



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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In light of the increased downside risks to the global economy, particularly via intensified concerns for Europe's sovereign debt crisis, there have been downward revisions to the growth prospects of Fiji's major trading partner economies for 2011 and 2012. Growth estimates for 2011 have been lowered for Japan, the United States (US) and India, while projections for the Euro zone, Japan, China, India and New Zealand have been downgraded for 2012. Notably, increased austerity measures, low confidence and delays in reaching a solution to the debt crisis are expected to result in a Euro zone recession for 2012.

During the review period, there was variation in real sector outcomes. Cumulative to November, annually higher cane output (15.5%) and improved mill efficiency¹ underpinned the yearly improvement in sugar production (18.6%). Tourism activity remained strong as indicated by the growth in visitor arrivals cumulative to October (6.8%), supported by Tourism Fiji's active promotion and marketing campaign and external demand. Additionally, the recent expansion of Air Pacific's services to and from Fiji; particularly for Australia, should further boost tourism activity. In contrast, contractions in electricity production (-4.2%) and consumption (-2.1%) cumulative to November underscored the patchy domestic economic recovery registered in 2011. Additionally, gold output remained relatively weak in the year to October (-22.1%), with year-end output estimated to be annually lower than initial expectations.

Overall demand in 2011 has been driven by the pick-up, albeit moderate, in consumption activity. Cumulative to October, Net Value Added Tax (VAT) collections (a partial indicator for consumption), rose by 31.0 percent; supported by

increased Pay As You Earn (PAYE) collections (7.8%) for the same period. The growth in visitor arrivals and increased consumption lending (32.8%) sustained consumption activity. However, remittances inflow declined marginally (-0.9%) cumulative to September, underlining subdued demand in some of Fiji's key trading partner economies.

Investment indicators suggest some recovery for 2012. New lending for investment purposes rose by 50.5 percent in the year to November in 2011, suggesting firms' willingness to increase investment in line with the positive economic outlook for 2012. Nevertheless, recent investment intentions and activities have been focused on Fiji's resource and tourism sectors, suggesting subdued fixed capital formation in other industries.

Recruitment intentions, as per the results of the RBF's Job Advertisement Survey, suggest continuing softness in labour market conditions. In 2011, the number of jobs advertised noted an annual decline of 11.4 percent, driven by the wholesale, retail trade & restaurants & hotels, community, social & personal services, construction, transport, storage & communication and electricity & water sectors.

Inflation in November was 8.8 percent, which compares with the 9.1 percent rate registered in the previous month. On a monthly basis, consumer prices rose by 1.8 percent, largely underpinned by the increase in taxi fares with no major movements in prices across other categories. Inflation is expected to moderate in the months ahead.

¹ Tonnes Cane to Tonnes Sugar (TCTS) 12.3, cumulative to November.

The gradual diminishing effects of temporary factors (higher commodity prices, increase in the electricity tariff rate in November 2010 and the increase in the VAT rate in January 2011), should contribute to the easing of inflationary pressures in 2012.

In the banking sector, broad money (M2) rose on an annual basis by 14.8 percent in November, a slight slowdown when compared with the previous month (15.9%). This was underpinned by a relatively lower growth in net foreign assets, which partly offset the modest recovery in domestic credit expansion. Over the review period, growth in net foreign assets fell from 22.1 percent in October to 17.0 percent in November, while domestic credit grew by 5.4 percent, from a growth of 4.5 percent in October. The recovery in domestic credit was attributed to the growth in private sector credit (6.9%) and improved claims on official entities (12.1%).

Over the month to November, the Fiji dollar strengthened against the New Zealand (2.8%) and Australian dollars (2.1%) as well as the Euro (1.3%), but weakened against the US dollar (-4.5%) and the Japanese Yen (-1.7%). On an annual basis, the Fiji dollar depreciated against the Japanese Yen (-5.3%) and the Australian dollar (-1.7%), but appreciated against the US dollar (2.5%), the Euro (0.8%) and the New Zealand dollar (0.3%).

Liquidity in the banking system, measured by bank demand deposits rose by \$13.1 million (2.6%) over the month to \$510.2 million as at 30 December.

As at 30 December 2011, foreign exchange reserves stood at \$1,511.9 million, equivalent to around 5.0 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

Nov-11	Oct-11	Sep-11	Nov-10
8.8	9.1	9.7	4.0
12.3	8.2	9.1	0.9

2. Reserves

(end of period)

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

Nov-11	Oct-11	Sep-11	Nov-10
1464.2	1543.0	1626.2	1281.4

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

Nov-11	Oct-11	Sep-11	Nov-10
0.547	0.5727	0.5448	0.5339
0.3503	0.3552	0.3489	0.3431
0.5457	0.5347	0.5574	0.5554
0.7179	0.6983	0.7075	0.7154
0.5032	0.4954	0.4891	0.5342
0.4103	0.4050	0.4011	0.4070
42.59	43.31	41.85	44.97

4. Liquidity

(end of period)

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

Nov-11	Oct-11	Sep-11	Nov-10
11.0	12.5	14.3	10.8
497.1	571.2	661.8	374.6

5. Commodity Prices (US\$) **

(monthly average)

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

Nov-11	Oct-11	Sep-11	Nov-10
1739.0	1665.2	1771.9	1369.9
24.6	26.3	26.7	35.4
111.4	109.5	111.1	85.7

6. Money and Credit

(year-on-year % change)

Narrow Money
Broad Money
Currency in Circulation (monthly average)
Quasi-Money (Time & Saving Deposits)
Domestic Credit

Nov-11	Oct-11	Sep-11	Nov-10
37.8	36.6	38.2	12.0
14.8	15.9	15.9	5.1
3.7	5.2	5.7	12.9
-1.5	1.5	1.0	0.6
5.4	4.5	-0.8	-0.6

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

Nov-11	Oct-11	Sep-11	Nov-10
7.46	7.45	7.49	7.42
1.06	1.03	1.04	1.02
3.12	3.14	3.23	4.93
n.i	n.i	n.i	2.82
1.00	2.00	2.00	3.00
n.t.	n.t.	n.t.	n.t.
n.i	n.i	n.i	n.i
n.i	n.i	n.i	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:

^{1/} Fiji Bureau of Statistics
^{2/} Bloomberg