



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 29

No. 09

Month Ended September 2012

Prospects for the global economy have deteriorated further over the month of September. While the International Monetary Fund (IMF)'s 2012 growth projection for the world economy still stands at 3.5 percent, latest data point to a slowdown in advanced economies in the third quarter of this year. Confidence in developed economies has fallen over the past months driven mainly by the ongoing crisis in the Euro zone and renewed fears about its future. The latest plans by the European Central Bank to purchase sovereign bonds via its Outright Monetary Transactions program brought some semblance of stability to international financial markets and boosted confidence. However, recently, there have been indications that Spain may require a full bailout, leading to a re-emergence of uncertainty over growth prospects and escalation of downside risks over the region.

The United States economy continues to experience a moderate slowdown with its Gross Domestic Product (GDP) growing at a tepid annualised rate of 1.7 percent in the June quarter - a slowdown from the 2.0 percent expansion in the previous quarter. The economic slowdown in China led to a reduction in demand for Australia's mineral exports and contributed to the deceleration in growth of our largest trading partner from 1.7 percent in the March quarter to 0.6 percent in the June quarter. In addition, after the waning of stimulus spending on reconstruction in both New Zealand and Japan, both economies are now encountering weaker domestic activity and declining global demand for their exports. Overall, the global economic outlook has become more subdued compared to a few months ago with risks tilted largely to the downside.

Domestically, real sector outcomes were mixed in the review period. Sugar production from late June to August rose by 10.2 percent despite a 14.1 percent decline in cane production - indicative of the improvement in milling efficiency and quality of

cane supplied to the mills. Additionally, latest data available on cement and gold production reveal that output rose in the first eight months of this year. On the downside, however, electricity production fell marginally cumulative to August (-0.5%) underpinned by the reduction in electricity consumption (-1.7%) and the blackouts encountered in April this year coupled with energy conservation measures adopted by consumers. Despite positive performances across major sectors over the first half of this year, the softness on the global economic front may impinge on real sector outcomes in the coming months.

Developments in partial indicators for investment portray a positive picture over the review month. Domestic cement sales - a proxy of domestic construction activity registered an annual growth of 5.0 percent cumulative to August. Furthermore, new investment lending grew in the first eight months of the year, owing to higher credit channelled towards the real estate sector. Taking into account the envisaged construction and investment projects for this year, Fiji's investment level is forecast to be around 18.0 percent of GDP in 2012.

Consumption remained robust in the first eight months of this year, as suggested by the annual increase (14.2%) in domestic VAT collections. During the same period, new consumption lending rose significantly (123.2 %) underpinned by higher lending to the wholesale, retail, hotels & restaurants sector. Furthermore, the results of the June 2012 RBF Retail Sales Survey (RSS) depicts a favourable outlook for retail sales with respondents projecting an 8.9 percent yearly increase, up from the 3.3 percent anticipated in the December 2011 RBF RSS. While the reductions in income tax rates have supported consumption and economic activity well, it should be noted that a large portion of current consumption spending is on imported items which

can dampen foreign reserves levels over time.

Labour market conditions have shown further signs of improvement, according to the RBF's Job Advertisement Survey. The number of vacant positions advertised in the year to August increased annually by 14.0 percent, led by the wholesale & retail trade & restaurants & hotels, community, social & personal services and finance, insurance, real estate & business services sectors.

Financial conditions during the review month remained conducive to intermediation with ample liquidity in the banking system and low interest rates. Broad Money decelerated in August to 3.3 percent from 5.7 percent in July led by a 10.5 percent decline in Net Foreign Assets. In addition, domestic credit grew by 5.0 percent in August underpinned mainly by higher private sector credit. The pickup in credit momentum compared to last year should support growth going into next year.

Liquidity rose by \$49.3 million to \$576.7 million over the month to September underpinned by an increase in foreign reserves. Currently (5/10), liquidity is around \$548.3 million. In tandem with ample liquidity in the banking system, commercial banks' outstanding lending rate declined further by 9 basis points to 6.89 percent while the time deposit rate fell by 18 basis points to 2.33 percent in August.

Inflation in September rose slightly to 3.7 percent from 3.5 percent in August. The year-end forecast still stands at 3.5 percent.

On exchange rate movements in September, the Fiji dollar strengthened against the US dollar (1.7%), Japanese Yen (0.4%) and the Australian dollar (0.3%) but weakened against the New Zealand dollar (-2.3%) and the Euro (-1.4%). However, over the year, the Fiji dollar strengthened against the Euro (9.0 %), US dollar (3.6%) and the Japanese Yen (4.7%) but depreciated further against the New Zealand and Australian dollars by 4.2 percent and 3.0 percent, respectively.

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> index fell over the month in September by 0.1 percent, indicating an overall depreciation of the Fiji dollar against its major trading partner currencies. However, on an annual basis, the NEER index rose marginally by 0.2 percent.

In the same period, the Real Effective Exchange Rate (REER)<sup>2</sup> index fell over the month by 1.0 percent, reflecting a gain in Fiji's international competitiveness despite a tepid growth in the domestic inflation rate from 3.5 percent to 3.7 percent, relative to a growth in the weighted average trading partner inflation rate from 1.5 percent to 1.6 percent in the review period. The gain in competitiveness was mainly attributed by a depreciation of the Fiji dollar against its major trading partner currencies. On an annual basis, the REER index rose by 2.4 percent.

Foreign reserves were around \$1,601.3 million at the end of September, sufficient to cover 5.1 months of retained imports of goods and non-factor services.

## RESERVE BANK OF FIJI

---

<sup>1</sup> 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.

<sup>2</sup> 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 REER index indicates an improvement in Fiji's international competitiveness and vice-versa.

FIJI: FINANCIAL STATISTICS

Vol.29 No.09 2012

**KEY INDICATORS**

**1. Consumer Prices \***  
(year-on-year % change)

All Items  
Food

Sep-12	Aug-12	Jul-12	Jun-12	Sep-11
3.7	3.5	4.0	4.5	9.7
3.1	3.0	3.0	3.6	9.1

**2. Reserves**  
(end of period)

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

Sep-12	Aug-12	Jul-12	Jun-12	Sep-11
1,601.3 (p)	1,512.20	1,514.10	1,487.50	1,626.20

**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	Jun-12	Sep-11
0.5646	0.5549	0.5598	0.5479	0.5448
0.3478	0.3515	0.3563	0.3532	0.3489
0.5407	0.5391	0.5331	0.5456	0.5574
0.6791	0.6953	0.6922	0.6957	0.7075
0.5294	0.5328	0.5484	0.5290	0.4891
0.4373	0.4436	0.4566	0.4405	0.4011
43.82	43.64	43.76	43.54	41.85

**4. Liquidity**  
(end of period)

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

Sep-12	Aug-12	Jul-12	Jun-12	Sep-11
n.a	11.4	12.3	12.8	14.3
576.7	527.5	540.1	535.5	661.8

**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	Jun-12	Sep-11
1,744.50	1,626	1,593.90	1,596.70	1,771.85
19.5	20.5	22.8	20.1	24.0
113.4	113.3	103.1	95.6	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	Jun-12	Sep-11
n.a	9.5	22.5	29.7	39.2
n.a	3.3	5.7	8.3	11.8
n.a	11.9	7.7	9.0	6.7
n.a	8.9	26.7	36.1	51.0
n.a	2.5	-1.6	-2.6	0.2
n.a	5.0	4.7	5.9	-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)<sup>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

Sep-12	Aug-12	Jul-12	Jun-12	Sep-11
n.a	6.89	6.98	6.99	7.49
n.a	0.84	0.84	0.84	1.04
n.a	2.33	2.51	2.56	3.23
n.i	n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00	2.00
n.t	n.t	n.t	n.t	n.t
4.00	4.00	4.00	4.00	n.i
5.98	6.10	6.20	6.44	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  
n.a Not Available

Sources: \* Fiji Bureau of Statistics  
\*\* Bloomberg