



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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International economic and financial conditions continued to weaken driven by the escalation of Europe's sovereign debt crisis. As a result, confidence and growth prospects have deteriorated while financial sector fragilities and downside risks have increased. Recovery in the global economy is now expected to slow to 3.3 percent this year, from an estimated 3.8 percent expansion last year.

While a further intensification of the European debt crisis has been abated by the successful second bailout of Greece for now, significant downside risks remain. The Euro zone economy is expected to enter into a mild recession this year and both advanced and emerging & developing economies are expected to slow due to a combination of external and domestic factors. Apart from the United States, growth in Fiji's other major trading partner countries is also poised to be lower than previously expected.

Despite the estimated slowdown in the global economy in 2011, the domestic economy is expected to have expanded by an estimated 2.1 percent, driven largely by the primary and service industries. However, the recent floods in the Western Division in January pose some downward bias for the 2.3 percent growth forecast for 2012. Preliminary assessments indicate notable impact on the agriculture, wholesale & retail, construction, and electricity & water sectors.

Recent real sector developments showed that cane and sugar production and visitor arrivals improved while gold and electricity production noted annual declines. Consumption demand expanded, reflected by partial indicators including net Value Added Tax (VAT) collections, new consumption lending and imports of consumption goods, which gained annually. Higher personal incomes, buoyant

tourism activity and stable remittances continued to support consumption activity. However, investment levels remained subdued. While new investment lending and imports of investment goods picked up over the year, other partial indicators such as value of work-put-in-place noted declines.

For 2012, consumption and investment are expected to be positive on account of higher incomes, lower corporate and personal tax rates and increased investment incentives extended by the Government through the 2012 National Budget.

Labour market conditions remained weak as reflected by the Reserve Bank's January 2012 Job Advertisement survey. In the months ahead, recruitment intentions remain uncertain as improvements in investment demand from the National Budget's investor friendly policies may be offset to some extent by slowing business activity due to the recent floods.

Broad money rose annually by 14.5 percent in January supported by a buildup in net foreign assets (17.4 %) and an expansion in domestic credit (4.8 %). Growth in private sector credit slowed to 6.5 percent from a marked growth of 7.6 percent recorded last month, indicating some positive impact of the three reductions in the Overnight Policy Rate (OPR) last year and on-going discussions with commercial banks. This year, credit is expected to remain upbeat, supported by the recent implementation of the Government's new Small and Medium Enterprise (SME) credit guarantee scheme and the Reserve Bank's required Agriculture and Renewable Energy Loan ratios. To a lesser extent, forecast increases in consumption and investment demand as well as anticipated flood related reconstruction, are also expected to support credit expansion.

In January, the Fiji dollar weakened, over the month, against the New Zealand dollar (-3.0%) and the Australian dollar (-1.3%), but strengthened against the US dollar (3.2%), Euro (1.8%) and the Yen (1.4%). However, over the year, the Fiji dollar fell against the Yen (-3.2%), Australian dollar (-2.9%) and the New Zealand dollar (-2.4%), but rose substantially against the Euro (7.6%), and to a lesser extent against the US dollar (3.9%).

In January, headline inflation fell to 5.9 percent

from 7.7 percent in December last year due to the fading of one-off price increases and easing commodity prices. The recent floods are expected to impact inflation outcomes in the next two to three months through higher prices for agricultural market items. However, with the supply of these items expected to normalise in the months ahead, year-end inflation forecast remains at 3.5 percent.

Foreign reserves as at 29 February were around \$1,497.2 million, sufficient to cover 4.7 months of retained imports of goods and services.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS

	Jan-12	Dec-11	Nov-11	Jan-11
1. Consumer Prices * (year-on-year % change)				
All Items	5.9	7.7	8.8	5.9
Food	6.3	9.1	12.3	3.8
2. Reserves (end of period)				
Foreign Reserves (\$m) ^{1/}	1504.0	1512.5	1464.2	1299.0
3. Exchange Rates (mid rates, F\$1 equals) (end of period)				
US dollar	0.5668	0.5493	0.5470	0.5453
Pound sterling	0.3611	0.3568	0.3503	0.3442
Australian dollar	0.5350	0.5421	0.5457	0.5511
New Zealand dollar	0.6913	0.7126	0.7179	0.7083
Swiss francs	0.5206	0.5171	0.5032	0.5138
Euro	0.4319	0.4244	0.4103	0.4012
Japanese yen	43.26	42.68	42.59	44.70
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.9	12.2	11.0	10.9
Banks' Demand Deposits (\$m)	521.7	510.2	497.1	370.9
5. Commodity Prices (US\$) ** (monthly average)				
UK Gold Price/fine ounce	1656.1	1652.3	1739.0	1356.4
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	24.0	23.4	24.5	24.6
Crude Oil/barrel	111.2	107.9	111.4	96.3
6. Money and Credit (year-on-year % change)				
Narrow Money	25.8	40.7	37.8	13.5
Broad Money	14.5	16.5	14.8	4.7
Currency in Circulation (monthly average)	3.1	3.2	5.3	12.1
Quasi-Money (Time & Saving Deposits)	6.4	-0.7	-1.5	-0.9
Domestic Credit	4.8	6.2	5.4	-1.7
7. Interest Rates (% p.a.) (weighted monthly average)				
RBF Overnight Policy Rate	0.50	0.50	0.50	2.50
Lending Rate (Excluding Staff)	7.43	7.42	7.46	7.42
Savings Deposit Rate	0.91	0.91	1.06	1.07
Time Deposit Rate	2.81	2.97	3.12	4.58
14-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end) ^{2/}	1.00	1.00	1.00	3.00
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	n.i	n.i
10-Year Government Bond Yield	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: * Fiji Bureau of Statistics
 ** Bloomberg