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Geo-political risks returned to the forefront of global economic challenges, adding uncertainty to the moderate global outlook. Global inflation remains low and monetary conditions continue to be accommodative in major regions.

Among Fiji's major trading partner economies, recent indicators signal growth in activity in the first quarter. In the United States (US), moderate growth is expected during the March quarter due to adverse winter conditions. Although demand conditions remain subdued in Japan, production indicators noted slight improvements. The Australian economy is performing below trend, however, consumer confidence has increased owing to the February interest rate cut by the central bank and lower petrol prices. In China, slower growth in manufacturing and weak external demand resulted in the central bank lowering its benchmark interest rates at the end of February. Growth in New Zealand is supported by strong consumption and construction activity despite the decline in dairy prices. Latest data suggest some improvement in consumer confidence and business activity in the Euro zone.

Domestic economic performances remain buoyant, largely underpinned by strong real sector activity and aggregate demand. Cumulative to February, electricity production rose by 2.2 percent while gold production noted a positive turnaround of 29.1 percent. The improvement in gold output was mainly due to increased capacity utilisation and new machinery. In the same period, visitor arrivals rose by 7.0 percent, mainly led by higher arrivals from China (22.0%), the Pacific Islands (20.4%) and New Zealand (15.8%). In contrast, mahogany output declined by 28.4 percent in the first two months of this year, due to ongoing supply constraints.

Partial indicators of aggregate demand continue to suggest strong consumption and investment activity up to February. Net Value Added Tax collections, a partial indicator of consumer spending, grew by

22.5 percent (to \$146.0m) cumulative to February. In the same period, new bank lending for consumption purposes increased by 56.4 percent (to \$188.8m). Going forward, consumption activity is expected to remain fairly strong according to the Reserve Bank of Fiji's (RBF) latest Retail Sales Survey.

Consumption activity is supported by higher income levels and improved labour market conditions. Pay As You Earn tax collections, a partial indicator of individual income, grew by 7.6 percent cumulative to February. In the same period, the number of vacant jobs advertised increased by 13.6 percent, indicating higher recruitment intentions.¹ This was largely underpinned by the community, social & personal services, construction, finance, insurance, real estate and the business services sectors.

The outlook for investment activity in 2015 remains optimistic according to the RBF's latest Business Expectations Survey, which highlights positive sentiments received from businesses for higher investment in plant & machinery and buildings. In addition, the number of building permits issued, a forward looking indicator for construction activity, increased by 6.3 percent in 2014, indicating higher construction activity this year.

Monetary conditions continue to be conducive for economic activity. Broad money (M3) increased by 10.4 percent in the twelve months to February, owing to higher net domestic credit (15.9%) which in turn was underpinned by growth in private sector credit (14.8%). The commercial banks' weighted average outstanding lending and new lending rates rose over the month in February to 5.75 percent and 6.23 percent, respectively, while the time deposit rate grew to 2.31 percent.

Liquidity in the banking system fell over the month by 5.8 percent to \$562.6 million in February, on

¹ According to the RBF's Job Advertisement Survey.

ccount of the seasonal fall in foreign reserves (\$35.6m) and an increase in Statutory Reserve Deposits (\$9.4m). Currently (30 March), liquidity remains adequate at \$490.3 million.

In February, the Fiji dollar weakened against the New Zealand dollar (-2.8%), but strengthened against the Euro (1.7%), the Yen (1.6%), the US dollar (0.6%) and the Australian dollar (0.4%). Over the year, the Fiji dollar rose against the Euro (12.8%), the Japanese Yen (7.8%), the Australian dollar (6.0%) and the New Zealand dollar (2.5%), but fell against the US dollar (-7.9%).

The Nominal Effective Exchange Rate (NEER)² index fell over the month to February by 0.1 percent, implying a depreciation of the Fiji dollar against its major trading partners. However, over the year, the NEER index rose by 1.0 percent.

The Real Effective Exchange Rate (REER)³ index also fell over the month of February by 3.6 percent, reflecting a gain in Fiji's international competitiveness against its major trading partners.

This was largely attributed to the decline in the nominal exchange rate and the increase in major trading partner inflation. Over the year, the REER index rose by 1.9 percent.

Inflation rose to 2.1 percent in February from 0.2 percent in January. The higher inflation outturn reflects the fading out of the free education structural change which was implemented in February 2014. Higher prices the food & non-alcoholic beverages, alcoholic beverages, tobacco & narcotics; miscellaneous goods & services⁴ and the restaurants & hotels categories also contributed to inflation in February. International fuel and food prices have remained relatively low compared to historical levels. Year-end inflation is forecast to be around 3.0 percent.

Foreign reserves remain at comfortable levels and were around \$1,746.2 million on 31 March 2015, sufficient to cover 4.4 months of retained imports of goods and non-factor services.

In March, the Reserve Bank of Fiji Board kept the Overnight Policy Rate (OPR) at 0.5 percent.

RESERVE BANK OF FIJI

² 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.

³ 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.

⁴ Includes items such as articles & products for personal care, jewelry, clocks & watches and other personal effects.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food and Non-Alcoholic Beverage

Feb-15	Jan-15	Dec-14	Feb-14
2.1	0.2	0.1	0.2
4.6	2.7	1.5	1.9

2. Reserves ***

(end of period)

Foreign Reserves (\$m)^{1/}

1,811.6	1,846.3	1,810.7	1,697.3
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3. Exchange Rates ***

(mid rates, FSI equals)

(end of period)

US dollar
Pound sterling
Australian dollar
New Zealand dollar
Swiss francs
Euro
Japanese yen

0.4887	0.4859	0.5031	0.5306
0.3173	0.3224	0.3231	0.3180
0.6275	0.6250	0.6144	0.5921
0.6501	0.6687	0.6424	0.6340
0.4662	0.4490	0.4974	0.4714
0.4365	0.4292	0.4136	0.3870
58.40	57.50	60.10	54.19

4. Liquidity ***

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)

5.95	7.21	6.22	8.45
562.6	597.4	514.2	574.1

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)
Crude Oil/barrel

1,227.2	1,251.8	1,202.3	1,301.0
14.5	15.1	15.0	16.7
57.9	48.1	62.4	108.8

6. Money and Credit ***

(year-on-year % change)

Narrow Money
Broad Money
Currency in Circulation
Quasi-Money (Time & Saving Deposits)
Domestic Credit

1.7	4.4	5.6	58.0
10.4	12.1	10.4	14.7
12.4	10.0	11.5	3.7
10.3	12.4	10.6	17.4
15.9	18.1	18.9	12.5

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

5.75	5.68	5.72	5.84
0.70	0.67	0.57	0.63
2.31	2.24	2.15	1.73
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t	n.t	n.t	n.t

(monthly weighted average)

5-Year Government Bond Yield
10-Year Government Bond Yield

n.i	n.i	n.i	n.i
5.20	n.i	4.94	4.23

^{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