



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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For the third time this year, the International Monetary Fund (IMF) downgraded global growth projections for 2013 and 2014. In its July forecast, the IMF now expects the world economy to grow by 3.1 percent in 2013, down from 3.3 percent expected in April. Similarly, the growth rate for 2014 has been reduced to 3.8 percent from 4.0 percent. The downward revision reflects new downside risks in key emerging countries, particularly in China and India, coupled with a deeper recession in the Euro zone and slower expansion in the United States (US) economy.

While there are a number of positive indicators coming out of the US economy, its growth rate has been revised downwards to 1.7 percent in 2013. The Euro zone is expected to contract again this year by 0.6 percent while the Australian and New Zealand economies are expected to expand by 2.5 percent and 2.7 percent, respectively. However, growth in Japan has been revised upwards to 2.0 percent supported by massive stimulus provided by the Government.

On the domestic front, sectoral performances were generally positive notwithstanding the fall in gold production by 34.3 percent in the year to May. However, there was a notable turnaround in visitor arrivals cumulative to May after it fell by 5.0 percent in the first quarter. The outturn was driven by increases in short-term resident departures into Fiji from our two major tourist markets of Australia (1.4%) and New Zealand (2.7%).

The 2013 sugar crushing season commenced towards the end of June with approximately 280,464 tonnes of cane crushed resulting in 26,790 tonnes of sugar produced by 22 July. Despite some teething problems since mill operations started, industry liaison suggests that performance is expected to improve in the coming months with a favourable outlook in terms of output envisaged.

Consumption activity remained upbeat in the review period as indicated by partial indicators. Net Value Added Tax (VAT) collections recorded a strong annual growth (23.4%) cumulative to May 2013 while new lending for consumption more than doubled to \$210.9 million. Additionally, new vehicle sales rose while personal remittances - a driver of household consumption - rose (19.5%) to \$135 million in the first five months of the year.

Similarly, investment activity was buoyant with the value of work-put-in-place by the construction sector growing by 10.2 percent to \$74.9 million in the first quarter of this year. Furthermore, domestic cement sales increased by 19.4 percent cumulative to May while new investment lending amounted to around \$108.4 million in the same period. Higher credit disbursements to the building and construction and real estate sectors augur well for investment activity in the coming months. Moreover, anecdotal evidence derived from RBF surveys and industry visits reveal that investment sentiments going forward remain favourable.

Broad money (M3) grew by 11.3 percent over the year to June, largely underpinned by growth in net foreign assets and net domestic credit which grew by 4.2 percent and 9.2 percent respectively. The growth in net domestic credit was driven largely by commercial banks' lending which rose by 13.2 percent on an annual basis in June. Interest rates in the banking sector continued to trend downwards with outstanding lending and time deposit rates declining to 6.14 percent and 2.12 percent respectively, while the savings deposit rate remained unchanged at 0.76 percent.

Liquidity remained high in June rising by \$91.9 million to \$677.1 million driven by foreign reserves which increased by \$118.7 million in the same period. Currently (26 July) liquidity is around \$697.7 million.

On exchange rate developments, over the month to June the Fiji dollar appreciated against the Australian (2.0%) and New Zealand (1.4%) dollars but fell against the Yen (4.4%), US (2.0%) dollar and the Euro (2.0%). Over the year to June, the Fiji dollar surged most against the Yen (19.5%) followed by the Aussie (4.4%), but depreciated against the other three currencies in the basket.

On the external front, the merchandise trade deficit (excluding aircraft) widened by 21.5 percent in the year to April 2013 compared to a 1.1 percent narrowing in the same period in 2012. This was mainly attributed to a decline in total export earnings (excluding aircraft) by 13.4 percent while

total imports rose by 3.7 percent. Retained imports (excluding aircraft) increased by 8.8 percent in the same period.

In terms of monetary policy objectives, foreign reserves are currently (26 July) around \$1,767.0 million, sufficient to cover 5.1 months of retained imports of goods and non-factor services. Inflation was 1.7 percent in June with the year end forecast remaining at 3.0 percent.

With no threat to monetary policy objectives, the Reserve Bank Board kept the Overnight Policy Rate unchanged for the twentieth consecutive month since November 2011 at 0.5 percent in July.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food and Non-alcoholic Beverage

Jun-13	May-13	Apr-13	Jun-12
1.7	2.5	1.6	3.2
0.7	2.9	-0.3	2.9

2. Reserves

(end of period)

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

Jun-13	May-13	Apr-13	Jun-12
1,723.7(p)	1,605.0	1,468.4	1,487.5

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

Jun-13	May-13	Apr-13	Jun-12
0.5290	0.5400	0.5616	0.5479
0.3466	0.3546	0.3623	0.3532
0.5698	0.5588	0.5424	0.5456
0.6782	0.6688	0.6557	0.6957
0.4999	0.5147	0.5262	0.5290
0.4055	0.4140	0.4287	0.4405
52.01	54.38	54.91	43.54

4. Liquidity

(end of period)

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

Jun-13	May-13	Apr-13	Jun-12
11.9	10.8	8.1	12.8
677.1	585.2	481.6	535.5

5. Commodity Prices (US\$) **

(monthly average)

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

Jun-13	May-13	Apr-13	Jun-12
1,342.4	1,413.5	1,485.1	1,596.7
16.9	17.4	17.7	20.1
103.2	103.0	102.9	95.6

6. Money and Credit

(year-on-year % change)

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

Jun-13	May-13	Apr-13	Jun-12
12.6	15.2	8.5	29.7
11.3	12.1	7.5	8.3
1.8	3.6	1.5	9.0
12.2	11.5	8.6	-2.6
9.2	9.3	7.0	5.9

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

Jun-13	May-13	Apr-13	Jun-12
6.14	6.18	6.21	6.99
0.76	0.76	0.74	0.84
2.12	2.13	2.14	2.56
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
5.27	5.48	5.44	6.44

^{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.a Not Available
n.i No Issue
n.t No Trade

Sources:

* Fiji Bureau of Statistics

** Bloomberg