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According to the World Bank, the global economy is expected to improve this year by 5.6 percent compared to the 4.1 percent that was initially forecast. The upward revision to the growth forecast is supported by the fiscal stimulus in advanced countries and the steady pace of vaccination. However, the recovery is uneven across economies and constrained by renewed outbreaks, vaccine supply issues with slow uptake in most emerging and developing economies, elevated debt levels and rising inflationary pressures.

International commodity prices rose in May, propelled by recovering global demand and tight supplies. The Brent crude oil price jumped to US\$69.3 per barrel (y-o-y¹: +96.2%) on account of supply constraints amid the growing demand and base-related effects. The FAO² Food Price Index edged higher (y-o-y: +39.7%) in May due to growth in prices of sugar and cereals. The price of gold rose (y-o-y: +8.5%) in the same period due to higher interest rates expectation and declining US Treasury bond yields. Similarly, sugar prices remained high in May (+59.1%) relative to a year ago due to the prolonged drought in Brazil.

On the domestic front, the daily rise in new COVID-19 cases continues to impede confidence and poses substantial downside risks to economic activity. Consequently, the domestic economy is envisaged to contract further this year. At the same time, the steady progress in local vaccination, with almost half of the adult population having already taken the first dose, could pave the way for the re-opening of borders and a modest recovery next year.

Sectoral performances were mixed in the review month. Buoyant gold production (y-o-y: +8.6%)

cumulative to May was attributed to improved ore quality. Timber output was also higher in the same period, underpinned by pine logs (y-o-y: +117.9%) and woodchips (y-o-y: +87.7%) driven by foreign demand, and mahogany (y-o-y: +51.3%) production. In contrast, annual contractions were recorded for visitor arrivals (-96.1%) and electricity generation (-7.8%) in the same period.

Aggregate demand remains sluggish given the reduced spending power of households and firms amidst the subdued economic environment. In the year to May, partial indicators of consumption activity such as Net VAT collections (-20.9%), new vehicle registrations (-9.5%), and new consumption lending by commercial banks (-13.0%) declined on an annual basis. On the upside, robust annual growth continued for second-hand vehicle registrations (+119.9%) cumulative to May, underpinned by the reduction in fiscal duties and easing of regulatory requirements on the import of second-hand vehicles.

Similarly, investment activity remains weak cumulative to May evident by the annual contraction in commercial banks' new investment lending (-18.5%), largely stemming from the decline in new loans to the real estate and building & construction sectors. Furthermore, building permits issued also declined in the March quarter. The current COVID-19 restrictions are likely to limit construction activity and derail investment plans further in the coming months.

Labour market conditions are still fragile. Based on the RBF Job Advertisements Survey, the number of vacant jobs advertised plunged further (y-o-y: -63.7%) cumulative to May, led by reduced hiring intentions in the community, social &

¹ Year-on-Year.

² Food and Agriculture Organisation.

personal services; wholesale & retail trade & restaurants & hotels; and finance, insurance, real estate & business services sectors. To assist with unemployment, Government had paid out around \$205 million through the FNPF and direct payments to individuals. In addition, FNPF members have withdrawn around \$157.5 million.

A year on from the onset of the pandemic, movements in monetary aggregates continue to reflect weak real sector activity. Domestic credit growth remained subdued (y-o-y: +0.5%) in May, weighed down by the continued contraction in private sector credit (-3.4%). Broad-based declines in private sector credit were noted across institutions, with commercial banks accounting for much of the reduced activity. New lending by commercial banks, cumulative to May, was also lower (-3.7%) when compared to the same period last year.

Liquidity levels in the banking system rose to a record high level of \$1,690.1 million at the end of May, largely owing to the increase in foreign reserves. As of 30 June, liquidity levels remain ample at \$1,668.5 million.

In terms of exchange rate movements, over the month in May, the Fijian dollar (FJD) strengthened marginally against the Japanese Yen (JPY), and the Australian dollar (AUD) but weakened slightly against the Euro, New Zealand (NZD) and the United States (USD) dollars. On an annual basis, the FJD gained against the JPY (10.9%) and the USD (8.7%) but was lower against the NZD (-6.9%), AUD (-6.4%) and the Euro (-1.3%).

The Nominal Effective Exchange Rate (NEER)³ was higher over the month (0.1%) and year (1.1%). Meanwhile, the Real Effective Exchange Rate (REER)⁴ was higher over the month (1.3%) but lower over the year (-2.2%) on account of lower domestic prices relative to major trading partners.

On the external front, cumulative to March, the merchandise trade deficit (excluding aircraft) narrowed by 12.2 percent, owing to a higher decline in imports relative to exports. The decline in exports (-7.1%) was led by a fall in re-exports (-36.9%) which more-than-offset the growth in domestic exports (+17.6%). The mineral fuel (-10.0%), machinery & transport equipment (-2.3%), beverages & tobacco (-0.7%) categories contributed to the lower (-10.2%) imports

The outlook for inflation and foreign reserves is stable. Inflation stayed negative (-1.6%) for the third consecutive month in May, attributed to the lower prices of kava and alcoholic beverages. In contrast, food prices were higher (+3.7%) due to the impact of the lockdown on the supply of fresh fruits and vegetables and the pass-through of higher global food prices to consumer prices. In the near term, inflationary pressures are expected to stem from increases in global crude oil and food prices, disrupted local supply chains due to stringent COVID-19 measures, and increasing freight costs.

Foreign reserves remain at adequate levels. In May, foreign reserves increased to \$3,131.1 million, sufficient to cover 11.0 months of retained imports (MORI). As of 30 June, foreign reserves increased further to \$3,174.0 million (11.1 MORI) and expected to remain comfortable into the medium term.

Considering these latest economic developments and the stable outlook for inflation and foreign reserves, the RBF maintained the Overnight Policy Rate at 0.25 percent in June.

RESERVE BANK OF FIJI

³ 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.

⁴ 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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

1. Sectoral Performance Indicators

(year-on-year % change)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Visitor Arrivals	-56.2	-98.0	-97.0	-96.4	-96.1
Electricity Production	-7.4	-16.5	-13.4	-8.3	-7.8
Gold Production	-7.6	10.6	17.5	17.4	8.6
Cane Production ^Λ	n.a	n.a	n.a	n.a	n.a
Sugar Production ^Λ	n.a	n.a	n.a	n.a	n.a
Pinewood Intake	-23.9	146.2	151.8	132.8	117.9
Woodchip	-11.5	101.4	92.7	96.6	87.7
Mahogany	-23.6	-85.2	-27.0	37.9	51.3
Cement Production	-28.7	-9.1	0.8	n.a	n.a

2. Consumption Indicators

(year-on-year % change)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Net VAT Collections	-30.1	-36.3	-27.8	-21.5	-20.9
New Consumption Lending	-20.2	-37.5	-24.1	-20.6	-13.0
New Vehicle Registrations****	-45.3	-27.4	-17.2	-2.6	-9.5
Secondhand Vehicle Registrations****	-65.5	91.9	122.2	152.0	119.9
Personal Remittances ^{1/}	5.8	15.9	25.8	45.0	n.a
Electricity Consumption	-6.4	-12.5	-11.5	-7.0	-6.2

3. Investment Indicators

(year-on-year % change)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Domestic Cement Sales	-18.8	-20.3	-8.4	n.a	n.a
New Investment Lending	-0.1	-41.4	-25.8	-3.0	-18.5

4. Labour Market

(year-on-year % change)

	May-20	Feb-21	Mar-21	Apr-21	May-21
RBF Job Advertisement Survey	-48.8	-78.9	-75.8	-66.2	-63.7

5. Consumer Prices*

(year-on-year % change)^{2/}

	May-20	Feb-21	Mar-21	Apr-21	May-21
All Items	-1.7	1.1	-1.2	-2.4	-1.6
Food and Non-Alcoholic Beverage	-1.0	12.9	7.5	2.4	3.7
Alcoholic Beverages, Tobacco & Narcotics	-8.7	-13.3	-16.9	-18.8	-17.9

6. Reserves***

(end of period)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Foreign Reserves (\$m) ^{3/}	2,249.7	2,179.0	2,371.9	2,771.3	3,131.1
Months of retained imports of goods and non-factor services (MORI) ^{4/}	7.4	7.5	8.2	9.6	11.0

7. Exchange Rates***

(mid rates, F\$1 equals)

(end of period)

	May-20	Feb-21	Mar-21	Apr-21	May-21
US dollar	0.4510	0.4961	0.4828	0.4913	0.4903
Australian dollar	0.6793	0.6300	0.6358	0.6325	0.6358
New Zealand dollar	0.7259	0.6728	0.6911	0.6784	0.6757
Euro	0.4072	0.4077	0.4120	0.4053	0.4020
Japanese yen	48.54	52.71	53.28	53.51	53.84
Nominal Effective Exchange Rate	84.31	85.21	85.15	85.15	85.23
Real Effective Exchange Rate	100.75	100.55	97.97	97.36	98.58

8. Liquidity***

(end of period)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Banks' Demand Deposits (\$m)	849.0	896.6	1,054.2	1,451.4	1,690.1

9. Money and Credit***

(year-on-year % change)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Broad Money	4.4	1.2	2.9	2.5	3.3
Net Foreign Assets	18.9	5.1	18.6	13.9	30.9
Domestic Credit	3.0	1.5	0.7	0.7	0.5
Private Sector Credit	1.1	-4.0	-3.7	-3.7	-3.4
Narrow Money	9.7	9.9	10.6	9.9	10.2

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

(monthly weighted average)

	May-20	Feb-21	Mar-21	Apr-21	May-21
Overnight Policy Rate	0.25	0.25	0.25	0.25	0.25
Repurchase Rate	0.50	0.50	0.50	0.50	0.50
Overnight inter-bank Rate	n.t	n.t	n.t	n.t	n.t
Lending Rate	6.15	6.06	6.06	6.03	5.97
Savings Deposit Rate	0.90	0.55	0.54	0.55	0.55
Time Deposit Rate	3.91	3.02	2.94	2.86	2.74
3 month Government T-Bills	1.93	1.06	0.99	n.j	0.74
12 month Government T-Bills	3.24	2.00	1.70	n.j	1.45
5-year Government Bond Yield	n.j	n.j	n.j	n.j	n.j
10-year Government Bond Yield	n.j	4.50	n.j	n.j	n.j

11. Commodity Prices (US\$)**

(end of period)

	May-20	Feb-21	Mar-21	Apr-21	May-21
UK Gold Price/line ounce	1,751.7	1,728.8	1,691.1	1,767.7	1,900.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	10.9	14.5	14.8	17.4	17.4
Crude Oil/barrel	35.3	66.1	63.5	67.3	69.3

^{1/} Personal Remittances are inclusive of international mobile money receipts.^{2/} 2014 rebased. Previous data had 2011 as its base.^{3/} Foreign reserves includes monetized gold, Special Drawing Rights, reserve position in the Fund and foreign exchange assets consisting of currency and deposits actually held by the Reserve Bank.^{4/} MORI is based on the Macroeconomic Committee forecast as at November 2020.

Note:

n.i	No issue
n.a	Not available
n.t	No trading
*	Fiji Bureau of Statistics
**	Bloomberg
***	Reserve Bank of Fiji
****	Land Transport Authority
Λ	Fiji Sugar Corporation

Sources: