



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Month Ended July 2012

The outlook for global economic conditions in 2012 is expected to remain subdued, mainly driven by the projected contraction in the Euro zone economy this year. In addition, growth projections for the United States (US) and the Asian region have been revised downwards since April, 2012. The International Monetary Fund (IMF) now predicts that the world economy will grow by around 3.5 percent this year – lower than the 3.9 percent expansion in 2011.

Key economic indicators of Fiji's major trading partner countries suggest mixed performances. Growth in the US economy slowed in the second quarter of this year, to an annualised 1.5 percent, as household spending and employment prospects fell. In the Euro zone, consumer confidence deteriorated further in July to its lowest level in three years, as the debt and banking crisis continued to escalate, resulting in further budget cuts and job losses across the region. In Japan, employment prospects improved in June despite weak export demand. New Zealand's (NZ) external sector noted export gains in June although the NZ economy remains weak overall. For Australia, the inflation rate rose in the June quarter, while business confidence and the employment rate weakened, largely affected by the Europe crisis and a stronger Australian dollar.

Economic data on China and India showed that the two major Asian economies remain subdued, as Europe's debt crisis continues to undermine demand for Asian exports and affect domestic industrial production.

Domestically, sectoral performances to date continue to vary. Gold production increased by 13.9 percent on an annual basis in the year to May. Visitor arrivals continued to perform well, recording an annual growth of 3.7 percent in the first quarter. Moving forward, the industry is expected to do better in the peak season which runs from June to September. In the sugar industry, the crushing

season began without any major problems and significant gains were noted in milling efficiency up to the third week of crushing, aided by relatively better cane quality supplied to the mills. In contrast, copra and electricity production cumulative to May declined on an annual basis by 14.4 percent and 1.7 percent, respectively. Additionally, industry feedback on the forestry sector indicated that there has been some deceleration in output particularly in the pine industry, given the subdued global demand for wood chips.

Consumption activity cumulative to May was upbeat, as indicated by an annual growth of 11.8 percent in domestic Value Added Tax (VAT) collections. New lending for consumption purposes noted an increase of 88.4 percent to \$56.9 million during the same period. In the coming months, higher disposable income as a result of lower income tax rates, combined with an anticipated increase in visitor arrivals should continue to support consumption activity this year.

Investment activity looks promising in the medium term with a number of construction projects underway, such as the Raiwai housing project and refurbishment of the Grand Pacific Hotel (GPH). Moreover, investment in tourism and Government capital projects such as the Casino and Resort development at Denarau, Peppers Naisoso Apartments, Nausori Airport upgrade and the Suva National Stadium facelift, in conjunction with other infrastructural upgrades in resource based sectors such as mining, forestry and fishing are expected to boost investment activities for 2012 and next year.

The labour market noted some improvements as the number of vacant positions advertised in the year to June rose annually by 5.7 percent.¹ Increases in job

¹ Job Advertisement Survey

vacancies were noted in the community, social & personal services, transport, storage & communication, mining & quarrying, electricity and water, and finance, insurance, real estate & business services sectors. Looking ahead, the positive investment outlook and results of the December 2011 Business Expectations Survey (BES) suggests further improvement on recruitment intentions in the coming months.

In the financial sector, commercial banks' excess liquidity rose over the month by \$4.6 million (0.9%) to \$540.1 million in July, led by a \$26.6 million (1.8%) increase in foreign reserves and a decline in Government's central account balance by 87.3 percent to \$0.7 million. However, these were partly offset by a 3.8 percent (\$15.1m) growth in statutory reserve deposits and a 3.0 percent (\$14.7m) increase in currency in circulation.

Movements in bilateral exchange rates showed a strengthening of the Fiji Dollar against the Euro (3.7%), US dollar (2.2%) and the Japanese Yen (0.5%), but a drop against the Australian (2.3%) and New Zealand (0.5%) dollars. However, over the year, the Fiji dollar strengthened against the Euro (11.7%), New Zealand (2.8%) and marginally against the Australian dollar (0.1%) but depreciated further against the US dollar (4.4%) and the Japanese Yen (3.9%).

Inflation in June stood at 4.5 percent. Despite the March-April floods, the supply of most market items affected was restored in May and related prices have stabilised. The year-end inflation forecast remains unchanged at 3.5 percent.

Foreign reserves at the end of July stood at \$1,514.6 million, sufficient to cover 4.8 months of retained imports of goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

Jun-12	May-12	Apr-12	Jun-11
4.5	4.7	6.4	10.3
3.6	4.0	6.9	11.3

2. Reserves

(end of period)

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

Jun-12	May-12	Apr-12	Jun-11
1487.5	1447.2	1481.8	1512.3

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

Jun-12	May-12	Apr-12	Jun-11
0.5479	0.5361	0.5636	0.5721
0.3532	0.3463	0.3466	0.3561
0.5456	0.5522	0.5388	0.5354
0.6957	0.7117	0.6853	0.6932
0.5290	0.5206	0.5116	0.4774
0.4405	0.4335	0.4259	0.3964
43.54	42.39	45.26	46.22

4. Liquidity

(end of period)

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

Jun-12	May-12	Apr-12	Jun-11
12.8	11.1	12.3	580.4
535.5	492.8	538.1	13.7

5. Commodity Prices (US\$)**

(monthly average)

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

Jun-12	May-12	Apr-12	Jun-11
1596.7	1585.5	1650.1	1528.8
20.4	20.2	23.0	24.1
95.6	110.5	120.5	113.8

6. Money and Credit

(year-on-year % change)

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

Jun-12	May-12	Apr-12	Jun-11
29.7	27.8	39.0	22.9
8.3	8.8	13.1	6.9
9.0	8.2	6.5	13.0
36.1	33.9	50.2	26.3
-2.6	0.1	1.8	-0.3
5.9	4.2	3.5	-4.2

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

Jun-12	May-12	Apr-12	Jun-11
6.96	7.11	7.13	7.48
0.84	0.86	0.85	1.15
2.56	2.61	2.65	3.77
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
6.44	6.51	5.00	n.i

^{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.a Not Available
n.i No Issue
n.t No Trade

Sources:

* Fiji Bureau of Statistics
** Bloomberg