



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions and outlook, on balance, remain positive despite the slight downward revision in global growth prospects by the International Monetary Fund late last month. Growth outcomes for most of our major trading partners are projected to be positive this year, with the notable exception of the Euro zone.

Although the US economy contracted in the fourth quarter, the world's largest economy is still estimated to have expanded in 2012 and maintain that momentum into 2013, albeit at a slower pace. In the Euro zone, however, recent indicators continue to signal ongoing weakness and the economy is envisaged to plunge further into recession this year following the contraction last year. The Chinese economy, by contrast, is showing signs of revival on the backdrop of increased public spending with indicators signalling a stable growth this year.

A combination of fiscal and monetary stimulus to deliver growth and avoid a deflationary cycle is expected to spur economic activity in Japan and underpin the modest growth projected for 2013. Growth in the Australian economy is expected to decelerate this year due to softness in non-mining sectors while the New Zealand economy is forecast to expand further in 2013 on the back of increased momentum in reconstruction works in Canterbury.

Domestically, economic outcomes were mixed in the review period. On the industrial front, electricity production, a broad indicator for economic activity, noted an increase (6.1%) in January 2013 partly reflecting the additional electricity production from the Nadarivatu Hydro Power Station. In contrast, cement production for 2012 declined marginally (-0.9%) due to operational issues at the plant in early November.

On the services front, visitor arrivals for 2012

declined (-2.1%)¹ compared with 2011. The decline has been evident since April, following the floods in the first quarter, and persisted through the rest of the year. On a positive note, several hotels and resorts damaged by Cyclone Evan in December 2012 have resumed operations.

More broadly, measures of consumer sentiment suggest the pace of consumer spending continues to strengthen, with increased new consumption lending by banks (25.4%) last year and higher new vehicles sales (39.6%) registered in January this year. In addition, latest Overseas Exchange Transactions (OET) data reveal that imports of consumption goods cumulative to November last year also registered an increase (7.0%). Looking ahead, consumption activity is expected to improve further in 2013, underpinned by the flow-on effects of the reduction in personal income tax rates, the implementation of the Government minimum salary of \$10,000 per annum and the 10 percent wage increase across the board for Government wage earners earlier this year. Additionally, consumption should also be aided by some expected improvement in labour market conditions, contingent on the successful refilling of the increased number of vacant positions advertised during the review period.

Investment is expected to reach 25 percent of GDP in 2013. Domestic cement sales, a partial indicator for construction and investment activity, increased slightly in 2012, indicating a slight pickup in the local construction industry. Domestic cement sales are expected to increase further with a number of ongoing and planned construction projects this year. In addition, bank lending for investment purposes rose last year as a result of higher disbursements to the real estate and building and construction sectors. Furthermore, imports of investment goods as per the

¹ One-day cruise ship visitors are not part of standard visitor arrivals.

latest OET release point to an increase (8.8%) in the first eleven months of 2012.

On financial conditions, broad money growth decelerated in 2012 due to the slowdown in the growth of Net Foreign Assets, as the one-off effect brought about by the global bond proceeds in 2011 were normalised during the year. Growth in domestic credit remained on an upward trend, driven largely by higher private sector credit which rose steadily throughout the year. The increase in private sector credit was led mainly by higher lending by commercial banks' and licensed credit institutions.

Despite an upward trend in lending, liquidity levels remains high at \$573.8 million as at 28 February. Consistent with this, commercial banks' interest rates on lending and time deposits, together with rates in the money and capital markets, generally remain on a downward trend when compared to the end of 2011.

With very little risk envisaged from the buildup in credit by the financial institutions, there is no immediate demand-side risk to the domestic inflation rate. However, domestic inflation outcomes remain largely exposed to supply-side factors given our heavy reliance on imported products. As expected, inflation in February fell to 2.4 percent from 3.2 percent in January. This was largely due to lower prices for some agricultural produce, in part attesting to the resilience in supply following Cyclone Evan in December last year as well as the base-effects of the floods in early 2012. Prices are forecast to normalise in the coming months and year-end inflation rate is expected to remain at 3.0 percent.

Moreover, the lower inflation rate over the month of

February also accounted for some gain in Fiji's international competitiveness relative to major trading partners, signalled by a marginal depreciation in the Real Effective Exchange Rate (REER)² over the month, by 0.3 percent. This is the result of a decline in domestic inflation from 3.2 to 2.4 percent over the month in February, while the average trading partner inflation rate recorded an increase from 1.7 percent to 1.9 percent. During the same period, the Nominal Effective Exchange Rate (NEER)³ index also fell by 0.1 percent, reflecting an overall depreciation of the Fiji dollar against its major trading partner currencies.

Over the month of February, the Fiji dollar depreciated against the US (-1.1%) and the New Zealand (-0.1%) dollars but appreciated against the Euro (2.1%), the Australian dollar (0.5%) and the Japanese Yen (0.1%). On an annual basis, the Fiji dollar depreciated against the US (-2.8%) and the New Zealand (-1.6%) dollars and marginally against the Euro (-0.5%) but appreciated further against the Japanese Yen (11.3%) and the Australian dollar (2.2%).

Developments on the global front have slowly impacted Fiji's trade sectors. The Large Foreign Exchange Transactions Trade data for January suggested that growth in exports over the month have fallen, particularly for Fiji's key commodities. On the other hand, import payments grew from the previous month, driven by mineral fuels, food and beverages, and machinery and transport equipment.

Overall, foreign reserves declined in January by \$36.3 million, to \$1,602.6 million when compared to December last year. As at 28 February, the level of foreign reserves was around \$1,575.7 million, sufficient to cover 4.5 months of retained imports of goods and non-factor services.

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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.

³ 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.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|--------|--------|--------|--------|
| 2.4 | 3.2 | 1.5 | 6.2 |
| 2.2 | 4.9 | 1.4 | 8.1 |

2. Reserves

(end of period)

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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|------------|------------|---------|---------|
| 1,575.7(p) | 1,602.6(p) | 1,638.9 | 1,496.7 |

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|--------|--------|--------|--------|
| 0.5562 | 0.5626 | 0.5595 | 0.5725 |
| 0.3670 | 0.3560 | 0.3461 | 0.3602 |
| 0.5434 | 0.5405 | 0.5398 | 0.5317 |
| 0.6725 | 0.6732 | 0.6825 | 0.6837 |
| 0.5176 | 0.5127 | 0.5112 | 0.5126 |
| 0.4234 | 0.4146 | 0.4233 | 0.4254 |
| 51.30 | 51.27 | 48.04 | 46.08 |

4. Liquidity

(end of period)

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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|--------|--------|--------|--------|
| n.a | n.a | 17.1 | 10.9 |
| 573.8 | 575.1 | 578.0 | 537.8 |

5. Commodity Prices (US\$) **

(monthly average)

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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|---------|---------|---------|---------|
| 1,627.6 | 1,671.0 | 1,686.8 | 1,742.6 |
| 18.2 | 18.7 | 19.2 | 23.7 |
| 116.5 | 113.0 | 109.6 | 119.7 |

6. Money and Credit

(year-on-year % change)

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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|--------|--------|--------|--------|
| n.a | n.a | 4.7 | 27.0 |
| n.a | n.a | 5.9 | 10.3 |
| n.a | n.a | 7.1 | 5.7 |
| n.a | n.a | 4.1 | 34.4 |
| n.a | n.a | 7.8 | 5.4 |
| n.a | n.a | 2.8 | 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

| Feb-13 | Jan-13 | Dec-12 | Feb-12 |
|--------|--------|--------|--------|
| n.a | n.a | 6.65 | 7.43 |
| n.a | n.a | 0.74 | 0.91 |
| n.a | n.a | 2.28 | 2.81 |
| 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 | 4.00 | n.i | n.i |
| 5.54 | 5.00 | 5.74 | 6.75 |

^{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