



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Prospects for the global economy have deteriorated over the past month due to rising tensions relating to recent developments in the European sovereign debt crisis and weak economic data in other major economies. In the Euro zone, manufacturing and service industries contracted in May while speculation about a Greek exit remains rife and continues to impact confidence across the region. In other major economies, confidence in the United States is waning as manufacturing activity contracted in April, while the rebound in Japan is showing signs of cooling off. In Australia, the central bank reduced its benchmark interest rate on prospects of modest domestic growth and the possibility of an external demand shock. Despite the rise in downside risks, growth in our major trading partner economies is currently expected to remain positive this year.

In the domestic economy, growth for 2012 was recently revised upwards by the Macroeconomic Policy Committee to 2.7 percent from 2.3 percent. The outturn was underpinned by improved prospects for government related sectors; communication; construction; wholesale & retail; fishing; other community, social & personal service activities; forestry; mining & quarrying; manufacturing and the electricity & water sector, which more than offset the damage suffered from the recent flood. The outlook for 2013 was also revised upwards, to 2.9 percent, and is generally expected to be broad based.

Recent domestic developments indicate better sectoral performances and buoyant demand conditions in quarter 1, compared to the corresponding period in 2011. Electricity consumption – a broad measure of underlying economic activity – rose marginally on an annual basis by 0.2 percent in the first three months of the year, led by higher industrial consumption. Production in the mining sector was robust in the

March quarter, with gold output rising by 26.4 percent from the same period last year. Visitor arrivals continued its favourable performance after its record year in 2011, with tourist numbers rising over the year by 1.6 percent cumulative to February. In addition, the latest Industrial Production Index and the survey of Wholesale & Retail Trade & Repair of Motor Vehicles & Motor Cycles for 2011, which were released in May, both registered increases of 4.3 and 1.5 percent, respectively.

Consumption activity remained strong, reflected in the sturdy growth in domestic VAT collections as well as lending activities by commercial banks. Domestic VAT collections rose on an annual basis by 23.2 percent cumulative to March, reflecting stronger wholesale and retail activity. In addition, consumption loans by commercial banks cumulative to April rose over the year by \$24 million to \$47.9 million. In the coming months, consumption activity is expected to remain strong due to higher household sector disposable income levels resulting from lower income tax rates in 2012. This is further supported by stronger business sentiments, as revealed in the December 2011 Business Expectations Survey (BES).

However, recent data on investment activity is still mixed. Investment lending, cumulative to April, rose significantly from \$3.7 million last year to \$37.7 million in the same period this year, mainly led by lending to the real estate and building & construction sectors. Domestic cement sales, on the other hand, noted a decline in the same period, generally a reflection of the sluggish recovery in the building and construction sector. Encouragingly, results from the BES revealed that 62.0 percent of net respondents expect to invest more in plant and machinery in 2012 while 48.0 percent expect to invest in buildings. Additionally, some upcoming tourism projects such as the Denarau Casino Resort, Peppers Naisoso Apartments, and the Grand Pacific

Hotel, together with the Government's capital projects, are likely to boost investment in the next twelve months.

Financial conditions improved further as indicated by the growth in monetary and credit aggregates, ample liquidity in the banking system and low interest rates. Growth in broad money remained buoyant at 13.1 percent in April despite a marginal slowdown from March, on account of the growth in the net foreign assets of the banking system (19.6%) and domestic credit (3.5%).

The rise in domestic credit was underpinned by higher private sector credit which grew by 3.5 percent in the year to April. This was further supported by Government borrowing from the banking sector, which rose in the review month by 4.8 percent, the first time since September 2010. In line with high liquidity in the banking system (\$524m), interest rates for both lending and deposit rates fell by 4 basis points and 8 basis points to 7.13 percent and 2.65 percent, respectively.

Bilateral movements in the exchange rate in May indicated that over the month, the Fiji dollar weakened against the Japanese Yen (-6.3%) and the US dollar (-4.9%) but strengthened against the New Zealand (3.8%) and Australian (2.5%) dollars, as

well as, the Euro (1.8%). However, over the year, the Fiji dollar fell against the Yen (-8.1%) and the US dollar (-5.9%), but rose against the Euro (8.6%), Australian dollar (3.5%) and to a lesser extent, the New Zealand dollar (1.8%).

The Nominal Effective Exchange Rate (NEER)¹ index fell over the month by 0.2 percent, indicating an overall depreciation of the Fiji dollar against its major trading partner currencies. However, on an annual basis, the NEER rose by 0.3 percent.

In contrast, the Real Effective Exchange Rate (REER)² index rose over the month by 1.5 percent, reflecting a loss in Fiji's international competitiveness. This was mainly on account of a relatively higher domestic inflation rate of 6.4 percent compared to an average trading partner inflation rate of 1.9 percent. Similarly, over the year, the REER grew by 4.7 percent in April, after a growth of 4.4 percent in the previous month.

Inflation in April rose to 6.4 percent from 5.6 percent in March, led by increases in food and energy prices – the former being a consequence mainly of food shortages following the April floods.

Foreign reserves were \$1,447.7 million at the end of May, sufficient to cover 4.6 months of retained imports of goods and services.

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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 a slight 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, 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

Apr-12	Mar-12	Feb-12	Apr-11
6.4	5.6	6.2	8.1
6.9	6.3	8.1	8.4

2. Reserves

(end of period)

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

Apr-12	Mar-12	Feb-12	Apr-11
1482.3	1513.2	1496.7	1359.0

3. Exchange Rates

(mid rates, F\$1 equals)

(end of period)

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

Apr-12	Mar-12	Feb-12	Apr-11
0.5636	0.5610	0.5725	0.5740
0.3466	0.3516	0.3602	0.3450
0.5388	0.5400	0.5317	0.5254
0.6853	0.6861	0.6837	0.7155
0.5116	0.5085	0.5126	0.5014
0.4259	0.4217	0.4254	0.3872
45.26	46.24	46.08	46.78

4. Liquidity

(end of period)

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

Apr-12	Mar-12	Feb-12	Apr-11
12.3	12.8	12.8	11.0
538.1	537.4	537.8	457.7

5. Commodity Prices (US\$) **

(monthly average)

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

Apr-12	Mar-12	Feb-12	Apr-11
1650.1	1673.8	1742.6	1476.0
23.1	24.7	24.1	23.4
120.5	124.9	119.7	122.9

6. Money and Credit

(year-on-year % change)

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

Apr-12	Mar-12	Feb-12	Apr-11
39.0	41.2	34.0	18.5
13.1	13.2	11.3	3.5
6.5	8.6	4.9	8.9
1.8	1.1	3.0	-2.5
3.5	2.3	0.9	-1.3

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

Apr-12	Mar-12	Feb-12	Apr-11
7.13	7.17	7.36	7.44
0.85	0.65	0.91	1.17
2.65	2.73	2.81	4.29
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t	n.t	n.t	n.t
4.00	n.i	n.i	n.i
5.00	6.60	6.8	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