



RESERVE BANK OF FIJI

ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 30

No. 01

Month Ended January 2013

The International Monetary Fund in January this year, revised down its global growth forecast for 2013 to 3.5 percent, from its earlier forecast of 3.6 percent in October last year. The downward revision was on account of the prolonged recession in the Euro zone economy despite growth projected for the US and other advanced economies for this year. Growth in the emerging and developing economies is expected to be higher in 2013 (5.5%) when compared to 5.1 percent estimated for 2012, mainly driven by developing Asian economies particularly China (8.2%) and India (5.9%). Closer to home, the Australian economy continues to be supported by the mining sector while growth in the New Zealand economy is expected to improve this year.

The domestic economy is forecast to expand by 2.7 percent this year, led by the agriculture, manufacturing and the financial intermediation sectors. This growth is expected to be felt broadly across the economy except the health & social work and the public administration & defence sectors. However, downside risks to this year's growth have increased after taking into account the repercussions of Cyclone Evan and further slowdown noted on the international front.

Sectoral performances were generally subdued in the final months of 2012. Weak outcomes were noted for cane & sugar production, visitor arrivals and gold, while electricity generation noted a marginal growth in the review period. In the 2012 crushing season, the Fiji Sugar Corporation (FSC) crushed 1,546,897 tonnes of sugarcane to manufacture 154,813 tonnes of sugar, representing annual declines of 26.2 percent and 7.1 percent, respectively. In addition, visitor arrivals fell by 1.5 percent in the year to November, while gold production in 2012 fell by 8.0 percent on a yearly basis. In contrast, electricity generated by the Fiji Electricity Authority increased by a marginal 0.1

percent in 2012. Electricity production remained largely constrained in 2012 due to lower demand by consumers and disruptions caused by Cyclone Evan towards the end of the year.

Consumer spending remained firm as revealed by partial indicators, and was broadly in line with higher household disposable incomes, buoyant consumption lending and personal remittances. Cumulative to October 2012, domestic Value Added Tax (VAT) collections rose over the year by 16.2 percent. In addition, new lending for consumption purposes rose by 25.4 percent to \$246.8 million in 2012, while inward remittances rose annually by 3.0 percent during the first 11 months. Looking ahead, consumption activity is expected to strengthen further in 2013.

On the investment front, forward looking indicators such as new lending for investment purposes and building permits issued suggest a positive outlook for investment activity in 2013. New lending for investment purposes rose annually by 28.1 percent to \$120.4 million in 2012, while the value of building permits issued cumulative to September noted a yearly increase of 249.5 percent.

Indicators for the labour market suggest improved conditions consistent with rising business and investment activity. The RBF's Job Advertisement Survey noted an increase in the number of jobs advertised in 2012 by 24.6 percent when compared to 2011. Employment prospects generally look positive for 2013 on the back of favourable tax policies and the general improvement in economic activity anticipated this year.

Growth in broad money supply (M3) slowed to 5.5 percent in December 2012, following an expansion of 6.6 percent in November. This was driven by a deceleration in net foreign assets, which slowed to a 3.7 percent growth in December. In the same

period, the growth in net domestic credit remained unchanged at 2.9 percent. Despite the growth in private sector credit and net credit to other financial corporations, net credit to the non-financial public sector contracted further in December by 40.7 percent. Private sector credit growth rose from 6.2 percent in November to 6.6 percent in December.

Commercial banks' outstanding loans rose by 7.6 percent on an annual basis in December following an expansion of 5.9 percent in November 2012. The outcome was underpinned by higher lending to the wholesale, retail, hotels & restaurants, central, local government & statutory bodies, real estate, manufacturing, private individuals and building & construction sectors.

There were mixed movements in commercial banks' interest rates during the review month. The outstanding lending rate rose by 8 basis points (bp) to 6.65 percent, while the new lending rate increased by 42bp to 6.96 percent. In contrast, both the existing and new time deposit rates fell in the review month by 7bp and 39bp to 2.28 and 1.18, respectively. The savings deposit rate declined by 2bp to 0.74 percent in the review month.

Liquidity in the banking system rose by \$23.2 million to \$578.0 million over the month to December, mainly driven by an increase in foreign reserves. At the end of January 2013, liquidity was around \$574.2 million.

Inflation was recorded at 1.5 percent at the end of last year, down from 2.1 percent in November on account of weak global economic activity, which

translated into lower commodity and some agricultural food item prices towards the end of the year. Apart from some temporary domestic price pressures in the coming months as a result of Cyclone Evan, inflation pressures in 2013 are expected to remain soft.

On exchange rate movements, over the month to December, the Fiji dollar strengthened against the Japanese Yen (4.2%) and the Australian dollar (0.3%) but weakened against the Euro (-2.2%) and the US dollar (-0.4%), while remaining unchanged against the New Zealand dollar. Over the year, the domestic currency appreciated against the Japanese Yen (12.6%) and the US dollar (1.9%) but depreciated further against the New Zealand (-4.2%) and Australian (-0.4%) dollars as well as the Euro (-0.3%).

The Nominal Effective Exchange Rate (NEER)¹ index rose both over the month (0.1%) and over the year (0.5%) to December, indicating a slight appreciation of the Fiji dollar against its major trading partner currencies.

Similarly, over the same period, the Real Effective Exchange Rate (REER) index increased over the month (0.1%) and over the year (0.4%), reflecting a loss in Fiji's international competitiveness due to the appreciation of the Fiji dollar in the review period.

Foreign reserves were provisionally around \$1,602.5 million at the end of January 2013, sufficient to cover 4.9 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 a slight 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

Dec-12	Nov-12	Oct-12	Dec-11
1.5	2.1	4.1	7.7
1.4	2.4	3.0	9.1

2. Reserves

(end of period)

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

Dec-12	Nov-12	Oct-12	Dec-11
1636.3(p)	1577.1(p)	1583.1(p)	1,512.50

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

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

Dec-12	Nov-12	Oct-12	Dec-11
0.5595	0.5615	0.5609	0.5493
0.3461	0.3501	0.3489	0.3568
0.5398	0.5385	0.5411	0.5421
0.6825	0.6828	0.6833	0.7126
0.5112	0.5212	0.5230	0.5171
0.4233	0.4330	0.4328	0.4244
48.04	46.12	44.66	42.68

4. Liquidity

(end of period)

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

Dec-12	Nov-12	Oct-12	Dec-11
17.1	9.3	10.7	12.2
578.0	554.8	535.5	510.2

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

Dec-12	Nov-12	Oct-12	Dec-11
1,686.8	1,721.1	1,747.0	1,652.3
19.2	19.3	20.4	22.9
109.6	109.7	112.0	107.9

6. Money and Credit

(year-on-year % change)

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

Dec-12	Nov-12	Oct-12	Dec-11
3.8	7.9	15.2	41.8
5.5	6.6	8.2	11.5
-2.9	11.2	11.3	5.4
5.5	7.1	16.1	55.4
7.9	7.8	6.3	-1.2
2.9	2.9	4.0	0.5

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

Dec-12	Nov-12	Oct-12	Dec-11
6.65	6.57	6.73	7.42
0.74	0.76	0.83	0.91
2.28	2.35	2.30	2.97
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
n.t.	n.t.	n.t.	n.t.
n.i	4.00	n.i	n.i
5.74	5.77	5.83	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