



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The International Monetary Fund in its October World Economic Outlook has downgraded the global growth forecast for 2013 to 2.9 percent from 3.1 percent, largely driven by slower growth in emerging and developing economies. For 2014, growth is now anticipated at 3.6 percent, down by 0.2 percentage points from the July projection.

In the United States, the impact of the partial government shutdown is likely to be a drag on the final quarter output. Economic activity in the Euro zone has improved significantly since the second quarter, while in Japan economic indicators remained reasonably resilient despite noting a dip in the second quarter. In Australia, growth has fallen slightly below trend over the past year as the economy adjusts to lower levels of mining investment, while the summer drought in New Zealand weighed on growth in the June quarter.

Domestically, real sector performances remained broadly positive in the review period as indicated by higher sugar, electricity and timber production, while consumption and investment indicators recorded buoyant performances. Consequently, the growth forecast for this year has been upgraded to 3.6 percent from the earlier projection of 3.2 percent. In 2014, the economy is now projected to expand by 3.0 percent, higher than the previous forecast of 2.5 percent.

Sugar production rose by an annual 26.4 percent up to 30 October, while electricity generation increased by an annual 6.1 percent in the year to September. For the timber industry, mahogany production by the Fiji Hardwood Corporation Ltd rose annually by 52.4 percent cumulative to September, while wood intake data from Tropik Wood Industries Ltd (to produce pulp,¹ sawlogs and posts) showed a year-on-year increase of 33.0 percent cumulative to July 2013. In line with higher timber production, timber

exports also rose annually by 11.3 percent in first seven months of the year.

Consumer spending remained firm and maintained its pace from the beginning of the year supported by improving labour market conditions, accessible credit and inward remittances. New lending for consumption purposes recorded a significant 122.0 percent increase (to \$390.4m) in the year to September while remittances grew by 1.9 percent during the first eight months in comparison to the same period last year. Imports for consumer goods also rose over the same period to complement some of the rise in consumer demand.

The upbeat consumer confidence coupled with improved business environment and stability continued to underpin the higher investment activity observed to date. Indicators such as domestic cement sales and new lending by banks for investment purposes noted annual increases of 14.2 percent and 133.8 percent (to \$170.8m) up to September, respectively. In addition, imports of investment goods (excluding aircraft and road vehicles) rose by 15.5 percent cumulative to July this year, driven by higher demand for electrical machinery, specialised industrial machinery and other transport equipment. At the same time, demand for labour may be expanding as observed by the RBF's Job Advertisement Survey. The number of advertised positions rose annually by 7.9 percent cumulative to September, underpinned by the community, social & personal services, wholesale, retail trade & restaurants & hotels and the construction sectors.

In terms of the monetary aggregates, growth in broad money (M3) rose to 15.4 percent in September from 4.3 percent a year ago. This outturn was largely underpinned by growth in net domestic credit which rose to 12.6 percent

¹ Logs used to make woodchips.

driven by growth in private sector credit (8.0%) and net credit to the non-financial public sector (76.9%).

The annual growth in outstanding commercial bank loans accelerated to 13.4 percent (\$3,708.1m) in September from 8.1 percent in the same period last year, while commercial banks' new lending rose by an annual 87.7 percent (to \$1,125.0m) cumulative to September from a growth of 69.1 percent in the same period in the previous year.

Systemic liquidity fell over the month to September by 3.1 percent to \$723.8 million, underpinned mainly by a decline in foreign reserves (\$29.4m). Currently (31 October), systemic liquidity is around \$678.7 million.

The weighted average outstanding lending rate fell by 2 basis points (bp) to 6.06 percent. Similarly, the existing time deposit rate decreased over the month to September by 3bp to 1.99 percent. In contrast, the savings deposit rate increased by 3bp to 0.78 percent in the same period.

Movements of the Fijian dollar were mixed over the month to September, as the local currency strengthened against the US dollar, the Yen and the Euro, but weakened against the New Zealand and the Australian dollars. Over the year, the Fiji dollar rose significantly against the Yen and the Australian dollar, but fell against the other basket currencies.

The Nominal Effective Exchange Rate (NEER) index rose over the month to September by 0.2

percent which implies a slight appreciation of the Fiji dollar against its major trading partners. The Real Effective Exchange Rate (REER) index also rose over the month to September, by 0.1 percent, reflecting a loss in Fiji's international competitiveness.

Despite an increase in prices in the last few months and inflation reaching 3.1 percent in September, the year-end inflation forecast remains unchanged at 3.0 percent largely reflecting the subdued level of global demand.

On the external front, Fiji's trade deficit (excluding aircraft) widened annually by 32.6 percent cumulative to July this year. The outturn in the trade balance was underpinned by a pick-up in imports (8.8%) reflecting the higher domestic demand. In contrast, exports (excluding aircraft) contracted by 12.9 percent in the year to July, largely due to the decline in re-exports and gold. Nevertheless, Fiji's balance of payments position remained relatively stable mainly supported by higher tourism receipts (4.5% increase up to quarter two), remittances (1.9% rise in the year to August) and inward investment.

Foreign reserves (RBF Holdings) were around \$1,772.9 million at the end of the October, sufficient to cover 4.9 months of retained imports of goods and non-factor services. Given that the Reserve Bank's twin objectives (low inflation and comfortable foreign reserves) remained intact, the Overnight Policy Rate was kept unchanged at 0.5 percent in October.

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FIJI: FINANCIAL STATISTICS

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

	Sep-13	Aug-13	Jul-13	Sep-12
All Items	3.1	2.5	1.9	3.0
Food and Non-Alcoholic Beverage	4.3	3.0	0.8	2.8
Foreign Reserves (\$m) ^{1/}	1,798.8	1,831.3	1,814.4	1,602.7
US dollar	0.5375	0.5216	0.5276	0.5646
Pound sterling	0.3333	0.3365	0.3461	0.3478
Australian dollar	0.5765	0.5842	0.5820	0.5407
New Zealand dollar	0.6494	0.6712	0.6603	0.6791
Swiss francs	0.4871	0.4856	0.4906	0.5294
Euro	0.3983	0.3939	0.3978	0.4373
Japanese yen	52.57	51.26	51.72	43.82
Liquid Assets Margin to Deposit Ratio (%)	11.7	11.6	12.4	12.1
Banks' Demand Deposits (\$m)	723.8	747.0	747.9	576.7
UK Gold Price/fine ounce	1,348.8	1,347.1	1,286.7	1,744.5
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	17.0	16.7	16.4	19.5
Crude Oil/barrel	111.6	111.0	107.7	113.4
Narrow Money	24.8	23.1	14.2	10.2
Broad Money	15.4	13.4	13.1	4.3
Currency in Circulation	-4.4	-0.3	0.2	11.4
Quasi-Money (Time & Saving Deposits)	8.4	6.7	13.1	3.3
Domestic Credit	12.6	10.9	11.5	5.1
Lending Rate (Excluding Staff)	6.06	6.08	6.05	6.84
Savings Deposit Rate	0.78	0.75	0.77	0.82
Time Deposit Rate	1.99	2.02	2.08	2.34
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	4.00	4.00	4.00	4.00
10-Year Government Bond Yield	4.94	5.05	5.17	5.98

^{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