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Global economic conditions have deteriorated over the past month due to renewed sovereign debt and financial sector concerns in Europe.

While growth in Fiji's major trading partner economies is expected to remain positive this year, latest data suggest softening economic activity. The Euro zone continues to struggle to contain its debt crisis as the contagion effect spreads to other economies. Spain and Cyprus have now joined Ireland, Portugal and Greece, in requiring a bailout to assist their fragile banking sectors. The United States economy is also slowing as manufacturing output and employment sentiments decline. In Japan, recovery after reconstruction from the earthquake is cooling, while in emerging Asia, the Chinese and Indian economies continue to decelerate as reflected by declining investment and industrial output due to reduced external demand. In Australia, non-mining sectors continue to show economic slack while New Zealand has been affected by lower commodity prices and worsening trading partner outlook.

On the domestic front, despite the floods in the first quarter of the year, the economic recovery which started in 2011 is expected to continue into this year. Latest data indicate that the real sector outcomes remained largely favourable in the first half of the year. Visitor arrivals increased in the first quarter by 3.7 percent on an annual basis. Gold and cement production increased annually, by 13.9 percent and 5.2 percent respectively in the first five months. Real sector activity in the second half of the year is expected to be supported by recent developments in the mining and forestry sectors, the commencement of sugar harvesting and the onset of the peak tourism season.

Consumption activity remained positive as noted by an annual growth in domestic Valued Added Tax collections of 18.7 percent, reflecting positive

stimulus from lower personal income taxes. Lending for consumption purposes rose annually by a significant 88.4 percent in the year to May.

In contrast, investment activity indicators suggest slow performance over the same period. On one hand, new lending for investment purposes was higher by around \$41.4 million in the first five months due to higher lending to real estate and building & construction sectors. On the other hand, domestic cement sales declined annually by 2.2 percent, suggesting weak activity in the construction sector.

The labour market continued to exhibit weakness, as reflected in the RBF's Job Advertisements Survey. After registering a slight improvement in the preceding months, the Survey highlighted that the number of vacant positions advertised in the year to May declined by 1.3 percent when compared to the same period in 2011.

Growth in broad money (M3) slowed from 13.1 percent in April to 8.8 percent in May, mainly reflecting the normalisation of the effects of large one-off foreign reserve inflows pertaining to government's international bond issue in 2011.

The current growth in M3 was underpinned by growth in Net Domestic Credit, which rose by 4.2 percent in May, up from a growth of 3.5 percent in April. Moreover, private sector credit rose by 3.4 percent in the review month, after a growth of 3.5 percent in April. The outturn was underpinned by higher commercial banks lending to the wholesale, retail, hotels & restaurants, manufacturing, transport & storage and agriculture sectors. In the same period, net credit to the Non-Financial Public Sector and Other Financial Corporations rose by 14.3 percent and 2.9 percent, respectively. In the meantime, the annual growth in Net Foreign Assets slowed to 3.0 percent in May, from 21.8

percent in April.

In line with high liquidity in the banking system (\$538m), commercial banks' lending and time deposit rates fell by 2 and 4 basis points to 7.11 and 2.61 percent, respectively in the review period. Similarly, both the lending and time deposit rates of Licensed Credit Institutions declined over the review period by 17 and 104 basis points to 11.31 and 3.60 percent, respectively.

Bilateral movements of the domestic currency against major trading partner currencies were mixed in June. The Fiji dollar weakened against the New Zealand (2.2%) and Australian (1.2%) dollars but strengthened against the Japanese Yen (2.7%), the US dollar (2.2%) and the Euro (1.6%). On an annual basis, the Fiji dollar depreciated against the Yen (5.8%) and the US dollar (4.2%) but appreciated significantly against the Euro (11.1%) and to a lesser extent, against the Australian (1.9%) and New Zealand (0.4%) dollars.

The Nominal Effective Exchange Rate (NEER)¹ index rose marginally over the month in June by 0.02 percent, indicating an overall appreciation of the Fiji dollar against its major trading partner currencies. However, on an annual basis, the NEER

index fell by 0.5 percent.

In the same period, the Real Effective Exchange Rate (REER)² index rose marginally over the month by 0.1 percent, reflecting a loss in Fiji's international competitiveness despite a larger decline in domestic inflation rate from 4.7 to 4.5 percent relative to a decline in trading partner inflation rate from 1.6 percent to 1.5 percent in the review period. The loss in competitiveness was also attributed to an overall appreciation of Fiji dollar against its major trading partner currencies. However, on an annual basis, the REER index rose by 2.3 percent.

Inflation in June declined further to 4.5 percent from 4.7 percent in May and 6.4 percent in April. The negative impact from the March 2012 flood is expected to have been fully realised in April due to the normalising supply of agricultural items, which was the key driver of the high inflation in April. Inflation is expected to ease further in the coming months as one-off shocks are expected to fade.

Foreign reserves were around \$1,488 million, at the end of June, sufficient to cover 4.7 months of retained imports of goods and non-factor services.

RESERVE BANK OF FIJI

¹ 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 an appreciation of the Fiji dollar against the basket of currencies and vice versa.

² 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.

FIJI: FINANCIAL STATISTICS

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

May-12	Apr-12	Mar-12	May-11
4.7	6.4	5.6	8.8
4.0	6.9	6.3	9.3

2. Reserves

(end of period)

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

May-12	Apr-12	Mar-12	May-11
1447.7	1482.3	1513.2	1469.2

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

May-12	Apr-12	Mar-12	May-11
0.5361	0.5636	0.5610	0.5699
0.3463	0.3466	0.3516	0.3461
0.5522	0.5388	0.5400	0.5336
0.7117	0.6853	0.6861	0.6987
0.5206	0.5116	0.5085	0.4860
0.4335	0.4259	0.4217	0.3991
42.39	45.26	46.24	46.14

4. Liquidity

(end of period)

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

May-12	Apr-12	Mar-12	May-11
11.1	12.3	12.8	14.4
492.8	538.1	537.4	520.7

5. Commodity Prices (US\$)**

(monthly average)

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

May-12	Apr-12	Mar-12	May-11
1585.5	1650.1	1673.8	1510.6
20.2	23.1	24.7	22.0
110.5	120.5	124.9	114.5

6. Money and Credit

(year-on-year % change)

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

May-12	Apr-12	Mar-12	May-11
27.8	39.0	41.2	24.7
8.8	13.1	13.2	5.8
8.2	6.5	8.6	9.6
33.9	50.2	52.3	30.3
0.1	1.8	1.1	-2.4
4.2	3.5	2.3	-3.7

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

May-12	Apr-12	Mar-12	May-11
7.11	7.13	7.17	7.50
0.86	0.85	0.65	1.21
2.61	2.65	2.73	4.03
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	n.i	n.i
6.51	5.00	6.60	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