



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions remain fragile, particularly as the recent China currency depreciation heightened uncertainty for the international growth outlook. Concerns for a growth slowdown in China pushed commodity prices and global stock futures further downwards, motivating the consequent reduction in key interest rates and banks' reserve requirements by Chinese authorities. Weak performances were noted for most of Fiji's trading partners, with the exception of the United States (US) where economic growth rebounded in the second quarter.

In contrast, positive sectoral outcomes and favourable demand conditions persisted in the Fijian economy. A pick up in industrial production was evident in increased woodchip (5.3%), gold (20.2%) and electricity (2.2%) output in the year to July. However, as at 9 August, sugar production was annually¹ lower by 2.4 percent, consistent with the lower sugar cane output (-3.3%). This could, in part, be due to a later start to the crushing season this year. For Fiji's primary industries, the El Nino phenomena may affect this year's total agricultural output despite the cane crushing season progressing well to date. In the services category, visitor arrivals remained strong in the year to July (9.4%), underpinned by higher arrivals from Australia (4.5%), New Zealand (13.6%), China (39.8%), Pacific Islands (26.9%) and the US (11.4%).

Consumer demand continued to strengthen as confirmed by higher net Value Added Tax (VAT) collections (10.0%) and increased registration of both new (5.9%) and second-hand (41.6%) vehicles in the year to July. Elevated disposable incomes as reflected by annually higher Pay As You Earn tax collections (14.6%), increased new lending for

consumption purposes (6.1%) cumulative to July and higher personal remittances (29.3%) in the year to June continued to support consumption activity.

Strong growth in new bank lending for investment purposes (76.4% growth to \$274.3 million) in the first seven months and domestic cement sales (46.4%) underpin the firm investment activity to date.

In addition, solid recruitment intentions (19.7% yearly growth) up to July as per the RBF's Job Advertisements Survey are indicative of the prevailing favourable labour market conditions.

Financial conditions remained accommodative in the review period. Strong commercial banks' lending (14.2%) underpinned the growth in private sector credit (13.7%) in the year to July. On the liabilities side, the growth in broad money (M3) in the first seven months was driven by narrow money (9.3%) and other deposits (4.7%). Over the same period, commercial banks' weighted average new lending rate rose to 6.28 percent from 5.57 percent in June. The time deposits rate also increased to 2.56 percent from 2.53 percent, while the savings deposits rate fell from 1.33 percent in June to 0.90 percent in July.

Liquidity remained high at \$679.6 million in July amid over-the-month growth in foreign reserves (\$13.2m). Currently (26 August), liquidity is \$612.8 million.

In July, the Fiji dollar strengthened against the Australian (2.8%) and New Zealand dollars (1.2%) and the Euro (0.3%), but weakened against the US dollar (-2.4%) and the Japanese Yen (-1.2%). As a result, the Nominal Effective Exchange Rate

¹ Crushing at the Rarawai and Penang mills started a week late when compared to the 2014 crushing season.

(NEER)² fell over the month by 0.03 percent. However, the the Real Effective Exchange Rate (REER)³ index rose over the month by 0.2 percent underpinned by an increase in the domestic inflation rate from 0.8 percent to 1.4 percent in July.

On the trade front, higher export growth (9.7%) relative to imports (0.9%) underscored the narrowing of the merchandise trade deficit (excluding aircraft) by 4.6 percent to \$391.2 million cumulative to February 2015.

The growth in exports was led by domestic exports (13.7%) of fish, timber, garments, folding cartons, gold, biscuits, ginger, corned meat, uncooked pasta, yaqona and re-exports (6.5%) of mainly fish. In the same period, the growth in imports (excluding aircraft) was led by increased imports of investment goods (7.5%) and consumption goods (5.1%), which more than offset the decline in imports of intermediate goods (-11.7%).

Domestic inflation rose to 1.4 percent in July from 0.8 percent in June, on account of higher prices in the food & non-alcoholic beverages; alcoholic beverages, tobacco & narcotics and miscellaneous goods & services categories. In contrast, contributions by the housing, water, electricity, gas & other fuels and the transport categories remained a drag on inflation. As a result of subdued global oil prices and soft inflation outlook for Fiji's major trading partners, the year-end forecast for inflation is below 3.0 percent.

Foreign reserves are currently (27 August) comfortable at \$1,964.4 million, sufficient to cover 4.9 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 August.

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² 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.

³ 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)

	Jul-15	Jun-15	May-15	Jul-14
All Items	1.4	0.8	0.6	0.8
Food and Non-Alcoholic Beverage	5.1	4.9	4.2	2.6

2. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{1/}	2,000.9	1,988.2	1,889.5	1,611.7
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3. Exchange Rates ***

(mid rates, F\$1 equals)

(end of period)

US dollar	0.4667	0.4784	0.4807	0.5392
Pound sterling	0.2992	0.3040	0.3140	0.3187
Australian dollar	0.6401	0.6225	0.6285	0.5779
New Zealand dollar	0.7064	0.6981	0.6696	0.6352
Swiss francs	0.4525	0.4430	0.4538	0.4900
Euro	0.4270	0.4257	0.4390	0.4026
Japanese yen	57.94	58.63	59.60	55.45

4. Liquidity ***

(end of period)

Liquid Assets Margin to Deposit Ratio (%)	9.24	9.70	7.34	5.33
Banks' Demand Deposits (\$m)	679.6	688.7	633.5	436.5

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce	1,130.0	1,181.5	1,199.1	1,311.0
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	11.9	12.1	12.7	17.2
Crude Oil/barrel	55.9	62.3	64.6	107.0

6. Money and Credit ***

(year-on-year % change)

Narrow Money	15.8	8.0	1.9	46.0
Broad Money	14.0	11.5	10.4	14.1
Currency in Circulation	11.8	13.1	13.3	10.1
Quasi-Money (Time & Saving Deposits)	14.5	11.7	10.7	16.0
Domestic Credit	12.9	13.2	13.6	18.1

7. Interest Rates (% p.a.) ***

(monthly weighted average)

Lending Rate (Excluding Staff)	5.90	5.81	5.78	5.71
Savings Deposit Rate	0.90	1.33	0.87	0.55
Time Deposit Rate	2.56	2.53	2.48	1.77
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
(monthly weighted average)				
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	5.19	5.19	5.19	4.72

^{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