



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy continues to expand at a subdued pace albeit at varied speeds across regions. In the United States, growth slowed slightly during the third quarter owing particularly to the loss of some momentum in private consumption and exports, while recovery in the Euro zone and Japan remains moderate. The short-term outlook for advanced economies looks favorable especially for the Euro zone and Japan. Moreover, while emerging economies are expected to experience a slight cool-off, they still continue to account for the bulk of global growth. Looking ahead, global growth prospects remain uncertain with downside risks.

Domestically, performances across key sectors of the economy have been broadly positive in the review period. Cumulative to October, electricity production registered an annual growth of 5.2 percent while sugar production was 16.2 percent higher this season. Similarly, short-term visitor arrivals from Australia and New Zealand, cumulative to September, rose by 0.2 percent and 4.5 percent, respectively. Gold production in the year to October registered an annual decline of 11.6 percent, although it improved by 28.5 percent over the month.

Consumption activity remains upbeat as evidenced by partial indicators. New vehicle sales rose annually by 43.2 percent in the year to October while new lending for consumption purposes increased by 112.2 percent on an annual basis in the same period. In addition, net VAT collections grew by 12.7 percent in the first ten months of the year compared with the same period last year.

Employment prospects improved further as shown by the results of the RBF's Job Advertisements Survey. In the year to October, the number of vacant jobs advertised rose annually by 8.2 percent, mainly underpinned by the community, social &

personal services followed by wholesale, retail trade & restaurants & hotels and the construction sectors.

Partial investment indicators such as lending for construction and real estate purposes continued to grow strongly. This is supported by data on value of work put in place, which grew by 18.2 percent in the first half of the year and a 12.7 percent increase in domestic cement sales cumulative to October.

The expansionary stance taken by the Government in its 2014 National Budget is expected to stimulate economic activity next year, in particular investment and consumption related activity, due to the increase in civil servant salaries and the large grant to the Fiji Roads Authority for infrastructure development. In 2014, the Government is forecast to record a lower net deficit of 1.9 percent of GDP.

The Macroeconomic Policy Committee's pre-Budget growth forecast for 2014 was 3.0 percent. Given the expansionary fiscal stance announced in the 2014 National Budget, the Reserve Bank analysis shows that growth next year could now be higher than previously estimated.

Financial conditions continue to remain conducive to growth. Broad money expanded by 15.1 percent on an annual basis in October, largely underpinned by the growth in net domestic credit which rose to 13.4 percent in the same period. Similarly, the annual growth in outstanding commercial banks' loans increased to 15.7 percent. In the year to October, new lending by commercial banks also rose annually by 69.5 percent to \$1,205.1 million.

The commercial banks' lending rate continued its downward trend, falling by 16 basis points to 5.90 percent at the end of October. Similarly, the time deposit rate fell to 1.96 percent, while the savings deposit rate rose to 0.80 percent in the same period.

Liquidity in the banking system fell over the month to October by 6.2 percent (\$45.2m) to \$678.7 million, led by a decline in foreign reserves (\$25.8m). Currently (28 November), liquidity is around \$766.9 million.

Moving forward, the domestic economy is expected to benefit from the policies geared towards the financial sector in the 2014 National Budget. The reduction in the corporate tax rate for companies listed on the South Pacific Stock Exchange, the exemption of any income and capital gains tax from shares trading and the conversion of Home Finance Company Limited into a fully-fledged commercial bank will help stimulate and deepen our financial markets.

Inflation in October increased further to 3.3 percent from 3.1 percent in September, fuelled mainly by the higher prices of certain items in the food & non-alcoholic beverages category¹ followed by alcoholic

beverages, tobacco, narcotics and education categories.

The Fiji dollar, over the month to October strengthened against the Yen, New Zealand dollar and US dollar but weakened against the Euro and the Australian dollar. Over the year, the Fiji dollar rose against the Yen (19.3%) and the Australian dollar (5.4%), but fell against the other basket currencies. The Nominal Effective Exchange Rate index rose over the month to October by 0.3 percent, implying a slight appreciation of the Fiji dollar against its major trading partners.

Currently (29 November), foreign reserves are around \$1,859.4 million, sufficient to cover 5.1 months of imports of goods and non-factor services. Given the adequate level of foreign reserves and low inflation, the Reserve Bank Board maintained the Overnight Policy Rate at 0.5 percent.

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¹ Higher prices were noted for meat, fruits, vegetables, confectionaries, coffee, cocoa and soft drinks.

FIJI: FINANCIAL STATISTICS

Vol.30 No.11 2013

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

	Oct-13	Sep-13	Aug-13	Oct-12
All Items	3.3	3.1	2.5	3.2
Food and Non-Alcoholic Beverage	5.1	4.3	3.0	2.8
Foreign Reserves (\$m) ^{1/}	1773.5(p)	1,798.8	1,831.3	1,582.5
US dollar	0.5405	0.5375	0.5216	0.5609
Pound sterling	0.3371	0.3333	0.3365	0.3489
Australian dollar	0.5704	0.5765	0.5842	0.5411
New Zealand dollar	0.6564	0.6494	0.6712	0.6833
Swiss francs	0.4862	0.4871	0.4856	0.5230
Euro	0.3937	0.3983	0.3939	0.4328
Japanese yen	53.29	52.57	51.26	44.66
Liquid Assets Margin to Deposit Ratio (%)	10.24	11.7	11.6	10.7
Banks' Demand Deposits (\$m)	678.7	723.8	747.0	535.4
UK Gold Price/fine ounce	1316.2	1348.8	1347.1	1747.0
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	18.8	17.6	16.7	20.4
Crude Oil/barrel	109.5	111.6	111.0	112.0
Narrow Money	63.9	24.8	23.1	12.0
Broad Money	15.1	15.4	13.4	6.4
Currency in Circulation	2.0	-4.4	-0.3	11.3
Quasi-Money (Time & Saving Deposits)	-24.5	8.4	6.7	5.9
Domestic Credit	13.4	12.6	10.9	3.8
Lending Rate (Excluding Staff)	5.90	6.06	6.08	6.73
Savings Deposit Rate	0.80	0.78	0.75	0.83
Time Deposit Rate	1.96	1.99	2.02	2.30
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	4.00	4.00	n.i
10-Year Government Bond Yield	4.65	4.94	5.05	5.83

^{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