



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Month Ended September 2011

The International Monetary Fund has revised this year's global economic growth slightly downwards to 4.0 percent from the previous 4.3 percent forecast, given the frail domestic demand in the United States and sovereign debt problems in the Euro zone. There have also been downward revisions in the growth outlook for most advanced economies. Emerging market economies continue to drive the international economy; however, inflationary pressures are also building in these economies.

Domestic activity remains subdued in the year to date, with the persistent rise in prices and costs further constraining activity in the real sector. Cane (-3.8%) and sugar (-1.6%) output both declined on an annual basis. However, a slight improvement was noted in the annual Total Cane to Total Sugar (TCTS) ratio. Additionally, the lower electricity consumption (-1.8%) and electricity production (-3.9%), an indicator for economic activity, suggest some softness in economic activity. Gold output declined in the year to August (-25.3%), despite increased capital works at the Vatukoula Gold Mines during the first seven months of the year. The tourism industry's performance remained solid, backed by the annual growth in visitor arrivals cumulative to June (9.0%).

Consumption spending remained positive, but tepid in the review period. Net Value Added Tax (VAT) collections rose (8.3%) in the year to August after netting out the increase in the VAT rate and inflation effect. Growth in PAYE collections (9.0%) cumulative to August supported this outcome. Consumption lending growth remained negative (-5.0%) in the year to August.

Investment indicators showed positive results over the review period. New lending for investment purposes grew (35.1%) in the year to August and recent Business Expectations Survey (BES) survey

results also suggest firms' willingness to increase investment particularly, in plants & machinery over the medium term.

Inflation in September decelerated to 9.7 percent from the 10.4 percent in the previous month. Annually, prices rose across all categories, reflecting the ongoing pass-through of the high crude oil and global food prices to domestic items. While on the one hand domestic inflation has been continuously declining over the past four months and was 5.6 percent in September, on the other, imported inflation rose to 13.4 percent, up by 2.0 percentage points from August.

Monetary aggregates data revealed an annual acceleration in broad money (M2)<sup>[1]</sup> (17.4%) in August, up from the previous month (14.2%) due to the pick-up in narrow money (M1)<sup>[2]</sup>, which rose from 34.4 percent in July to 39.4 percent in August, followed by a modest recovery in quasi money<sup>[3]</sup> (3.1%). A slight improvement was noted in domestic credit growth (-0.5%) in August from (-1.3%) July, on account of the tepid recovery in private sector credit (5.1 %), while declines in claims on government (-43.5%) and claims on official entities (16.7%) remained persistent over the period.

Commercial bank interest rate movements were mixed over the month. The weighted average outstanding lending rate and the existing average time deposit rate declined to 7.49 percent and 3.30 percent respectively, the former declining by 2 basis points (bp) and the latter by 30 basis points.

<sup>[1]</sup> M2 comprise of M1 and Quasi money. Movements in M2 can be explained by the macro accounting identity  $M2 = DC + NFA - OIN$ .

<sup>[2]</sup> Narrow money (M1) comprise of demand deposits, currency in circulation and local bills payable.

<sup>[3]</sup> Quasi money comprise of time and savings deposits.

Additionally, the savings deposit rate fell further for the third consecutive month, by 10 bp to 0.84 percent.

The commercial banks' new weighted average lending rate and the new weighted average time deposit rate rose by 61 bp to 7.65 percent and by 23 bp to 1.84 percent, respectively. Total commercial banks' lending rose by 5.6 percent<sup>1</sup> to \$2,992.4 million in August, compared to a 2.0 percent growth

in the same period last year.

Liquidity in the banking system, measured by bank demand deposits, was \$661.8 million as at 30 September 2011 compared with \$678.9 million a month ago.

Foreign reserves were around \$1,626.7 million as at 30 September 2011, sufficient to cover 4.8 months of import of goods and non-factor services.

## **RESERVE BANK OF FIJI**

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<sup>1</sup> The annual growth was largely on account of credit expansions to the electricity, gas & water, transport & storage, wholesale, retail, hotels and restaurants, private individuals, real estate, agriculture and central & local government sectors.

## FIJI: FINANCIAL STATISTICS

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

(year-on-year % change)

All Items  
Food

Sep-11	Aug-11	Jul-11	Sep-10
9.7	10.4	10.1	1.1
9.1	10.9	11.1	2.5

**2. Reserves**

(end of period)

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

Sep-11	Aug-11	Jul-11	Sep-10
1626.7	1632.7	1573.7	1192.1

**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

Sep-11	Aug-11	Jul-11	Sep-10
0.5448	0.5779	0.5855	0.5355
0.3489	0.3546	0.3579	0.3393
0.5574	0.5411	0.5328	0.5526
0.7075	0.6773	0.6734	0.7266
0.4891	0.4740	0.4694	0.5236
0.4011	0.4001	0.4090	0.3928
41.85	44.31	45.53	44.81

**4. Liquidity**

(end of period)

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

Sep-11	Aug-11	Jul-11	Sep-10
n.a	15.4	14.8	10.1
661.8	678.9	660.3	230.7

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

(monthly average)

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

Sep-11	Aug-11	Jul-11	Sep-10
1771.9	1755.8	1572.8	1271.0
27.7	28.9	29.5	31.2
110.9	110.1	116.5	77.8

**6. Money and Credit**

(year-on-year % change)

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

Sep-11	Aug-11	Jul-11	Sep-10
n.a	39.4	34.4	10.2
n.a	17.4	14.2	5.9
n.a	7.8	9.7	12.6
n.a	3.1	1.4	3.2
n.a	-0.5	-1.3	1.6

**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

Sep-11	Aug-11	Jul-11	Sep-10
n.a	7.49	7.51	7.47
n.a	0.84	0.94	1.04
n.a	3.30	3.60	5.14
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