



## ECONOMIC REVIEW

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The recovery in the global economy remains fragile given the weak mid-year performances by some advanced economies. Despite the pick-up in the United States (US) economy and an upbeat New Zealand economy, the outlook for Fiji's other major trading partner economies appear subdued. The Euro zone and Australian economies slowed and continued to show signs of sluggish growth while the Japanese economy contracted in the second quarter. Financial conditions remain accommodative in the advanced economies, while tighter conditions continue in the emerging economies.

In contrast, domestic economic outcomes are relatively robust. The Fijian economy expanded by 4.6 percent in 2013, higher than the forecast of 3.6 percent, driven mainly by the financial & insurance activities; transport & storage; construction; information & communication; wholesale & retail trade; agriculture; public administration & defence, compulsory social security and the education sectors. The latest indicators suggest the economy is largely on track to achieve the 3.8 percent growth forecast in 2014.

Sectoral indicators show mixed results however, major sectors such as sugar and tourism have performed above expectations. As at 22 September, cane crushed and sugar produced were higher by 24.3 percent and 37.5 percent, respectively compared to the same period last year, largely due to improved mill efficiency and cane supply. Similarly, in the tourism industry, visitor arrivals rose by 3.3 percent cumulative to July. In the year to August, electricity production rose by 0.1 percent while woodchip production was higher by 42.0 percent. However, mahogany production was subdued in the year to August due to rainy weather earlier in the year and contracted by 24.2 percent. In the same period, gold production also declined by 10.7 percent.

Partial indicators of consumption continue to show buoyancy. Cumulative to July, net Value Added Tax collections rose by 9.5 percent while new lending for consumption purposes rose by 40.1 percent in the year to August. Consumption spending continues to be supported by higher disposable incomes and higher remittances, which increased by 16.2 percent in July.

Investment spending also remains firm. New investment lending which comprises lending to the real estate and building & construction sectors grew by 6.7 percent on an annual basis in August. Similarly, domestic cement sales, an indicator of construction activity rose by 17.1 percent in the same period. Moreover, the number of building permits issued, a forward looking indicator for construction activity, increased by an annual 9.6 percent in the year to June while the number and value of completion certificates issued increased by 13.1 percent and 186.7 percent, respectively in the same period.

Employment conditions remain favourable and reflect the continued growth in aggregate demand. As per the RBF's Job Advertisement Survey, the number of vacant positions advertised increased annually by 18.4 percent in August, led by high recruitment intentions in the community, social & personal services and the manufacturing sectors. Similarly, major businesses indicated positive recruitment intentions over the coming year in the RBF's June Business Expectations Survey.

Monetary conditions continued to support economic growth in August. Broad money rose by 14.7 percent on an annual basis on account of a 19.4 percent growth in net domestic credit. A broad based growth of 26.2 percent was noted in commercial banks' outstanding loans while new lending increased by 27.2 percent. The weighted average outstanding lending rate decreased to 5.69

percent in August from 5.71 percent in July. However, the new lending rate increased to 5.96 percent from 5.23 percent in July.

Liquidity in the banking system rose by 9.8 percent to \$479.4 million in August, underpinned by an increase in foreign reserves (\$67.4m). Currently (24 September), liquidity is around \$550.1 million.

Over the month to August, the Fiji dollar weakened against the Australian dollar (-0.6%) and the US dollar (-0.3%), but strengthened against the Euro (1.3%), the New Zealand dollar (1.0%) and the Japanese Yen (0.6%). Over the year, the Fiji dollar rose against the Japanese Yen (8.8%), the Euro (3.6%) and the US dollar (3.1%) but fell against the New Zealand dollar (-4.5%) and the Australian dollar (-1.6%).

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> fell by 0.2 percent in August from the previous month, implying a slight depreciation of the Fiji dollar against its major trading partner currencies. However, over the year, the NEER increased by

1.9 percent.

The Real Effective Exchange Rate (REER)<sup>2</sup> rose over the month by 1.1 percent, reflecting a slight loss in Fiji's international competitiveness. Similarly over the year, the REER rose by 0.6 percent.

Annual inflation eased further in August to 0.7 percent from 0.8 percent in July. However, consumer prices rose by 0.2 percent over the month, mainly on account of higher contributions from the alcoholic beverages, tobacco, & narcotics and food & non-alcoholic beverages categories.

Currently (25 September), foreign reserves are around \$1741 million, sufficient to cover 4.7 months of retained imports of goods and non-factor services.

The Reserve Bank of Fiji Board in its September meeting kept its Overnight Policy Rate at 0.50 percent given the comfortable outlook for inflation and foreign reserves.

## **RESERVE BANK OF FIJI**

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<sup>1</sup> 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.

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<sup>2</sup> 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.

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**KEY INDICATORS**

**1. Consumer Prices \***

(year-on-year % change)

All Items  
Food and Non-Alcoholic Beverage

Aug-14	Jul-14	Jun-14	Aug-13
0.7	0.8	1.1	2.5
2.1	2.6	2.8	3.0

**2. Reserves \*\*\***

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

Aug-14	Jul-14	Jun-14	Aug-13
1,678.3	1,611.1	1,679.1	1,831.3

**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

Aug-14	Jul-14	Jun-14	Aug-13
0.5377	0.5392	0.5454	0.5216
0.3241	0.3187	0.3202	0.3365
0.5746	0.5779	0.5789	0.5842
0.6413	0.6352	0.6210	0.6712
0.4920	0.4900	0.4860	0.4856
0.4079	0.4026	0.3996	0.3939
55.77	55.45	55.31	51.26

**4. Liquidity \*\*\***

(end of period)

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

Aug-14	Jul-14	Jun-14	Aug-13
6.53	5.33	7.73	11.62
479.4	436.5	530.8	747.0

**5. Commodity Prices (US\$) \*\***

(monthly average)

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

Aug-14	Jul-14	Jun-14	Aug-13
1,296.0	1,311.0	1,279.1	1,347.1
15.9	17.2	18.1	16.7
101.9	107.0	111.9	111.0

**6. Money and Credit \*\*\***

(year-on-year % change)

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

Aug-14	Jul-14	Jun-14	Aug-13
43.3	46.0	55.2	23.3
14.7	14.1	17.0	13.5
8.9	10.1	3.0	-0.1
16.5	16.0	20.0	15.7
19.4	18.1	16.5	10.8

**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)<sup>2/</sup>  
Overnight Inter-bank Rate

Aug-14	Jul-14	Jun-14	Aug-13
5.69	5.71	5.82	6.08
1.17	1.05	0.98	0.75
1.78	1.77	1.78	2.02
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 average)

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

Aug-14	Jul-14	Jun-14	Aug-13
n.i	n.i	n.i	n.i
n.i	4.72	4.28	5.05

<sup>1/</sup> 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.

<sup>2/</sup> 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  
n.a Not Available

Sources:

\* Fiji Bureau of Statistics  
\*\* Bloomberg  
\*\*\* Reserve Bank of Fiji