



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The rapid spread of the Coronavirus (COVID-19) pandemic and the necessary containment measures have caused significant human and economic losses globally. As such, the International Monetary Fund's April 2020 forecast is for a baseline 3.0 percent contraction in global economic activity this year, a downturn deeper than the 2007-8 global financial crisis and the worst since the Great Depression of the 1930s. There are substantial risks to the outlook given heightened uncertainty surrounding the depth and duration of the crisis. Nonetheless, should the pandemic abate in the second half of this year, the IMF expects the world economy to recover and grow by 5.8 percent in 2021.

Commodity prices have been largely influenced by pandemic fears. On 28 April, Brent crude oil prices dropped to US\$20.43 from US\$22.74 per barrel in March, an 18-year low, given subdued global demand. Sugar prices fell to US9.61 cents on 28 April from US10.42 cents per pound on 31 March due to increased production and weak demand. Meanwhile, the rush for safe-haven assets saw gold prices pick up further during the month from US\$1,596.69 on 31 March to US\$1,722.20 per fine ounce on 28 April.

Domestically, for this year, the economy is expected to contract more sharply than the -4.3 percent earlier estimated in 2020, reflective of the significant fall in tourism activity and its knock-on effects to the rest of the economy.¹ The actual magnitude of the contraction will depend on the duration of the pandemic, how quickly global trade and tourism will resume, and the effectiveness of policy responses. Domestic economic activity is anticipated to return to some normalcy from the last quarter of 2020 with an economic recovery expected in 2021.

The latest key activity indicators confirm the anticipated slump. Lackluster output in the primary

industry persisted, with annual contractions in pine logs (-35.5%) leading to a fall in woodchips (-14.0%) and sawn timber (-29.6%) production in the year to March. Gold production was also lower (-1.9%) in the same period owing to deteriorating ore reserves. On the upside, electricity production expanded (2.2%) in the year to February.

Investment activity slowed further with contractions noted in domestic cement sales (-17.0%) and lending to the building and construction sector (-23.4%) in the year to March. Consumption indicators were also weak given the relatively modest growth in new consumer credit (1.9%) and remittance inflows (5.9%) in the year to March, amid the decline in net VAT collections (-19.2%). Moreover, registrations for both new (-30.8%) and second-hand (-58.0%) vehicles also fell in the same period.

Labour market conditions have deteriorated further given the layoffs and reduced hours in line with the halt in tourism activity, lockdowns and the deterioration in economic activity. As at 29 April, 65,800 COVID-19 Withdrawal Scheme assistance applications have been received by FNPF as a result of the pandemic.

Credit aggregates were reflective of the economic slowdown in the review period. Domestic credit growth decelerated to 4.8 percent in March, from 8.2 percent a year ago, driven by the slowdown in lending to the private sector amid commercial banks' reduced lending to private sector business entities and private individuals. As such, commercial bank lending rates stabilised while new time deposit rates declined further.

Excess liquidity in the banking system remained adequate at \$590.0 million at the end of March. As at 29 April, excess liquidity rose to \$723.5 million, owing to an increase in foreign reserves and a decline

¹ The next release of Macroeconomic Committee official forecasts is scheduled for June 2020.

in currency in circulation which more-than-offset the increase in statutory reserve deposits.

Over the month and year to March, the Fijian dollar (FJD) strengthened against the Australian (+3.8%; 7.5%) and New Zealand (+2.1%; +5.8%) dollars, but weakened against the Japanese Yen (-4.6%; -8.6%), Euro (-3.2%; -4.7%) and the United States dollar (-2.8%; -6.3%).

Consequently, the Nominal Effective Exchange Rate (NEER)² index remained relatively stable, increasing marginally over the month (0.1%), but was slightly lower over the year (-0.3%), indicating a general weakening of the FJD. The Real Effective Exchange Rate (REER)³ index was lower over the month (-0.4%) and year (-5.6%) largely on account of the persistent negative inflation experienced since October 2019.

Fiji's merchandise trade deficit (excluding aircraft), narrowed by 19.5 percent in January 2020, compared to the 0.8 percent widening in the same period last year. The improved trade balance emanated from a larger annual contraction in total imports (excluding aircraft) of 18.0 percent, compared to the decline in total exports (-15.1%).

Domestic deflation persisted for the sixth consecutive month as prices fell by 2.8 percent over the year in March. Annually lower prices were noted for alcoholic beverages, tobacco & narcotics; food & non-alcoholic beverages and the 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 30 April, stood at \$2,214.0 million, sufficient to cover 6.9 months of retained imports.

Following the assessment of recent global and domestic developments amidst the COVID-19 pandemic, the Bank maintained its Overnight Policy Rate at 0.25 percent on 30 April. Furthermore, the Bank is injecting an additional \$100 million to its Import Substitution and Export Finance facility to help ease the financial difficulties imposed on private sector businesses by the COVID-19 pandemic.

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² 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.

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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Visitor Arrivals	0.2	2.8	2.5	-0.7	-18.7
Electricity Production	3.8	1.9	1.7	2.2	n.a
Gold Production	-21.0	-14.9	20.6	7.5	-1.9
Cane Production [^]	n.a	6.5	n.a	n.a	n.a
Sugar Production [^]	n.a	5.3	n.a	n.a	n.a
Pinewood Intake	-3.6	-3.7	-37.9	-40.2	-35.5
Woodchip	-22.9	-25.6	-48.3	-27.0	-14.0
Mahogany	-40.5	26.8	n.a	399.0	169.7
Cement Production	3.4	-4.8	-2.6	2.7	-27.3

2. Consumption Indicators

(year-on-year % change)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Net VAT Collections	16.6	1.9	-15.1	-14.7	-19.2
New Consumption Lending	-7.4	-4.8	-18.1	-11.7	1.9
New Vehicle Registrations****	-38.7	-25.1	-23.6	-26.7	-30.8
Secondhand Vehicle Registrations****	-2.1	-24.2	-53.9	-51.8	-58.0
Personal Remittances	8.5	4.2	38.8	26.3	5.9
Electricity Consumption	5.1	n.a	n.a	n.a	n.a

3. Investment Indicators

(year-on-year % change)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Domestic Cement Sales	-3.5	-6.2	-4.6	-8.7	-17.0
New Investment Lending	-15.6	-16.7	94.0	54.6	41.4

4. Labour Market

(year-on-year % change)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
RBF Job Advertisement Survey	8.6	-2.3	-14.7	-27.4	-35.8

5. Consumer Prices *

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

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
All Items	4.0	-0.9	-1.9	-3.0	-2.8
Food and Non-Alcoholic Beverage	7.7	2.8	-1.4	-6.1	-5.6
Alcoholic Beverages, Tobacco & Narcotics	14.4	-4.3	-5.6	-8.1	-7.8

6. Reserves ***

(end of period)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Foreign Reserves (\$m) ^{2/}	1,921.9	2,219.8	2,253.8	2,265.3	2,198.2
Months of retained imports of goods and non-factor services (MORI)	4.5	5.2	7.1	7.1	6.9

7. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
US dollar	0.4679	0.4663	0.4566	0.4509	0.4385
Australian dollar	0.6611	0.6660	0.6796	0.6847	0.7108
New Zealand dollar	0.6893	0.6928	0.7034	0.7140	0.7290
Euro	0.4168	0.4163	0.4138	0.4104	0.3971
Japanese yen	51.76	50.76	49.70	49.58	47.32
Nominal Effective Exchange Rate	84.69	84.41	84.42	84.35	84.40
Real Effective Exchange Rate	105.15	102.43	103.29	99.64	99.23

8. Liquidity ***

(end of period)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Banks' Demand Deposits (\$m)	290.6	603.7	672.2	661.5	590.0

9. Money and Credit ***

(year-on-year % change)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Broad Money	1.5	2.7	3.0	4.4	4.4
Net Foreign Assets	-16.7	6.6	8.9	16.9	13.7
Domestic Credit	8.2	4.9	4.2	4.2	4.8
Private Sector Credit	8.5	4.6	4.1	2.9	2.4
Narrow Money	-2.1	0.0	3.1	5.3	7.9

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

(monthly weighted average)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
Lending Rate	5.66	6.30	6.32	6.30	6.28
Time Deposit Rate	3.93	4.10	4.29	4.29	4.15
Repurchase Rate	1.00	1.00	1.00	1.00	0.50
Overnight inter-bank Rate	1.00	0.75	0.75	n.i	n.i
3 month Government T-Bills	n.i	2.25	2.25	n.i	n.i
12 month Government T-Bills	n.i	3.55	3.55	3.53	3.43
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	n.i	n.i	6.00	5.88

11. Commodity Prices (US\$) **

(end of period)

	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20
UK Gold Price/fine ounce	1,295.4	1,514.8	1,587.2	1,566.7	1,596.6
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	12.5	13.4	14.6	14.5	10.4
Crude Oil/barrel	68.4	66.0	58.2	50.5	22.7

^{1/} 2014 rebase. Previous data have 2011 base.

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