



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The COVID-19 pandemic has raged through the global economy generating severe economic disruptions and inflicting serious human suffering along its path. The infiltration of the virus has cost lives, halted economic activity, disrupted supply chains, and fuelled turmoil in the financial and commodity markets. Globally, tourism and trade have taken the largest hit with rippling spillover effects. Given these developments, the International Monetary Fund now expects the global economy to enter into a recession this year.

Commodity markets have witnessed massive volatility in March.<sup>1</sup> Brent crude oil prices plummeted by around 50.7 percent to US\$24.93 per barrel, from US\$50.52 per barrel at the end of February led by weakening global demand and the price war between Saudi Arabia and Russia. In contrast, the rush for gold as a safe haven investment pushed prices up by 5.6 percent to US\$1,654.1 per fine ounce. The world market price for sugar fell to US11.10 cents per pound following the weakening of the Brazilian Real.

Following almost a decade of positive economic growth, the domestic economy is now forecast to fall into a recession. The magnitude of the contraction depends on how long the pandemic lasts and the extent of local contagion. The main transmission will be through the tourism industry and cessation of economic activity due to appropriate precautionary measures taken by the Government and the general population. The halt in tourism activity and the general decline in incomes and consumption appetite will also negatively affect Government revenue and have spillover effects to all other sectors in the economy.

Cumulative to February, visitor arrivals fell by 0.7 percent as the Asian and regional source markets contracted despite higher arrivals from Australia, United States (US), New Zealand (NZ), Canada and

Europe. However, tourism activity is expected to completely cease from March onwards due to travel restrictions, flight cancellations, diminished travel appetite and falling incomes in source markets. Amongst other sectoral outcomes, pine production declined up to February (-40.2%) which led to a decline in woodchip (-27.0%) and sawn timber (-31.4%) production. The former is expected to dip even further due to subdued demand from China and Japan amid the crisis. In contrast, better performances were noted for mahogany, cement, electricity and gold production.

Overall aggregate demand remained weak as commercial banks' new lending for consumption purposes declined by 11.7 percent in February owing to contractions in lending to the wholesale, retail, hotels & restaurants (-8.5%) and private individuals (-21.0%) category. Similarly, investment activity was also weak as domestic cement sales (-8.7%) declined annually in the same period.

Labour market conditions deteriorated further as weak demand led to lower recruitment intentions. As per the RBF's Job Advertisement Survey, the number of jobs advertised contracted by 27.4 percent on an annual basis up to February. The outlook for employment is dismal due to the shutdown of the tourism industry, potential lockdown of other areas in the country and uncertainty surrounding the future spread and impact of the coronavirus.

Financial conditions remained modest in the year to February. Growth in net domestic credit (4.2%) was moderate due to the annual deceleration in private sector credit (+2.9% from +9.4%) amid reduced demand for credit. Commercial banks' new and outstanding lending rates also stood higher over the year. Similarly, outstanding time deposit rates rose over the year while new time deposit rates fell.

<sup>1</sup> Prices as at 27 March 2020.

Banking system liquidity was adequate at \$661.5 million at the end of February. As at 27 March, liquidity was around \$615.2 million, owing to an increase in currency in circulation and a decline in foreign reserves.

Over the month and year of February, the Fijian dollar (FJD) strengthened against the NZ (+1.5%, +3.9%) and Australian (+0.8%, +4.0%) dollars but fell against the US dollar (-1.2%, -4.1%), Euro (-0.8%, -0.7%) and Japanese Yen (-0.2%, -5.0%).

Consequently, the Nominal Effective Exchange Rate (NEER)<sup>2</sup> index fell marginally over the month (-0.1%) and year (-0.4%), indicating a general weakening of the FJD. The Real Effective Exchange Rate (REER)<sup>3</sup> index also decreased over the month (-3.6%) and year (-5.7%), denoting a gain in trade competitiveness largely on account of domestic deflation in February.

Fiji's merchandise trade deficit<sup>4</sup>, narrowed by 15.6 percent in 2019 compared to the 18.9 percent widening in 2018. The improvement was due to higher total exports (+2.7%) relative to the contraction in total imports (-8.6%).

The growth in total exports was mainly driven by re-exports which more-than-offset the contraction in domestic exports while the decline in imports was led by the fall in all major categories.

Inflation reached a historic low of -3.0 percent in February led by lower annual prices of alcoholic beverages, tobacco & narcotics; food & non-alcoholic beverages; and housing, water, electricity, gas & other fuels categories, which more-than-offset the higher prices recorded in the transport category.

Foreign reserves (RBF holdings) as at 31 March, stood at \$2,201.1 million, sufficient to cover 5.6 months of retained imports of goods and services.

In light of the weakness in economic activity arising from the COVID-19 pandemic, the Reserve Bank of Fiji reduced its Overnight Policy Rate to 0.25 percent on 18 March.

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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 while an increase in the index indicates a deterioration in Fiji's international competitiveness.

<sup>4</sup> Trade deficit, imports and exports growth rates exclude aircraft imports and re-exports.

## FIJI: ECONOMIC &amp; FINANCIAL STATISTICS

## KEY INDICATORS

## 1. Sectoral Performance Indicators

(year-on-year % change)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Visitor Arrivals	1.0	3.5	2.8	2.5	-0.7
Electricity Production	4.8	2.6	1.9	1.7	2.2
Gold Production	-25.7	-14.0	-14.9	20.6	7.5
Cane Production <sup>^</sup>	n.a	5.6	6.5	n.a	n.a
Sugar Production <sup>^</sup>	n.a	3.5	5.3	n.a	n.a
Pinewood Intake	-2.2	-12.4	-3.7	-37.9	-40.2
Woodchip	-17.7	-27.5	-25.6	-48.3	-27.0
Mahogany	-37.7	41.2	26.8	n.a	399.0
Cement Production	-8.4	-4.5	-4.8	-2.6	2.7

## 2. Consumption Indicators

(year-on-year % change)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Net VAT Collections	24.7	2.9	1.9	-15.1	-14.7
New Consumption Lending	0.4	-6.3	-4.8	-18.1	-11.7
New Vehicle Registrations****	-39.4	-25.7	-25.1	-23.6	-26.7
Secondhand Vehicle Registrations****	-4.4	-21.3	-24.2	-53.9	-51.8
Personal Remittances	9.9	4.4	4.2	38.8	26.3
Electricity Consumption	5.2	3.3	n.a	n.a	n.a

## 3. Investment Indicators

(year-on-year % change)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Domestic Cement Sales	-8.6	-5.6	-6.2	-4.6	-8.7
New Investment Lending	-20.2	-16.9	-16.7	94.0	54.6

## 4. Labour Market

(year-on-year % change)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
RBF Job Advertisement Survey	16.1	-0.6	-2.3	-14.7	-27.4

## 5. Consumer Prices \*

(year-on-year % change)<sup>1/</sup>

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
All Items	5.1	-0.3	-0.9	-1.9	-3.0
Food and Non-Alcoholic Beverage	10.4	2.9	2.8	-1.4	-6.1
Alcoholic Beverages, Tobacco & Narcotics	16.1	-2.6	-4.3	-5.6	-8.1

## 6. Reserves \*\*\*

(end of period)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Foreign Reserves (\$m) <sup>2/</sup>	1,944.0	2,187.9	2,219.8	2,252.5	2,260.2
Months of retained imports of goods and non-factor services (MORI)	4.5	5.1	5.2	5.8	5.8

## 7. Exchange Rates \*\*\*

(mid rates, F\$1 equals)

(end of period)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
US dollar	0.4700	0.4564	0.4663	0.4566	0.4509
Australian dollar	0.6584	0.6735	0.6660	0.6796	0.6847
New Zealand dollar	0.6872	0.7106	0.6928	0.7034	0.7140
Euro	0.4134	0.4149	0.4163	0.4138	0.4104
Japanese yen	52.19	50.00	50.76	49.70	49.58
Nominal Effective Exchange Rate	84.68	84.36	84.41	84.42	84.35
Real Effective Exchange Rate	105.60	102.10	102.43	103.29	99.59

## 8. Liquidity \*\*\*

(end of period)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Banks' Demand Deposits (\$m)	298.8	614.5	603.7	672.2	661.5

## 9. Money and Credit \*\*\*

(year-on-year % change)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Broad Money	1.7	1.3	2.7	3.0	4.4
Net Foreign Assets	-20.7	1.8	6.6	8.9	16.9
Domestic Credit	9.8	4.4	4.9	4.2	4.2
Private Sector Credit	9.4	4.6	4.6	4.1	2.9
Narrow Money	-1.6	-3.3	0.0	3.1	5.3

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

(monthly weighted average)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
Lending Rate	5.65	6.29	6.30	6.32	6.30
Savings Deposit Rate	1.17	1.03	1.10	1.07	1.09
Time Deposit Rate	3.79	4.23	4.10	4.29	4.29
Repurchase Rate	1.00	1.00	1.00	1.00	1.00
Overnight inter-bank Rate	1.00	1.00	0.82	0.77	n.i
3 month Government T-Bills	n.i	n.i	2.25	2.25	n.i
12 month Government T-Bills	n.i	3.65	3.55	3.55	3.53
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	6.00

## 11. Commodity Prices (US\$) \*\*

(end of period)

	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20
UK Gold Price/fine ounce	1,319.2	1,460.2	1,514.8	1,587.2	1,566.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.7	12.9	13.4	14.6	14.5
Crude Oil/barrel	66.0	62.4	66.0	58.2	50.5

<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:

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