



ECONOMIC REVIEW

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Vol. 31

No. 02

Month Ended February 2014

The global economy has turned around after years of weakness and uncertainty. The advanced countries are expected to contribute greatly to global growth now that the drag on growth from fiscal consolidation and policy uncertainty has eased and private sector recoveries have gained firmer footing. Consequently, this is expected to lift growth in many emerging market and developing economies through improved external demand, although domestic weaknesses still remain a concern and uncertainties on a sustainable and balanced global recovery persist.

In line with the recovering world economy, the 2014 growth outlook for our major trading partner countries is also largely positive. The United States (US) and Japan economies are projected to grow broadly on the back of improved business conditions as demand picks up. Positive growth is envisaged for Australia and New Zealand, while high prices for commodity exports continue to auger well for the latter economy.

Domestically, partial and forward looking indicators continue to present an encouraging growth scenario for Fiji. Growth is expected to be broad based in 2014 with most real sectors of the economy envisaged to maintain their 2013 growth momentum into the year. Consumption and investment spending remain resilient.

Aggregate demand indicators remained strong in the review period and are expected to continue to drive growth and Government revenue this year.

Consumer spending showed resilience in 2013 and is expected to strengthen further this year, largely led by the increase in civil servants wages and salaries as well as the supportive credit environment. Strong inward remittances will add to demand creation. The Bank's December 2013 Retail Sales Survey indicates that retail sales are expected to rise by 9 percent this year.

Investment, which has been supportive of growth, is likely to remain robust in the medium term as evidenced by the latest partial indicators. Domestic cement sales expanded by 20 percent in 2013, indicating buoyant construction sector activity. Complementing this, new bank loans for investment purposes rose significantly by 109 percent to \$251.4 million in 2013. Similarly, cumulative to November 2013, imports of investment goods rose strongly by 27 percent. This is further supported by the RBF's December 2013 Business Expectations Survey results which indicate that private sector investment in plant, machinery and new buildings will remain strong over the next twelve months.

The healthy growth in investment activity noted last year augurs well for the labour market. According to the RBF's Job Advertisement Survey, the number of vacant positions advertised increased annually by 14 percent in January 2014 (compared to a 1 percent increase in the same period a year ago). This outturn was mainly led by the manufacturing sector.

Financial conditions continue to remain conducive to growth. Broad money increased by 16 percent on an annual basis in January 2014, underpinned by growth in net foreign assets by 17 percent and net domestic credit by 13 percent. Private sector credit 10 percent remained the key driver of growth in net domestic credit in the review period. Movements in lending rates were downward biased in the review month. The weighted outstanding lending rate fell by 1 basis point (1bp) in January to 5.85 percent, while the time deposit rate fell by 5 bps to 1.74 percent.

Despite an upward trend in lending in 2013, the liquidity level remained high at \$636 million in January, underpinned by the decline in currency in circulation (\$37m). Currently 27 February, liquidity is around \$556 million.

Total merchandise imports grew strongly by 8 percent in the year to November 2013, driven

largely by imports of investment goods, a reflection of the growing economy. During the same period, exports fell by 5 percent underpinned largely by declines in gold and fish proceeds. Consequently, the trade deficit widened by 24 percent in the first eleven months of 2013. Despite the poor performance in merchandise trade, the favourable inflows of remittances and tourism earnings have largely financed the trade deficit.

Bilateral movements of the domestic currency against our major trading partner currencies were mixed over the month of January. The Fijian dollar strengthened against the Euro, Australian and New Zealand dollars, however it slid against the Yen and US dollar.

The Nominal Effective Exchange Rate index was unchanged in January but declined by 0.7 percent on an annual basis. Taking in relative

consumer price movements the Real Effective Exchange Rate rose over the month by 1.3 percent, indicating a loss in Fiji's international competitiveness.

Annual consumer price inflation eased to 2.3 percent in January, down from 3.4 percent noted in December. The fall in headline inflation was partly due to the base effects of the floods in early 2013. In the months ahead, inflation is envisaged to remain manageable barring any weather-related shocks.

Currently 28 February, foreign reserves are around \$1,696 million, sufficient to cover 4.5 months of goods and non-factor services.

The Reserve Bank of Fiji Board in its February meeting maintained its Overnight Policy Rate at 0.50 percent.

RESERVE BANK OF FIJI

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, FSI 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

	Jan-14	Dec-13	Nov-13	Jan-13
All Items	2.3	3.4	3.4	4.3
Food and Non-Alcoholic Beverage	2.5	5.1	5.5	7.7
Foreign Reserves (\$m) ^{1/}	1756.3p	1,778.1	1,861.5	1,600.0
US dollar	0.5234	0.5269	0.5302	0.5626
Pound sterling	0.3177	0.3190	0.3245	0.3560
Australian dollar	0.5957	0.5912	0.5821	0.5405
New Zealand dollar	0.6423	0.6422	0.6523	0.6732
Swiss francs	0.4729	0.4678	0.4803	0.5127
Euro	0.3863	0.3818	0.3898	0.4146
Japanese yen	53.78	55.38	54.21	51.27
Liquid Assets Margin to Deposit Ratio (%)	9.41	9.51	11.24	0.89
Banks' Demand Deposits (\$m)	636.0	598.3	728.5	575.1
UK Gold Price/fine ounce	1244.8	1225.4	1275.8	1671.0
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	15.4	16.4	17.7	18.8
Crude Oil/barrel	107.4	110.7	108.1	113.0
Narrow Money	62.7	67.7	63.5	18.2
Broad Money	16.0	19.5	16.9	8.5
Currency in Circulation	3.9	0.9	2.0	5.5
Quasi-Money (Time & Saving Deposits)	19.0	23.4	19.7	9.5
Domestic Credit	12.9	14.3	12.4	4.5
Lending Rate (Excluding Staff)	5.85	5.86	5.90	6.49
Savings Deposit Rate	0.72	0.72	0.71	0.77
Time Deposit Rate	1.74	1.79	1.84	2.29
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	4.00
10-Year Government Bond Yield	4.32	4.46	4.60	5.00

^{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:

^{1/} Fiji Bureau of Statistics
^{2/} Bloomberg
*** Reserve Bank of Fiji