



ECONOMIC REVIEW

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Vol. 32

No. 09

Month Ended September 2015

Risks for a further downward revision in global growth emerged over the month, as the slowdown in emerging and developing economies becomes more pronounced. Despite the general positive growth in the United States (US), the slowdown in China is more than likely to have a wider and indirect negative effect on trade and confidence globally. Global stock markets and commodity prices have continued to decline, following the devaluation and monetary easing in China last month. In light of the less certain outlook in the global economy, together with subdued projections to global inflation, the US Federal Reserve maintained its current accommodative monetary policy in September. Aside from the US, generally weak economic performances were noted in Fiji's other trading partners.

To the contrary, domestic activity remains relatively strong. The Fijian economy provisionally expanded by 5.3 percent in 2014, mainly driven by the transport & storage; financial & insurance and the public administration & defence sectors. However, the agriculture; mining & quarrying and the arts, entertainment & recreation sectors contributed negatively.

Real sector indicators remain positive. Recent data on industrial production highlighted positive outcomes in electricity and gold output, which increased by 2.8 percent and 20.6 percent, respectively during the year to August. Similarly, in the tourism industry, visitor arrivals rose by 8.7 percent during the same period. However, weak performances were noted in the timber and sugar industry. During the year to August mahogany production declined by 16.8 percent, while cane and sugar production fell by 9.3 percent and 10.2 percent, respectively, as at 14 September. Moreover, industry feedback suggests lower than earlier projected annual cane and sugar production due to prolonged dry weather conditions.

Consumer demand remains buoyant, as reflected in the higher net Value Added Tax collections (8.5%)¹ cumulative to August along with the consistent growth in imports of consumption goods (12.1%) cumulative to June. New lending for consumption purposes during the last eight months were also higher by 5.3 percent owing to favourable credit conditions. Similarly, higher disposable incomes, as reflected by the increase in Pay As You Earn tax collections (13.7%) and higher personal remittances (34.9%), in the year to August and July, respectively, remain supportive of higher consumption activity.

Investment activity remained firm during the review period. This was highlighted by the increase in domestic cement sales (a direct input for construction activity), which grew annually by 46.7 percent in the year to August, while new bank lending for investment purposes rose by 79.7 percent to \$309.5 million in the same period. In addition, imports of investment goods (excluding aircraft) rose by 7.2 percent cumulative to June while the value of work put-in-place increased by 10.9 percent in the first half of the year totalling \$226.3 million, mainly driven by public sector construction activity.

Labour market conditions remain consistent with the positive economic performance. According to the RBF Job Advertisements Survey² cumulative to August, a steady increase of 19.6 percent in recruitment intentions was noted. In the survey, the main sectors showing higher employment opportunities were agriculture, forestry & fishing; mining & quarrying; electricity & water; construction; wholesale, retail, restaurants & hotels; transport, storage & communication and finance, insurance, real estate & business services.

¹ In the same period, domestic and import (customs) VAT collections rose by 10.6 percent and 1.5 percent, respectively.

² Based on advertisements in the Fiji Times every Saturday.

Financial conditions continue to be accommodative during the review period. Commercial banks' outstanding lending (13.3 %) continue to rise on the back of growing credit to the private sector (12.1%) in the year to August, which further stimulated the growth in net domestic credit (12.3%). On the liabilities side, the growth in broad money (M3) (13.8%) was mainly attributed to a growth in other deposits (14.5%) and narrow money (14.2%). The commercial banks' weighted average new lending rate fell over the month to 6.13 percent, from 6.28 percent in July. During the same period, existing time deposits rates increased to 2.61 percent from 2.56 percent in July while the savings deposit rate decreased to 0.85 percent in August from 0.90 percent in July.

Liquidity remained high at \$634.1 million in August, despite a decline of 6.7 percent from July, largely due to the \$22.1 million decline in foreign reserves. Currently (28 September), liquidity is \$636.9 million.

In August, the Fiji dollar strengthened against the New Zealand (1.3%) and the Australian (1.1%) dollars, but weakened against the Euro (-2.9%), Japanese Yen (-2.6%) and the US dollar (-0.7%). As a result, the Nominal Effective Exchange Rate (NEER)³ fell over the month by 0.03 percent. However, the the Real Effective Exchange Rate (REER)⁴ index rose over the month by 0.2 percent underpinned by the relatively higher domestic inflation rate (1.3%) over the average trading partners' inflation rate (0.7%).

On the trade front, the merchandise trade deficit (excluding aircraft) narrowed by 2.9 percent cumulative to June.

Total exports (excluding aircraft) during the

period declined by 10.1 percent to \$866.5 million, mainly due to the decline in both re-exports⁵ (-11.5%) and domestic exports (-8.8%). In re-exports the decline was mainly led by mineral fuel (17.4%) while in domestic exports the main underperformance came from sugar (-100%), gold (-50.4%) and fruit & vegetables (-8.6%). However, all other export categories noted increases during the period, though these were insufficient to compensate for the declines in the item categories mentioned above.

Total imports (excluding aircraft) also declined, by 6.0 percent to \$2,054.3 million. This was largely driven by lower imports of intermediate goods⁶ (-38.7%) which more-than-offset the increase in imports of consumption goods (12.1%) and investment goods (7.2%).

Domestic inflation slowed to 1.3 percent in August from 1.4 percent in July. This was underpinned by higher prices in the food & non-alcoholic beverages; alcoholic beverages, tobacco & narcotics and the others categories. In contrast, contributions from housing, water, electricity, gas & other fuels and the transport categories contributed negatively due to weak global oil prices since mid-2014. The year-end inflation is expected to be below 3.0 percent.

Foreign reserves are currently (30 September) comfortable at \$2,035.6 million, sufficient to cover 5.1 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 remains unchanged at 0.5 percent in September.

RESERVE BANK OF FIJI

³ 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.

⁴ 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.

⁵ Re-exports mainly include petroleum products, fish and others, excluding aircraft.

⁶ Consists mainly of mineral fuels.

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 weighted average)

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

| | Aug-15 | Jul-15 | Jun-15 | Aug-14 |
|--|---------|---------|---------|---------|
| All Items | 1.3 | 1.4 | 0.8 | 0.7 |
| Food and Non-Alcoholic Beverage | 4.7 | 5.1 | 4.9 | 2.1 |
| Foreign Reserves (\$m) ^{1/} | 1,978.2 | 2,000.9 | 1,988.2 | 1,678.3 |
| US dollar | 0.4634 | 0.4667 | 0.4784 | 0.5377 |
| Pound sterling | 0.3007 | 0.2992 | 0.3040 | 0.3241 |
| Australian dollar | 0.6472 | 0.6401 | 0.6225 | 0.5746 |
| New Zealand dollar | 0.7159 | 0.7064 | 0.6981 | 0.6413 |
| Swiss francs | 0.4463 | 0.4525 | 0.4430 | 0.4920 |
| Euro | 0.4148 | 0.4270 | 0.4257 | 0.4079 |
| Japanese yen | 56.41 | 57.94 | 58.63 | 55.77 |
| Liquid Assets Margin to Deposit Ratio (%) | 5.2 | 5.0 | 5.5 | 6.5 |
| Banks' Demand Deposits (\$m) | 634.1 | 679.6 | 688.8 | 479.3 |
| UK Gold Price/fine ounce | 1,117.5 | 1,130.0 | 1,181.5 | 1,296.0 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) | 10.7 | 11.9 | 12.1 | 15.9 |
| Crude Oil/barrel | 47.0 | 55.9 | 62.3 | 101.9 |
| Narrow Money | 14.2 | 15.5 | 7.5 | 41.6 |
| Broad Money | 13.8 | 14.0 | 11.2 | 13.7 |
| Currency in Circulation | 6.7 | 11.6 | 12.9 | 8.7 |
| Quasi-Money (Time & Saving Deposits) | 15.0 | 14.3 | 11.3 | 15.3 |
| Domestic Credit | 12.3 | 12.9 | 13.1 | 19.5 |
| Lending Rate (Excluding Staff) | 5.85 | 5.90 | 5.81 | 5.69 |
| Savings Deposit Rate | 0.85 | 0.90 | 1.33 | 0.54 |
| Time Deposit Rate | 2.61 | 2.56 | 2.53 | 1.78 |
| 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 | 5.00 | 5.19 | 5.19 | n.i |

^{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