



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global economic growth remains moderate. Subdued international trade and industrial production weighed on quarter one growth outcomes for advanced and emerging economies, as well as some of Fiji's major trading partner countries.

The quarter one contraction in output for the United States (US) resulted in the International Monetary Fund downgrading the annual growth forecast for the US economy to 2.5 percent from 3.1 percent projected earlier. Nonetheless, recent labour market data point to a likely modest rebound in quarter two. Growth in the Euro zone improved slightly in quarter one. However, significant downside risks remain as discussions and negotiations regarding the Greek debt deal continue. In Japan, modest gains were noted in consumption and services activity into quarter two. Private consumption, residential investment and migrant inflows continue to support the New Zealand economy. However, weak dairy prices and low export demand remain a concern. The Australian economy is picking up moderately due to increased manufacturing activity, and the Reserve Bank of Australia's cash rate reduction in May is expected to support consumer confidence.

Domestically, improved sectoral outcomes and buoyant demand conditions confirm this year's robust growth outlook. In the year to May, gold and woodchip production grew on an annual basis by 33.8 percent and 6.3 percent, respectively. Electricity production, a partial indicator for general business activity, increased over the year by 2.2 percent cumulative to May 2015. Visitor arrivals in the same period grew by 7.4 percent and continue to be mainly underpinned by higher arrivals from Australia, New Zealand, China and the Pacific Islands.

Consumption and investment activity remained firm in the review period. Net Value Added Tax

collections, an indicator of consumer spending, grew by an annual 12.8 percent up to May. In the same period, registrations of both new and second hand vehicles were higher over the year by 5.1 percent and 41.9 percent, respectively. Strong growth in personal inward remittances (31.9% cumulative to March) and new consumption lending (9.8% cumulative to April) are sustaining consumer spending.

Buoyant new lending for investment purposes to April (75.2%), higher domestic cement sales (32.2%) cumulative to May and increased value of work put-in-place (8.4%) in quarter one are indicative of strong construction activity. Forward looking indicators point to elevated activity into next year.

Higher recruitment intentions up to May (14.4% growth) as per the Reserve Bank of Fiji Job Advertisements Survey indicate favourable labour market conditions, particularly in the community, social & personal services; construction; and finance, insurance, real estate and business services sectors.

Financial conditions remained accommodative in the review month. Broad money (M3) grew by 10.0 percent in April, as higher private sector credit (15.2%) drove the annual rise in net domestic credit (12.1%).

Overall liquidity in the banking system rose over the month by 4.9 percent to \$633.5 million in May, underpinned by an increase in foreign reserves. Currently (25 June), liquidity is around \$651.6 million.

The Fijian dollar strengthened against the New Zealand dollar (4.0%), Australian dollar (1.8%) and the Japanese Yen (1.1%), but weakened against the Euro (-1.5%) and the US dollar (-2.9%) over the month in May.

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> fell over the month by 0.1 percent in May. The slowdown in domestic inflation combined with the depreciation in the NEER index accounted for the 0.9 percent over the month fall in the Real Effective Exchange Rate (REER)<sup>2</sup> index.

Revised external sector data reveal that Fiji's merchandise trade deficit (excluding aircraft) widened to 32.0 percent of GDP in 2014 (from 31.3% of GDP in 2013) as import growth outpaced exports. Total exports (excluding aircraft) accounted for 28.5 percent of GDP, owing to a higher growth in re-exports and domestic exports. However, total imports (excluding aircraft) accounted for 60.5 percent of GDP, underpinned by higher imports of investment goods,

followed by imports of intermediate and consumption goods.

Inflation in May slowed for the second consecutive month to 0.6 percent, from 1.5 percent in April and 2.4 percent in March. The housing, water, electricity, gas & other fuels and the transport categories remain a drag on inflation reflecting the current low global oil prices.

Foreign reserves rose in May by \$33.6 million to around \$1,890 million, sufficient to cover 4.7 months of retained imports of goods and non-factor services. Currently (30 June), foreign reserves are around \$1,987 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services.

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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.

<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.

**KEY INDICATORS**

**1. Consumer Prices \***

(year-on-year % change)

	May-15	Apr-15	Mar-15	May-14
All Items	0.6	1.5	2.4	0.8
Food and Non-Alcoholic Beverage	4.2	5.5	5.6	1.9

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

(end of period)

Foreign Reserves (\$m) <sup>1/</sup>	1,890.1	1,856.5	1,744.4	1,696.7
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**3. Exchange Rates \*\*\***

(mid rates, F\$1 equals)

(end of period)

US dollar	0.4807	0.4953	0.4844	0.5394
Pound sterling	0.3140	0.3209	0.3274	0.3227
Australian dollar	0.6285	0.6175	0.6339	0.5796
New Zealand dollar	0.6696	0.6439	0.6464	0.6357
Swiss francs	0.4538	0.4654	0.4688	0.4843
Euro	0.4390	0.4455	0.4476	0.3965
Japanese yen	59.60	58.97	58.23	54.91

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

(end of period)

Liquid Assets Margin to Deposit Ratio (%)	n.a	6.98	5.79	8.54
Banks' Demand Deposits (\$m)	633.5	603.6	479.5	577.2

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

(monthly average)

UK Gold Price/fine ounce	1,199.1	1,198.0	1,178.6	1,287.5
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	12.7	12.9	12.8	18.2
Crude Oil/barrel	64.6	59.4	55.8	109.7

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

(year-on-year % change)

Narrow Money	n.a	0.2	-0.6	59.7
Broad Money	n.a	10.0	9.0	15.5
Currency in Circulation	n.a	13.3	4.7	4.7
Quasi-Money (Time & Saving Deposits)	n.a	10.1	9.4	18.2
Domestic Credit	n.a	12.1	10.4	14.3

**7. Interest Rates (% p.a.) \*\*\***

(monthly weighted average)

Lending Rate (Excluding Staff)	n.a	5.70	5.71	5.85
Savings Deposit Rate	n.a	0.46	0.87	0.60
Time Deposit Rate	n.a	2.46	2.37	1.78
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) <sup>2/</sup>	1.00	1.00	1.00	1.00
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
<b>(monthly weighted average)</b>				
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	5.19	n.i	n.i	4.27

<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