



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions and outlook have improved, after being threatened by the Euro zone crisis during 2011, and early this year. The International Monetary Fund (IMF) has revised its growth forecast for 2012 upwards to 3.5 percent, from the 3.3 percent projected earlier in the year. This was on account of strong performance in the United States (US) economy in the later part of 2011, and the quick reaction by the European leaders in addressing the Greek debt crisis in March this year. Growth prospects have also improved in the US, Australia, New Zealand and Japan. However, significant downside risks remain, in particular in the Euro zone. Commodity prices have moderated and are expected to remain stable in the coming months, notwithstanding negative geopolitical and supply-side developments.

On the domestic front, the economy experienced some temporary shock, amidst adverse weather conditions in the first quarter of this year. On the downside, the agriculture industry (cane and non-cane) was directly affected, while damages to infrastructure (including utilities) is expected to be offset by increased reconstruction and Government activities in its rehabilitation efforts, together with some temporary boost to spending, as businesses and households restock or replace items. However, this will largely reflect repairs to capital stock and not major improvements to net wealth. Furthermore, given that damages to crops and infrastructure were concentrated mainly in the Western division, the overall flood impact is likely to be contained, as the economy continues on its recovery path.

On recent sectoral outcomes, gold production improved (42.1%) cumulative to February this year, and higher industrial demand underpinned the marginal growth (1.6%) in electricity generation.

Consumer spending continued to pick-up in the

review period, as evident from the growth in new consumption lending (97.7%) and domestic Value Added Tax (VAT) collections, (22.3%) in quarter one and in the year to January, respectively. Additionally, consequent to a higher growth in VAT refund (100.1%) in the year to January, the net VAT recorded a marginal increase (1.5%). In terms of spending by households on durables, survey results on household durable sales reveal a more positive outlook.

Business fixed investment remains subdued across industries (apart from tourism and resource sectors, as these stand to be boosted by a number of tourism projects - namely the Denarau Casino Resort, Peppers Naisoso Apartments, and the refurbishment of the Grand Pacific Hotel, together with the commencement of bauxite mining activity in Nawailevu respectively). Accordingly, new investment lending grew significantly in the year to March, pointing to some envisaged pick-up in fixed capital formation.

Additionally, other on-going construction projects, together with the implementation of Government's capital projects should firm the investment outlook for this year, and create job opportunities in the economy. As it is, the labour market remains weak, as evident by the marginal growth (1.1%) in the number of vacant positions advertised in the first quarter.

Financial conditions, on balance, are improving as evident by the yearly rise in domestic credit by 2.3 percent in March, underpinned by the steady growth in private sector lending. While the acceleration in outstanding bank credit (7.3%) in the year to March was led by business credit growth, total deposits growth (16.5%) outpaced credit expansion in the review period, indicative somewhat of business and household preference to hold their assets in deposits.

It is also likely that from April onwards, those households and businesses affected by the floods may drawdown on their savings rather than increase their indebtedness in an effort to re-build houses and get their businesses running.

Nevertheless, the relatively higher bank liquidity levels, which totalled \$537.4 million in March, have continued to influence deposit rate downwards.

Inflation in March stood at 5.6 percent, compared to 6.2 percent in February, underpinned by lower

prices of cereals, preserved meat, some beverage drinks and market items. While the impact of the floods are expected to cause some temporary rise in prices of fruits, vegetables and other crops - these effects are likely to fade away by year-end, keeping the annual inflation rate for 2012 intact at 3.5 percent.

Foreign reserves were around \$1,447.8 million at the end of April, sufficient to cover 4.6 months of retained imports of goods and non-factor services.

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

Mar-12	Feb-12	Jan-12	Mar-11
5.6	6.2	5.9	7.6
6.3	8.1	6.3	7.5

2. Reserves

(end of period)

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

Mar-12	Feb-12	Jan-12	Mar-11
1513.2	1496.7	1503.4	1278.8

3. Exchange Rates

(mid rates, FS1 equals)

(end of period)

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

Mar-12	Feb-12	Jan-12	Mar-11
0.5610	0.5725	0.5668	0.5538
0.3516	0.3602	0.3611	0.3445
0.5400	0.5317	0.5350	0.5362
0.6861	0.6837	0.6913	0.7262
0.5085	0.5126	0.5206	0.5087
0.4217	0.4254	0.4319	0.3920
46.24	46.08	43.26	45.90

4. Liquidity

(end of period)

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

Mar-12	Feb-12	Jan-12	Mar-11
12.8	12.8	10.9	10.2
537.4	537.8	521.7	358.9

5. Commodity Prices (US\$) **

(monthly average)

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

Mar-12	Feb-12	Jan-12	Mar-11
1673.8	1742.6	1656.1	1424.0
24.7	24.1	23.5	23.1
124.9	119.7	111.2	114.4

6. Money and Credit

(year-on-year % change)

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

Mar-12	Feb-12	Jan-12	Mar-11
41.2	30.3	23.8	9.7
13.2	17.7	16.8	9.8
8.6	4.9	5.7	9.6
1.1	3.1	5.5	-0.7
2.3	15.0	14.9	12.9

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

Mar-12	Feb-12	Jan-12	Mar-11
7.17	7.36	7.43	7.44
0.65	0.91	0.91	1.15
2.73	2.81	2.81	4.42
n.i	n.i	n.i	n.i
1.00	1.00	1.00	2.50
n.t	n.t	n.t	n.t
n.i	n.i	n.i	n.i
6.60	6.75	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