



RESERVE BANK OF FIJI

ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 32

No. 05

Month Ended May 2015

The global economy is expected to expand at a moderate pace in the near term. In 2015, growth prospects in advanced economies are stronger relative to 2014 but are weaker in some emerging economies and oil exporting countries.

Economic performances of Fiji's major trading partners have varied up to April. In the United States (US), consumption activity remained positive, supported by improved labour market conditions. However, the appreciating US dollar (USD) and its impact on net exports remain a concern for the country. The Euro zone's four month deflation spiral ended in April as the European Central Bank continued its quantitative easing program. The possibility of Greece defaulting on its sovereign debt can also affect overall economic confidence in the Euro zone. In Japan, business and consumer confidence slowed in March while a lower inflation outcome in April (0.7%) raised deflationary concerns. In Australia, weaker global demand for iron and coal, coupled with subdued domestic demand provided further challenges to the growth outlook. The New Zealand (NZ) economy continues to be robust backed by business and consumer optimism. Falling dairy income and the high NZ dollar (NZD) still remains a drag on growth prospects.

Domestically, positive sectoral performances and latest consumption and investment indicators suggest continued upbeat economic activity up to April.

On sectoral outcomes, annual increases were noted cumulative to April in gold (18.3%), woodchip (9.6%) and electricity (2.8%) production. In the same period, visitor arrivals rose by 7.5 percent on an annual basis, driven by arrivals from China (27.9%), Pacific Islands (19.5%), New Zealand (10.8%), US (10.3%) and Australia (2.8%).

In terms of consumption and investment activity,

partial indicators were positive. Cumulative to April, annual increases were noted in new lending for consumption purposes (9.8%) and new and second hand vehicle registrations¹ (3.8% and 46.4%, respectively). Investment continues to be driven by construction activity, revealed by the strong growth in domestic cement sales (37.4%) and new investment lending (75.2%) in the first four months of the year.

Consistent with the buoyant domestic economy, labour market conditions improved. According to the Reserve Bank of Fiji's Job Advertisements Survey, the number of vacant jobs advertised cumulative to April, increased by an annual 10.3 percent. Vacancies rose notably in the community, social & personal services, construction and finance, insurance, real estate and the business services sectors.

Financial conditions remained largely accommodative for economic activity. Broad money (M3) in April grew by an annual 10.0 percent from 9.0 percent in March, mainly underpinned by the growth in private sector credit (15.2% from 13.8% in March). Interest rates remained generally low with the commercial banks' weighted outstanding lending rate falling to 5.70 percent in April (from 5.71%). However, commercial banks' weighted average new lending and existing time deposit rates rose respectively to 5.93 percent and 2.46 percent from 5.66 percent and 2.37 percent.

In April, liquidity in the banking sector rose by 25.9 percent to \$603.7 million, underpinned by an increase in foreign reserves. Currently (27 May), liquidity is around \$633.7 million.

Over the month to April, the Fiji dollar strengthened against the USD (2.3%) and the Japanese Yen

¹This reflects high-end consumption spending. This data is sourced from the Land Transport Authority.

(1.3%), while it weakened against the Australian dollar (-2.6%), the Euro (-0.5%) and the NZD (-0.4%). In line with this, the Nominal Effective Exchange Rate (NEER)² index rose slightly over the month to April by 0.1 percent.

In contrast, the Real Effective Exchange Rate (REER)³ index fell over the month to April by 1.7 percent, reflecting a gain in Fiji's international competitiveness against its major trading partners. This was largely attributed to the lower domestic inflation outcome compared to trading partner countries.

Annual inflation slowed to 1.5 percent in April, from 2.4 percent in March. The lower outturn was due to the fall in prices in the housing, water,

electricity, gas & other fuels and the transport categories, resulting largely from lower global oil prices.

Foreign reserves (RBF Holdings) continued to be healthy and were around \$1,857 million at the end of April, equivalent to 4.6 months of retained imports cover. Currently (29 May), foreign reserves are around \$1,888 million, sufficient to cover 4.7 months of retained imports of goods and non-factor services.

Given the comfortable outlook on the Bank's twin objectives of price stability and adequate foreign reserves, the Reserve Bank of Fiji Board at its monthly meeting on 28 May kept the Overnight Policy Rate unchanged 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.