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The International Monetary Fund in its July World Economic Outlook projects the global economy to expand by 6.0 percent in 2021. While the overall growth remains unchanged from April, the outlook for advanced economies has been upgraded while those of emerging market & developing economies have been downgraded. For 2022, global growth has been revised upwards by 0.5 percentage points to 4.9 percent, mainly driven by the improved outlook for advanced economies. This outcome reflects the uneven developments across the globe reflecting the unequal access to vaccines as well as varying degrees of monetary and fiscal support. Nonetheless, risks to the global outlook continue to be on the downside and include worsening pandemic outcomes and tightening financial conditions.

International commodity prices strengthened further in June on the back of recovering global demand and tight commodity supplies. The Brent crude oil price surged to US\$75.13 per barrel from US\$69.32 in May, following a strong economic rebound in the US and the Eurozone. Similarly, sugar prices rose to US17.89 cents per pound, attributed to higher oil prices and bad weather conditions. In contrast, gold prices fell to US\$1,771.60 per fine ounce after recording a significant upswing in the preceding month on the back of improved sentiments for the US economy. Also, the FAO¹ food prices index dropped in June for the first time in a year led by reductions in the prices of vegetable oils, cereals and dairy due to favourable weather conditions, seasonal production gains and lack of new import demand.

Domestically, economic activity slowed significantly in late April and May as the spread of the Delta variant intensified in the country, worsening Fiji's socio-economic situation. However, some pick-up has been noted from June as more businesses and citizens adapted to the COVID-19 environment.

Resource-based sectors have managed to hold up production in the first half of the year. Gold production expanded annually (+12.1%) driven by mining efficiency and improved ore grade. Likewise, timber production rose over the same period as pine logs (+128.0%) and woodchips (+90.9%) output rose on the back of buoyant foreign demand while mahogany production (+91.3%) also noted a significant improvement. While the sugarcane crushing data up to 19 July shows annual contractions for both cane (-27.0%) and sugar production (-30.9%), yield is expected to pick up over the coming weeks after the guaranteed price of \$85 per tonne was extended for the 2021 season. In contrast, electricity generation (-7.2%), cement production (-33.9%) and visitor arrivals (-95.9%) recorded annual declines cumulative to June.

Despite the domestic economy opening up under strict COVID-19 protocols, aggregate demand remains suppressed as more people have become unemployed or have had their wages and hours worked reduced. Partial indicators of consumption spending such as Net VAT collections (-18.2%), new consumption lending by commercial banks (-8.6%), new vehicle registrations (-8.0%) and electricity consumption (-6.1%) recorded annual declines cumulative to June. On the other hand, second-hand vehicle registrations (+120.4%) rose over the same period.

Investment spending also registered sluggish outcomes in the year to June. Commercial banks' new lending for investment purposes (-18.1%) declined on an annual basis driven by lower lending to the real estate (-20.3%) and the building & construction (-12.1%) sectors. The economic uncertainty and mandatory COVID-19 protocols are anticipated to suppress investment plans further in the coming months.

¹ Food and Agriculture Organisation.

Labour market conditions remain weak in tandem with the economic downturn. As per the RBF Job Advertisements Survey, the number of jobs advertised plunged annually by 63.0 percent in the first half of the year, driven by reduced recruitment intentions across all major sectors except for the mining sector.

The financial sector remains stable despite subdued credit activity and heightened credit risks in the financial system. Credit to the private sector contracted (-2.8%) annually in June, while the level of non-performing loans increased further. Nonetheless, banks are adequately capitalised and have sufficient provisioning against bad loans to mitigate financial stability concerns. Generally, the downward movement in interest rates in recent months is on account of ample levels of banking system liquidity. Total banks demand deposits as at 30 July was around \$1,548.4 million.

Over the month of June, the Fijian dollar (FJD) strengthened against the New Zealand (NZD) (1.9%) and Australian (AUD) dollar (0.8%) and the Euro (0.6%) but weakened against the United States dollar (USD) (-1.8%) and the Japanese Yen (JPY) (-1.1%). On an annual basis, the FJD gained against the JPY (7.9%) and the USD (4.9%) but was lower against the AUD (-4.1%), NZD (-3.7%) and the Euro (-0.9%).

Consequently, the nominal effective exchange rate (NEER)² was lower over the month (-0.1%) but higher over the year (0.7%). The real effective exchange rate (REER)³ was higher over the month (2.2%) but was lower over the year (-1.5%), denoting a gain in competitiveness on account of lower domestic prices relative to major trading partners.

In the year to April, the merchandise trade deficit⁴ improved by 7.4 percent due to a higher reduction in imports relative to exports. The contraction in exports (-0.8%) was driven by a fall in re-exports (-23.5%) which more-than-offset the growth in domestic exports (+16.2%). The drop in imports (-4.7%) was mostly supported by lower imports of mineral fuel (-7.6%), beverage & tobacco (-0.5%), machinery & transport equipment (-0.2%), crude

materials (-0.1%) and other commodities (-0.2%).

Tourism earnings in the first quarter of 2021 declined by a significant 99.1 percent to total \$2.8 million, led by negative contributions from all source markets. In the first five months of the year, total personal remittances⁵ grew by 27.7 percent (to \$332m), contributed mainly by higher inflows from personal transfers, which more-than-offset the decline in compensation of employees and migrant transfers category.

The annual inflation rate edged up from -1.6 percent in May to zero percent in June as the higher prices of food, transport, housing, and fuel perfectly offset the decline in prices of alcohol, tobacco, *yaqona* and other items. The rising global food and crude oil prices, along with high freight costs, has started to filter into domestic prices. The FAO Food Price Index was around 26.1 percent higher on an annual basis in the first half of this year. Similarly, energy prices have been rising globally, and the average crude oil prices in the year to June was 55.0 percent higher than the comparable period in 2020. Furthermore, local border restrictions and mandatory COVID-19 protocols have resulted in higher prices of some food items and raised the cost of doing business. The year-end forecast for inflation of 1.5 percent is upward biased.

Foreign reserves remain at adequate levels and at the end of July was \$3,116.3 million, sufficient to cover 10.8 months of retained imports. The medium-term foreign reserves outlook remains comfortable as the Government will finance a large part of next year's fiscal deficit through external loans.

In light of the stable outlook for inflation and foreign reserves and weak domestic economic conditions, the RBF maintained its accommodative monetary policy stance in July by keeping the Overnight Policy Rate unchanged at 0.25 percent. The Reserve Bank also provided an additional \$200 million allocation to the Disaster Rehabilitation and Containment Facility to help businesses maintain their operations and support employment during this pandemic.

RESERVE BANK OF FIJI

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.

⁴ All trade figures exclude aircraft imports and re-exports.

⁵ Includes data from Mobile Network Operators (Vodafone & Digicel), Foreign Exchange Dealers, Money Transfer Operators and Commercial Bank's.

² 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.

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

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

Visitor Arrivals
Electricity Production
Gold Production
Cane Production^A
Sugar Production^A
Pinewood Intake
Woodchip
Mahogany
Cement Production

	Jun-20	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Visitor Arrivals	-65.3	-98.0	-97.0	-96.4	-96.1	-95.9
Electricity Production	-8.4	-16.5	-13.4	-8.3	-7.8	-7.2
Gold Production	-7.0	10.6	17.5	17.4	8.6	12.1
Cane Production ^A	50.3	n.a	n.a	n.a	n.a	n.a
Sugar Production ^A	43.4	n.a	n.a	n.a	n.a	n.a
Pinewood Intake	-20.1	146.2	151.8	132.8	117.9	128.0
Woodchip	-1.5	101.4	92.7	96.6	87.7	90.9
Mahogany	-36.3	-85.2	-27.0	37.9	51.3	91.3
Cement Production	-22.5	-9.1	0.8	-0.7	-23.0	-33.9

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections
New Consumption Lending
New Vehicle Registrations****
Secondhand Vehicle Registrations****
Personal Remittances^{1/}
Electricity Consumption

Net VAT Collections	-32.8	-36.3	-27.8	-21.5	-20.9	-18.2
New Consumption Lending	-18.8	-37.5	-24.1	-20.6	-13.4	-8.6
New Vehicle Registrations****	-47.7	-27.4	-17.2	-2.6	-9.5	-8.0
Secondhand Vehicle Registrations****	-65.8	91.9	122.2	152.0	119.9	120.4
Personal Remittances ^{1/}	3.6	15.9	25.8	45.0	27.7	n.a
Electricity Consumption	-7.1	-12.5	-11.5	-7.0	-6.2	-6.1

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales
New Investment Lending

Domestic Cement Sales	-14.6	-20.3	-8.4	-6.8	-29.0	-38.4
New Investment Lending	-0.7	-41.4	-25.8	-3.0	-18.1	-18.1

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey

RBF Job Advertisement Survey	-55.8	-78.9	-75.8	-66.2	-63.7	-63.0
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5. Consumer Prices *

(year-on-year % change)^{2/}

All Items
Food and Non-Alcoholic Beverage
Alcoholic Beverages, Tobacco & Narcotics

All Items	-3.5	1.1	-1.2	-2.4	-1.6	0.0
Food and Non-Alcoholic Beverage	-5.6	12.9	7.5	2.4	3.7	8.3
Alcoholic Beverages, Tobacco & Narcotics	-9.6	-13.3	-16.9	-18.8	-17.9	-17.2

6. Reserves ***

(end of period)

Foreign Reserves (\$m)^{3/}
Months of retained imports of goods and non-factor services (MORI)^{4/}

Foreign Reserves (\$m) ^{3/}	2,178.8	2,179.0	2,371.9	2,771.3	3,131.1	3,174.0
Months of retained imports of goods and non-factor services (MORI) ^{4/}	7.2	7.5	8.2	9.6	10.8	11.0

7. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

US dollar
Australian dollar
New Zealand dollar
Euro
Japanese yen
Nominal Effective Exchange Rate
Real Effective Exchange Rate

US dollar	0.4590	0.4961	0.4828	0.4913	0.4903	0.4816
Australian dollar	0.6685	0.6300	0.6358	0.6325	0.6358	0.6410
New Zealand dollar	0.7152	0.6728	0.6911	0.6784	0.6757	0.6887
Euro	0.4084	0.4077	0.4120	0.4053	0.4020	0.4046
Japanese yen	49.37	52.71	53.28	53.51	53.84	53.25
Nominal Effective Exchange Rate	84.54	85.21	85.15	85.15	85.23	85.12
Real Effective Exchange Rate	101.29	100.55	97.97	97.36	97.66	99.80

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)

Banks' Demand Deposits (\$m)	751.8	896.6	1,054.2	1,451.4	1,690.1	1,668.5
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9. Money and Credit ***

(year-on-year % change)

Broad Money
Net Foreign Assets
Domestic Credit
Private Sector Credit
Narrow Money

Broad Money	3.6	1.2	2.9	2.5	4.6	9.9
Net Foreign Assets	12.1	5.1	18.6	13.9	30.9	56.4
Domestic Credit	2.7	1.5	0.7	0.7	-0.2	-0.7
Private Sector Credit	0.6	-4.0	-3.7	-3.7	-3.6	-2.8
Narrow Money	8.8	9.9	10.6	9.9	12.5	19.9

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

(monthly weighted average)

Overnight Policy Rate
Repurchase Rate
Overnight inter-bank Rate
Lending Rate
Savings Deposit Rate
Time Deposit Rate
3 month Government T-Bills
12 month Government T-Bills
5-year Government Bond Yield
10-year Government Bond Yield

Overnight Policy Rate	0.25	0.25	0.25	0.25	0.25	0.25
Repurchase Rate	0.50	0.50	0.50	0.50	0.50	0.50
Overnight inter-bank Rate	0.77	n.i	n.i	n.i	n.i	n.i
Lending Rate	6.12	6.06	6.06	6.03	5.97	5.96
Savings Deposit Rate	0.87	0.55	0.54	0.55	0.55	0.56
Time Deposit Rate	3.77	3.02	2.94	2.86	2.74	2.64
3 month Government T-Bills	1.87	1.06	0.99	n.i	0.74	0.67
12 month Government T-Bills	3.10	2.00	1.70	n.i	1.45	1.30
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	4.50	n.i	n.i	n.i	n.i

11. Commodity Prices (US\$) **

(end of period)

UK Gold Price/line ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)
Crude Oil/barrel

UK Gold Price/line ounce	1,800.5	1,728.8	1,715.6	1,767.7	1,905.3	1,771.6
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.0	16.5	14.8	17.0	17.4	17.9
Crude Oil/barrel	41.2	66.1	63.5	67.3	69.3	75.1

^{1/} Personal Remittances are inclusive of international mobile money receipts.

^{2/} 2014 rebase. Previous data had 2011 as its base.

^{3/} 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.

^{4/} MORI is based on the Macroeconomic Committee forecast as at November 2020.

Note:

n.i No issue
n.a Not available
n.t No trading

Sources:

* Fiji Bureau of Statistics
** Bloomberg
*** Reserve Bank of Fiji
**** Land Transport Authority
A Fiji Sugar Corporation