



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions have deteriorated further over the third quarter of the year following a generally sluggish first half. The slowdown in advanced economies such as United States (US), Euro zone and Japan is a result of low confidence, fiscal consolidation and weak financial systems which has severely impacted output and employment. Growth in emerging & developing countries has also slowed due to the spillover effects from advanced economies through trade and financial linkages as well as subdued domestic demand from earlier policy tightening.

In light of the latest developments, the International Monetary Fund (IMF) has downgraded its global growth forecast for this year to 3.3 percent from 3.5 percent growth projected in July. In 2013, the global economy is expected to register a 3.6 percent expansion, a downgrade from the 3.9 percent growth projected earlier. However, the IMF's forecast is based on the assumption that the Euro zone will progress towards activating the European Stability Mechanism and a banking and fiscal union while the US will avoid a fiscal cliff in 2013. Without these measures, global growth is expected to be much weaker. Growth projections for all of Fiji's major trading partners, except Australia, have been downgraded by the IMF to reflect the weakening global prospects.

On domestic sectoral performances, the tourism industry remains buoyant. Tourism related receipts¹ increased by 6.5 percent on an annual basis in the year to September, supported by lending to tourism related sectors² which increased annually by 142.0 percent in the year to August. The sugar industry continues to perform well. While total cane output has declined (-17.7%) following the two floods earlier this year, total sugar production has increased by 2.6 percent up to September, reflecting

both improved milling efficiency and better cane quality. Gold production also increased by 7.0 percent over the year, cumulative to August. On the flipside, electricity production noted a marginal annual decline of 0.5 percent in the year to August with a broad based reduction in demand.

Consumption activity was robust as noted by annual gains in domestic Value Added Tax (VAT) collections (+14.2%) and new consumption lending (+123.2%) in the first eight months of the year. Additionally, wholesale and retail activity³ increased on an annual basis by 2.3 percent, in the first half of the year.

Investment activity has also picked up significantly over the year and is estimated to be around 18.0 percent of GDP. New lending for investment increased on an annual basis by 11.1 percent in the year to November while activity in the building and construction sector was upbeat, reflected by annual growth in the value of completion certificates issued (48.7%) in the first half of the year. The number of building permits issued - a forward looking indicator of investment - increased by 7.8 percent on an annual basis in the year to June while its corresponding value was higher by around \$269.7 million compared to the same period last year. Similarly, domestic cement sales rose annually by 5.0 percent cumulative to August, indicating a pick-up in construction activity.

Labour market conditions continued to improve. The RBF's Job Advertisement Survey noted an annual increase of 22.1 percent in the number of jobs advertised in the year to September compared to the same period last year. Employment prospects were more for the wholesale, retail trade, hotels & restaurant sector, reflecting buoyancy in tourism

¹ From banking (OET) data

² Lending to wholesale, retail trade, hotels & restaurants

³ Based on the Wholesale and Retail Trade, Repair of Motor Vehicles & Motor Cycles June 2012 Survey

related activities.

Financial conditions are upbeat, reflecting the pick-up in domestic activity so far this year. Net domestic credit expanded by 5.2 percent on an annual basis driven mainly by private sector credit which rose by 6.9 percent. Lending rates further trended downwards in September reflecting the high liquidity levels in the system.

On exchange rate movements, over the month of October, the Fiji dollar depreciated against the Euro (-1.0%) and the US dollar (-0.7%) but appreciated against the Japanese Yen (1.9%), New Zealand dollar (0.6%) and the Australia dollar (0.1%). On

an annual basis, the Fiji dollar strengthened against the Euro (6.8%), Yen (3.1%) and the Australian dollar (1.2%) but weakened against the New Zealand and the US dollars, each by 2.1 percent.

Consumer prices rose by 3.7 percent in September from a year ago, higher than the 3.5 percent recorded in August. This was driven by increases across all categories, largely dominated by the transport sector. However, over the month, consumer prices remained unchanged.

Foreign reserve levels were around \$1,581.6 million at the end of October, sufficient to cover 5.0 months of retained goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food

Sep-12	Aug-12	Jul-12	Sep-11
3.7	3.5	4.0	9.7
3.1	3.0	3.0	9.1

2. Reserves

(end of period)

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

Sep-12	Aug-12	Jul-12	Sep-11
1603.29	1512.22	1514.07	1626.19

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

Sep-12	Aug-12	Jul-12	Sep-11
0.5646	0.5549	0.5598	0.5448
0.3478	0.3515	0.3563	0.3489
0.5407	0.5391	0.5331	0.5574
0.6791	0.6953	0.6922	0.7075
0.5294	0.5328	0.5484	0.4891
0.4373	0.4436	0.4566	0.4011
43.82	43.64	43.76	41.85

4. Liquidity

(end of period)

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

Sep-12	Aug-12	Jul-12	Sep-11
12.1	11.4	12.3	14.3
576.7	527.4	540.1	661.7

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

Sep-12	Aug-12	Jul-12	Sep-11
1744.45	1626.03	1593.91	1771.85
19.5	20.5	22.8	24.0
113.4	113.3	103.1	111.1

6. Money and Credit

(year-on-year % change)

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

Sep-12	Aug-12	Jul-12	Sep-11
9.8	9.5	22.5	39.2
4.4	3.3	5.7	11.8
11.2	11.9	7.7	6.7
9.4	8.9	26.7	51.0
3.4	2.5	-1.6	0.2
5.2	5.0	4.7	-3.4

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

Sep-12	Aug-12	Jul-12	Sep-11
6.84	6.89	6.98	7.49
0.82	0.84	0.84	1.04
2.34	2.33	2.51	3.23
n.i	n.i	n.i	n.i
1.00	1.00	1.00	2.00
n.t	n.t	n.t	n.t
4.00	4.00	4.00	n.i
5.98	6.10	6.20	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