



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Globally, economic activity remains sluggish with growth slowing in the second quarter for most of Fiji's major trading partner countries. Rising policy uncertainties, trade and technology disputes, geo-political tensions and financial sector vulnerabilities remain key downside risks to the global outlook. Additionally, low business confidence could chip away at global growth in the near term as sentiments have worsened since July.

In light of slowing global growth and escalating trade tensions, crude oil prices fell for the third consecutive month in August. However, disruptions to Saudi Arabia's oil production caused by drone attacks in mid-September temporarily raised oil prices. Oil prices are expected to stabilise in the near term as supplies are restored.

Domestically, sectoral performance to-date remains largely mixed. Visitor arrivals rose by 4.4 percent in the year to August due to higher arrivals from the United States (US), New Zealand (NZ), Japan, Australia, and Pacific Island Countries. Similarly, mahogany production rose, while woodchips, pine wood, sawn timber and gold output fell in the same period. In addition, cane and sugar outputs declined in the first fifteen weeks of crushing but are expected to surpass last year's production levels for the entire season.

Consumption activity slowed further as revealed by latest partial indicators. Cumulative to August, new lending by commercial banks for consumption purposes fell slightly owing to lower lending to private individuals which more-than-offset the marginal growth in lending to the wholesale, retail, hotels & restaurants sector.

Registrations of new and second-hand vehicles also fell in the same period. Furthermore, net Value Added Tax (VAT) collections grew on the back of lower VAT refunds and marginal growth in domestic VAT in the year to August.

Investment activity continues to weaken. Commercial banks' new investment lending fell cumulative to August, due to a decline in lending to both real estate and building & construction sectors. Also, in the second quarter, the value of building permits and completion certificates issued declined by 12.6 percent and 41.1 percent, respectively suggesting a slowdown in construction activity.

Labour market conditions remain weak as portrayed by the RBF's Job Advertisements Survey. The total number of vacancies advertised declined by an annual 2.7 percent in the year to August, led by lower recruitment intentions in the community, social & personal services; transport, storage & communication; electricity & water; and the mining & quarrying sectors.

Annual broad money growth decelerated to 0.7 percent in August due to further contractions in net foreign assets and slowdown in net domestic assets. The annual growth in foreign liabilities drove the decline in net foreign assets while the expansion in net credit to non-financial public sector underlie the 7.8 percent increase in Net Domestic Credit.

Banking system liquidity increased in August by 21.9 percent to \$617.7 million, on account of an increase in foreign reserves which more-than-offset the increase in currency in circulation deposits and statutory reserve. As at 27 September, liquidity stood at \$628.2 million.

Over the month in August, the Fijian dollar (FJD) strengthened against the Australian (AUD) and NZ dollars (NZD) but weakened against the Yen, US dollar (USD) and the Euro. Annually, the FJD appreciated against the AUD, Euro and the NZD but was lower against the Yen and the USD.

In August 2019, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index fell over the month and over the year indicating a general weakening of the FJD. The Real Effective Exchange Rate (REER)<sup>2</sup> index increased over the month but fell on an annual basis pointing to an improvement in our competitiveness over the year.

In the year to June, total exports (excluding aircraft) rose by 2.1 percent largely underpinned by growth in re-exports, while domestic exports declined mainly due to lower exports of woodchips; gold; soft drinks; animal & vegetable oils & fats; bauxite; and chemicals. In the same period, imports (excluding aircraft) declined by 4.0 percent attributed to lower imports of machinery & transport equipment (excluding aircraft); chemicals; and animal & vegetable oils & fats. Consequently, the merchandise trade deficit (excluding aircraft) narrowed by 7.7 percent to \$1,502.0 million, compared to 17.6 percent widening in the corresponding period in 2018.

Tourism earnings grew by 6.8 percent to total \$895.4 million in the year to June 2019, compared to a 4.6 percent growth in the same period in 2018. Cumulative to August 2019, inward remittances grew by 6.2 percent to total \$399.7 million,

compared to the 10.6 percent growth in the corresponding period last year. The growth in inward remittances was largely driven by gifts, maintenance & donations in the review period.

Annual inflation in August stood at 1.2 percent, slightly higher than the 0.7 percent in July but significantly lower than the 4.3 percent registered in August last year. The monthly outcome was underpinned by higher prices noted for the food & non-alcoholic beverages; alcoholic beverages, tobacco & narcotics; and education categories. Given the weakening international economic conditions, softening aggregate demand and actual price developments in the first eight months of the year, the year-end inflation rate is now forecast at 2.0 percent.

Foreign reserves (RBF holdings) increased in August to \$2,160.2 million, sufficient to cover 5.0 months of retained imports (MORI). As at 30 September, foreign reserves stood at \$2,163.9 million, sufficient to cover 5.0 MORI.

In light of the latest developments and the comfortable outlook for inflation and foreign reserves, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent in August.

## **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 & FINANCIAL STATISTICS

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KEY INDICATORS

	Aug-18	May-19	Jun-19	Jul-19	Aug-19
<b>1. Sectoral Performance Indicators</b> (year-on-year % change)					
Visitor Arrivals	4.2	6.5	6.1	5.2	4.4
Electricity Production	0.2	6.1	5.1	4.8	n.a
Gold Production	0.9	-13.3	-13.2	-16.8	-15.7
Cane Production	-3.1	n.a	-29.7	-12.7	-8.2
Sugar Production <sup>^</sup>	-4.9	n.a	-37.7	-19.9	-15.2
Pinewood Intake	192.9	-5.9	-13.1	-14.1	-13.1
Woodchip	199.3	-19.9	-26.6	-24.0	-24.6
Mahogany	2,471.6	53.6	94.3	63.4	39.9
Cement Production	-21.7	0.1	-2.9	-7.8	-12.5
<b>2. Consumption Indicators</b> (year-on-year % change)					
Net VAT Collections	6.6	9.9	12.2	9.4	8.2
New Consumption Lending	16.3	7.8	2.3	-1.5	-1.0
New Vehicle Registrations****	37.9	-37.8	-33.6	-29.5	-28.2
Secondhand Vehicle Registrations****	12.3	0.6	-1.8	-4.5	-10.5
Personal Remittances	10.6	10.1	6.6	6.2	6.2
Electricity Consumption	2.7	6.0	5.3	5.0	n.a
<b>3. Investment Indicators</b> (year-on-year % change)					
Domestic Cement Sales	-23.0	-6.2	-7.8	-7.5	-9.5
New Investment Lending	-0.1	-20.1	-19.0	-25.9	-26.6
<b>4. Labour Market</b> (year-on-year % change)					
RBF Job Advertisement Survey	8.6	-6.9	-6.8	-4.4	-2.7
<b>5. Consumer Prices *</b> (year-on-year % change) <sup>1/</sup>					
All Items	4.3	2.1	2.8	0.7	1.2
Food and Non-Alcoholic Beverage	3.3	3.0	7.3	3.2	5.6
Alcoholic Beverages, Tobacco & Narcotics	20.3	13.8	7.8	2.1	0.8
<b>6. Reserves ***</b> (end of period)					
Foreign Reserves (\$m) <sup>2/</sup>	2,182.8	1,933.2	1,973.4	2,087.2	2,160.2
Months of retained imports of goods and non-factor services (MOI)	4.8	4.4	4.5	4.8	5.0
<b>7. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)					
US dollar	0.4705	0.4607	0.4665	0.4619	0.4545
Australian dollar	0.6476	0.6666	0.6656	0.6719	0.6754
New Zealand dollar	0.7078	0.7080	0.6962	0.6982	0.7202
Euro	0.4031	0.4139	0.4103	0.4141	0.4110
Japanese yen	52.23	50.49	50.28	50.18	48.41
Nominal Effective Exchange Rate	84.67	86.82	84.42	84.46	84.37
Real Effective Exchange Rate	106.38	106.88	105.41	103.74	104.98
<b>8. Liquidity ***</b> (end of period)					
Banks' Demand Deposits (\$m)	512.8	323.2	434.0	506.6	617.7
<b>9. Money and Credit ***</b> (year-on-year % change)					
Broad Money	3.3	0.0	-0.6	1.5	0.7
Net Foreign Assets	-6.2	-16.9	-16.8	-11.3	-12.0
Domestic Credit	7.4	7.7	7.3	8.3	7.8
Private Sector Credit	7.9	8.9	8.5	7.5	6.7
Narrow Money	3.7	-3.2	-3.9	-1.8	-2.4
<b>10. Interest Rates (% p.a.) ***</b> (monthly weighted average)					
Lending Rate	5.72	5.99	6.03	6.09	6.29
Savings Deposit Rate	1.38	1.14	1.08	1.19	1.49
Time Deposit Rate	3.44	3.97	4.13	4.25	4.32
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	n.i	1.22	1.20	1.00	n.i
3 month Government T-Bills	n.i	2.75	2.75	2.70	n.i
12 month Government T-Bills	n.i	5.00	5.00	5.00	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
<b>11. Commodity Prices (US\$) **</b> (end of period)					
UK Gold Price/fine ounce	1,202.5	1,295.5	1,409.0	1,427.6	1,528.4
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	10.6	11.2	12.3	12.2	11.1
Crude Oil/barrel	77.4	64.5	66.6	65.2	60.4

<sup>1/</sup> 2014 rebase. Previous data have 2011 base.

<sup>2/</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:

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No issue

Not available

No trade

Sources:

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Fiji Bureau of Statistics

Bloomberg

Reserve Bank of Fiji

Land Transport Authority

Fiji Sugar Corporation