



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The major global economies have noted improved prospects in recent months. Optimism has increased in the United States and the Euro zone while the Chinese economy has shown signs of stabilisation, mainly attributed to policy support and the improvement in global demand. In Japan, the massive fiscal and monetary stimuli have now moved the economy closer to a path of solid recovery. Closer to home, indicators on Australia suggest that the economy is growing below trend. The New Zealand economy, however, is showing some resilience and demand conditions remain strong.

The International Monetary Fund projects that the global economy will continue to gain momentum in the second half of this year through to 2014 mainly supported by accommodative monetary stances in advanced economies.

On the domestic front, performances in most industries, except for gold, show positive outcomes. Total sugar cane crushed up to 29 September 2013 was 1.15 million tonnes, almost 12.0 percent higher than the same period last year. As a result of the improved cane supply and milling efficiency, the volume of sugar produced totalled 126,112 tonnes, nearly 17.0 percent higher than the same period last year.

Gold production, cumulative to August, fell by 23.3 percent compared to the similar 2012 period, mainly due to low grade ore extraction. However, a significant turnaround of 34.4 percent in the month to August was registered.

Electricity generation, cumulative to August, rose annually by 6.5 percent due to increased demand from all categories of electricity users (commercial, industrial and domestic).

Domestic demand remains robust. Partial indicators

such as net Value Added Tax collections cumulative to August was 13.2 percent higher compared with the same period in 2012. In addition, new lending for consumption purposes more than doubled in the first eight months of this year to \$336.2 million, while the number of new vehicles sold rose by 46.0 percent. Consumer confidence is also supported by encouraging labour market conditions and continued inward remittances which registered a year-on-year growth of 4.9 percent cumulative to July.

Partial indicators of investment and construction activity also remain upbeat. In the year to August, domestic cement sales rose by 14.7 percent and new bank lending for investment purposes rose significantly (160.3%). Imports of investment goods grew by 22.6 percent cumulative to June 2013.

Employment prospects were positive in the review period. According to the RBF Job Advertisement Survey, labour market conditions have shown further signs of improvement. The number of vacant positions advertised cumulative to August, noted an annual increase of 11.5 percent, mostly led by the wholesale & retail trade, tourism, community, social & personal services and the construction sectors.

Sentiments and feedback on investor confidence and optimism received from organisations during the RBF Board's recent industry visit to the West and various in-house meetings are generally in line with partial indicator outcomes. In addition, feedback on wholesale, retail and investment plans reaffirm conclusions reached from partial indicators analysed by the Bank.

Monetary aggregate data reveal an acceleration in broad money growth to 13.3 percent in August, underpinned by a build-up in net foreign assets and

higher domestic credit. The expansion in domestic credit by 10.9 percent was driven by the growth in private sector credit (9.5%) and net credit to the non-financial public sector (20.4%).

Over the twelve month period to August, outstanding commercial bank loans expanded by 15.6 percent to \$3,660.1 million, compared to a growth of 5.8 percent in the same period last year. The outturn was reflected in increased lending to almost all sectors.

Commercial bank liquidity was largely unchanged over the month at \$747.1 million. Currently (27 September), liquidity is around \$682.7 million.

The commercial bank lending rate rose for the first time in almost a year. The weighted average interest rate on outstanding loans rose by 3 basis points to 6.08 percent in August. However, the interest rate on outstanding time deposits continued to trend downwards and fell by 6 basis points to 2.02 percent.

Over the year to August, the Fiji dollar appreciated against the Yen (17.5%) and the Australian dollar

(8.4%), but depreciated against the Euro (-11.2%), the US dollar (-6.0%) and New Zealand dollar (-3.5%). However, only marginal movements were noted in month of August against the basket currencies.

The Nominal Effective Exchange Rate (NEER) index fell over the year and over the month to August by 0.8 percent and 0.1 percent, respectively. Similarly, the Real Effective Exchange Rate (REER) fell over the month by 0.5 percent, reflecting a gain in Fiji's international competitiveness. On an annual basis, the REER index fell by 0.7 percent.

The Reserve Bank's twin objectives remain intact. The annual inflation rate was 2.5 percent in August and is expected to be around 3.0 percent by year-end. In addition, foreign reserves were around \$1,828.7 million by the end of August, sufficient to cover 5.1 months of retained imports of goods and non-factor services. Currently (27 September), foreign reserves (RBF Holdings) are provisionally around \$1,770 million and sufficient to cover 4.9 months of goods and non-factor services.

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FJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

Aug-13	Jul-13	Jun-13	Aug-12
2.5	1.9	1.7	2.3
3.0	0.8	0.7	0.8

2. Reserves

(end of period)

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

Aug-13	Jul-13	Jun-13	Aug-12
1828.7(p)	1,814.4	1,727.2	1,512.8

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

Aug-13	Jul-13	Jun-13	Aug-12
0.5216	0.5276	0.5290	0.5549
0.3365	0.3461	0.3466	0.3515
0.5842	0.5820	0.5698	0.5391
0.6712	0.6603	0.6782	0.6953
0.4856	0.4906	0.4999	0.5328
0.3939	0.3978	0.4055	0.4436
51.26	51.72	52.01	43.64

4. Liquidity

(end of period)

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

Aug-13	Jul-13	Jun-13	Aug-12
11.6	12.4	11.9	11.4
747.1	747.9	677.1	527.4

5. Commodity Prices (US\$) **

(monthly average)

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

Aug-13	Jul-13	Jun-13	Aug-12
1,347.1	1,286.7	1,342.4	1,626.0
16.7	16.4	16.9	20.5
111.0	107.7	103.2	113.3

6. Money and Credit

(year-on-year % change)

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

Aug-13	Jul-13	Jun-13	Aug-12
22.8	14.3	13.0	10.5
13.3	13.1	11.8	3.5
-0.4	0.2	2.0	11.8
6.7	13.1	12.1	2.4
10.9	11.6	10.1	5.0

7. Interest Rates (% p.a.)

(monthly weighted 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

Aug-13	Jul-13	Jun-13	Aug-12
6.08	6.05	6.14	6.89
0.75	0.77	0.76	0.84
2.02	2.08	2.12	2.33
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t	n.t	n.t	n.t

(monthly average)

5-Year Government Bond Yield
10-Year Government Bond Yield

Aug-13	Jul-13	Jun-13	Aug-12
4.00	4.00	4.00	4.00
5.05	5.17	5.27	6.1

^{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
p provisional

Sources:

* Fiji Bureau of Statistics
** Bloomberg