



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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In mid-July, the International Monetary Fund (IMF) revised world economic growth downwards as global economic conditions showed signs of further weaknesses associated with heightened uncertainty. Many of the Euro-area economies are in recession due to continued escalation of financial stress, further triggered by increased political and financial uncertainty in Greece and banking sector problems in Spain. Growth in many major emerging market economies was lower-than-expected over the same period. These weak performances in global economic indicators have led many economies to revise their respective growth forecasts downwards.

Modest economic performances are expected for most of Fiji's trading partner economies over the remainder of 2012. In Australia, latest indicators suggested that growth was close to trend but clouded by the global uncertainty. The New Zealand economy is also expected to grow modestly over the year despite the mixed indicators seen over the past months. The United States and Euro zone economies continue to grapple with poor confidence and weak labour markets.

In spite of the heightened risks in the global economy, domestic real sector outcomes were generally positive in the review period. Indicators for economic activity for the first half of the year suggest that overall performance has been on track and the projected growth of 2.7 percent for this year remains intact.

Real sectoral outcomes were positive in the review period. Latest data revealed improved performances in gold and cement production although domestic cement sales declined marginally due to the completion of the Nadarivatu Hydro project<sup>1</sup> in April this year. Notably, the tourism industry is also at peak, evident by travel related

cash receipts which rose by around 7.0 percent annually in the first seven months of the year. Moving forward, the industry is expected to pick up further in the remaining months of 2012. While electricity production declined, this outcome was generally driven by power outages in April and electricity conservation measures due to higher tariffs.

In line with the positive growth expected this year, consumption activity continues to trend upward, financed by higher net incomes and credit. Domestic Value Added Tax (VAT) collections rose annually by 13.4 percent during the first half of the year. Similarly, commercial banks' new lending for consumption purposes also rose, by \$85.6 million (161.4%), on a yearly basis in July. Furthermore, a turnaround was noted in the volume of residential houses sold in the second quarter – suggesting that improved household wealth, job prospects and confidence has encouraged more people to purchase homes.

Investment indicators were positive in the review period. New lending for investment purposes registered a year-on-year growth of 12.0 percent (\$5.8 million) in the year to July. In addition, the number of building permits issued in Quarter 1 2012 – a forward looking indicator of construction activity – rose by 14.7 percent to 344, valued at \$43.5 million, while the total value of work put-in-place by the construction sector increased annually by 7.5 percent to \$68.0 million. Investment activity is expected to strengthen further in the second half of this year, supported by the pick-up in Government capital projects and several major private investment activities. Consequently, investment in 2012 is envisaged to be around 18.0 percent of GDP, up from 16.0 percent estimated for 2011.

Forward looking indicators for employment suggest

<sup>1</sup> Currently, the Nadarivatu Hydro project is in its testing phase and is expected to be commissioned in September.

more recruitment in the coming months. According to the RBF's job advertisement survey, the number of jobs advertised rose by 6.7 percent during the first seven months over the same period last year, an improvement compared to annual declines noted in the early part of this year.

On financial conditions, the annual growth in Net Domestic Credit remains on an upward trend despite a slowdown in July, down from 5.9 percent in June to 4.7 percent. This is largely driven by lending to the private sector, which also rose on a yearly basis by 4.7 percent in July. During the same month, the banks' weighted average outstanding lending rate declined by 1 basis point (bp) to 6.98 percent, while the time deposit rate fell by 5 bps to 2.51 percent.

Liquidity in the banking system was \$527.5 million at the end of August. Current data shows that liquidity stood at \$581.8 million as at 6 September.

Consumer prices rose by 4.0 percent in July from a year earlier - lower than the inflation rates noted in previous months. The decline in inflation from the start of the year has been driven by lower commodity prices and the current benign domestic driven inflationary pressures. As a result, the year end inflation forecast remains unchanged at 3.5 percent.

On the external front, latest provisional accrual trade data revealed that the trade deficit widened annually by 5.7 percent in the year to November last year, on account of rising retained imports (+2.6%) and declining domestic exports (-3.0 percent). More recent OET<sup>2</sup> data for the first half of this year showed that the trade deficit widened by 8.5 percent after import payments outpaced export receipts again. However, the significant inflows of tourism related receipts over the same period has generally supported the overall balance of payments.

The Nominal Effective Exchange Rate (NEER) index rose over the month in July by 0.4 percent, indicating an overall appreciation of the Fiji dollar against its major trading partner currencies. However, on an annual basis, the NEER index fell by 0.4 percent. In the same period, the Real Effective Exchange Rate (REER) index rose over the month by 0.3 percent, reflecting a loss in Fiji's international competitiveness despite a decline in domestic inflation rate from 4.5 percent to 4.0 percent compared to a growth in trading partner inflation rate from 1.3 percent to 1.4 percent in the review period. On an annual basis, the REER index rose by 2.1 percent.

Foreign reserves were around \$1,515 million at the end of August, sufficient to cover around 4.8 months of retained imports of goods and non-factor services.

## **RESERVE BANK OF FIJI**

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<sup>2</sup> Overseas Exchange Transactions.

**KEY INDICATORS**

**1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 4.0    | 4.5    | 4.7    | 10.1   |
| 3.0    | 3.6    | 4.0    | 11.1   |

**2. Reserves**

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

| Jul-12     | Jun-12 | May-12 | Jul-11 |
|------------|--------|--------|--------|
| 1514.6 (p) | 1487.5 | 1447.2 | 1573.7 |

**3. Exchange Rates**

(mid rates, FSI equals)

(end of period)

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

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 0.5598 | 0.5479 | 0.5361 | 0.5855 |
| 0.3563 | 0.3532 | 0.3463 | 0.3579 |
| 0.5331 | 0.5456 | 0.5522 | 0.5328 |
| 0.6922 | 0.6957 | 0.7117 | 0.6734 |
| 0.5484 | 0.5290 | 0.5206 | 0.4694 |
| 0.4566 | 0.4405 | 0.4335 | 0.4090 |
| 43.76  | 43.54  | 42.39  | 45.53  |

**4. Liquidity**

(end of period)

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

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 12.3   | 12.8   | 11.1   | 14.8   |
| 540.1  | 535.5  | 492.8  | 660.2  |

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

(monthly average)

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

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 1593.9 | 1596.7 | 1585.5 | 1572.8 |
| 22.8   | 20.1   | 20.6   | 25.0   |
| 103.1  | 95.6   | 110.5  | 116.5  |

**6. Money and Credit**

(year-on-year % change)

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

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 22.5   | 29.7   | 27.8   | 32.3   |
| 5.7    | 8.3    | 8.8    | 10.1   |
| 7.7    | 9.0    | 8.2    | 8.6    |
| 26.7   | 36.1   | 33.9   | 41.1   |
| -1.6   | -2.6   | 0.1    | 0.4    |
| 4.7    | 5.9    | 4.2    | -3.0   |

**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)<sup>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

| Jul-12 | Jun-12 | May-12 | Jul-11 |
|--------|--------|--------|--------|
| 6.98   | 6.99   | 7.11   | 7.51   |
| 0.84   | 0.84   | 0.86   | 0.94   |
| 2.51   | 2.56   | 2.61   | 3.60   |
| n.i    | n.i    | n.i    | n.i    |
| 1.00   | 1.00   | 1.00   | 1.00   |
| n.t    | n.t    | n.t    | n.t    |
| 4.00   | 4.00   | 4.00   | n.i    |
| 6.20   | 6.44   | 6.51   | n.i    |

<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:

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

Sources:

\* Fiji Bureau of Statistics  
\*\* Bloomberg