



ECONOMIC REVIEW

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The COVID-19 pandemic continues to soar across the globe with more than 25 million cases recorded so far. Amongst our major trading partners, economic contraction in the second quarter is expected to be the steepest and attributed to lockdowns and other virus containment measures. However, there have been some positive developments as two vaccines have been approved for use by local authorities in China and Russia, while others are currently in different stages of development.

Commodity prices generally rose in July. Brent crude oil prices rose to US\$43.30 per barrel following an uptick in demand while gold prices increased as demand for safe-haven assets gained momentum. Sugar prices rose as well following production shortages in India. The increase in Food and Agriculture Organisation Food Price Index was mainly driven by a pick-up in demand as COVID-19 lockdown restrictions were eased in many countries.

Domestically, sectoral performances remain weaker than a year ago. With borders closed for another month, visitor arrivals plummeted by 71.8 percent in the year to July compared to the same period last year. Additionally, electricity (-9.7%), pine wood supply (-19.6%), woodchip (-5.1%), sawn timber (-27.3%), mahogany (-38.0%) and gold (-6.3%) production declined on an annual basis, underpinned by muted demand as well as some supply side constraints. Nonetheless, on a monthly basis, some uptick in production was noted for gold and timber sectors. Additionally, cane (+16.2%) and sugar (+4.9%) production have been upbeat so far into this crushing season.

Recent partial indicators for consumption and investment are in line with the expected 21.7 percent economic contraction this year. In the year to July, commercial banks' new lending for consumption purposes (-23.7%), net VAT collections (-35.8%) and new vehicle sales (-51.7%) contracted further.

However, on a positive note, second-hand vehicle registrations (+40.1%), electricity consumption (+2.3%) and net VAT collections (+7.1%) registered growth over the month of July. Nonetheless, the Reserve Bank of Fiji's (RBF) June 2020 Retail Sales Survey results show that retail sales are expected to decline by a record 19.8 percent this year.

Contractions were also noted in the commercial banks' new lending for building and construction activity (-27.9%) and domestic cement sales (-13.4%) in the year to July as investment spending remains well below 2019 levels. Business confidence and investment outlook sentiments as per the RBF's June 2020 Business Expectations Survey remains bleak, as overall business confidence and investment intentions for the next six months are in negative territory.

Labour market conditions mirror the economic slump and the large employment shifts within the tourism industry and related sectors. As per the RBF Jobs Advertisement Survey, job vacancies noted a decline of 60.8 percent in July compared to the same period last year.

In the financial sector, credit growth continued to slow in the year to July as commercial banks' lending to the private sector decelerated. New lending by commercial banks (-11.5%) and licensed credit institutions (-54.8%) further declined on an annual basis.

Total banks' demand deposits (BDD) increased in August with BDD reaching record level of \$992.6 million on 17 August. As at 28 August, total excess liquidity in the banking system stood at \$978.5 million. Deposit rates have generally trended downwards since the beginning of the year.

Over the month in July the Fijian dollar (FJD) strengthened against the United States Dollar (USD) (2.7%) but was lower against the Euro (2.5%),

Australian (AUD) (-1.9%) and the New Zealand (NZD) (-1.5%) dollars while movements against the Japanese Yen (JPY) remained unchanged. Annually, the FJD appreciated against the USD (2.1%) and NZD (0.9%) but fell against the Euro (-3.9%), AUD (-2.4%) and the JPY (-1.6%).

Consequently, the nominal effective exchange rate (NEER)¹ index remained relatively stable in July, increasing marginally over the month (0.1%) but was lower over the year (-2.3%), indicating a general weakening of the FJD. The real effective exchange rate (REER)² index was slightly higher both over the month (0.1%) and the year (0.2%), denoting a loss in trade competitiveness owing to higher relative prices.

The merchandise trade deficit³ narrowed by 26.8 percent in the year to May 2020, as total imports³ (-22.8%) fell faster than total exports³ (-16.6%). In the first seven months of the year, inward personal remittances grew marginally by 0.3 percent to total \$340.1 million largely contributed by higher inflows from gifts, maintenance & donations and personal receipts.

Headline annual inflation was -1.6 percent in July led by lower prices for *yaqona*, vegetables and fuel. Given the contracting domestic demand and reductions in duties and taxes on a number of products announced in the 2020-21 National Budget, the year-end inflation is now forecast at -3.0 percent with declines expected in prices for alcohol, *yaqona*, food and transport.

Foreign reserves (RBF Holdings) increased in August from a month ago led by an external loan drawdown by the Government. As at 27 August 2020, foreign reserves stood at \$2,283.6 million, sufficient to cover 8.3 months of retained imports of goods and services and is expected to remain at comfortable levels over the medium term.

In light of the stable and comfortable outlook for inflation and foreign reserves, the Reserve Bank maintained the Overnight Policy Rate at 0.25 percent in August.

RESERVE BANK OF FIJI

¹ 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.

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 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.

³ Excluding aircraft.

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	Jul-19	Apr-20	May-20	Jun-20	Jul-20
Visitor Arrivals	5.2	-43.5	-56.2	-65.3	-71.8
Electricity Production	4.9	-5.7	-7.4	-8.4	-9.7
Gold Production	-16.8	-8.3	-7.6	-7.0	-6.3
Cane Production [^]	-12.7	n.a	n.a	50.3	18.9
Sugar Production [^]	-19.9	n.a	n.a	43.4	7.8
Pinewood Intake	-14.1	-28.0	-23.9	-20.1	-19.6
Woodchip	-24.0	-18.4	-11.5	-1.5	-5.1
Mahogany	63.4	15.2	-23.8	-36.4	-38.0
Cement Production	-5.8	-31.3	-28.7	-22.5	-21.5

2. Consumption Indicators

(year-on-year % change)

Net VAT Collections	9.4	-23.4	-30.1	-32.8	-35.8
New Consumption Lending	-1.5	-4.4	-20.2	-18.8	-23.7
New Vehicle Registrations****	-29.5	-40.2	-45.3	-47.7	-50.9
Second hand Vehicle Registrations****	-4.5	-64.0	-65.5	-65.8	-64.7
Personal Remittances	6.2	-2.7	-2.3	-5.6	0.3
Electricity Consumption	4.1	-4.6	-6.4	-7.1	-7.7

3. Investment Indicators

(year-on-year % change)

Domestic Cement Sales	-7.5	-20.4	-18.8	-14.6	-13.4
New Investment Lending	-25.9	25.5	21.2	16.8	17.1

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	-4.4	-42.5	-48.8	-55.8	-60.8
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5. Consumer Prices.*

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

All Items	0.7	-1.3	-1.7	-3.5	-1.6
Food and Non-Alcoholic Beverage	3.2	-1.0	-1.0	-5.6	0.5
Alcoholic Beverages, Tobacco & Narcotics	2.1	-7.5	-8.7	-9.6	-8.7

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{2/}	2,087.3	2,217.0	2,249.7	2,178.8	2,106.2
Months of retained imports of goods and non-factor services (MORI)	4.9	8.1	8.2	7.9	7.7

7. Exchange Rates ***

(mid rates, F\$1 equals)
(end of period)

US dollar	0.4619	0.4478	0.4510	0.4590	0.4714
Australian dollar	0.6719	0.6838	0.6793	0.6685	0.6558
New Zealand dollar	0.6982	0.7304	0.7259	0.7152	0.7044
Euro	0.4141	0.4117	0.4072	0.4084	0.3980
Japanese yen	50.18	47.74	48.54	49.37	49.37
Nominal Effective Exchange Rate	84.46	84.34	84.31	84.54	84.61
Real Effective Exchange Rate	103.75	100.90	100.75	101.29	101.38

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	506.6	718.6	849.0	751.8	765.2
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9. Money and Credit ***

(year-on-year % change)

Broad Money	1.7	4.8	4.5	3.9	0.6
Net Foreign Assets	-11.3	16.3	18.9	10.7	0.1
Domestic Credit	8.3	4.2	3.0	2.8	1.5
Private Sector Credit	7.6	1.8	1.2	0.7	0.2
Narrow Money	-1.6	6.3	9.7	9.2	6.3

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

(monthly weighted average)

Lending Rate	6.09	6.25	6.15	6.12	6.14
Savings Deposit Rate	1.19	0.99	0.90	0.87	0.68
Time Deposit Rate	4.25	4.05	3.91	3.77	3.52
Repurchase Rate	1.00	0.50	0.50	0.50	0.50
Overnight inter-bank Rate	1.00	0.25	n.t	0.77	0.59
3 month Government T-Bills	2.70	n.i	1.93	1.87	1.77
12 month Government T-Bills	5.00	3.40	3.24	3.10	2.95
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	n.i	n.i

11. Commodity Prices (US\$) **

(end of period)

UK Gold Price/fine ounce	1,427.6	1,694.2	1,751.7	1,800.5	1,976.7
CSCC No. 11 Sugar Spot Price/Global (US cents/pound)	12.2	10.4	10.9	12.0	12.6
Crude Oil/barrel	65.2	25.3	35.3	41.2	43.3

^{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