

## RESERVE BANK OF FIJI

## **ECONOMIC REVIEW**

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Developments on the global front reveal a possibility of further deterioration in the global economy next year as a result of possible fiscal tightening in the United States (US) and continued austerity measures in the Euro zone. While latest activity in China signal stabilisation within the economy, the growth outlook remains at risk due to poor growth prospects in the US and Europe - its major trading partners.

On the domestic front, the adverse impact from the further slowdown in global economic activity has partly resulted in a downward revision in the growth forecast for 2012 and 2013. The Fiji economy is now projected to grow by 2.5 percent this year compared to the earlier anticipated growth of 2.7 percent. The major drivers of this year's growth are expected to be the manufacturing; financial intermediation; wholesale & retail; fishing and the public administration & defence sectors. Next year, a broad-based growth of 2.7 percent is forecast.

On recent sectoral outcomes, sugar production grew modestly cumulative to October for the third consecutive month, due to improved milling efficiency and quality cane supplied to the mills. In the same period, higher tourist related receipts suggest buoyant tourism activity in the economy while, in contrast, electricity production up to September fell marginally over the year.

Robust consumption activity, as revealed by partial indicators, is broadly in line with the growth in household income and increased new lending for consumption purposes. In addition, the results of the June 2012 Business Expectation Survey (BES) point to improved business and investment activity in the medium term. Similarly, forward looking indicators such as cement sales and lending for investment purposes registered growth in the month to September, suggesting a pickup in building & construction and investment activity.

Moreover, activities in the housing market are slowly gaining momentum and are anticipated to improve further in the coming months on the back of improved domestic macroeconomic conditions and attractive borrowing rates for housing purposes available in the market.

Employment prospects have continued to improve over the year as indicated by the RBF's Job Advertisement Survey. The number of jobs advertised cumulative to September noted an annual increase of 22.1 percent compared to the same period last year. Nonetheless, labour market conditions are expected to improve further in the coming months in line with increasing investment and business activity.

Financial conditions are currently characterised by declining lending rates, increased credit and buoyant liquidity levels. Broad money growth slowed in the year to September largely attributed to a decline in net foreign assets. In addition, domestic credit grew by an annual 5.2 percent in the review period.

Over the month, liquidity rose by \$19.3 million to \$554.8 million in November, primarily due to the addition of the Bred Bank's exchange settlement account and a decline in the statutory reserve deposits. However, this increase was partly offset by a decline in foreign reserves. As at 4 December 2012, liquidity stood at around \$545.0 million.

Inflation in October rose further to 4.1 percent from the 3.7 percent registered in September driven by increases in prices across all categories, except for the housing sector. Similarly, over the month, prices rose by 0.1 percent largely dominated by the

<sup>&</sup>lt;sup>1</sup> Food, transport, housing, heating & lighting, services, alcoholic drinks & tobacco, miscellaneous, clothing & footwear and durable household goods.

alcoholic drinks & tobacco category. However, prices are expected to moderate further in the coming months due to restrained growth in global demand and its flow-on-effects to global commodity prices.

The inflationary impact of the increase in minimum wage for 10 industries<sup>2</sup> effective 31 October 2012 is

expected to be minimal, particularly in the short term. The inflation forecast for 2012 remains intact at 3.5 percent.

As at 6 December 2012, foreign reserves were around \$1,561.7 million, sufficient to cover 5.0 months of retained imports of goods and non-factor services.

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<sup>&</sup>lt;sup>2</sup> Garment; wholesale & retail; printing; building, civil & electrical engineering; hotel & catering; manufacturing; security; mining; sawmilling and road transport.

## FIJI: FINANCIAL STATISTICS

KEY	IND	ICA]	ΓOR

KET INDICATORS	Oct-12	Sep-12	Aug-12	Oct-11
1. <u>Consumer Prices *</u> (year-on-year % change)				
All Items Food	4.1 3.0	3.7 3.1	3.5 3.0	9.1 8.2
2. Reserves (end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	1,583.08	1,602.71	1,512.22	1,543.01
3. Exchange Rates (mid rates, FSI equals) (end of period)				
US dollar Pound sterling Australian dollar New Zealand dollar Swiss francs Euro Japanese yen	0.5609 0.3489 0.5411 0.6833 0.5230 0.4328 44.66	0.5646 0.3478 0.5407 0.6791 0.5294 0.4373 43.82	0.5549 0.3515 0.5391 0.6953 0.5328 0.4436 43.64	0.5727 0.3552 0.5347 0.6983 0.4954 0.4050 43.31
4. <u>Liquidity</u> (end of period)				
Liquid Assets Margin to Deposit Ratio (%) Banks' Demand Deposits (\$m)	n.a 535.4	14.2 576.7	12.9 527.4	14.8 571.2
5. Commodity Prices (USS) ** (monthly average)				
UK Gold Price/fine ounce CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) Brent Crude Oil/barrel	1,747.01 20.4 112.0	1,744.45 19.5 113.4	1,626.03 20.5 113.3	1,665.19 24.2 109.5
6. Money and Credit (year-on-year % change)				
Narrow Money Broad Money Currency in Circulation (monthly average) Transferable deposits Other deposits Net Domestic Credit	n.a n.a n.a n.a n.a	9.8 4.4 11.2 9.4 3.4 5.2	9.5 3.3 11.9 8.9 2.5 5.0	34.9 11.0 0.7 47.6 0.5 -0.1
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) <sup>27</sup>	n.a n.a n.a n.a	6.84 0.82 2.34 n.i 1.00	6.89 0.84 2.33 n.i 1.00	7.45 1.03 3.14 n.i 2.00
Overnight Inter-bank Rate 5-Year Government Bond Yield 10-Year Government Bond Yield	n.a n.a n.a	n.t 4.00 5.98	n.t 4.00 6.10	n.t n.i n.i

<sup>1/</sup> 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.

Note:

n.a n.i n.t Not Available No Issue No Trade

\*Fiji Bureau of Statistics
\*\* Bloomberg Sources:

<sup>&</sup>lt;sup>2/</sup> 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.