



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The coronavirus outbreak, declared as a global health emergency by the World Health Organisation, is likely to dampen the earlier anticipated global growth recovery by the International Monetary Fund. Its negative impact is already evident through disruptions to global supply chains, manufacturing activity, retail sale, tourism and travel. The virus containment has affected both business and travel to and from China and across the globe. Since China is the world's second-largest economy and a leading trading nation, any slowdown in its economic activity will have spill over effects throughout the world economy.

Commodity prices have also been affected, particularly oil, falling sharply in response to dampening demand from China. Brent crude oil prices had slumped to US\$58.00 per barrel at the end of January following news of the coronavirus outbreak as travel and trade restrictions stalled factory activities and reduced China's demand for oil. In contrast, gold prices rose to US\$1,587.00 per fine ounce in January as fear and uncertainty increased the investment appetite for the safe-haven metal.

Domestically, visitor arrivals and gold production registered an annual growth of 2.5 percent and 20.6 percent in January, respectively. Notably, the impact of the coronavirus outbreak could impact certain domestic sectors in the coming months. The tourism industry could be particularly affected due to travel bans on foreign nationals, cancelled flights and the current uncertainty and risks surrounding global travel.

Consumption activity remained subdued as revealed by partial indicators. In January, net Value Added Tax collections fell in line with commercial banks' new lending for consumption purposes. Going forward, as per the RBF's December 2019 Retail Sales Survey, retail sales is anticipated to grow by 2.2

percent in 2020, slightly better than the 1.2 percent growth estimated in 2019.

Business and investment indicators portrayed some improvement in sentiments. Commercial banks' new lending for investment purposes saw a positive turnaround in January due to an upturn in lending to the real estate sector which more-than-offset the decline in loans to the building and construction sector. The RBF's December 2019 Business Expectations Survey (BES) points towards an improvement in general business confidence and investment intentions in the next twelve months.

The softness in aggregate demand is in line with the weaker labour market conditions. According to the RBF's Job Advertisements Survey, vacant jobs advertised in both the Fiji Times and Fiji Sun fell annually by 14.7 percent in January. Nonetheless, the medium term outlook for both part-time and full-time employment is expected to modestly improve as per the December 2019 BES results.

Credit outcomes slowed further in January, as the overall health of the financial system remained stable. Domestic credit growth slowed, owing to a deceleration in private sector credit which was attributed to the slowdown in commercial banks' lending. Evidently, total commercial banks' outstanding loans grew at a lower 1.0 percent in January compared to the 7.2 percent growth in the same period in 2019. Growth in new lending by commercial banks also slowed to 1.0 percent on an annual basis, compared to a 1.5 percent expansion a year ago. In terms of commercial banks' interest rates, the outstanding lending rate rose slightly while the new lending rate fell in January. Deposit rates noted a turnaround in January after the downward trend from the third quarter of 2019.

Excess liquidity in the banking system as measured by banks' demand deposits rose in January by 11.3

percent (\$68.5m) to \$672.2 million largely due to an increase in foreign reserves (\$26.6m) along with a decline in currency in circulation (-\$51.1m) which more-than-offset the increase in statutory reserve deposits (+\$0.9m). As at 27 February, excess liquidity in the banking system is sufficient at \$661.6 million.

Over the month in January, the Fijian dollar (FJD) strengthened against the Australian (AUD) (2.0%) and New Zealand (NZD) (1.5%) dollars but fell against the United States dollar (USD) (-2.1%), Japanese Yen (JPY) (-2.1%) and the Euro (-0.6%). Annually, the FJD appreciated against the AUD (4.0%), NZD (2.4%) and Euro (0.3%) but fell against the JPY (-3.8%) and the USD (-3.7%).

Consequently, the Nominal Effective Exchange Rate (NEER)¹ index remained relatively stable, increasing marginally over the month (0.01%) but declined over the year (-0.3%), indicating a general weakening of the FJD. The Real Effective Exchange Rate (REER)² index also increased over the month (0.9%) but fell over the year (-4.4%), denoting a gain in trade competitiveness largely on account of domestic deflation in January.

On the external front, Fiji's overall current account balance was supported by higher inward remittances which grew by 27.6 percent to \$56.3 million in January. The merchandise trade deficit (excluding aircraft) narrowed cumulative to November 2019 as a result of the contraction in total imports (-6.5%). While the rise in road vehicle duties, lower oil prices and subdued domestic demand have curtailed imports to a large extent, domestic exports performances were also weak (-6.0%) over the same period.

Inflation edged down for the fourth consecutive month to a historic low of negative 1.9 percent in January 2020, underpinned by lower prices in the communication; alcoholic beverages, tobacco & narcotics; food & non-alcoholic beverages and housing, water, electricity, gas & other fuels categories.

Foreign reserves (RBF holdings) are currently \$2,260.3 million (28/02), sufficient to cover 5.1 months of retained imports of goods and services.

Following consideration of recent economic developments and given that the near-term outlook for inflation and foreign reserves are within comfortable levels, the RBF maintained the Overnight Policy Rate at 0.5 percent.

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¹ 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.

² 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 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)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Visitor Arrivals	1.9	3.2	3.5	2.8	2.5
Electricity Production	3.3	n.a	n.a	n.a	n.a
Gold Production	-33.3	-12.6	-14.0	-14.9	20.6
Cane Production [^]	n.a	1.2	5.6	6.5	n.a
Sugar Production [^]	n.a	-2.7	3.5	5.3	n.a
Pinewood Intake	-32.2	-12.9	-12.4	-3.7	-37.9
Woodchip	-25.4	-29.1	-27.5	-25.6	-48.3
Mahogany	n.a	61.7	41.2	26.8	n.a
Cement Production	-23.9	-5.9	-4.5	-4.8	n.a

2. Consumption Indicators

(year-on-year % change)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Net VAT Collections	33.2	7.1	2.9	1.9	-15.1
New Consumption Lending	10.8	-6.8	-6.3	-4.8	-18.1
New Vehicle Registrations****	-14.2	-27.4	-25.7	-25.1	n.a
Secondhand Vehicle Registrations****	-2.5	-18.1	-21.3	-24.2	n.a
Personal Remittances	-4.5	4.5	4.4	4.2	38.8
Electricity Consumption	6.6	3.4	3.3	n.a	n.a

3. Investment Indicators

(year-on-year % change)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Domestic Cement Sales	-19.5	-7.5	-5.6	-6.2	n.a
New Investment Lending	-5.9	-20.1	-16.9	-16.7	94.0

4. Labour Market

(year-on-year % change)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
RBF Job Advertisement Survey	14.9	-1.4	-0.6	-2.3	-14.7

5. Consumer Prices*

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

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
All Items	5.1	-0.9	-0.3	-0.9	-1.9
Food and Non-Alcoholic Beverage	7.9	1.2	2.9	2.8	-1.4
Alcoholic Beverages, Tobacco & Narcotics	17.6	-2.3	-2.6	-4.3	-5.6

6. Reserves***

(end of period)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Foreign Reserves (\$m) ^{2/}	2,030.0	2,183.6	2,187.9	2,219.8	2,252.5
Months of retained imports of goods and non-factor services (MORI)	4.7	5.1	5.1	5.2	5.1

7. Exchange Rates***

(mid rates, F\$1 equals)

(end of period)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
US dollar	0.4740	0.4586	0.4564	0.4663	0.4566
Australian dollar	0.6533	0.6647	0.6735	0.6660	0.6796
New Zealand dollar	0.6872	0.7188	0.7106	0.6928	0.7034
Euro	0.4127	0.4114	0.4149	0.4163	0.4138
Japanese yen	51.65	49.93	50.00	50.76	49.70
Nominal Effective Exchange Rate	84.66	84.34	84.36	84.41	84.42
Real Effective Exchange Rate	108.08	102.50	102.10	102.43	103.38

8. Liquidity***

(end of period)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Banks' Demand Deposits (\$m)	398.1	615.8	614.5	603.7	672.2

9. Money and Credit***

(year-on-year % change)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Broad Money	2.5	-0.3	1.3	2.7	2.0
Net Foreign Assets	-15.2	-1.6	1.8	6.6	8.9
Domestic Credit	9.4	3.7	4.4	4.9	3.1
Private Sector Credit	8.4	4.5	4.6	4.6	4.1
Narrow Money	0.5	-2.5	-3.3	0.0	1.4

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

(monthly weighted average)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
Lending Rate	5.70	6.28	6.29	6.30	6.31
Savings Deposit Rate	1.20	1.04	1.03	1.10	1.56
Time Deposit Rate	3.74	4.27	4.23	4.10	4.29
Repurchase Rate	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	1.00	1.00	1.00	0.82	0.77
3 month Government T-Bills	n.i	2.35	n.i	2.25	2.25
12 month Government T-Bills	n.i	n.i	3.65	3.55	3.55
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	6.0	n.i	n.i	n.i	n.i

11. Commodity Prices (US\$) **

(end of period)

	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20
UK Gold Price/fine ounce	1,323.3	1,511.0	1,460.2	1,514.8	1,587.2
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.7	12.5	12.9	13.4	14.6
Crude Oil/barrel	60.8	60.2	62.4	66.0	58.2

^{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

Sources: * Fiji Bureau of Statistics
** Bloomberg
*** Reserve Bank of Fiji
**** Land Transport Authority
^ Fiji Sugar Corporation