



## ECONOMIC REVIEW

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Global economic developments remained highly uncertain with growth trending below average for many advanced and emerging economies. Recent developments in the United States suggest mixed economic performance, despite signs of strength in the housing and labour markets. The Euro zone continues to grapple with recession and signs of any positive developments are barely evident. Growth in other major economies has been downgraded recently, reflecting weak external demand and underlying domestic structural challenges. Recent indicators from China, the world's second largest economy, showed signs of a slowdown. Nevertheless, the outlook for most of Fiji's trading partner countries remains firm in the medium term.

Domestically, with the exception of gold production and visitor arrivals, most other indicators reveal positive outcomes. Gold production contracted further in April to a cumulative annual decline of 36.9 percent. Latest data from the Fiji Bureau of Statistics showed that during the first quarter of 2013, visitor arrivals declined by 5.0 percent (6,830 visitors) on annual basis. However, data from the Australia Bureau of Statistics and Statistics New Zealand confirm that a positive turnaround could be seen in the coming months. Short term departures to Fiji from these two traditional source countries for April alone were higher over the year by 30.3 percent.

Consumption activity remained buoyant, as indicated by a 22.5 percent annual increase in net Value Added Tax collections in the year to April, while Pay As You Earn collections rose by 18.1 percent from February to April<sup>1</sup> compared to the same period last year. The higher incomes were complemented by favourable labour market conditions and stronger growth in remittances.

<sup>1</sup> PAYE collections for January 2012 are not included in the analysis in order to isolate the base effects of the reduction in income tax rates effective January 2012.

According to the RBF's Job Advertisement survey, the number of vacant positions advertised for the first five months of 2013 rose by an annual 14.9 percent, while remittances grew by 24.7 percent to \$108.4 million cumulative to April against the same period in 2012.

On the investment front, domestic cement sales, a partial indicator for domestic construction activity, increased significantly by 30.1 percent in the first four months of 2013 from a year earlier. Import payments for investment goods, comprising largely machinery and electrical equipment, also expanded in the same period by 21.4 percent.<sup>2</sup>

The consumer price index fell in May for the second consecutive month by 0.4 percent, underpinned by lower prices of food, alcoholic drinks & tobacco, durable household goods, transport and miscellaneous items. Annual inflation in May stood at 1.5 percent from 1.0 percent in April.

Additionally, accommodative conditions in the financial sector led to further expansion in broad money (M3) which rose by 12.1 percent over the year to May following a growth of 7.5 percent in the previous month. The outturn was largely underpinned by higher growth in net domestic credit and net foreign assets which grew by 9.3 percent and 7.8 percent, respectively in the review period. The growth in net domestic credit was driven largely by commercial bank lending which accelerated to 13.7 percent on an annual basis. Interest rates in the banking sector continued their downward trajectory over the May review month with outstanding lending and time deposit rates falling to 6.18 percent and 2.13 percent respectively, while the savings deposit rate slightly rose to 0.76 percent.

<sup>2</sup> Overseas Exchange Transactions (OET) data.

Liquidity rose in May by \$103.6 million to \$585.2 million underpinned by foreign reserves which increased by \$136.6 million over the same period.

The Fiji dollar appreciated against the Australian and New Zealand dollars in May but fell against the US dollar, Euro and the Yen. Additionally, over the year to May, the Fiji dollar surged the most against the Yen (10.9%) and the Aussie (3.0%), but depreciated against the other three currencies in our trade weighted basket.

The Nominal Effective Exchange Rate (NEER) index rose by 0.3 percent over the year to May, but fell by 0.4 percent over the month, implying a slight depreciation of the Fiji dollar against its major trading partners. In the same period, the Real Effective Exchange Rate (REER) index fell over the month by 1.2 percent, reflecting a gain in Fiji's

international competitiveness.

According to the latest provisional accrual trade data, Fiji's external trade position deteriorated in the year to March. The trade deficit (excluding aircraft) widened by 23.7 percent compared to a 12.9 percent narrowing in the same period last year, as exports earnings fell by a sizable 15.8 percent against a 2.1 percent growth in imports (excluding aircraft).

Foreign reserves are currently (26/06) around \$1,684.4 million, sufficient to cover 4.8 months of retained imports of goods and non-factor services.

The Reserve Bank Board kept the Overnight Policy Rate unchanged at 0.5 percent in June to promote domestic growth in light of the weakness in the global economy and no immediate threat to its objectives.

## **RESERVE BANK OF FIJI**

**KEY INDICATORS**

**1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

May-13	Apr-13	Mar-13	May-12
1.5	1.0	3.3	4.7
2.2	0.5	4.5	4.0

**2. Reserves**

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

May-13	Apr-13	Mar-13	May-12
1,605.0	1,468.4	1,494.2	1,447.2

**3. Exchange Rates**

(mid rates, FSI equals)

(end of period)

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

May-13	Apr-13	Mar-13	May-12
0.5400	0.5616	0.5599	0.5361
0.3546	0.3623	0.3701	0.3463
0.5588	0.5424	0.5363	0.5522
0.6689	0.6557	0.6690	0.7117
0.5147	0.5262	0.5341	0.5206
0.4140	0.4287	0.4382	0.4335
54.381	54.910	52.880	42.387

**4. Liquidity**

(end of period)

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

May-13	Apr-13	Mar-13	May-12
10.8	8.1	7.9	11.1
585.2	481.6	471.3	492.8

**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

May-13	Apr-13	Mar-13	May-12
1,394.5	1,469.0	1,598.3	1,558.0
16.6	17.6	17.7	19.8
100.0	101.8	109.3	102.1

**6. Money and Credit**

(year-on-year % change)

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

May-13	Apr-13	Mar-13	May-12
15.2	8.5	7.7	27.8
12.1	7.5	6.8	8.8
3.6	1.5	4.5	8.2
18.1	10.2	8.5	33.9
11.5	8.6	7.7	0.1
9.3	7.0	6.7	4.2

**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>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

May-13	Apr-13	Mar-13	May-12
6.18	6.21	6.27	7.14
0.76	0.74	0.74	0.86
2.13	2.14	2.20	2.61
n.a	n.a	n.a	n.a
1.00	1.00	1.00	1.00
n.a	n.a	n.a	n.a
4.00	4.00	n.i	4.00
5.48	5.44	5.00	6.51

<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.

<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.

Note:

p Provisional  
n.i No Issue  
n.a Not available

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