



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic activity continues to be impeded by containment measures to the COVID-19 pandemic, which has now infected more than 17.0 million people worldwide. According to various international agencies¹, this year, the world economy will shrink at the sharpest rate in decades, as measures taken to contain the pandemic have severely restrained private consumption, investment, trade and travel. On a positive note, the COVID-19 vaccine is now in Phase 3 of testing² and several countries³ have started to slowly lift lockdown restrictions. Overall, according to the IMF, the world economy is expected to rebound by 5.4 percent in 2021, following a 4.9 percent contraction this year.

Major commodity prices saw an uptick in June. The recent rise in crude oil prices was driven by the economic recovery in countries easing COVID-19 restrictions and following the agreement between global oil producers⁴ to cut petroleum output. However, year-end crude oil futures are expected to be lower than 2019 prices. Gold prices continue to rise amid uncertainty surrounding the evolution of the pandemic while sugar prices increased following the drought and halt in crushing operations in India. The Food and Agriculture Organisation Price Index increased in June underpinned by higher prices of vegetable oils, dairy and sugar.

The domestic economy is anticipated to be significantly impacted by the COVID-19 pandemic and is forecast to contract sharply by 21.7 percent⁵ this year with major hits to the tourism industry and related sectors. The anticipated recovery in 2021 and 2022 is contingent on the early containment of the pandemic and the resumption of global tourism activity. Additionally, the \$2.0 billion Government

stimulus package announced in the 2020-21 National Budget is expected to provide further support.

Latest indicators suggest persistent weakening in major sectors of the economy relative to a year ago. The services sector continued to contract depicted by a sharp fall in visitor arrivals (-65.3%) cumulative to June. Over the same period, pine wood supply (-20.1%), woodchip (-1.5%), sawn timber (-39.8%), mahogany (-36.4%), gold (-7.4%) and electricity (-8.4%) production declined, broadly due to subdued demand and halt in production and supply. Over the month though, production for mahogany, sawn timber, and woodchips rose suggesting some recovery from the lows of March. On a positive note, cane and sugar production grew by 29.9 percent and 13.6 percent respectively in the first six weeks of crushing, attributed to increased operating efficiency and lower mill breakdowns compared to last year.

Aggregate demand remains soft as highlighted by recent partial indicators for consumption and investment. Cumulative to June, sharp contractions were noted for net Value Added Tax collections (-32.8%), commercial banks' new lending for consumption purposes (-18.8%) and new vehicle sales (-48.4%). Contrastingly, the wholesale and retail sales survey for quarter 1 2020 registered a growth of 3.8 percent. Investment sentiments over the same period remained weak as indicated by the contraction in commercial banks' new lending for building and construction activity (-29.4%) and value of work put-in-place (-6.7%). However, monthly analysis of consumption and investment indicators reveal slight improvements for the months of May and June, following very poor performances in March and April.

¹ IMF (-4.9%), World Bank (-5.2%), Moody's (-4.5%), S&P Global (-3.8%) and OECD (-7.6%).

² The vaccine is given to thousands of people to confirm its safety

³ These include New Zealand, Japan, Thailand, China, Greece, France, Italy, Denmark, Scotland, and Wales among others.

⁴ Organization of Petroleum Exporting Countries and others including Russia (OPEC+).

⁵ The second highest economic contraction amongst the tourism dependent countries of Maldives, Mauritius, Thailand, Cook Islands, and Palau – Maldives is the highest with -26.4 percent.

Labour market conditions remain weak. In Phase 2 of the Fiji National Provident Fund (FNPF) COVID-19 relief package (as at 21 July), a total of \$13.7 million was paid out (\$7.2m topped up by Government), assisting 25,046 members. Additionally, vacancies advertised in the Fiji Times and Fiji Sun as per RBF job advertisement survey in the year to June noted a significant decline of 55.8 percent, signifying deteriorating hiring intentions. Going forward, the FNPF will be rolling out Phase 3 of its assistance program as announced in the recent National Budget. This is expected to provide further support to those affected by the pandemic.

Moreover, credit growth decelerated in the year to June owing to reduced lending to the private sector by commercial banks. New lending by commercial banks and licensed credit institutions fell over the review month as financial institutions tightened credit standards, given risks associated with the slowing economy. As such, new lending and deposit rates fell sharply over the month and year, in June. Over the same period, the non-performing loans (NPLs) ratio for commercial banks was around 4.1 percent, a slight improvement when compared with the 4.4 percent noted in May.

Liquidity in the banking system at the end of June remained ample at \$751.8 million and underlined the downwards movement in interest rates over the review period. As at 30 July, total excess liquidity in the banking system stood at \$770.3 million.

Over the month in June, the Fijian dollar (FJD) strengthened against the United States dollar (USD) (1.8%) Japanese Yen (JPY) (1.7%) and the Euro (0.3%) but was lower against the Australian (AUD) (-1.6%), and New Zealand dollar (NZD) (-1.5%). Annually, the FJD appreciated against the NZD (2.7%) and AUD (0.4%) but fell against the JPY (-1.8%), the USD (-1.6%) and the Euro (-0.5%).

Consequently, the nominal effective exchange rate (NEER)⁶ index remained relatively stable in June,

increasing marginally over the month (0.3%) and year (0.1%), indicating a general strengthening of the FJD. The real effective exchange rate (REER)⁷ index was higher over the month (0.1%) but was lower over the year (-4.6%), denoting a gain in trade competitiveness largely on account of the persistent negative annual inflation experienced since October 2019.

In the year to April 2020, the merchandise trade deficit (excluding aircraft) improved by 18.2 percent totaling \$814.4 million, as a result of a higher contraction in imports (-18.0%) relative to exports (-17.7%). Tourism earnings in the first quarter of 2020 declined by 17.1 percent to total \$304.0 million, given lower earnings from all major source markets. Inward personal remittances cumulative to June fell by 5.6 percent to total \$276.9 million, largely contributed by lower inflows from gifts, maintenance & donations and personal receipts.

The annual inflation rate reached a historic low of -3.5 percent in June largely underpinned by lower prices for vegetables, *yaqona*, petrol, kerosene, diesel and fruits. Factoring in the actual inflation outturn for January to June, the impact of the revised fuel and gas prices in July and the 2020-21 National Budget, the year-end inflation for 2020 is likely to be lower than the current forecast of 1.0 percent.

Over the month in June, foreign reserves declined by \$71.1 million to total \$2,178.6 million, as a result of higher foreign exchange payments in contrast to receipts. As at 31 July 2020, foreign reserves stood at \$2,106.3 million sufficient to cover 7.7 months of retained imports. Foreign reserves are expected to remain at adequate levels by year-end.

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

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⁶ 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.

⁷ 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)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Visitor Arrivals	6.1	-18.7	-43.5	-56.2	-65.3
Electricity Production	5.1	0.0	-5.7	-7.4	-8.4
Gold Production	-13.2	-1.9	-8.3	-7.6	-7.0
Cane Production [^]	-29.7	n.a	n.a	n.a	50.3
Sugar Production [^]	-37.7	n.a	n.a	n.a	43.4
Pinewood Intake	-13.1	-35.5	-28.0	-23.9	-20.1
Woodchip	-26.6	-14.0	-18.4	-11.5	-1.5
Mahogany	94.3	169.7	15.2	-23.8	-36.4
Cement Production	-7.3	-27.3	-31.3	-28.7	-22.5

2. Consumption Indicators

(year-on-year % change)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Net VAT Collections	12.2	-19.2	-23.4	-30.1	-32.8
New Consumption Lending	2.3	1.9	-4.4	-20.2	-18.8
New Vehicle Registrations****	-33.6	-30.8	-40.2	-45.3	-47.7
Secondhand Vehicle Registrations****	-1.8	-58.0	-64.0	-65.5	-65.8
Personal Remittances	6.6	6.1	-2.7	-2.3	-5.6
Electricity Consumption	4.3	0.0	-4.6	-6.4	-7.1

3. Investment Indicators

(year-on-year % change)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Domestic Cement Sales	-7.8	-17.0	-20.4	-18.8	-14.6
New Investment Lending	-19.0	41.4	25.5	21.2	16.8

4. Labour Market

(year-on-year % change)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
RBF Job Advertisement Survey	-6.8	-35.8	-42.5	-48.8	-55.8

5. Consumer Prices *

(year-on-year % change)^{1/}

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
All Items	2.8	-2.8	-1.3	-1.7	-3.5
Food and Non-Alcoholic Beverage	7.3	-5.6	-1.0	-1.0	-5.6
Alcoholic Beverages, Tobacco & Narcotics	7.8	-7.8	-7.5	-8.7	-9.6

6. Reserves ***

(end of period)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Foreign Reserves (\$m) ^{2/}	1,973.4	2,198.7	2,217.0	2,249.7	2,178.6
Months of retained imports of goods and non-factor services (MORI)	4.6	8.0	8.1	8.2	7.9

7. Exchange Rates ***

(mid rates, F\$1 equals)
(end of period)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
US dollar	0.4665	0.4385	0.4478	0.4510	0.4590
Australian dollar	0.6656	0.7108	0.6838	0.6793	0.6685
New Zealand dollar	0.6962	0.7290	0.7304	0.7259	0.7152
Euro	0.4103	0.3971	0.4117	0.4072	0.4084
Japanese yen	50.28	47.32	47.74	48.54	49.37
Nominal Effective Exchange Rate	84.42	84.40	84.34	84.31	84.54
Real Effective Exchange Rate	105.41	99.42	100.90	100.75	100.95

8. Liquidity ***

(end of period)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Banks' Demand Deposits (\$m)	434.0	590.0	718.6	849.0	751.8

9. Money and Credit ***

(year-on-year % change)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Broad Money	-0.5	4.4	4.8	4.5	3.9
Net Foreign Assets	-16.8	13.8	16.3	18.9	10.7
Domestic Credit	7.2	4.7	4.2	3.0	2.8
Private Sector Credit	8.5	2.4	1.8	1.2	0.7
Narrow Money	-3.7	7.8	6.3	9.7	9.2

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

(monthly weighted average)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
Lending Rate	6.03	6.28	6.25	6.15	6.12
Savings Deposit Rate	1.08	1.83	0.99	0.90	0.87
Time Deposit Rate	4.13	4.15	4.05	3.91	3.77
Repurchase Rate	1.00	0.50	0.50	0.50	0.50
Overnight inter-bank Rate	1.20	n.f	0.25	n.f	0.77
3 month Government T-Bills	2.75	n.i	n.i	1.93	1.87
12 month Government T-Bills	5.00	3.43	3.40	3.24	3.10
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	5.88	n.i	n.i	n.i

11. Commodity Prices (US\$) **

(end of period)

	Jun-19	Mar-20	Apr-20	May-20	Jun-20
UK Gold Price/fine ounce	1,409.0	1,596.6	1,694.2	1,751.7	1,800.5
CSCC No. 11 Sugar Spot Price/Global (US cents/pound)	12.3	10.4	10.4	10.9	12.0
Crude Oil/barrel	66.6	22.7	25.3	35.3	41.2

^{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 trading

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