



ECONOMIC REVIEW

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Vol. 37

No. 01

Month Ended January 2020

The International Monetary Fund in January, downgraded its global growth forecast for 2020 to 3.3 percent from the 3.4 percent projected in October last year. The revised growth is largely on account of the slowdown in a few emerging market economies as well as some advanced economies and the increasing social unrest across the world. However, this is a modest recovery from the 2.9 percent growth estimated for 2019. On a positive note, the recent signing of a trade deal between the United States (US) and China should provide some impetus to manufacturing activity and improve global trade flows. In addition, the aversion of a no-deal Brexit and supportive monetary policies are expected to stabilise growth in the short to medium term. On the downside, escalating geopolitical tensions coupled with social unrest, weather-related shocks and the recent Coronavirus outbreak remain key threats to global economic activity moving ahead.

Commodity prices generally rose in December 2019. Brent crude oil prices increased for the third consecutive month in December 2019, as a result of the OPEC's¹ decision to curb output. Gold prices rose in December as the US Federal Reserve lowered its policy interest rates for the third time in 2019. Following the US-Iran tensions in early January this year, oil prices rose to around US\$71 per barrel but stabilised to around US\$65 per barrel within a week while gold prices shot up to a seven-year high at US\$1,588 per fine ounce. In addition, the Food and Agriculture Organisation's food price index rose to a five-year high driven by annual increases in prices of oil, meat, dairy and sugar.

Domestically, the Fijian economy is anticipated to grow by 1.7 percent in 2020, following an estimated 1.0 percent expansion in 2019. Sectoral performances remained generally mixed in 2019. The sugar industry performed relatively well in 2019

as both cane and sugar production increased annually by 6.5 percent and 5.3 percent, respectively. Similarly, visitor arrivals rose by 2.8 percent in 2019, mostly driven by higher arrivals from the US, New Zealand, Japan, Pacific Island Countries and the Rest of Asia. In contrast, the overall timber industry performed weakly despite the increase in mahogany production as pine wood supply, sawn timber and woodchip production declined in 2019. In addition, deteriorating and poor quality ore reserves coupled with technical issues led to a 14.9 percent decline in gold production in 2019.

Domestic demand remained subdued as suggested by partial indicators for consumption and investment activities. Commercial banks' new loans for consumption purposes declined by 4.8 percent, underpinned by contractions in new lending to the wholesale, retail, hotels & restaurants and private individuals sectors. Similarly, new and second-hand vehicle registrations also fell, while the growth in net Value Added Tax collections remained relatively lower in 2019 compared to 2018.

In terms of investment activity, commercial banks' new lending for investment purposes declined by 16.7 percent last year, driven by the contraction in lending to the real estate and the building & construction sectors. In addition, construction activity remained weak as domestic cement sales fell by 6.2 percent due to the stalling of large construction projects and on-going transportation setbacks.

Labour market conditions softened in 2019 as indicated by the RBF's Job Advertisements Survey. Vacant jobs advertised in both the Fiji Times and Fiji Sun declined by 2.3 percent last year compared to the 4.4 percent growth noted in 2018.

Financial conditions remained accommodative in support of economic activity, despite the slowdown

¹ Organisation of the Petroleum Exporting Countries.

in major monetary and credit aggregates. Broad money grew annually by 2.6 percent amid growth in both net foreign (6.9%) and net domestic (1.3%) assets. The marginal growth on the domestic assets side was driven by the deceleration in private sector credit (4.6%). Commercial banks' outstanding lending rates were slightly higher while deposit rates continued their downward trend in December 2019.

Excess liquidity in the banking system remained adequate in 2019, amid the uneven distribution of funds across banks. Total banks' demand deposits declined over the month in December by 1.8 percent (-\$10.9m) to \$603.7 million and as at 30 January, liquidity stood at \$675.2 million.

Over the month in December, the Fijian dollar (FJD) strengthened against the US dollar (USD) (2.2%), the Japanese Yen (JPY) (1.5%) and the Euro (0.3%) but weakened against the New Zealand (NZD) (-2.5%) and Australian (AUD) (-1.1%) dollars. Annually, the FJD appreciated against the Euro (2.0%) and the AUD (0.6%) but fell against the JPY (-1.5%), NZD (-0.4%) and the USD (-0.1%).

In December 2019, the Nominal Effective Exchange Rate (NEER)² index remained relatively stable, increasing marginally over the month (0.1%) while declining over the year (-0.3%), indicating a general weakening of the FJD. Similarly, the Real Effective Exchange Rate (REER)³ index also increased over the month (0.5%) but fell over the year (-3.4%), denoting an annual gain in trade competitiveness, largely on account of domestic negative inflation

recorded in December.

The persistent narrowing of the trade deficit in the first ten months of last year, coupled with increases in remittances and tourism earnings supported Fiji's overall external position in 2019. Inward remittances expanded by 4.4 percent to \$538.6 million cumulative to November 2019 and tourism earnings rose by 3.7 percent to \$1,543.0 million cumulative to September 2019. Higher tourism earnings was mainly led by increased earnings from the Rest of Asia, Japan, US, Pacific Islands, NZ, China and Australia.

The annual inflation rate fell further to -0.9 percent in December 2019, lower than the -0.3 percent in November and the 4.8 percent recorded in December 2018. The lower inflation outcome was largely due to declining prices noted in the communication and alcoholic beverages, tobacco & narcotics categories. Looking ahead, inflation is forecast at 3.0 percent for 2020.

Foreign reserves (RBF holdings) were \$2,219.8 million in 2019, sufficient to cover 5.2 months of retained imports (MORI) of goods and non-factor services. As at 31 January, foreign reserves stood at \$2,245.3 million, sufficient to cover 5.1 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

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 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.

KEY INDICATORS

1. Sectoral Performance Indicators
(year-on-year % change)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Visitor Arrivals	3.3	3.8	3.2	3.5	2.8
Electricity Production	0.9	3.5	n.a	n.a	n.a
Gold Production	-7.3	-12.9	-12.6	-14.0	-14.9
Cane Production [^]	4.0	-4.8	1.2	5.6	6.5
Sugar Production [^]	-11.2	-10.3	-2.7	3.5	5.3
Pinewood Intake	152.4	-9.5	-12.9	-12.4	-3.7
Woodchip	95.4	-25.4	-29.1	-27.5	-25.6
Mahogany	683.2	48.2	61.7	41.2	26.8
Cement Production	-23.0	-5.2	-5.9	-4.5	-4.8

2. Consumption Indicators
(year-on-year % change)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Net VAT Collections	6.1	9.8	7.1	2.9	1.9
New Consumption Lending	9.2	-6.1	-6.8	-6.3	-4.8
New Vehicle Registrations****	19.4	-27.0	-27.4	-25.7	-25.1
Secondhand Vehicle Registrations****	11.4	-13.7	-18.1	-21.3	-24.2
Personal Remittances	6.5	4.8	4.5	4.4	n.a
Electricity Consumption	2.5	4.1	3.4	3.3	n.a

3. Investment Indicators
(year-on-year % change)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Domestic Cement Sales	-26.7	-8.7	-7.5	-5.6	-6.2
New Investment Lending	1.4	-27.9	-20.1	-16.9	-17.2

4. Labour Market
(year-on-year % change)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
RBF Job Advertisement Survey	4.4	-1.0	-1.4	-0.6	-2.3

5. Consumer Prices *
(year-on-year % change)^{1/}

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
All Items	4.8	0.4	-0.9	-0.3	-0.9
Food and Non-Alcoholic Beverage	5.1	3.3	1.2	2.9	2.8
Alcoholic Beverages, Tobacco & Narcotics	17.2	0.0	-2.3	-2.6	-4.3

6. Reserves ***
(end of period)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Foreign Reserves (\$m) ^{2/}	2,012.4	2,161.1	2,183.6	2,187.9	2,219.8
Months of retained imports of goods and non-factor services (MORI)	4.4	5.0	5.1	5.1	5.2

7. Exchange Rates ***
(mid rates, F\$1 equals)
(end of period)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
US dollar	0.4669	0.4542	0.4586	0.4564	0.4663
Australian dollar	0.6617	0.6718	0.6647	0.6735	0.6660
New Zealand dollar	0.6955	0.7223	0.7188	0.7106	0.6928
Euro	0.4080	0.4150	0.4114	0.4149	0.4163
Japanese yen	51.54	49.04	49.93	50.00	50.76
Nominal Effective Exchange Rate	84.70	84.34	84.34	84.36	84.41
Real Effective Exchange Rate	106.23	104.21	102.50	102.10	102.65

8. Liquidity ***
(end of period)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Banks' Demand Deposits (\$m)	306.1	612.6	615.8	614.5	603.7

9. Money and Credit ***
(year-on-year % change)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Broad Money	2.8	0.8	-0.3	1.2	2.6
Net Foreign Assets	-15.4	-7.6	-1.6	1.8	6.9
Domestic Credit	9.7	6.7	3.7	4.5	4.9
Private Sector Credit	7.3	5.7	4.5	4.7	4.6
Narrow Money	1.1	-1.6	-2.5	-3.4	-0.3

10. Interest Rates (% p.a.) ***
(monthly weighted average)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
Lending Rate	5.69	6.25	6.28	6.29	6.30
Savings Deposit Rate	1.32	1.24	1.04	1.03	1.10
Time Deposit Rate	3.61	4.31	4.27	4.23	4.10
Repurchase Rate	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	1.00	n.t	1.00	1.00	0.82
3 month Government T-Bills	1.45	2.62	2.63	n.i	2.25
12 month Government T-Bills	n.i	n.i	n.i	3.65	3.55
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)

	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19
UK Gold Price/fine ounce	1,279.0	1,485.3	1,511.0	1,460.2	1,514.8
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.1	11.9	12.5	12.9	13.4
Crude Oil/barrel	53.8	60.8	60.2	62.4	66.0

^{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.t No trading

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