



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Vol. 29

No. 01

Month Ended January 2012

Global growth prospects have weakened and downside risks have increased largely due to the intensification of the sovereign debt crisis in the Euro zone in the second half of 2011. The world economy is estimated to have expanded by 3.8 percent last year, a slowdown from the 5.2 percent expansion in 2010. This year, the escalation of fiscal sustainability concerns and financial fragilities in the Eurozone is expected to lead to a further slowdown, with the International Monetary Fund (IMF) expecting global economic growth to moderate to 3.3 percent from the 4.0 percent anticipated earlier. Commodity prices and inflation is expected to decline as well, in tandem with slowing global demand.

Looking ahead, the Eurozone economy is expected to enter into a mild recession this year while growth for both advanced and emerging & developing economies are expected to slow due to a combination of external and domestic factors. Apart from the US, growth in Fiji's other major trading partner countries are also expected to register a slowdown.

On the local front, growth prospects for the economy this year are expected to be affected by a possible weakening in trading partner demand and any adverse impact from the recent flood on sectors such as agriculture, wholesale & retail, construction and electricity & water. Latest data on sectoral performances in the last quarter of 2011 generally revealed mixed results. While output from the cane and sugar industries as well as visitor arrivals remained buoyant; gold, electricity generation and construction activity fell further in the review period. In addition, labour market conditions remained soft. On a positive note, domestic credit rose further for the third consecutive month in December - consistent with the pick-up in consumer spending.

Consumption activity picked-up slightly as reflected by the increases in Value Added Tax, new lending for consumption purposes, imports of consumption goods and tourism activity. The rise in incomes and inflow of remittances has supported the growth in consumption, while investment activity remained sluggish.

Labour market conditions remained subdued during the review period as reflected by partial indicators. The number of new taxpayer registrations cumulative to November 2011 and the vacant positions in 2011 as indicated by the Job Advertisement Survey, both declined on an annual basis.

In the banking sector, the annual growth in broad money (M2) rose in December to 16.5 percent, from 14.8 percent in the previous month, on account of an increase in net foreign assets. The growth in M2 was also partly propped up an expansion in domestic credit of 6.2 percent in December, led by claims on the private sector (7.6 percent) and claims on official entities (19.8 percent). The increase in the former was in turn driven by higher commercial bank lending, with cumulative new lending rising by 39.8 percent to \$553.4 million in December, compared to a decline of 13.0 percent in the same period last year. The annual growth in commercial bank lending was underpinned by increased credit to the electricity, gas & water, wholesale, retail, hotels & restaurants, real estate, transport & storage, private individuals, agriculture and central & local government sectors.

Excess liquidity, as measured by commercial banks' demand deposits with the Reserve Bank, rose by \$13.1 million to \$510.2 million over the month to December, driven primarily by an increase in foreign reserves (\$48.3m).

Interest rates continued to fall in the face of excess liquidity in the banking system. Rates for the 28-day and 56-day Treasury Bills declined by 6 and 25 basis points to 0.50 and 0.80 percent respectively, while the rate on the 14-day Treasury Bill remained unchanged at 0.50 percent, in December. Similarly, commercial banks' weighted average lending rate fell by 2 basis points to 7.42 percent in the review month while the time deposit rate declined further by 15 basis points to 2.97 percent. Bank demand deposits are currently (31/01) around \$521.7 million.

Inflation in December eased further to 7.7 percent, from 8.8 percent in November. On a monthly basis, consumer prices noted a 0.6 percent increase, largely driven by the alcoholic drinks & tobacco and miscellaneous categories. The general price level, after gradually increasing during the first two

quarters of 2011, began to subside from September, reflecting the waning effects of certain factors; that included higher commodity prices and the electricity tariff rate restructure in November 2010.

Nevertheless, the outturn at the end of 2011 was higher compared to the forecast of 6.5 percent. The divergence was largely due to revisions in the composition of the Consumer Price Index basket which now fully captures the taxi fare increase effective from November last year. Looking ahead, the year-end inflation forecast for 2012 remains at 3.5 percent.

Foreign reserves were around \$1,512.5 million by the end of 2011. Currently (31/01), foreign reserves remain at comfortable levels of around \$1,504.4 million, sufficient to cover 4.8 months of retained imports.

## **RESERVE BANK OF FIJI**

## FIJI: FINANCIAL STATISTICS

**KEY INDICATORS****1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

Dec-11	Nov-11	Oct-11	Dec-10
7.7	8.8	9.1	5.0
9.1	12.3	8.2	2.9

**2. Reserves**

(end of period)

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

Dec-11	Nov-11	Oct-11	Dec-10
1512.5	1464.2	1543.0	1302.7

**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

Dec-11	Nov-11	Oct-11	Dec-10
0.5493	0.5470	0.5725	0.5496
0.3568	0.3503	0.3552	0.3564
0.5421	0.5457	0.5347	0.5411
0.7126	0.7179	0.6983	0.7128
0.5171	0.5032	0.4954	0.5143
0.4244	0.4103	0.4050	0.4132
42.68	42.59	43.31	44.84

**4. Liquidity**

(end of period)

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

Dec-11	Nov-11	Oct-11	Dec-10
12.2	11.0	12.5	10.7
510.2	497.1	571.2	348.4

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

(monthly average)

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

Dec-11	Nov-11	Oct-11	Dec-10
1652.3	1739.0	1665.2	1390.6
23.4	24.6	26.3	22.3
107.9	111.4	109.5	91.8

**6. Money and Credit**

(year-on-year % change)

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

Dec-11	Nov-11	Oct-11	Dec-10
40.7	37.8	36.6	12.3
16.5	14.8	15.9	3.9
3.2	5.3	5.2	11.5
-0.7	-1.5	1.5	-1.4
6.2	5.4	4.5	-1.7

**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

Dec-11	Nov-11	Oct-11	Dec-10
7.42	7.46	7.45	7.42
0.91	1.06	1.03	1.02
2.97	3.12	3.14	4.73
n.i	n.i	n.i	n.i
1.00	1.00	2.00	3.00
n.t	n.t	n.t	n.t
n.i	n.i	n.i	n.i
n.i	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:

<sup>\*</sup> Fiji Bureau of Statistics  
<sup>\*\*</sup> Bloomberg