



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The International Monetary Fund downgraded global growth projections for the third time this year, reflecting the mediocre economic rebound in many advanced and emerging market economies. In its latest October World Economic Outlook, both 2014 and 2015 growth projections were downgraded to 3.3 percent (from 3.4%), and to 3.8 percent (from 4.0%), respectively. There have been diverging economic performances across the globe. The United States and the United Kingdom are generating a more sustained growth momentum compared to other major economies. Downside risks remain a concern as new geopolitical risks emerge in the Middle East and Ukraine. The Ebola outbreak in West Africa and fear of it spreading globally also pose a possible threat to global output.

Domestically, assessment on the sectoral front suggests that contributions from key sectors of the economy continue to be positive. As at 20 October 2014, annual increases were noted in cane (15.9%) and sugar production (28.1%). Cumulative to September, woodchip and electricity production also rose by an annual 49.2 percent and 0.2 percent, respectively. This is consistent with the overall growth in the Industrial Production Index of 2.4 percent in the first half of the year, indicating an increase in manufacturing and industrial activity. Tourism demand continued to strengthen in the review period as visitor arrivals rose by 4.2 percent in the first nine months of the year.

Consumer spending remains strong as reflected by various partial indicators. In the year to September, Net Value Added Tax collections and new lending for consumption purposes expanded by an annual 12.1 percent and 44.0 percent, respectively. Imports of consumption goods also rose by an annual 10.0 percent in the year to August.

Partial indicators of investment activity depict sustained positive sentiments. Cumulative to September, new investment lending, which comprises lending to the real estate and construction

sectors, grew by an annual 14.2 percent. In the same period, domestic cement sales, an indicator of construction activity, rose by 18.6 percent. In addition, imports of investment goods (excluding aircraft) increased by 16.3 percent in the year to August. The total value of work put in place by the construction sector increased by 24.4 percent in the first six months of 2014, reflecting growing construction activity.

The buoyant economic conditions are positive for the labour market. According to the Reserve Bank of Fiji's Job Advertisement survey, cumulative to September 2014, the number of jobs advertised increased by 17.7 percent.

With favorable monetary conditions, credit growth continues to pick up. In September, broad money rose by 12.9 percent on an annual basis as net domestic credit continued to increase, led by a 15.8 percent growth in private sector credit. A broad based growth of 26.3 percent was noted in commercial banks' outstanding loans while new lending cumulative to September increased by 30.7 percent. The weighted average new lending rate decreased from 5.96 percent in August to 5.43 percent in September, while the outstanding lending rate was at its historical low of 5.69 percent in September, unchanged from August.

Liquidity in the banking system rose by 10.4 percent to \$529.3 million in September from the previous month, underpinned by an increase in foreign reserves (\$54.1m). Currently (30 October), liquidity is around \$550.8 million.

Over the month of September, the Fiji dollar weakened against the US dollar (-4.1%) and the Euro (-0.4%), but strengthened against the New Zealand dollar (3.5%), the Australian dollar (2.9%) and the Japanese Yen (1.2%). Over the year, the Fiji dollar depreciated against the US dollar (-4.1%), but appreciated against the Japanese Yen (7.3%), Australian dollar (2.6%), New Zealand

dollar (2.2%) and the Euro (2.0%).

The Nominal Effective Exchange Rate (NEER)¹ fell marginally in September by 0.2 percent, implying a slight depreciation of the Fiji dollar against its major trading partner economies. However, over the year, the NEER increased by 1.5 percent.

The Real Effective Exchange Rate (REER)² also fell over the month by 0.8 percent, reflecting a slight gain in Fiji's international competitiveness mainly contributed by a decline in the domestic inflation rate relative to the trading partners. Similarly, over the year, the REER index fell by a marginal 0.2 percent.

The merchandise trade deficit (excluding aircraft) widened by 13.0 percent cumulative to August, as exports and imports both expanded by 13.0 percent.

Nonetheless, the current account deficit continues to be supported by increasing travel & transport receipts and higher inward remittances, which rose by 14.3 percent in the year to September.

Inflationary pressures have remained generally soft with the annual inflation rate in September decelerating further to 0.3 percent from 0.7 percent in August. Given the easing food and oil prices, persistent weakness in global demand and subdued trading partner inflation expectations, year-end inflation is now projected at 1.5 percent.

Currently (30 October), foreign reserves are around \$1,784.6 million, sufficient to cover 4.7 months of retained imports of goods and non-factor services.

The RBF Board decided to leave the Overnight Policy Rate unchanged at 0.50 percent in its October meeting.

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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.

FJI: 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

	Sep-14	Aug-14	Jul-14	Sep-13
All Items	0.3	0.7	0.8	3.1
Food and Non-Alcoholic Beverage	1.3	2.1	2.6	4.3
Foreign Reserves (\$m) ^{1/}	1,732.4	1,678.3	1,611.7	1,798.8
US dollar	0.5154	0.5377	0.5392	0.5375
Pound sterling	0.3173	0.3241	0.3187	0.3333
Australian dollar	0.5913	0.5746	0.5779	0.5765
New Zealand dollar	0.6640	0.6413	0.6352	0.6494
Swiss francs	0.4903	0.4920	0.4900	0.4871
Euro	0.4062	0.4079	0.4026	0.3983
Japanese yen	56.42	55.77	55.45	52.57
Liquid Assets Margin to Deposit Ratio (%)	7.07	6.53	5.33	11.73
Banks' Demand Deposits (\$m)	529.3	479.3	436.5	723.9
UK Gold Price/fine ounce	1,238.8	1,296.0	1,311.0	1,348.8
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	14.6	15.9	17.2	17.6
Crude Oil/barrel	97.3	101.9	107.0	111.6
Narrow Money	38.9	43.3	46.0	23.7
Broad Money	12.9	14.7	14.1	14.7
Currency in Circulation	10.6	8.9	10.1	-4.5
Quasi-Money (Time & Saving Deposits)	14.4	16.5	16.0	17.5
Domestic Credit	18.2	19.4	18.1	12.8
Lending Rate (Excluding Staff)	5.69	5.69	5.71	6.06
Savings Deposit Rate	1.30	1.17	1.05	0.78
Time Deposit Rate	1.90	1.78	1.77	1.99
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	4.94	n.i	4.72	4.94

^{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