



ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 30

No. 08

Month Ended August 2013

The global economy continues to remain subdued and uneven, though there have been some nascent signs of improvement in selected economies. While the Asian and other emerging economies are decelerating further, better-than-expected growth prospects have been noted in the United States and Euro zone economies. However, without the steam from the emerging economies and the continued sluggish pace of recovery in the advanced nations, global growth is likely to remain at around 3.1 percent this year.

Despite the weak global economic environment, the domestic economy is showing resilience and is projected to expand by 3.2 percent this year, fuelled by robust consumption and investment activity. Overall, growth is expected to be broad based and all sectors, except the mining & quarrying sector, are forecast to contribute positively.

Consumption demand remains strong as reflected by partial indicators. Net Value Added Tax collections increased by 18.4 percent in the first half of the year while lending for consumption purposes more than doubled in the year to July. Additionally, imports of consumption goods rose by 25.1 percent in the year to May. The outlook for consumption remains robust as highlighted in the RBF's June Retail Sales Survey, where retailers have projected a growth in sales of 11.0 percent this year.

Similarly, investment activity remains buoyant as reflected in the data from partial indicators. Domestic cement sales grew by 16.5 percent in the first half of the year, while lending for investment purposes rose by 158.9 percent in the year to July. The outlook for investment is also favourable and is supported by the increased business and investor confidence noted in the RBF's June Business Expectations Survey. The survey results show that overall sentiments for general business conditions have further improved for the short to medium term

compared to the December 2012 survey. Improved sentiments were noted for production, employment, domestic sales and investment. The sturdy consumption and investment demand is supported by favourable remittance inflows, record low lending rates, high bank liquidity, lower tax rates and increased optimism in the domestic economy.

Nonetheless, sectoral performances remain mixed and certain sectors continue to perform below potential and face supply constraints. The sugar crushing season has commenced and in the first two months of crushing, around 700,000 tonnes of cane have been crushed by the mills to produce around 74,000 tonnes of sugar. The industry has overcome its teething problems and has shown improvement in milling efficiency. Industry liaison also indicates improved production in mahogany, woodchips and garments. Moreover, electricity production, an indicator of overall economic activity, rose by 6.7 percent in the first seven months of the year.

However, the sectors noting weak performances include gold and fishing. Gold production continues to perform poorly and declined by 26.6 percent in the year to June. However, there are plans for additional capital expenditure at the Vatukoula mine which should boost output over the medium term. Industry liaison reveals that the fishing industry is facing unfavourable weather conditions resulting in declining fish stocks within Fiji's exclusive economic zone as well as the Pacific region in the first four months of the year, though this is expected to improve in the second half of the year. Competition from fishing fleets in international waters outside Fiji's exclusive zone is also impacting detrimentally on the supply to local processors.

Employment prospects have continued to improve over the year as indicated by the RBF's Job

Advertisement Survey. Cumulative to July, the number of jobs advertised noted an annual increase of 12.9 percent largely led by the wholesale, retail, trade, restaurants & hotels and the construction and manufacturing sectors.

Annual inflation in July rose slightly to 1.9 percent from 1.7 percent recorded in June, driven mainly by higher contributions in the alcoholic beverage, tobacco & narcotics and education categories. Price pressures have generally remained soft due to the modest inflation outcomes from our major trading partners and the absence of domestic shocks so far this year.

Credit aggregates remain conducive for consumption and investment activity. Broad money (M3) expanded by 13.4 percent on an annual basis in July underpinned largely by growth in net foreign assets, which rose to 8.6 percent from 4.9 percent in June. During the same period, net domestic credit grew by 11.9 percent driven by private sector credit (9.2%) and net credit to the non-financial public sector (38.1%). Likewise, in July, the annual growth in outstanding commercial bank loans rose to 14.6 percent. In July, outstanding weighted average lending rates fell by 9 basis points to 6.05 percent. At the end of July, liquidity rose by 10.5 percent to \$747.9 million led primarily by increases in foreign reserves (\$88.3 million). As at 26 August, liquidity was around \$732.1 million.

On exchange rate developments, in the year to July, the Fiji dollar appreciated against the Yen (18.2%), the Australian dollar (9.2%), but depreciated against

the Euro (-12.9%), the US dollar (-5.8%) and the New Zealand dollar (-4.6%). Over the month of July, the Fiji dollar appreciated marginally against the Australian dollar but fell slightly against the other basket currencies.

On the external front, the merchandise trade deficit (excluding aircraft) widened by 38.2 percent to \$959.9 million in the year to May, compared to the same period in 2012. Total export earnings (excluding aircraft) fell by 13.0 percent led by re-exports, sugar, gold and mineral water which more-than-offset the increases in garments, fruit & vegetables and other domestic exports. Import payments (excluding aircraft) rose by 10.4 percent while retained imports (excluding aircraft), an indicator of domestic demand, surged by 23.3 percent in the same period, supporting the surge in consumption activity.

Personal remittances increased by 8.6 percent to \$187.3 million cumulative to July from a year earlier despite fragile labour markets conditions abroad.

Foreign reserves remain at comfortable levels and were around \$1,829 million at the end of August, sufficient to cover 5.1 months of retained imports of goods and non-factor services.

The Reserve Bank maintained the accommodative monetary policy stance over the month and kept the Overnight Policy Rate (OPR) unchanged at 0.5 percent given the comfortable outlook for the foreign reserves and inflation.

RESERVE BANK OF FIJI

FJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

Jul-13	Jun-13	May-13	Jul-12
1.9	1.7	2.5	2.5
0.8	0.7	2.9	1.3

2. Reserves

(end of period)

Foreign Reserves (\$m)^{1/}

Jul-13	Jun-13	May-13	Jul-12
1,814.4	1,727.2	1,605.0	1,514.1

3. Exchange Rates

(mid rates, F\$1 equals)

(end of period)

US dollar
Pound sterling
Australian dollar
New Zealand dollar
Swiss francs
Euro
Japanese yen

Jul-13	Jun-13	May-13	Jul-12
0.5276	0.5290	0.5400	0.5598
0.3461	0.3466	0.3546	0.3563
0.5820	0.5698	0.5588	0.5331
0.6603	0.6782	0.6689	0.6922
0.4906	0.4999	0.5147	0.5484
0.3978	0.4055	0.4140	0.4566
51.72	52.01	54.38	43.76

4. Liquidity

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)

Jul-13	Jun-13	May-13	Jul-12
12.4	11.9	10.8	12.3
747.9	677.1	585.2	540.1

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)
Crude Oil/barrel

Jul-13	Jun-13	May-13	Jul-12
1,286.7	1,342.4	1,413.5	1,593.9
16.4	16.9	17.4	22.8
107.7	103.2	103.0	103.1

6. Money and Credit

(year-on-year % change)

Narrow Money
Broad Money
Currency in Circulation
Quasi-Money (Time & Saving Deposits)
Domestic Credit

Jul-13	Jun-13	May-13	Jul-12
14.3	12.9	15.7	23.1
13.4	12.0	12.8	5.9
0.2	2.0	3.7	7.0
13.1	12.1	11.4	-1.5
11.9	10.3	10.2	4.7

7. Interest Rates (% p.a.)

(monthly average)

Lending Rate (Excluding Staff)
Savings Deposit Rate
Time Deposit Rate
14-day RBF Note Rate (month end)
Minimum Lending Rate (MLR) (month end)^{2/}
Overnight Inter-bank Rate
5-Year Government Bond Yield
10-Year Government Bond Yield

Jul-13	Jun-13	May-13	Jul-12
6.05	6.14	6.18	6.98
0.77	0.76	0.76	0.84
2.08	2.12	2.13	2.51
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t	n.t	n.t	n.t
4.00	4.00	4.00	4.00
5.17	5.27	5.48	6.2

^{1/} 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.^{2/} With the introduction of the new Monetary Policy Framework on 17 May 2010, the minimum lending rate was set at 50 basis points above the Overnight Policy Rate.

Note:

n.i No Issue
n.t No Trade

Sources:

^{*} Fiji Bureau of Statistics
^{**} Bloomberg