



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy has recovered somewhat following weak performances in the first quarter. The United States (US) economy expanded in the second quarter due to a turnaround in business and consumer spending. However, other major trading partner economies continue to remain subdued. Recovery in the Euro zone continues but remains fragile while economic activity in Japan contracted in the June quarter after the sales tax increase in April. In Australia and New Zealand, growth continued but eased in the June quarter, as business confidence and consumer spending moderated.

Domestic activity remained broadly positive across key industries. Over the year to June, visitor arrivals grew by 4.0 percent to 308,611 visitors, underpinned by higher arrivals from Australia, New Zealand, the US and Continental Europe. In the same period, Tropik Wood Industries Limited increased woodchip production significantly (103.7%) to meet shipment orders. With improved milling efficiency and no major supply issues, cane and sugar output (25 August) were higher over the year by 33.4 percent and 49.1 percent, respectively. Electricity production, a partial indicator of business activity, grew by 1.1 percent over the year to July. On the downside, subdued output due to the extraction of low grade ore (-6.8% cumulative to July) in the gold industry was a drag on economic activity.

Measures of consumption and investment activity were firm in the review period. In the year to June, net Value Added Tax collections (12.9%) and imports of consumption goods (12.0%) rose on an annual basis. In addition, new lending for consumption purposes increased over the year by 36.4 percent cumulative to July.

The increase in remittances (14.2%), combined with growth in Pay As You Earn collections (20.0%) in the year to June, has been supportive of recent consumption activity. However, some cautiousness in spending is expected over the coming months, as

reflected by the Reserve Bank's June Retail Sales Survey (RSS). The June 2014 RSS forecasts retail sales to increase by 7.7 percent this year, lower than the 8.8 percent growth expected in the December 2013 Survey.

New investment lending which accounts for new lending to the real estate and building & construction sectors grew over the year by 10.9 percent cumulative to July. Imports of investment goods (excluding aircraft) increased by 14.0 percent in the year to June and domestic cement sales, a partial indicator of construction activity, rose by 14.1 percent cumulative to July. The outlook for investment activity is still expected to be positive considering the sentiments expressed for investment in plant & machinery and buildings in the June 2014 Business Expectations Survey.

Employment prospects as reflected in the monthly Reserve Bank's Job Advertisements Survey were higher in the year to July. The number of jobs advertised increased by 17.3 percent led by recruitment intentions in the community, social & personal services and the manufacturing sectors.

Monetary conditions remained conducive for economic activity. Broad money expanded by 14.1 percent on an annual basis in July led by a growth in net domestic credit which expanded by 18.1 percent while net foreign assets declined marginally by 0.7 percent. In the same month, the weighted average outstanding lending and new lending rates fell over the month to 5.71 percent and 5.23 percent, respectively. The savings deposit rate increased to 1.05 percent while the existing time deposit rate fell slightly to 1.77 percent in July from the previous month.

Liquidity in the banking system fell over the month by 17.8 percent in July underpinned by a fall in foreign reserves (\$67.3m) and an increase in currency in circulation (\$22.8m). As at 28 August, liquidity in the banking system was around

\$477.6 million.

Over the month to July, the Fiji dollar weakened against the US dollar (-1.1%) and the Australian dollar (-0.2%) but strengthened against the New Zealand dollar (2.3%), the Euro (0.8%) and the Japanese Yen (0.3%). Over the year, the Fiji dollar rose against the Japanese Yen (7.2%), the US dollar (2.2%) and the Euro (1.2%), but fell against the New Zealand dollar (-3.8%) and the Australian dollar (-0.7%).

In July, the Nominal Effective Exchange Rate (NEER)¹ index rose marginally over the month to July by 0.07 percent, implying a slight appreciation of the Fiji dollar against its major trading partners. The Real Effective Exchange Rate (REER)² fell over the month by 0.2 percent, reflecting a slight gain in Fiji's international competitiveness.

The merchandise trade deficit (excluding aircraft) widened by 16.9 percent to \$1,361.3 million cumulative to June. Total exports (excluding

aircraft) rose by 12.2 percent due to a rebound in re-exports and domestic exports. The increase in re-exports (17.3%) was led by higher mineral fuel re-exports (17.0%), while the increase in domestic exports (6.4%) was led by higher sugar, mineral water, fish and garments exports which more than offset the declines in gold, timber, molasses and other domestic exports. Imports (excluding aircraft) rose by 14.9 percent while retained imports (excluding aircraft), an indicator of domestic demand, increased by 7.0 percent in the same period.

Annual inflation in July slowed to 0.8 percent, from 1.1 percent in June mainly on account of lower contributions from the food & non-alcoholic beverages and the alcoholic beverages, tobacco & narcotics categories.

Foreign reserves (RBF Holdings) were around \$1,679.1 million at the end of August, sufficient to cover 4.5 months of retained imports of goods and non-factor services.

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¹ The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar 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 Fiji dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness.

FIJI: FINANCIAL STATISTICS

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

2. Reserves ***

(end of period)

Foreign Reserves (\$m)^{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

4. Liquidity ***

(end of period)

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

5. Commodity Prices (US\$) **

(monthly average)

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

6. Money and Credit ***

(year-on-year % change)

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

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

(monthly average)

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

	Jul-14	Jun-14	May-14	Jul-13
All Items	0.8	1.1	0.8	1.9
Food and Non-Alcoholic Beverage	2.6	2.8	1.9	0.8
Foreign Reserves (\$m) ^{1/}	1,611.1	1,679.1	1,696.7	1,814.4
US dollar	0.5392	0.5454	0.5394	0.5276
Pound sterling	0.3187	0.3202	0.3227	0.3461
Australian dollar	0.5779	0.5789	0.5796	0.5820
New Zealand dollar	0.6352	0.6210	0.6357	0.6603
Swiss francs	0.4900	0.4860	0.4843	0.4906
Euro	0.4026	0.3996	0.3965	0.3978
Japanese yen	55.45	55.31	54.91	51.72
Liquid Assets Margin to Deposit Ratio (%)	5.33	7.73	8.54	12.41
Banks' Demand Deposits (\$m)	436.5	530.8	577.2	747.9
UK Gold Price/fine ounce	1,311.0	1,279.1	1,287.5	1,286.7
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	17.2	18.1	18.2	16.4
Crude Oil/barrel	107.0	111.9	109.7	107.7
Narrow Money	46.0	55.2	59.7	14.3
Broad Money	14.1	17.0	15.5	13.2
Currency in Circulation	10.1	3.0	4.7	-0.5
Quasi-Money (Time & Saving Deposits)	16.0	20.0	18.2	15.1
Domestic Credit	18.1	16.5	14.3	11.4
Lending Rate (Excluding Staff)	5.71	5.82	5.85	6.05
Savings Deposit Rate	1.05	0.98	0.91	0.77
Time Deposit Rate	1.77	1.78	1.78	2.08
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) ^{2/}	1.00	1.00	1.00	1.00
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	4.72	4.28	4.27	5.19

^{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

*** Reserve Bank of Fiji