



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economic expansion is expected to continue in 2015, led by stronger growth prospects in the United States (US) and supported by lower food and oil prices. However, other major economies continue to perform poorly. The Euro zone is facing stagnation while Japan went into a technical recession in the third quarter of 2014. Consequently, in its January World Economic Outlook Update, the International Monetary Fund downgraded its global growth forecast for 2015 to 3.5 percent, from the 3.8 percent projected in October 2014. In 2016, the world economy is projected to grow by 3.7 percent, slower than the previous growth forecast of 4.0 percent.

Among major advanced economies, the US is forecast to perform better-than-expected this year, with an upgraded growth forecast of 3.6 percent. Growth in the US is based on prospects of higher domestic demand supported by lower oil prices. However, growth estimates for the Euro zone and Japan have been lowered to 1.2 percent and 0.6 percent, respectively. In addition, the European Central Bank in January announced a €60 billion monthly asset purchase program to address deflationary pressures and stimulate growth in the Euro zone. For New Zealand, a 2.8 percent growth is forecast for this year while Australia is expected to grow by 2.9 percent.

Domestically, output in key industries such as tourism, sugar and woodchips exceeded expectations in 2014. Higher sugar (13.7%) and sugarcane (25.8%) output was mainly on account of improved milling efficiency and quality cane supply. Consistent with higher pinewood intake (35.7%), woodchip production (22.9%) and exports (45.7%) were significantly higher in 2014. According to the latest provisional data from the Fiji Bureau of Statistics, visitor arrivals grew by 5.3 percent to a new record of 692,630 in 2014. This was mainly underpinned by higher arrivals from New Zealand (14.5%) and Australia (2.7%). Electricity production also grew marginally by 0.2

percent. On the downside, lower output (-1.8%) was registered by the gold industry, largely due to the extraction of lower grade ore.

Consumption activity was robust in 2014. Net Value Added Tax collections, a partial indicator of consumption activity, rose by 6.1 percent in 2014. New consumption lending increased by 72.8 percent, led by higher lending to the wholesale, retail, hotels & restaurants sector (92.6%) and private individuals (22.9%). The positive outcome has been supported by healthy inflows of inward remittances (13.0%) to a new record of \$383.2 million, higher income levels as indicated by the increase in Pay As You Earn tax collections (18.5%) and improved labour market conditions, reflected in the results of the Reserve Bank of Fiji's Job Advertisements Survey (12.8%).

Buoyant investment activity was also noted in 2014. Domestic cement sales, an indicator of local construction activity, grew by 17.6 percent while new loans for investment purposes rose by 11.3 percent, supported by growth in lending to the building & construction (15.9%) and the real estate sectors (7.5%).

In the financial sector, monetary and credit aggregates were favourable in 2014. Outstanding and new loans by commercial banks' expanded by 25.4 percent and 43.8 percent, respectively in 2014. The weighted average outstanding lending rate rose marginally over the month to 5.72 percent in December from 5.69 percent in November but lower than 5.86 percent in December 2013. However, the savings deposit rate fell over the month to 0.57 percent in December, from 0.59 percent in November.

Liquidity fell over the month of December 2014 by 10.0 percent, owing to the increase in currency in circulation and statutory reserve deposits. Currently (27 January), liquidity is around \$575 million.

In December, the Fiji dollar weakened against the US dollar (-1.7%), the New Zealand dollar (-1.2%) and the Japanese Yen (-0.3%) but strengthened against the Australian dollar (2.6%) and the Euro (0.8%). In 2014, the Fiji dollar rose against the Japanese Yen (8.5%), the Euro (8.3%) and the Australian dollar (3.9%) but fell against the US dollar (-4.5%). The domestic currency was unchanged against the New Zealand dollar in 2014.

The Nominal Effective Exchange Rate (NEER)¹ index fell marginally over the month to December by 0.1 percent, implying a slight depreciation of the Fiji dollar against its major trading partners. However, over the year, the NEER index rose by 1.1 percent.

The Real Effective Exchange Rate (REER)² index rose over the month to December by 1.3 percent,

reflecting a marginal loss in Fiji's international competitiveness. However, over the year, the REER index fell by 0.3 percent.

Inflation was 0.1 percent in December, from -0.2 percent in November. The lower-than-expected outturn was primarily driven by the fall in fuel prices and lower contribution from the food & non-alcoholic beverages category.

Currently (28 January), foreign reserves are around \$1,835 million, sufficient to cover 4.6 months of retained imports of goods and non-factor services.

Given that the Reserve Bank's twin objectives (low inflation and comfortable foreign reserves) remain intact, the Overnight Policy Rate was kept unchanged at 0.5 percent in January.

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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.

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

	Dec-14	Nov-14	Oct-14	Dec-13
All Items	0.1	-0.2	0.3	3.4
Food and Non-Alcoholic Beverage	1.5	1.8	2.5	5.1
Foreign Reserves (\$m) ^{1/}	1,811.3(p)	1,773.4	1,748.5	1,778.1
US dollar	0.5042	0.5117	0.5184	0.5269
Pound sterling	0.3223	0.3252	0.3240	0.3190
Australian dollar	0.6102	0.5986	0.5870	0.5912
New Zealand dollar	0.6497	0.6499	0.6611	0.6422
Swiss francs	0.4916	0.4933	0.4957	0.4678
Euro	0.4088	0.4103	0.4111	0.3818
Japanese yen	60.16	60.29	56.65	55.38
Liquid Assets Margin to Deposit Ratio (%)	6.22	7.07	6.92	9.51
Banks' Demand Deposits (\$m)	514.2	571.0	504.9	598.3
UK Gold Price/fine ounce	1,202.3	1,176.3	1,222.5	1,225.4
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	15.0	15.9	16.5	16.4
Crude Oil/barrel	62.4	78.4	87.3	110.7
Narrow Money	n.a	4.6	6.9	67.3
Broad Money	n.a	10.3	13.1	19.0
Currency in Circulation	n.a	8.4	8.8	1.1
Quasi-Money (Time & Saving Deposits)	n.a	10.9	14.3	23.2
Domestic Credit	n.a	18.5	19.5	14.0
Lending Rate (Excluding Staff)	5.72	5.69	5.67	5.86
Savings Deposit Rate	0.57	0.59	1.04	0.72
Time Deposit Rate	2.15	2.03	1.98	1.79
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	4.94	n.i	n.i	4.46

^{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
n.a Not Available
(p) provisional

Sources: * Fiji Bureau of Statistics

** Bloomberg

*** Reserve Bank of Fiji