



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The International Monetary Fund revised global growth downwards to 3.0 percent in October, attributed to a synchronised deceleration globally. Broad based slowdowns in manufacturing and industrial output have caused global growth to further cede momentum. Also, the continued United States (US)-China trade dispute, political unrest in Hong Kong, Brexit delays and geopolitical tensions in the Middle East are weighing down on overall confidence and investment intentions. Potential US sanctions on the European Union also loom large. On the upside, services have remained resilient and supportive of employment growth, despite the downturn in industrial activity. Downside risks that could severely slowdown global growth below the baseline, persist.

Given these developments, gold prices averaged higher in September, reflective of its safe-haven status during periods of uncertainty. In the same period, Brent crude oil prices picked up temporarily following the drone attack on Saudi Arabia's major oil production facilities. However, more recently, oil prices have stabilised and are expected to remain subdued in the period ahead, reflective of weak global demand. In addition, sugar prices rose following lower production from Thailand and India. Meanwhile, the monthly decline in the FAO¹ food price index in September was underpinned by a significant decline in wheat and maize prices.

Domestically, key indicators also point to a general slowdown in domestic economic activity. Annual contractions in pine (-9.5%), woodchips (-25.4%), and sawn timber (-9.4%) timber production in the year to September and weak cane yields cumulative to the nineteenth week underpinned weaknesses in the primary industry. Industrial output has been restrained, as both gold and sugar production fell annually in the year to September and in the

nineteenth week of crushing, respectively. On the upside, electricity production (3.5%) and consumption (4.1%) continued to increase cumulative to September. As for the services sector, tourism remains resilient given the continued growth in visitor arrivals (3.8%) in the year to September 2019.

Investment and consumption activity slowed in tandem, during the review period. The pullback in construction and investment activity continues, amid contractions in new investment lending for the ninth consecutive month (-27.9% to September), domestic cement sales (-8.7% to September) and imports of capital goods (-9.6% to August). For consumption, domestic Valued Added Tax (VAT) collections (2.4%) noted a marginal annual growth while import VAT (-3.3%) declined in the year to September. Moreover, commercial banks' new lending for consumption purposes contracted (-6.1%) for the third consecutive month in September owing to a decline in lending to private individuals (-7.7%) and the wholesale, retail, hotel & restaurants sector (-5.6%). Registration of new (-27.0%) and second-hand (-13.7%) vehicles also fell in the same period. Nevertheless, remittances (4.8% to September) continued to grow, providing some impetus to consumer spending.

Labour market conditions continued to soften as the number of job vacancies declined by 1.0 percent in the year to September. Lower recruitment intentions were noted in the community, social & personal services, transport, storage & communication, electricity & water, mining & quarrying and the agriculture, forestry & fishing sectors.

Excess liquidity in the banking system was marginally lower on a monthly basis at the end of September, on account of increases in statutory reserve deposits (1.1%) and currency in circulation

¹ Food and Agriculture Organisation.

(0.2%) coupled with a decline in foreign reserves (-0.1%). As at 30 October, liquidity remained sufficient at \$609.6 million. Consequently, commercial banks' lending and deposit rates retreated in September, with the exception of new lending rate.

Over the month in September, the Fijian dollar (FJD) strengthened against the Yen (1.3%), Euro (1.0%) and New Zealand dollar (NZD) (0.3%) but weakened against the Australian dollar (AUD) (-0.5%) and the US dollar (USD) (-0.1%). Annually, the FJD appreciated against the AUD (3.1%) and the Euro (0.02%) but weakened against the Yen (-3.8%), the USD (-1.6%) and the NZD (-0.2%).

Consequently the Nominal Effective Exchange Rate (NEER)² index fell marginally over the month (-0.03%) and over the year (-0.3%), indicating a general weakening of the FJD driven largely by the stronger USD and Yen. Similarly, the Real Effective Exchange Rate (REER)³ index declined over the month (-0.9%) and year (-1.8%), denoting a gain in trade competitiveness largely on account of relatively lower domestic inflation.

As for the external sector, cumulative to August, total exports (excluding aircraft) rose by 4.5 percent underpinned by higher domestic exports of mineral

water, sugar, mahogany, kava, garments and machinery & transport equipment while re-exports declined. In the same period, imports (excluding aircraft) declined by 5.6 percent attributed to lower imports of chemicals, machinery & transport equipment, manufactured goods, food & live animals, animal & vegetable oils & fats, and crude materials. Consequently, the merchandise trade deficit (excluding aircraft) narrowed by 11.6 percent compared to a 23.1 percent widening in the corresponding period in 2018.

Domestic price pressures continue to abate with headline inflation coming in at 0.4 percent in September, lower than the 1.2 percent in August and the 4.6 percent registered in the comparable month last year. The outcome was underpinned by higher prices noted for the food & non-alcoholic beverages; education, alcoholic beverages, tobacco & narcotics categories, against lower prices for the communications category.

In September, foreign reserves fell over the month by \$4.2 million to \$2,161.1 million. Foreign reserves continue to remain at comfortable levels and were around \$2,186.6 million as at 31 October, sufficient to cover 5.0 months of retained imports.

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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 Fijian 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.

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 Fiji dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

FIJI: ECONOMIC & FINANCIAL STATISTICS

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KEY INDICATORS

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Visitor Arrivals	4.3	6.1	5.2	4.4	3.8
Electricity Production	0.6	5.1	4.9	4.6	3.5
Gold Production	-4.6	-13.2	-16.8	-15.7	-12.9
Cane Production [^]	-1.7	-29.7	-12.7	-8.2	-4.8
Sugar Production [^]	-6.1	-37.7	-19.9	-15.2	-10.3
Pinewood Intake	225.9	-13.1	-14.1	-13.1	-9.5
Woodchips	174.0	-26.6	-24.0	-24.6	-25.4
Mahogany	1,226.8	94.3	63.4	39.8	48.2
Cement Production	-19.7	-2.9	-7.8	-12.5	-13.9

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Net VAT Collections	7.0	12.2	9.4	8.2	9.8
New Consumption Lending	15.2	2.3	-1.5	-1.0	-6.1
New Vehicle Registrations****	31.5	-33.6	-29.5	-28.2	-27.0
Secondhand Vehicle Registrations****	12.1	-1.8	-4.5	-10.5	-13.7
Personal Remittances	6.7	6.6	6.2	6.2	4.8
Electricity Consumption	2.4	5.2	4.9	4.8	4.1

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Domestic Cement Sales	-27.6	-7.8	-7.5	-9.5	-8.7
New Investment Lending	1.3	-19.0	-25.9	-26.6	-27.9

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
RBF Job Advertisement Survey	9.3	-6.8	-4.4	-2.7	-1.0

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
All Items	4.6	2.8	0.7	1.2	0.4
Food and Non-Alcoholic Beverage	4.9	7.3	3.2	5.6	3.3
Alcoholic Beverages, Tobacco & Narcotics	18.6	7.8	2.1	0.8	0.0

6. Reserves ***
 (end of period)

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Foreign Reserves (\$m) ^{2/}	2,116.0	1,973.4	2,087.3	2,165.3	2,161.1
Months of retained imports of goods and non-factor services (MOI)	4.6	4.5	4.8	5.0	5.0

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
US dollar	0.4682	0.4665	0.4619	0.4545	0.4542
Australian dollar	0.6497	0.6656	0.6719	0.6754	0.6718
New Zealand dollar	0.7081	0.6962	0.6982	0.7202	0.7223
Euro	0.4021	0.4103	0.4141	0.4110	0.4150
Japanese yen	53.09	50.28	50.18	48.41	49.04
Nominal Effective Exchange Rate	84.63	84.42	84.46	84.37	84.34
Real Effective Exchange Rate	106.26	105.41	103.75	105.08	104.17

8. Liquidity ***
 (end of period)

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Banks' Demand Deposits (\$m)	418.2	434.0	506.6	617.7	612.6

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Broad Money	3.8	-0.5	1.7	0.7	0.6
Net Foreign Assets	-13.2	-16.8	-11.3	-12.0	-7.6
Domestic Credit	10.6	7.3	8.3	8.0	6.7
Private Sector Credit	8.2	8.5	7.6	6.9	5.6
Narrow Money	1.3	-3.7	-1.6	-2.2	-2.1

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

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
Lending Rate	5.70	6.03	6.09	6.29	6.25
Savings Deposit Rate	1.35	1.08	1.19	1.49	1.24
Time Deposit Rate	3.47	4.13	4.25	4.32	4.31
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	1.00	1.20	1.00	n.f	n.f
3 month Government T-Bills	1.45	2.75	2.70	n.i	2.55
12 month Government T-Bills	n.i	5.00	5.00	n.i	n.i
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\$) **
 (end of period)

	Sep-18	Jun-19	Jul-19	Aug-19	Sep-19
UK Gold Price/fine ounce	1,187.3	1,409.0	1,427.6	1,528.4	1,485.3
CSCCE No. 11 Sugar Spot Price/Global (US cents/pound)	10.4	12.3	12.2	11.1	11.9
Crude Oil/barrel	82.7	66.6	65.2	60.4	60.8

^{1/} 2014 rebase. Previous data have 2011 base.

^{2/} 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.i

No issue

n.a

Not available

n.f

No trade

Sources:

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Fiji Bureau of Statistics

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Bloomberg

Reserve Bank of Fiji

Land Transport Authority

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Fiji Sugar Corporation