



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Vol. 29

No. 10

Month Ended October 2011

The global economy has suffered a setback as structural problems facing the crises-hit advanced economies, in particular Europe, have become more pronounced. The global slowdown has threatened the already weak and bumpy recovery, and has the potential to decelerate global demand particularly for emerging market economies. Consequently, the International Monetary Fund (IMF) downgraded global growth to 4.0 percent, 0.3 percentage points lower than earlier expected. Nonetheless, risks to price pressures are still on the upside.

In line with the deteriorating world economy, there were revisions to growth for Fiji's major trading partner economies. Apart from New Zealand and Japan, whose economies are expected to rebound following the adverse impact of natural disasters last year, downward revisions to growth in Australia, the Euro-zone and the US are anticipated to have some implications for Fiji's trade and tourism activity.

Domestic real sector activity remained varied in the review period. Cane & sugar production noted some improvement in the first four months of crushing, underpinned by favourable weather conditions and improved mill efficiency. Visitor arrivals continued to strengthen, rising in the cumulative to July period consistent with the tourism peak season. Prevailing high gold prices have sustained the gold industry even as production declined in the year to September following the diverting of resources towards capital works. Meanwhile, weak activity was noted in the energy sector.

Total electricity production declined by 4.6 percent in the year to September, while consumption fell by 2.5 percent in the same period. The weak performance was driven by reduced demand from both residential (-5.2%) and commercial (-3.2%) customers.

Labour market conditions remained subdued in the year to October, as reflected by the 9.8 percent decline in advertised vacancies.

Inflation in October decelerated to 9.1 percent, from 9.7 percent in September, led by falling food prices. In the months ahead, inflation is expected to moderate further, consistent with the easing outlook on global commodity prices and reduced global growth prospects. This is expected to be further supported by the fading impact of one-off factors such as electricity tariff and VAT rate from the inflation calculation.

On monetary and credit aggregates, the yearly growth in broad money (M2) slowed to 15.9 percent in September from 17.4 percent in August. This is consistent with the deceleration in the annual growth of net foreign assets from 46.1 percent in August to 41.9 percent in September.

In addition, domestic credit fell annually by 0.8 percent in September, led by the persistent decline in both claims on government (-47.2%) and claims on official entities (-15.7%).

The outstanding commercial bank lending rate remained unchanged at 7.49 percent while the new lending rate rose from 7.65 percent to 9.05

percent over the month of September. In the same period, the existing time deposit rate fell by 7 basis points to 3.23 percent while the savings deposit rate remained unchanged at 1.04 percent.

Liquidity as defined by commercial bank demand deposits held with the Reserve Bank, fell by \$90.6 million (13.7%) to \$571.2 million in October, in line with the decline in foreign reserves (\$83.2m), the rise in currency in circulation (\$5.6m) and increase in government central account balance (\$3.7m).

On exchange rate movements, over the month of October, the Fiji dollar depreciated against the Australian and New Zealand dollars by 4.1 percent and 1.3 percent respectively, but appreciated against the US dollar by 5.1 percent, the Japanese Yen by 3.5 percent and the Euro by 1.0 percent. On an annual basis, the Fiji dollar strengthened against the Greenback (5.7%) and the Euro (4.2%) but weakened against the Aussie, Kiwi and the Yen by 3.4 percent, 2.8 percent and 1.3 percent, respectively.

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> index fell over the month of October by 0.2 percent, indicating a marginal depreciation of the Fiji dollar against its major trading partner currencies. Similarly, on

an annual basis, the NEER index fell by 0.3 percent. The Real Effective Exchange Rate (REER)<sup>2</sup> index also fell over the month in October by 1.0 percent similar to a fall of 1.3 percent in the previous month, reflecting a gain in Fiji's international competitiveness. The decline was mainly attributed to a decline in domestic inflation from 9.7 percent to 9.1 percent over the month compared to a marginal 0.1 percent point decline in the weighted average trading partner inflation rate to 3.4 percent over the same period.

Foreign reserves were around \$1,543.6 million as at end of October, sufficient to cover 5.0 months of retained imports of goods and non-factor services.

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<sup>1</sup> 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.

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<sup>2</sup> 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.

FIJI: FINANCIAL STATISTICS

Vol.29 No.10 2011

**KEY INDICATORS**

**1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

Oct-11	Sep-11	Aug-11	Oct-10
9.1	9.7	10.4	1.6
8.2	9.1	10.9	3.9

**2. Reserves**

(end of period)

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

Oct-11	Sep-11	Aug-11	Oct-10
1543.6	1626.7	1632.7	1264.9

**3. Exchange Rates**

(mid rates, FSI equals)  
(end of period)

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

Oct-11	Sep-11	Aug-11	Oct-10
0.5727	0.5448	0.5779	0.5416
0.3552	0.3489	0.3546	0.3398
0.5347	0.5574	0.5411	0.5536
0.6983	0.7075	0.6773	0.7184
0.4954	0.4891	0.4740	0.5323
0.4050	0.4011	0.4001	0.3889
43.31	41.85	44.31	43.90

**4. Liquidity**

(end of period)

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

Oct-11	Sep-11	Aug-11	Oct-10
n.a	14.3	15.4	9.7
571.2	661.8	678.9	311.6

**5. Commodity Prices (US\$) \*\***

(monthly average)

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

Oct-11	Sep-11	Aug-11	Oct-10
1665.19	1771.9	1755.8	1342.0
26.30	26.69	27.93	35.27
109.45	110.88	110.08	82.92

**6. Money and Credit**

(year-on-year % change)

Narrow Money  
Broad Money  
Currency in Circulation (monthly average)  
Quasi-Money (Time & Saving Deposits)  
Domestic Credit

Oct-11	Sep-11	Aug-11	Oct-10
n.a	38.2	39.4	10.6
n.a	15.9	17.4	4.7
n.a	5.7	7.8	12.8
n.a	1.0	3.1	1.0
n.a	-0.8	-0.5	-1.8

**7. Interest Rates (% p.a.)**

(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

Oct-11	Sep-11	Aug-11	Oct-10
n.a	7.49	7.49	7.44
n.a	1.04	1.04	1.02
n.a	3.23	3.30	5.02
n.a	n.i	n.i	2.83
n.a	2.00	2.00	3.50
n.a	n.t	n.t	n.t
n.a	n.i	n.i	n.i
n.a	n.i	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.

<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:

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

Sources:

\* Fiji Bureau of Statistics  
\*\* Bloomberg