



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The uncertainty on the pace of global economic activity continues despite improvements noted in some economies, especially in the United States (US). Recent indicators reveal that most developed economies are still struggling with sovereign debt constraints, banking fragility and fiscal consolidation, all of which pose downside risks in the coming months. In the Euro area, major short term risks revolve around weak balance sheets and restrictive credit channels. This outlook is validated with the continued accommodative monetary policy stance adopted by central banks and the reduction in policy interest rate by the European Central Bank and the Reserve Bank of Australia earlier this month.

Domestically, while performances across key sectors of the economy have been mixed in the review period, the economy remains on target to achieve the 2.7 percent growth projected for 2013.

Consumption activity continues to trend upward, financed by strong growth in private sector credit and higher inward remittances. Cumulative to April, new consumption lending rose more than two-fold to \$165.5 million compared with the same period last year while inward remittances was also notably higher.

On the investment front, forward looking indicators remain optimistic. In the year to April, new bank loans for investment purposes more than doubled to \$93.5 million, largely underpinned by loans to the building & construction sector. In addition, both cement production and sales rose significantly during the first quarter of 2013. Moreover, sentiments from the Reserve Bank's December 2012 Business Expectation Survey (BES) reveal that investment in plant & machinery and buildings is anticipated to increase both in the short and medium term, on the back of stronger business confidence.

Employment prospects continued to improve over the year as indicated by the RBF's Job Advertisement Survey. The number of vacant jobs advertised cumulative to April rose by 16.4 percent on an annual basis. Labour market activity is expected to improve further in the coming months in line with the positive investment and business sentiments expressed in the BES survey.

However, weak outcomes were recorded for gold production and visitor arrivals. In the year to March, gold production on an annual basis fell by 41.0 percent owing to the low quality of ore currently being mined. Similarly, in January, visitor arrivals declined by 7.9 percent, as a result of the impact of Cyclone Evan on key hotels and resorts in the Western Division.

Inflation in April fell to 1.0 percent from the 3.3 percent recorded in March, mainly attributed to base effects. Over the month, consumer prices declined by 0.3 percent, underpinned by lower prices of food items, heating & lighting and durable household goods.

In the financial sector, broad money (M3) rose by 7.6 percent on an annual basis in April, underpinned largely by the growth in net domestic credit. The outturn in domestic credit was driven by higher private sector credit which grew by 7.8 percent in the year to April.

During the same period, outstanding loans by commercial banks' accelerated to 12.7 percent, underpinned by higher lending to private individuals, wholesale, retail, hotels & restaurants, building & construction, electricity, gas & water and manufacturing sectors.

Commercial bank outstanding lending rates and time deposit rates continued their downward trend,

largely reflective of the high levels of liquidity in the banking system. At the end of April, the lending rate was 6.21 percent, the lowest rate on record while the weighted average rate time deposit rate was 2.14 percent.

Liquidity levels remained adequate in the banking system and consistent with the monetary policy stance. In April, bank liquidity rose to \$481.6 million, but was notably lower than the \$538.1 million that recorded a year ago.

On exchange rate movements, the Fiji dollar appreciated in April against the Yen, the Australian dollar and US dollar but fell against the Euro and the New Zealand dollar. Additionally, in the year to April the domestic currency strengthened against the Yen (21.3%) while changes against other basket currencies were marginal.

The Nominal Effective Exchange Rate (NEER) index rose both over the month (0.2%) and over the

year (0.3%) to April, implying a slight appreciation of the Fiji dollar against its major trading partners. However, the Real Effective Exchange Rate (REER) fell by 0.2 percent over the month to April, attributed to lower domestic inflation.

External trade remained weak in the year to February as the trade deficit widened by 28.5 percent. This was on the back of lower export earnings from sugar, gold, molasses and timber while imports growth slowed, with declines noted in the imports of minerals fuels while imports of manufactured goods and machinery & transport equipment noted increases.

Currently (30 May), foreign reserves are around \$1,603 million, sufficient to cover 4.6 months of retained imports of goods and non-factor services.

The Reserve Bank continued its accommodative monetary policy stance in May 2013 and maintained the Overnight Policy Rate (OPR) at 0.5 percent.

RESERVE BANK OF FIJI

FJI: FINANCIAL STATISTICS

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

Apr-13	Mar-13	Feb-13	Apr-12
1.0	3.3	2.4	6.4
0.5	4.5	2.2	6.9

2. Reserves

(end of period)

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

Apr-13	Mar-13	Feb-13	Apr-12
1468.4	1494.2	1570.8	1481.8

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-13	Mar-13	Feb-13	Apr-12
0.5616	0.5599	0.5562	0.5636
0.3623	0.3701	0.3670	0.3466
0.5424	0.5363	0.5434	0.5388
0.6557	0.6690	0.6725	0.6853
0.5262	0.5341	0.5176	0.5116
0.4287	0.4382	0.4234	0.4259
54.910	52.880	51.301	45.257

4. Liquidity

(end of period)

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

Apr-13	Mar-13	Feb-13	Apr-12
8.1	7.9	11.0	12.3
481.6	471.3	573.8	538.1

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

Apr-13	Mar-13	Feb-13	Apr-12
1469.0	1598.3	1,588.5	1,651.3
17.7	17.7	18.4	21.5
101.8	109.3	110.3	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

Apr-13	Mar-13	Feb-13	Apr-12
8.5	7.8	16.3	39.0
7.6	7.0	9.8	13.1
1.5	4.4	5.1	6.5
10.2	8.7	19.2	50.2
8.5	7.6	5.8	1.8
7.1	6.9	5.9	3.5

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

Apr-13	Mar-13	Feb-13	Apr-12
6.21	6.27	6.36	7.13
0.74	0.74	0.89	0.85
2.14	2.20	2.28	2.65
n.i	n.i	n.i	n.i
1.00	1.00	1.00	1.00
0.50	0.50	0.50	0.50
4.00	n.i	4.00	4.00
5.44	5.00	5.54	5.00

^{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:

p Provisional
n.i No Issue
n.t No Trade

Sources: * Fiji Bureau of Statistics
** Bloomberg