RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Recovery in the global economy remains fragile and uneven. Given the weak first quarter outturn in the United States (US) and the subdued outlook for several emerging market economies, the International Monetary Fund (IMF) has revised global growth down to 3.4 percent from 3.6 percent. Nonetheless, overall economic activity is expected to gain momentum in the second half of the year. The global economy is anticipated to grow by 4.0 percent in 2015.

Domestically, the Fiji economy performed robustly in the first half of 2014 backed by firm consumption spending and investment activity. Moreover, encouraging outcomes were noted in key sectors of the economy.

Cane and sugar output, in the first six weeks of the 2014 crushing season, grew on an annual basis by 33.2 percent and 48.8 percent, respectively, largely due to improved mill efficiency. In addition, cumulative to May, visitor arrivals recorded an annual growth of 3.6 percent (244,890 visitors). Moreover, electricity production, a partial indicator of business activity grew by 1.7 percent on an annual basis, in the year to June. Conversely, while pine wood intake (107%) and woodchip production (107.3%) registered annual growths in the year to May, mahogany output cumulative to June contracted by 41.1 percent on an annual basis. Furthermore, when compared to the same period last year, subdued performances were recorded by the gold (-9.3%) and fish (-22.7%) industries in the year to June and April, respectively.

On aggregate demand, partial indicators suggest that consumption activity remained robust in the review period. Net Value Added Tax (VAT) collections (6.4%) as well as imports of consumption goods (15.6%) rose on an annual basis cumulative to May. Furthermore, cumulative to June, new loans for consumption purposes noted an annual growth of 28.0 percent. Higher inward personal remittances, which grew over the year by 13.6 percent cumulative to May, continued to support consumption activity in the review period.

Similarly, investment activity remained buoyant, largely underpinned by on-going tourism and infrastructure projects. In the March quarter, the value of work put-in-place by the construction sector grew by 27.3 percent over the year, contributing to an annual increase (1.9%) in the Industrial Production Index[1] for construction related materials. Moreover, recent data reveal annual growth in domestic cement sales (15.2%) and new bank lending for investment purposes (6.9%), particularly to the building and construction sector (47.9%), cumulative to June.

On monetary aggregates, broad money (M3) increased by 17.0 percent in June, on account of a growth in net foreign assets and net domestic credit. Growth in the latter was largely propped by private sector credit which grew by 12.6 percent in the same period.

In the banking sector, the annual growth in commercial banks' outstanding loans was largely broad-based and increased by 24.4 percent. Moreover, in the year to June, commercial banks' new lending also rose over the year by 23.8 percent to $927.7 million, mostly underpinned by increased credit to the wholesale, retail, hotels & restaurants, electricity, gas & water, real estate and the public enterprise sectors.

Liquidity in the banking system fell over the month by 8.0 percent in June, led by a decline in foreign reserves ($19.0m). Currently (31 July), liquidity is around $436.5 million.

Over the month to June, bilateral movements of the domestic currency against our major trading

[1] The Industrial Production Index is an index aimed at reflecting change in volumes of output of the industrial sectors of the economy with respect to time.

partners were mixed. The Fiji dollar weakened against the New Zealand dollar (-2.3%) and the Australian dollar (-0.1%) but strengthened against the US dollar (1.1%), the Euro (0.8%) and the Japanese Yen (0.6%).

The Nominal Effective Exchange Rate (NEER)[2] index rose over the month to June by 1.5 percent, implying a slight appreciation of the Fiji dollar against its major trading partners. On an annual basis, the NEER index rose by 2.1 percent.

The Real Effective Exchange Rate (REER)[3] index rose over the month, by 2.9 percent, reflecting a slight loss in Fiji's international competitiveness attributed by an increase in the domestic inflation rate from 0.8 percent to 1.1 percent and an appreciation of the Fiji dollar against its major trading partners.

Latest trade accrual data show that the buoyancy of domestic activity has translated into higher imports. Nonetheless, improved inward remittances and trade services (tourism and air transport) continue to support Fiji's external position. Cumulative to May, the trade deficit (excluding aircraft) widened by 16.7 percent when compared to the same period last year, as the growth in imports (12.2%) outpaced the growth in exports (6.2%).

The Reserve Bank's core monetary policy objectives remain within comfortable range in the review period. Annual inflation rose to 1.1 percent in June, up from 0.8 percent in May while foreign reserves (RBF Holdings) are currently (31 July) around $1,611.3 million, sufficient to cover 4.4 months of retained imports of goods and non-factor services. The Reserve Bank of Fiji Board in its July meeting kept its Overnight Policy Rate at 0.50 percent.

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[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.