



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The International Monetary Fund has downgraded the global growth forecast for 2013 to 3.3 percent, from 3.5 percent growth anticipated earlier in January. Growth in advanced economies has been downgraded by 0.2 percentage points to 1.2 percent while emerging and developing economies are now forecast to expand by 5.3 percent from a 5.5 percent expansion projected earlier.

This year, while the two major short term risks to global growth, namely the breakup of the Euro zone and the full impact of the fiscal cliff in the United States (US) has been avoided, new risks have come to the forefront. These risks include stagnation in the Euro zone, fiscal challenges in the US and Japan, risks related to prolonged unconventional monetary policy and falling potential output in emerging economies. Without adequate policy responses to mitigate these risks, global growth will remain muted.

With the exception of the Euro zone, which is expected to contract again this year, growth in Fiji's other major trading partner economies is expected to remain positive.

Domestically, while aggregate demand and the labour market continue to improve, sectoral performances have been mixed. On the sectoral front, cumulative to February, gold production declined notably due to lower quality ore being extracted and greater focus on capital work. Additionally, visitor arrivals continue to suffer setbacks. Visitor arrivals declined by 7.9 percent in January this year compared to the same month last year and was led by lower visitors from Australia, New Zealand, China and Europe. In the year ending January 2013, visitor arrivals declined by 3.0 percent compared to a year ago. On the flipside, electricity production increased by 4.7 percent in the first quarter of the year compared to the same period last year.

Consumer spending continued to trend upwards as revealed by partial indicators. In January this year, net Value Added Tax (VAT) collections rose by 25.1 percent on an annual basis to \$68.3 million. In addition, gross VAT collections registered a strong growth of 24.1 percent on an annual basis, led by increases in both domestic (25.1%) as well as customs collections (23.2%). On the same note, growth in new consumption lending more than doubled to \$132.5 million in the first three months of this year compared to the same period last year.

Similarly, partial indicators also point towards rising investment activity. Indicators of domestic construction activity noted annual increases in the first two months. Domestic cement sales increased by 50.3 percent while cement production increased by 29.2 percent in the year to February. Additionally, cumulative to March, new bank lending for investment purposes more than doubled to \$86.5million, mainly on account of a surge in lending to the building & construction sector which rose to \$56.6 million.

The improvements in consumption and investment activity were well reflected in employment prospects. The number of vacant jobs advertised in the first quarter of the year rose by 8.5 percent on an annual basis, as revealed by the RBF's Job Advertisement Survey results. This outcome was largely underpinned by the wholesale, retail trade & restaurants & hotels and construction sectors.

Consumer prices rose by 3.3 percent in March on a yearly basis, largely on account of higher food prices. This uptick in food prices is attributed to higher prices of some agricultural produce in the Western Division.

Monetary and financial conditions eased further in the review month. Broad money rose by 7.0 percent on an annual basis in March underpinned solely by

an increase in net domestic credit (6.9%). Growth in net domestic credit was fuelled by growth in private sector credit which rose by 9.6 percent on an annual basis in March. Additionally, both the outstanding and new lending rates declined considerably over the month and reached a new record low in March. Commercial banks' outstanding lending rate fell by 9 basis points (bp) to 6.27 percent, while the new weighted average lending rate decreased sizably by 60bp to 5.30 percent over the month to March. Liquidity fell considerably by \$102.5 million (17.9%) to \$471.3 million in March from the previous month, led largely by the decline in foreign reserves. The decline in foreign reserves was underpinned by one-off factors such as offshore investments by non-bank financial institutions and refinancing of certain expensive external loans.

Over the month to March, the Fiji dollar appreciated against the Euro and the Yen but depreciated against other currencies in the basket. Similarly, in the year to March, the Fiji dollar rose sizably against the Yen and the Euro but fell against the other currencies in the basket. The Fiji dollar has been appreciating consecutively against the Yen for the past 7 months.

The Nominal Effective Exchange Rate (NEER) index remained unchanged both, over the month and

over the year to March. However, the Real Effective Exchange Rate (REER) index rose marginally by 0.1 percent over the month, mostly underpinned by higher domestic inflation compared to our trading partners.

According to provisional accrual trade data, the merchandise trade deficit (excluding aircraft) narrowed by 2.2 percent in 2012 (to \$1.88 billion), compared to a 3.6 percent widening in 2011. Domestic export earnings rose by 3.7 percent in the review period, due to higher earnings from sugar, mineral water, timber, ginger and textiles which more than offset decreases noted in fruit & vegetables, gold, garments and other domestic exports. Earnings from re-exports rose significantly by 26.2 percent, while total exports (excluding aircraft) grew by 12.1 percent in 2012 compared to 19.2 percent growth in 2011. Over the same period, growth in imports (excluding aircraft) slowed to 4.9 percent, compared to a growth 10.8 percent in 2011. All broad categories of imports noted increases.

Foreign reserves were around \$1,458.8 million, as at 26 April, sufficient to cover 4.2 months of retained imports of goods and non-factor services.

The Reserves Bank continued its accommodative monetary policy stance in April and maintained the Overnight Policy Rate (OPR) at 0.5 percent.

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

Mar-13	Feb-13	Jan-13	Mar-12
3.3	2.4	3.2	5.6
4.5	2.2	4.9	6.3

2. Reserves

(end of period)

Foreign Reserves (\$m)^{1/}

Mar-13	Feb-13	Jan-13	Mar-12
1494.8(p)	1574.2	1,603.4	1,513.2

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

US dollar
Pound sterling
Australian dollar
New Zealand dollar
Swiss francs
Euro
Japanese yen

Mar-13	Feb-13	Jan-13	Mar-12
0.5599	0.5562	0.5626	0.5610
0.3701	0.3670	0.3560	0.3516
0.5363	0.5434	0.5405	0.5400
0.6690	0.6725	0.6732	0.6861
0.5341	0.5176	0.5127	0.5085
0.4382	0.4234	0.4146	0.4217
52.880	51.301	51.270	46.240

4. Liquidity

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)

Mar-13	Feb-13	Jan-13	Mar-12
6.6	9.8	10.4	12.8
471.3	573.8	570.2	537.4

5. Commodity Prices (US\$) **

(monthly average)

UK Gold Price/fine ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)
Brent Crude Oil/barrel

Mar-13	Feb-13	Jan-13	Mar-12
1598.3	1588.5	1,671.0	1,673.8
17.7	18.4	18.9	23.8
109.3	110.3	113.0	124.9

6. Money and Credit

(year-on-year % change)

Narrow Money
Broad Money
Currency in Circulation (monthly average)
Transferable deposits
Other deposits
Net Domestic Credit

Mar-13	Feb-13	Jan-13	Mar-12
7.8	16.3	16.7	41.2
7.0	9.8	8.0	13.2
4.4	5.1	5.1	8.6
8.7	19.2	19.9	52.3
7.6	5.8	2.5	1.1
6.9	5.9	4.1	2.3

7. Interest Rates (% p.a.)

(weighted monthly 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
5-Year Government Bond Yield
10-Year Government Bond Yield

Mar-13	Feb-13	Jan-13	Mar-12
6.27	6.36	6.49	7.17
0.74	0.89	0.77	0.65
2.20	2.28	2.29	2.73
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t.	n.t.	n.t.	n.t.
n.i	4.00	4.00	n.i
5.00	5.54	5.00	6.60

^{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:

p Provisional
n.i No Issue
n.t No Trade

Sources: * Fiji Bureau of Statistics
** Bloomberg