



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The envisaged global growth pick up has not fully materialised, contrary to expectations. As a result, low commodity prices persist, influencing economic outcomes in both advanced and emerging market economies.

While there has been some strengthening in quarter two economic activities for the United States (US), slow exports growth underpin the softer growth outcomes in China and India to date. In addition, lower export prices have had a dampening effect on incomes and final demand in both Australia and New Zealand. Mixed economic developments were registered for Japan and the Euro zone that has had to also deal with the unfolding Greek debt crisis.

In contrast, domestically, strong sectoral outcomes and robust demand conditions are consistent with the 4.3 percent 2015 economic growth projection for Fiji. The cane crushing season has commenced and improved timber (146.6%) and fish export (138.9%) receipts in the first month of 2015 confirm the current positive outlook for our primary industries. On the industrial front, annually higher gold (26.7%), electricity (2.0%) and woodchip (4.8%) production were recorded in the year to June. Increased tourism demand via higher New Zealand (12.6%) and Australian (4.1%) visitors, combined with robust wholesale and retail trade activity (5.2%) underscore the services sector's solid growth contribution.

Consumer confidence and activity remain elevated, evident in higher net Value Added Tax collections (9.1%) and new consumption lending (14.4%) in the first six months. Relatively higher incomes (12.5% rise in Pay as You Earn tax collections), healthy remittances

inflows (29.3%) and positive labour market conditions (16.1% rise in job advertisements) underpin this robust consumer demand.

Buoyant investment activity, revealed in the strong growth of partial indicators so far this year, provides further impetus to Fiji's current growth outlook. Domestic cement sales, an indicator of construction activity, grew by an annual 42.1 percent in the year to June. In the same period, the significant growth in lending to the building & construction (120.1%) sector influenced the annually higher new loans for investment purposes (82.1%).

Credit outcomes in the review period were supported by accommodative monetary conditions. Increased commercial bank lending (14.9%) dominated private sector credit outcomes (14.7%) in the year to June. While there were mixed movements in commercial banks' lending rates in the review period, the time and savings deposit rates rose to 2.53 percent and 1.33 percent, respectively.

The \$97.4m over-the-month increase in foreign reserves underscored the \$688.8 million liquidity level in June. Currently (30 July), liquidity is around \$675.4 million.

In June, the Fiji dollar (FJD) strengthened against the New Zealand dollar (4.3%), but weakened against the Euro (-3.0%), Japanese Yen (-1.6%), Australian (-1.0%) and the US dollars (-0.5%). As a result, the Nominal Effective Exchange Rate (NEER)¹ index fell

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

over the month by 0.1 percent. In contrast, the Real Effective Exchange Rate (REER)² index rose over the month by 1.6 percent, as domestic inflation slightly exceeded that of our trading partners.

On the trade front, a growth in exports (20.5%) combined with lower import payments (-6.2%) in January underpinned the narrowing by 20.1 percent (to \$193.2 million) of the merchandise trade deficit (excluding aircraft). Higher domestic exports (41.5%), particularly timber, fish, mineral water, sweet biscuits, folding cartons, garments, ginger, gold, flour, uncooked pasta and other domestic exports; and re-exports (7.0%) of mainly petroleum products accounted for export growth. The contraction of 6.2 percent in imports for January was led by a 37.1 percent decline in intermediate goods, which more than offset the higher imports of investment (18.7%) and consumption goods (11.5%).

Inflation rose marginally to 0.8 percent in June, from 0.6 percent in May on account of higher food & non-alcoholic beverages, and alcoholic beverages, tobacco & narcotics prices. However, lower domestic fuel prices in the transport and housing, water, electricity, gas & other fuels contributed negatively to this inflation outcome.

Currently (31 July), foreign reserves are \$1,999.8 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services.

Given that the Reserve Bank's twin objectives of low inflation and comfortable foreign reserves remained intact in the review period, the Overnight Policy Rate was kept unchanged at 0.5 percent in July.

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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.

KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

Jun-15	May-15	Apr-15	Jun-14
0.8	0.6	1.5	1.1
4.9	4.2	5.5	2.8

2. Reserves ***

(end of period)

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

1,988.2	1,889.5	1,856.5	1,679.1
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3. Exchange Rates ***

(mid rates, FS1 equals)

(end of period)

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

0.4784	0.4807	0.4953	0.5454
0.3040	0.3140	0.3209	0.3202
0.6225	0.6285	0.6175	0.5789
0.6981	0.6696	0.6439	0.6210
0.4430	0.4538	0.4654	0.4860
0.4257	0.4390	0.4455	0.3996
58.63	59.60	58.97	55.31

4. Liquidity ***

(end of period)

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

9.70	7.34	6.98	7.73
688.7	633.5	603.6	530.8

5. Commodity Prices (US\$) **

(monthly average)

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

1,181.5	1,199.1	1,198.0	1,279.1
12.1	12.7	12.9	18.1
62.3	64.6	59.4	111.9

6. Money and Credit ***

(year-on-year % change)

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

8.0	1.9	0.2	55.2
11.5	10.4	10.0	17.0
13.1	13.3	13.3	3.0
11.7	10.7	10.1	20.0
13.2	13.6	12.1	16.5

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

5.81	5.78	5.70	5.82
1.33	0.87	0.46	0.58
2.53	2.48	2.46	1.78
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 weighted average)

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

n.i	n.i	n.i	n.i
5.19	5.19	n.i	4.28

^{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