



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Month Ended April 2015

International economic conditions have been moderate with uneven growth prospects across countries. The International Monetary Fund maintained its growth projections for this year at 3.5 percent in its latest April World Economic Outlook release. Growth for 2016 was revised upwards to 3.8 percent from the earlier forecast of 3.7 percent. The growth outlook for advanced economies has improved, while growth prospects for developing economies and emerging markets appear weaker.

Economic growth in most of Fiji's trading partners is expected to be modest. While the United States economy remains fairly robust, activity in the Euro zone and Japan continues to tread along a weak growth path. In Australia growth remains below trend, while New Zealand's economy continues to show strength on the back of strong construction activity, employment and household spending. China's economy is gradually slowing due to its structural transformation and in India economic activity is benefiting from recent policy reforms and lower oil prices.

Domestically, real sector activity remained positive in the first quarter of this year. The tourism industry performed above expectations as visitor arrivals rose annually by 7.4 percent in the first three months of this year. In the same period, electricity production increased by 3.3 percent while total electricity consumption rose by an annual 3.4 percent cumulative to February. In the March quarter, mahogany production increased annually by 9.3 percent largely underpinned by favourable weather conditions, after consecutive declines since January 2014. Gold production also rose by 16.4 percent to 9,568 ounces in the same period.

Consumption spending continues to remain strong as evidenced by various partial indicators. Cumulative to March this year, net Value Added Tax collections rose by an annual 16.1 percent while new lending for consumption purposes rose by 8.8 percent.

Investment indicators remained upbeat. Domestic cement sales, a partial indicator of domestic construction activity, grew by 34.1 percent cumulative to March. Similarly, new investment lending, which comprises lending to the real estate and the building & construction sectors, grew by 73.1 percent cumulative to March.

Recruitment intentions improved further in the review period. According to the RBF's Job Advertisements Survey, the number of vacant jobs advertised cumulative to March increased by an annual 8.3 percent. This was underpinned by higher hiring intentions in the community, social & personal services, construction and the finance, insurance, real estates and the business services sectors.

Monetary conditions remained conducive to growth in March with the RBF's Overnight Policy Rate maintained at 0.50 percent. Broad money rose by an annual 9.0 percent in the year to March on account of growth in net domestic credit which rose by 10.4 percent. Growth in net domestic credit was underpinned by private sector credit which rose by 13.8 percent to \$5.4 billion. A broad based growth of 15.6 percent was noted in commercial banks' outstanding loans while new lending rose annually by 5.3 percent. Lending rates fell during the month as commercial banks' new lending rate fell to 5.66 percent from 6.23 percent in February, while the weighted average outstanding lending rate decreased to 5.71 percent in March from 5.75 percent in the previous month.

Liquidity in the banking system fell by 14.8 percent to \$479.6 million in March, underpinned by a decline in foreign reserves (\$65.4m) and an increase in currency in circulation (\$7.1m). Currently (30 April), liquidity is around \$603.7 million.

Over the month to March, the Fiji dollar weakened against the US dollar (-0.9%), New Zealand dollar (-0.6%) and the Yen (-0.3%), but strengthened

against the Euro (2.5%) and the Australian dollar (1.0%). Over the year, the Fiji dollar rose against the Euro (14.0%), Australian dollar (8.4%), Japanese Yen (4.7%) and the New Zealand dollar (3.6%) but fell against the US dollar (-10.4%).

The Nominal Effective Exchange Rate (NEER)¹ index rose over the month to March by 0.1 percent, implying a slight appreciation of the Fiji dollar against its major trading partners. Over the year, the NEER index rose by 0.9 percent.

The Real Effective Exchange Rate (REER)² index rose over the month to March by 0.5 percent, indicating a loss in Fiji's international competitiveness against its major trading partners. This was largely attributed to movements in the NEER index and the increase in domestic

inflation. Over the year, the REER index rose by 2.6 percent.

Inflation increased to 2.4 percent in March, from 2.1 percent in February mostly due to higher food, alcoholic beverages and tobacco prices. However, the significant reduction in domestic fuel prices as announced by the Fiji Commerce Commission³ is expected to ease inflationary pressures in the months ahead.

Foreign reserves (RBF Holdings) were around \$1,744.4 million at the end of March, sufficient to cover 4.4 months of retained imports of goods and non-factor services. Currently (30 April), foreign reserves are around \$1,857.0 million, sufficient to cover 4.6 months of retained imports of goods and non-factor services.

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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.

³ The new fuel prices were effective from 11 April, 2015

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, 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

	Mar-15	Feb-15	Jan-15	Mar-14
All Items	2.4	2.1	0.2	-0.2
Food and Non-Alcoholic Beverage	5.6	4.6	2.7	1.1
Foreign Reserves (\$m) ^{1/}	1,744.4	1,811.2	1,846.3	1,717.8
US dollar	0.4844	0.4887	0.4859	0.5405
Pound sterling	0.3274	0.3173	0.3224	0.3246
Australian dollar	0.6339	0.6275	0.6250	0.5848
New Zealand dollar	0.6464	0.6501	0.6687	0.6239
Swiss francs	0.4688	0.4662	0.4490	0.4786
Euro	0.4476	0.4365	0.4292	0.3927
Japanese yen	58.23	58.40	57.50	55.64
Liquid Assets Margin to Deposit Ratio (%)	5.79	5.95	7.21	9.09
Banks' Demand Deposits (\$m)	479.6	562.6	597.4	593.2
UK Gold Price/fine ounce	1,178.6	1,227.2	1,251.8	1,336.1
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	12.8	14.5	15.1	17.6
Crude Oil/barrel	55.8	57.9	48.1	107.4
Narrow Money	-0.6	1.7	4.4	65.6
Broad Money	9.0	10.4	12.1	17.8
Currency in Circulation	4.7	12.4	10.0	0.0
Quasi-Money (Time & Saving Deposits)	9.4	10.3	12.4	21.4
Domestic Credit	10.4	15.9	18.1	14.8
Lending Rate (Excluding Staff)	5.71	5.75	5.68	5.88
Savings Deposit Rate	0.87	0.70	0.67	0.66
Time Deposit Rate	2.37	2.31	2.24	1.83
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	n.i	5.20	n.i	4.24

^{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
(p) Provisional

Sources: ^{*} Fiji Bureau of Statistics

^{**} Bloomberg

^{***} Reserve Bank of Fiji