



## ECONOMIC REVIEW

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Global economic risks and policy uncertainties have become more pronounced. The intensification of the United States (US) and China trade tensions have led to a reduction in international trade, a fall in commodity prices and interrupted investment activity. In addition, the Japan-South Korea tech trade war, uncertainty over Brexit and the build-up of financial vulnerabilities after years of low interest rates are other key downside risks to the global growth outlook.

On a positive note, the slowdown in the global economy has led to a decline in crude oil prices. Likewise, world market sugar prices fell on the back of a weaker Brazilian Real and improved weather conditions in India. In addition, the monthly decline in the FAO<sup>1</sup> food price index was driven by lower prices for dairy, cereal and sugar. In contrast, gold prices rose following the increased demand for the safe haven asset amid escalating trade tensions.

Domestically, overall growth is expected to remain positive this year. Recent data show that performance in major sectors were mixed. Visitor arrivals rose by 5.2 percent in the year to July due to higher arrivals from the US (11.2%), New Zealand (5.2%), Australia (2.6%), Japan (89.8%) and Pacific Island Countries (6.7%). Likewise, electricity (4.8%) and mahogany (63.4%) output increased in the same period. While, cane (-9.9%) and sugar (-16.4%) output declined up to 26 August due to the late start of the crushing season, the outlook is that both cane and sugar outputs will be higher this season. Similarly, pine wood supply (-14.1%), sawn timber (-5.7%) and woodchip (-24.0%) production fell in the first seven months of the year due to a combination of bad weather and lower demand conditions. In the same period, technical problems at the mine led to lower gold production (-16.8%) while cement (-7.8%) production declined due to lower construction activity.

Consumption activity continued to slow as revealed by the latest partial indicators. Cumulative to July, new lending by commercial banks' for consumption purposes fell (-1.5%) underpinned by reduced lending to private individuals (-8.1%). Similarly, new (-29.5%) and second hand (-4.5%) vehicle registrations both fell in the same period. However, net Value Added Tax (VAT) collections (9.4%) grew in the year to July. Consistent with the overall slowdown in consumption activity, the Reserve Bank of Fiji's (RBF) June 2019 Retail Sales Survey results also show that businesses expect a moderate 1.9 percent growth (from 6.1% in the previous survey) in retail sales this year.

Latest partial indicators for investment and construction activity suggest a contraction so far this year. Commercial banks' new investment lending fell (-25.9%) cumulative to July due to a decline in lending to both the real estate (-32.9%) and building & construction (-10.9%) sectors. Likewise, domestic cement sales also declined (-7.5 %) in the same period. Consistent with the overall subdued investment activity, the RBF June 2019 Business Expectations Survey (BES) results for investment intentions have weakened significantly (compared to the December 2018 Survey) as fewer firms expect increased investment in plant & machinery and buildings, in both the short and medium term. The survey also shows that overall business confidence whilst positive has deteriorated from the previous survey at the end of 2018.

Labour market conditions continued to soften as reflected via the RBF Job Advertisements Survey results. The total number of job vacancies advertised declined by 4.4 percent in the year to July underpinned by lower recruitment intentions in the community, social & personal services; transport, storage & communication; manufacturing; electricity & water and the mining & quarrying sectors. Similarly, the RBF June 2019 BES reveals that

<sup>1</sup> Food and Agriculture Organisation.

businesses outlook for employment has also weakened from the previous survey in tandem with the softening of aggregate demand this year.

Broad money grew by an annual 1.5 percent in July due to a pick-up in net domestic assets, as net foreign assets declined. Net domestic credit's annual growth picked up to 8.3 percent attributed to increased private sector credit (7.5%) while the annual rise in foreign liabilities (23.5%) underpinned the contraction in net foreign assets.

Banking system liquidity has increased significantly by around \$281 million over the past three months and almost doubled from the end of 2018. In July, liquidity as measured by commercial banks' demand deposits increased by 16.7 percent to \$506.6 million, on account of an increase in foreign reserves (\$113.9m) which more-than-offset the increases in statutory reserve deposits (\$25.6m) and currency in circulation (\$7.4m). As at 30 August, liquidity increased further to \$617.7 million led largely by increased foreign reserves.

Over the month of July, the Fijian dollar (FJD) strengthened against the Australian dollar (AUD) (0.9%), Euro (0.9%) and the New Zealand dollar (NZD) (0.3%) but weakened against the US dollar (USD) (-1.0%) and the Yen (-0.2%). Similar movements were noted over the year where the FJD appreciated against the AUD (4.5%), Euro (1.8%) and the NZD (0.1%) but was lower against the Yen (-5.1%) and the USD (-2.9%).

Fiji's overall exchange rate remained stable as the Nominal Effective Exchange Rate index (NEER)<sup>2</sup> noted only a marginal increase over the month in July (0.05%). However, the Real Effective Exchange Rate (REER)<sup>3</sup> declined both over the month and on an annual basis (-1.6%) denoting a gain in trade competitiveness, on account of lower domestic inflation.

In the year to May, total exports (excluding aircraft) rose by 9.5 percent largely underpinned by growth in re-exports (29.8%) while domestic exports declined (-0.4%) due to lower exports of woodchip, preserved fish, gold, soft drinks, animal & vegetable oils & fats, bauxite and chemicals. In the same period, imports (excluding aircraft) declined by 4.2 percent attributed to lower imports of machinery & transport equipment, chemicals and animal & vegetable oils & fats. Consequently, the merchandise trade deficit (excluding aircraft) narrowed by 11.5 percent compared to the 21.4 percent widening a year ago.

Inward personal remittances remains strong and grew by 6.6 percent in the year to June and is expected to reach another record level this year.

Annual inflation decelerated to 0.7 percent in July, much lower than the 2.8 percent in June and the 4.7 percent registered in July last year owing to a decline in prices for communications charges coupled with lower growth in prices for major categories especially food & non-alcoholic beverages and alcoholic beverages, tobacco & narcotics.

Foreign reserves (RBF holdings) has increased by over \$227 million over the last three months and around \$73 million in August. Currently, (30/08), foreign reserves are \$2,159.8 million, sufficient to cover 5.0 months of retained imports of goods and services.

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>2</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>3</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.

KEY INDICATORS

	Jul-18	Apr-19	May-19	Jun-19	Jul-19
<b>1. Sectoral Performance Indicators</b> (year-on-year % change)					
Visitor Arrivals	3.5	5.8	6.5	6.1	5.2
Electricity Production	0.3	6.6	6.1	5.1	4.8
Gold Production	9.0	-15.8	-13.3	-13.2	-16.8
Cane Production <sup>^</sup>	1.6	n.a	n.a	-29.7	-15.6
Sugar Production <sup>^</sup>	2.1	n.a	n.a	-37.7	-22.3
Pinewood Intake	208.6	-1.1	-5.9	-13.1	-14.1
Woodchip	223.2	-11.6	-19.9	-26.6	-24.0
Mahogany	1,765.5	11.4	53.6	94.3	63.4
Cement Production	-21.8	7.2	0.1	-2.9	-7.8
<b>2. Consumption Indicators</b> (year-on-year % change)					
Net VAT Collections	11.1	14.8	9.9	12.2	9.4
New Consumption Lending	21.4	-2.2	7.8	2.3	-1.5
New Vehicle Registrations****	43.5	-38.4	-37.8	-33.6	-29.5
Secondhand Vehicle Registrations****	9.7	1.8	0.6	-1.8	-4.5
Personal Remittances	7.4	5.7	10.1	6.6	n.a
Electricity Consumption	3.1	6.8	6.0	5.3	5.0
<b>3. Investment Indicators</b> (year-on-year % change)					
Domestic Cement Sales	-23.7	-5.7	-6.2	-7.8	-7.5
New Investment Lending	-2.6	-8.4	-20.1	-19.0	-25.9
<b>4. Labour Market</b> (year-on-year % change)					
RBF Job Advertisement Survey	6.3	-4.5	-6.9	-6.8	-4.4
<b>5. Consumer Prices *</b> (year-on-year % change) <sup>1/</sup>					
All Items	4.7	2.1	2.1	2.8	0.7
Food and Non-Alcoholic Beverage	4.1	2.0	3.0	7.3	3.2
Alcoholic Beverages, Tobacco & Narcotics	21.6	13.1	13.8	7.8	2.1
<b>6. Reserves ***</b> (end of period)					
Foreign Reserves (\$m) <sup>2/</sup>	2,161.9	1,944.3	1,933.2	1,973.4	2,087.3
Months of retained imports of goods and non-factor services (MORI)	4.7	4.5	4.4	4.5	4.8
<b>7. Exchange Rates ***</b> (mid rates, F\$1 equals) (end of period)					
US dollar	0.4759	0.4655	0.4607	0.4665	0.4619
Australian dollar	0.6427	0.6597	0.6666	0.6656	0.6719
New Zealand dollar	0.6977	0.6981	0.7080	0.6962	0.6982
Euro	0.4066	0.4163	0.4139	0.4103	0.4141
Japanese yen	52.86	51.98	50.49	50.28	50.18
Nominal Effective Exchange Rate	84.72	84.65	86.82	84.42	84.46
Real Effective Exchange Rate	105.47	104.35	106.88	105.41	103.77
<b>8. Liquidity ***</b> (end of period)					
Banks' Demand Deposits (\$m)	496.9	360.1	323.2	434.0	506.6
<b>9. Money and Credit ***</b> (year-on-year % change)					
Broad Money	2.8	0.3	0.0	-0.6	1.5
Net Foreign Assets	-5.6	-16.1	-16.9	-16.8	-11.3
Domestic Credit	7.4	7.9	7.7	7.3	8.3
Private Sector Credit	5.6	8.5	8.9	8.5	7.5
Narrow Money	3.1	0.0	-3.2	-3.9	-1.8
<b>10. Interest Rates (% p.a.) ***</b> (monthly weighted average)					
Lending Rate	5.68	5.81	5.99	6.03	6.09
Savings Deposit Rate	1.41	0.90	1.14	1.08	1.19
Time Deposit Rate	3.40	3.70	3.97	4.13	4.25
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.t	1.00	1.22	1.20	1.00
3 month Government T-Bills	1.45	2.35	2.70	2.75	2.70
12 month Government T-Bills	n.i	n.i	5.00	5.00	5.00
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	6.00	n.i	n.i	n.i	n.i
<b>11. Commodity Prices (US\$) **</b> (end of period)					
UK Gold Price/fine ounce	1,221.0	1,282.3	1,295.5	1,409.0	1,427.6
CSCC No. 11 Sugar Spot Price/Global (US cents/pound)	10.6	12.3	11.2	12.3	12.2
Crude Oil/barrel	74.3	72.8	64.5	66.6	65.2

<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

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Not available

Sources:

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Fiji Bureau of Statistics

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Bloomberg

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Reserve Bank of Fiji

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Land Transport Authority

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Fiji Sugar Corporation