



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The World Bank in its 'June 2019 Global Economic Prospects' report downgraded its global growth forecast for 2019 to 2.6 percent<sup>1</sup> from the 2.9 percent that was projected in January. The revised growth is reflective of broad-based weaknesses observed in both advanced and emerging market & developing economies during the first half of the year, including falling investments and heightened trade tensions. Risks to global growth are tilted to the downside and include further escalation of trade tensions, tighter financial conditions and prolonged Brexit negotiations.

Movements in global commodity prices were mixed in May. Crude oil prices fell due to an increase in oil production by the United States (US). World market sugar prices fell on account of India's increasing output and weak global demand. On the other hand, gold prices rose in May due to the weakening US dollar. The monthly increase in the FAO<sup>2</sup> food price index was driven by higher prices for dairy, cereal and vegetable oil.

Domestically, the Fiscal Year (FY) 2019-20 National Budget reflected some revenue and expenditure adjustments in line with the Government's medium-term strategy of fiscal consolidation. A lower net deficit of \$349.2 million, equivalent to 2.7 percent of GDP is projected for the FY 2019-20<sup>3</sup> from a budgeted expenditure of \$3,840.9 million (30.2% of GDP) and revenue forecast of \$3,491.7 million (27.5% of GDP). Nonetheless, revenue is expected to increase annually by 7.2 percent, while total expenditure is projected to grow by 4.8 percent in 2019-20. Government debt for the FY 2019-20 is forecast at \$5,978.6 million, equivalent to 47.1 percent of GDP.

Sectoral performances continued to reveal mixed results. Visitor arrivals grew by 6.5 percent in the

year to May due to higher arrivals from New Zealand (NZ), US, Japan, Australia and the Rest of Asia. Likewise, electricity (6.1%), mahogany (53.6%) and sawn timber (3.9%) production rose cumulative to May. However, declines were noted in the production of gold (-13.3%), pine logs (-5.9%) and woodchip (-19.9%) in the same period.

Partial indicators for consumption revealed mixed results into the second quarter. New lending by commercial banks for consumption purposes rose by 7.8 percent in the year to May arising from higher disbursements to the wholesale, retail, hotels & restaurants category. In the same period, new vehicle registrations declined by 37.8 percent whereas second-hand vehicle registrations rose by 0.6 percent.

Investment/construction related activity has softened. New bank lending for investment purposes fell by 20.1 percent cumulative to May underpinned by a decline in loans to the real estate sector (-31.1%) which more-than-offset the increase in loans to the building & construction (5.2%) sector. In addition, while the number of building permits issued increased by 1.7 percent in the first quarter, the total value of these permits was lower by 14.8 percent.

Broad money fell by 0.1 percent in May resulting from the decline in net foreign assets and a further slowdown in net domestic assets. Overall, net domestic credit growth slowed to 7.6 percent in May compared to 7.7 percent a month ago and 8.3 percent in May last year, underpinned by the contraction in credit to the central government. Nonetheless, growth in private sector credit picked up over the month (8.8%; \$660.3m) from April (8.3%; \$627.1m) and was higher than the 7.8 percent expansion noted in May last year.

<sup>1</sup> However, as per the 2010 Purchasing Power Parity weights, global growth is forecast to be at 3.3 percent in 2019, similar to the IMF's projection.

<sup>2</sup> Food and Agriculture Organisation.

<sup>3</sup> This is lower than the \$408.8 million (-3.4% of GDP) net deficit estimated for the FY 2018-19.

Liquidity in the banking system (measured by commercial banks' demand deposits) fell by 10.2 percent in May to \$323.2 million, on account of a decline in foreign reserves (-\$10.5m) and an increase in statutory reserve deposits (+\$0.2m). However, as at 28 June, liquidity has increased to \$434.0 million.

Over the month in May, the Fiji dollar strengthened against the NZ (+1.4%) and Australian (+1.0%) dollars but weakened against the Japanese Yen (-2.9%), US dollar (-1.05%) and the Euro (-0.6%). Annual movements indicated that the Fijian dollar appreciated against Australian (+4.8%) and NZ dollars (+2.6%) and Euro (+0.1%) but was lower against the USD (-4.5%) and the Yen (-3.9%).

In May, the Nominal Effective Exchange Rate (NEER)<sup>4</sup> index fell marginally over the month (-0.1%), however was higher on an annual basis (+0.8%) indicating a general strengthening of the Fijian dollar. Similarly, the Real Effective Exchange Rate (REER)<sup>5</sup> index fell over the month (-0.3%) but rose over the year (+1.6%) due to lower relative prices of major trading partners.

The merchandise trade deficit (excluding aircraft) narrowed by 10.6 percent to \$724.3 million in the

year to March compared with a widening of 11.7 percent in the same period last year. Total exports (excluding aircraft) rose by 10.1 percent due to a significant growth in re-exports<sup>6</sup> (51.2%) which more-than-offset the decline in domestic exports (-7.4%). Total imports (excluding aircraft) fell by 3.1 percent led by lower imports of machinery & transport equipment, chemicals and animal & vegetable oils & fats.

Annual inflation was 2.1 percent in May, unchanged from April but lower than the 5.1 percent in May last year. The lower inflation outcome was due to the decline in prices of food & non-alcoholic beverages; communications; health and the transport categories. The year-end inflation rate is now forecast at 3.2 percent.

Foreign reserves (RBF holdings) was \$1,933.2 million in May, sufficient to cover 4.4 months of retained imports (MORI). As at 01 July, foreign reserves stood at \$1,979.2 million, sufficient to cover 4.6 MORI.

Given the recent economic developments and near-term outlook for inflation and foreign reserves, the Reserve Bank maintained the Overnight Policy Rate at 0.5 percent.

## **RESERVE BANK OF FIJI**

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<sup>4</sup> The NEER is the sum of the indices of each trading partner country's currency against the Fijian 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>5</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 Fijian dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

<sup>6</sup> Largely driven by re-exports of mineral fuel (49.1%).

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**KEY INDICATORS**

**1. Sectoral Performance Indicators**

(year-on-year % change)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Visitor Arrivals	2.1	1.0	0.2	5.8	6.5
Electricity Production	-0.3	4.8	3.8	6.6	6.1
Gold Production	26.4	-25.7	-21.0	-15.8	-13.3
Cane Production <sup>^</sup>	n.a	n.a	n.a	n.a	n.a
Sugar Production <sup>^</sup>	n.a	n.a	n.a	n.a	n.a
Pinewood Intake	253.0	-2.2	-3.6	-1.1	-5.9
Woodchip	476.4	-17.7	-22.9	-11.6	-19.9
Mahogany	976.3	-37.7	-40.5	11.4	53.6
Cement Production	-27.2	3.2	11.1	7.2	n.a

**2. Consumption Indicators**

(year-on-year % change)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Net VAT Collections	11.7	24.7	16.6	14.8	9.9
New Consumption Lending	25.0	0.4	-7.4	-2.2	7.8
New Vehicle Registrations****	54.6	-39.4	-38.7	-38.4	-37.8
Secondhand Vehicle Registrations****	9.1	-4.4	-2.1	1.8	0.6
Personal Remittances	8.5	9.9	8.5	5.7	10.1
Electricity Consumption	3.8	5.2	5.1	6.8	6.0

**3. Investment Indicators**

(year-on-year % change)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Domestic Cement Sales	-25.4	-8.6	-3.5	-5.7	n.a
New Investment Lending	-13.7	-20.2	-15.6	-8.4	-20.1

**4. Labour Market**

(year-on-year % change)

	May-18	Feb-19	Mar-19	Apr-19	May-19
RBF Job Advertisement Survey	4.7	16.1	8.6	-4.5	-6.9

**5. Consumer Prices \***

(year-on-year % change)<sup>1/</sup>

	May-18	Feb-19	Mar-19	Apr-19	May-19
All Items	5.1	-5.1	4.0	2.1	2.1
Food and Non-Alcoholic Beverage	6.4	10.4	7.7	2.0	3.0
Alcoholic Beverages, Tobacco & Narcotics	23.3	16.1	14.4	13.1	13.8

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

(end of period)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Foreign reserves (\$m) <sup>2/</sup>	2,162.8	1,944.0	1,921.9	1,944.3	1,933.2
Months of retained imports of goods and non-factor services (MORI)	4.7	4.2	4.2	4.2	4.2

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

(mid rates, FS1 equals)

(end of period)

	May-18	Feb-19	Mar-19	Apr-19	May-19
US dollar	0.4822	0.4700	0.4679	0.4655	0.4607
Australian dollar	0.6362	0.6584	0.6611	0.6597	0.6666
New Zealand dollar	0.6898	0.6872	0.6893	0.6981	0.7080
Euro	0.4133	0.4134	0.4168	0.4163	0.4139
Japanese yen	52.52	52.19	51.76	51.98	50.49
Nominal Effective Exchange Rate	83.90	84.68	84.69	84.65	84.59
Real Effective Exchange Rate	102.40	105.60	105.15	104.34	104.05

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

(end of period)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Banks' Demand Deposits (\$m)	521.6	298.8	290.6	360.1	323.1

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

(year-on-year % change)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Broad Money	4.9	1.6	2.7	0.3	-0.1
Net Foreign Assets	-2.1	-20.4	-16.4	-15.8	-16.9
Domestic Credit	8.3	9.7	8.0	7.7	7.6
Private Sector Credit	7.8	9.3	8.3	8.3	8.8
Narrow Money	6.9	-1.8	-1.0	0.3	-3.1

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

(monthly weighted average)

	May-18	Feb-19	Mar-19	Apr-19	May-19
Lending Rate (Excluding Staff)	5.66	5.65	5.66	5.81	5.99
Savings Deposit Rate	1.43	1.17	1.21	0.90	1.14
Time Deposit Rate	3.37	3.79	3.93	3.70	3.97
14-day RBF Note Rate (month end)	n.i	1.00	1.00	1.20	1.35
Minimum Lending Rate (MLR) (month end)	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	n.t	1.00	1.00	1.00	1.00
3 month Government T-Bills	1.38	n.i	n.i	2.35	2.75
12 month Government T-Bills	n.i	n.i	n.i	n.i	5.00
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	6.00	n.i	n.i	n.i

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

(end of period)

	May-18	Feb-19	Mar-19	Apr-19	May-19
UK Gold Price/fine ounce	1,305.4	1,319.2	1,295.4	1,282.3	1,295.5
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.8	12.7	12.5	12.3	11.2
Crude Oil/barrel	77.6	66.0	68.4	72.8	64.5

<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:

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