



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions and outlook improved broadly in the second half of last year prompting the International Monetary Fund and the World Bank to raise global growth projections for the near-term. The world economy is now forecast to grow by 3.7 percent in 2014 and expand further by 3.9 percent in 2015.

Advances in underlying economic activity in the US coupled with improving labour market conditions suggest that the world's largest economy maybe on track to realise the 2.8 percent growth projected for 2014. The Euro zone is still anticipated to expand by 1.0 percent this year despite the deceleration in the third quarter of 2013. Recovery in the Japanese economy continues to be supported by quantitative easing with growth this year envisaged at 1.7 percent. The Australian economy is expected to grow by 2.8 percent while output in New Zealand is expected to expand by 2.9 percent in 2014.

Domestically, growth for the Fiji economy is likely to surpass the 3.0 percent expansion envisaged for this year largely on account of the Government's expansionary stance earmarked for 2014.

In the review month, domestic economic outcomes were broadly positive underpinned mainly by upbeat performances in consumption and investment activity. On the industrial front, sugar production grew significantly (16.2%) last year fuelled by operational efficiency and better quality cane supplied to the mills. Electricity production, a broad indicator for economic activity, increased (6.0%) in 2013 following a stagnant outturn in 2012. During the same period, an acceleration (27.6%) in cement production was noted but gold production declined (-15.6%) in 2013 as Vatukoula Gold Mines Ltd., focused more on capital and exploratory works.

On the services front, visitor arrivals in the first nine months of 2013 rose (0.4%) over the corresponding

period in 2012. Recent data sourced from our two main source markets indicate that short-term resident departures from Australia and New Zealand to Fiji rose by 0.5 percent and 5.5 percent respectively cumulative to November last year. Industry liaison suggests that 2013 was a good year for the tourism industry due to relatively better weather conditions, large international and local conferences and a booming local tourism.

Measures of consumer sentiments suggest the pace of consumer spending continued to strengthen towards the end of 2013, as reflected in higher VAT collections (11.1%) and the rise (89.6%) in new consumption lending by banks' cumulative to December. Likewise, new vehicles sales rose (39.3%) in 2013 while imports of consumption goods were higher (5.8%) cumulative to October. Consumption activity was further supported by the inflow of personal remittances which rose over the year to October by 6.9 percent to \$270.6 million.

Investment indicators remained largely positive during 2013 evidenced by favourable performances in the construction sector, the surge in new investment lending and acceleration in imports of investment goods. Domestic cement sales, a partial indicator for construction activity, expanded (15.7%) cumulative to November, indicating a pick-up in the local construction industry. In addition, bank lending for investment purposes rose over the same period last year as a result of higher disbursements to the real estate and building and construction sectors. Furthermore, imports of investment goods also increased by 25.8 percent, in the first ten months of 2013.

Conditions in the labour market remained upbeat in 2013 as revealed by the RBF's Job Advertisement Survey. The number of vacant positions advertised in 2013 increased by 9.3 percent compared to the same period in 2012. This outturn was led by high recruitment intentions in the community, social &

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

On financial conditions, broad money growth (19.5%) accelerated in the year to December last year, in line with the 20.5 percent rise in Net Foreign Assets. Domestic credit also rose (14.3%) in the same period, led mainly by higher private sector credit (9.5%) and net credit to non-financial public sector (134.9%). The outturn in private sector credit was largely driven by increased lending from commercial banks and licensed credit institutions. Consistent with the high liquidity in the system, commercial banks' interest rates on lending and time deposits, together with rates in the money and capital markets, have generally fallen to historical low levels.

Liquidity (\$598.3m) in December 2013 decreased slightly compared with November, owing to the decline in foreign reserves. Currently (30 January), liquidity is around \$643.3 million.

Over the month to December, the Fijian dollar strengthened against the Yen (2.2%) and the Australian dollar (1.6%), but weakened against the Euro (-2.1%), the New Zealand (-1.6%) and the US (-0.6%) dollars. However, over the year, the Fijian dollar rose against the Yen (15.3%) and the Australian dollars (9.5%), but fell against the Euro (-9.8%), the New Zealand (-5.9%) and the US (-5.8%) dollars.

On the external front, the trade deficit (excluding aircraft) widened significantly (34.6%) cumulative to October as imports pressed ahead while exports

slumped. Import growth (10.8%) stemmed from increases in investment, consumption and intermediate goods. In contrast, the fall (-9.0%) in exports (excluding aircraft) was due to lower earnings from re-exports, gold, sugar, textiles, mineral water, coconut oil, timber, ginger, and other domestic exports. Notwithstanding the deterioration in the trade deficit, the current account position continues to be supported by healthy inflows of tourism earnings and personnel remittances.

On the fiscal front, Government is targeting a net deficit of 1.9 percent in 2014 with a substantial allocation directed at the priority sectors of education, health and infrastructure development. Notably, asset sales are expected to generate revenues of around \$475.2 million. Excluding asset sales, the underlying deficit jumps to 7.7 percent. The stimulatory fiscal path pursued by Government coupled with the current accommodative monetary policy stance of the Reserve Bank should boost domestic economic activity and growth going forward.

In December, inflation remained unchanged at 3.4 percent; largely on account of the food and non-alcoholic beverages and alcoholic beverages, tobacco and narcotics category.

Foreign reserves continue to be at comfortable levels and were around \$1,763 million as at 30 January, sufficient to cover 4.7 months of retained imports of goods and non-factor services. Given that the dual mandate pertaining to price stability and external sustainability remained intact, the existing accommodative stance of the Reserve Bank was deemed appropriate moving ahead.

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, 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

| | Dec-13 | Nov-13 | Oct-13 | Dec-12 |
|--|---------|---------|---------|---------|
| All Items | 3.4 | 3.4 | 3.3 | 2.5 |
| Food and Non-Alcoholic Beverage | 5.1 | 5.5 | 5.1 | 3.8 |
| Foreign Reserves (\$m) ^{1/} | 1,778.1 | 1,861.5 | 1,772.5 | 1,635.5 |
| US dollar | 0.5269 | 0.5302 | 0.5405 | 0.5595 |
| Pound sterling | 0.3190 | 0.3245 | 0.3371 | 0.3461 |
| Australian dollar | 0.5912 | 0.5821 | 0.5704 | 0.5398 |
| New Zealand dollar | 0.6422 | 0.6523 | 0.6564 | 0.6825 |
| Swiss francs | 0.4678 | 0.4803 | 0.4862 | 0.5112 |
| Euro | 0.3818 | 0.3898 | 0.3937 | 0.4233 |
| Japanese yen | 55.38 | 54.21 | 53.29 | 48.04 |
| Liquid Assets Margin to Deposit Ratio (%) | 9.51 | 11.24 | 10.24 | 17.12 |
| Banks' Demand Deposits (\$m) | 598.3 | 728.4 | 678.6 | 577.9 |
| UK Gold Price/fine ounce | 1225.4 | 1275.8 | 1316.2 | 1686.8 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) | 16.4 | 17.7 | 18.8 | 19.2 |
| Crude Oil/barrel | 110.7 | 108.1 | 109.5 | 109.6 |
| Narrow Money | 67.7 | 63.5 | 63.9 | 5.3 |
| Broad Money | 19.5 | 16.9 | 15.1 | 6.3 |
| Currency in Circulation | 0.9 | 2.0 | 2.0 | 9.6 |
| Quasi-Money (Time & Saving Deposits) | -17.2 | -20.3 | -24.5 | 7.8 |
| Domestic Credit | 14.3 | 12.4 | 13.4 | 2.8 |
| Lending Rate (Excluding Staff) | 5.86 | 5.90 | 5.90 | 6.65 |
| Savings Deposit Rate | 0.72 | 0.71 | 0.80 | 0.74 |
| Time Deposit Rate | 1.79 | 1.84 | 1.96 | 2.28 |
| 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 | 4.46 | 4.60 | 4.65 | 5.74 |

^{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