



ECONOMIC REVIEW

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The International Monetary Fund in October downgraded its global growth forecast for 2015 to 3.1 percent from an earlier projection of 3.3 percent. The escalating downside risks to the world economy and the continued slowdown in emerging and developing economies particularly China, are weighing on the global growth trajectory. Consistent with the subdued global growth prospects, most of Fiji's major trading partner economies are expected to slow down this year.

For the United States (US), despite the slight upward revision to its 2015 growth forecast to 2.6 percent, recent economic indicators suggest a slowdown in production, general business and labour market conditions in September. Additionally, softer global demand and the stronger dollar pose some downside risks for the US firms. In the Euro zone, the sluggish economic performance continues with the slowdown in business sentiments and manufacturing. For Japan, the recovery is still hampered by the slowdown in China, which is being affected by moderating domestic investment and consumption. Economic conditions in Australia are slowly improving as the weaker Australian dollar is pushing up demand for exports. In New Zealand, latest economic indicators revealed softer than anticipated outcomes, pointing to a subdued outlook for the economy.

Domestically, sectoral performances and aggregate demand indicators remained broadly positive in the review period. Annual increases were noted in electricity (3.1%), gold (12.0%) and cement (21.4%) production, cumulative to September. As at 12 October, cane and sugar production fell annually by 5.0 percent and 6.9 percent, respectively, largely due to the protracted dry conditions in the sugar cane growing areas. Mahogany and woodchip production also declined annually by 20.8 percent and 1.7 percent, respectively, in the year to September. However, service activities strengthened further on the back of strong tourism demand. Visitor arrivals rose by 9.2

percent cumulative to September, while tourism earnings rose by 10.6 percent in the first six months of 2015.

Consumer spending strengthened further, evident by annual increases in net Value Added Tax collections (9.3%) in the year to September. In addition, commercial banks' new loans for consumption purposes (0.2%) and second hand vehicle registration (43.0%) rose in the year to September. Consumption activity was largely supported by higher disposable incomes, as reflected in increase in Pay As You Earn tax collections (13.3%) and personal remittances (32.8%) in the year to September.

Investment indicators also remained upbeat, mainly driven by strong growth in construction activity. Domestic cement sales (a partial indicator of domestic construction activity) rose by 46.0 percent, while new lending for investment purposes increased by an annual 94.9 percent up to September.

In line with buoyant economic conditions, developments in the labour market remained favourable. According to the Reserve Bank's Job Advertisements Survey, the number of vacant jobs advertised in the year to September increased on an annual basis by 19.5 percent. This was underpinned by higher vacancies in the agriculture, forestry & fishing; mining & quarrying; electricity & water; construction; wholesale & retail & restaurants & hotels; transport, storage & communication and finance, insurance, real estate & business services sectors.

Financial conditions continued to be accommodative during the review period. The expansion in broad money (12.9%) was mainly attributed to a growth in narrow money (14.6%) and other deposits (12.0%). On domestic credit, private sector credit (14.2%) rose on the back of growing commercial banks' lending (14.0%) in the year to

September. The commercial banks' weighted average new lending rate fell over the month to 5.53 percent, from 6.13 percent in August. During the same period, the existing time deposit rate increased to 2.63 percent from 2.61 percent in August, while the savings deposit rate rose over the month to 0.87 percent in September from 0.85 percent.

Liquidity in the banking system rose over the month by 5.6 percent (\$35.7m) to \$669.8 million in September, underpinned by an increase in foreign reserves (\$57.8m). As at 30 October, liquidity stood at \$573.8 million.

In September, the Fiji dollar strengthened against the Australian (1.5%) and New Zealand dollars (1.0%) but weakened against the Japanese Yen (-2.5%), the Euro (-1.6%) and the US dollar (-0.9%). Over the year, the Fiji dollar rose against the Australian (11.1%) and New Zealand dollars (8.9%) and the Euro (0.4%), but fell against the US dollar (-10.9%) and the Japanese Yen (-2.5%).

The Nominal Effective Exchange Rate (NEER)¹ index fell over the year in September by 0.6 percent indicating an overall depreciation of the Fiji dollar against the major trading partner currencies. Over

the same period, the Real Effective Exchange Rate (REER)² index fell by 0.2 percent.

Inflation rose to 1.5 percent in September from 1.3 percent in August. The outcome was underpinned by the food & non-alcoholic beverages and alcoholic beverages, tobacco & narcotics categories. However, lower domestic fuel prices in the housing, water, electricity, gas & other fuels and the transport categories given the low global oil prices, have remained a drag on the overall inflation. As such, the year-end inflation is forecast at 2.0 percent.

Foreign reserves (RBF holdings) increased in September by \$57.8 million to \$2,036.0 million, from \$1,978.2 million in August. This was sufficient to cover 6.1 months of retained imports of goods and non-factor services. As at 30 October, foreign reserves were \$1,977.6 million, sufficient to cover 6.0 months of retained imports of goods and non-factor services based on recent revisions to the macroeconomic forecasts.

The Overnight Policy Rate remained unchanged at 0.5 percent in October as the outlook for the Reserve Bank's twin objectives of low inflation and adequate foreign reserves remained intact.

RESERVE BANK OF FIJI

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

KEY INDICATORS

	September 2015	August 2015	July 2015	September 2014
1. Consumer Prices * (year-on-year % change)				
All Items	1.5	1.3	1.4	0.3
Food and Non-Alcoholic Beverage	5.3	4.7	5.1	1.3
2. Reserves *** (end of period)				
Foreign Reserves (\$m) ^{1/}	2,036.0	1,978.2	2,000.9	1,732.4
3. Exchange Rates *** (mid rates, F\$1 equals) (end of period)				
US dollar	0.4590	0.4634	0.4667	0.5154
Pound sterling	0.3029	0.3007	0.2992	0.3173
Australian dollar	0.6567	0.6472	0.6401	0.5913
New Zealand dollar	0.7229	0.7159	0.7064	0.6640
Swiss francs	0.4463	0.4463	0.4525	0.4903
Euro	0.4080	0.4148	0.4270	0.4062
Japanese yen	54.99	56.41	57.94	56.42
4. Liquidity *** (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	5.4	5.2	5.0	7.1
Banks' Demand Deposits (\$m)	669.8	634.1	679.6	529.3
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1,124.6	1,117.5	1,130.0	1,238.8
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	12.1	10.7	11.9	14.6
Crude Oil/barrel	47.2	47.0	55.9	97.3
6. Money and Credit *** (year-on-year % change)				
Narrow Money	14.6	14.2	15.5	39.5
Broad Money	12.9	13.8	14.0	13.5
Currency in Circulation	11.1	6.7	11.6	10.4
Quasi-Money (Time & Saving Deposits)	13.8	15.0	14.3	14.7
Domestic Credit	12.1	12.3	12.9	18.4
7. Interest Rates (% p.a.) *** (monthly weighted average)				
Lending Rate (Excluding Staff)	5.82	5.85	5.90	5.69
Savings Deposit Rate	0.87	0.85	0.90	0.54
Time Deposit Rate	2.63	2.61	2.56	1.90
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
(monthly weighted average)				
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	5.18	5.00	5.19	4.94

^{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
*** Reserve Bank of Fiji