollar | 0.4607 | 0.4509 | 0.4385 | 0.4478 | 0.4510 |
| Australian dollar | 0.6666 | 0.6847 | 0.7108 | 0.6838 | 0.6793 |
| New Zealand dollar | 0.7080 | 0.7140 | 0.7290 | 0.7304 | 0.7259 |
| Euro | 0.4139 | 0.4104 | 0.3971 | 0.4117 | 0.4072 |
| Japanese yen | 50.49 | 49.58 | 47.32 | 47.74 | 48.54 |
| Nominal Effective Exchange Rate | 86.82 | 84.35 | 84.40 | 84.34 | 84.31 |
| Real Effective Exchange Rate | 104.13 | 99.64 | 99.42 | 100.78 | 100.73 |

8. Liquidity ***
(end of period)

| | | | | | |
|------------------------------|-------|-------|-------|-------|-------|
| Banks' Demand Deposits (\$m) | 323.2 | 661.5 | 590.0 | 718.6 | 849.0 |
|------------------------------|-------|-------|-------|-------|-------|

9. Money and Credit ***
(year-on-year % change)

| | | | | | |
|-----------------------|-------|------|------|------|------|
| Broad Money | 0.2 | 4.3 | 4.4 | 4.8 | 4.5 |
| Net Foreign Assets | -16.9 | 16.9 | 13.8 | 16.3 | 18.9 |
| Domestic Credit | 7.7 | 4.2 | 4.7 | 4.2 | 3.0 |
| Private Sector Credit | 8.9 | 2.9 | 2.4 | 1.8 | 1.2 |
| Narrow Money | -2.9 | 5.2 | 7.8 | 6.3 | 9.7 |

10. Interest Rates (% p.a.) ***
(monthly weighted average)

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Lending Rate | 5.99 | 6.30 | 6.28 | 6.25 | 6.15 |
| Savings Deposit Rate | 1.14 | 1.09 | 1.83 | 0.81 | 0.90 |
| Time Deposit Rate | 3.97 | 4.29 | 4.15 | 4.05 | 3.91 |
| Repurchase Rate | 1.00 | 1.00 | 0.50 | 0.50 | 0.50 |
| Overnight inter-bank Rate | n.t | n.t | n.t | n.t | n.t |
| 3 month Government T-Bills | 2.75 | n.i | n.i | n.i | 1.93 |
| 12 month Government T-Bills | 5.00 | 3.53 | 3.43 | 3.40 | 3.24 |
| 5-year Government Bond Yield | n.i | n.i | n.i | n.i | n.i |
| 10-year Government Bond Yield | n.i | 6.00 | 5.88 | n.i | n.i |

11. Commodity Prices (US\$) **
(end of period)

| | | | | | |
|--|---------|---------|---------|---------|---------|
| UK Gold Price/fine ounce | 1,295.5 | 1,566.7 | 1,596.6 | 1,694.2 | 1,751.7 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/pound) | 11.2 | 14.5 | 10.4 | 10.4 | 10.9 |
| Crude Oil/barrel | 64.5 | 50.5 | 22.7 | 25.3 | 35.3 |

^{1/} 2014 rebase. Previous data have 2011 base.^{2/} Foreign reserves includes monetary aid, 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.i No issue
n.a Not available
n.t No trading

Sources: * Fiji Bureau of Statistics
** Bloomberg
*** Reserve Bank of Fiji
**** Land Transport Authority
^ Fiji Sugar Corporation