



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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According to International Monetary Fund (IMF) global growth is expected at a rate of 4.2 percent this year, following a contraction of 0.6 percent in 2009. For 2011, IMF is projecting world economic growth at 4.3 percent. However, the speed of the recovery is expected to differ across the globe. Recovery, on the one hand, is expected to be slow in advanced economies such as Japan, US and the Euro zone, where growth is being hindered mainly by persistent high unemployment rates. On the other hand, developing Asia and other emerging economies are expected to grow at a faster pace.

Domestically, sectoral performances remained upbeat in the first three months of the year. Latest production data shows a 6.2 percent increase in electricity production in the first quarter of this year, when compared with the same period last year. Visitor arrivals also picked up in March, registering a 26.5 percent annual growth from the 2009 level. An increase in the number of airlines servicing the Fiji route since last December has contributed to the performance of visitor arrivals so far this year. Gold production has also gained momentum with the Vatukoula mine producing around 10,000 ounces in the first 2 months of the year, higher on an annual basis by 119.4 percent. This is in line with the positive growth expected for this year.

Partial indicators suggest a pickup in consumption activity. Cumulative to February, net Value Added Tax collections registered an annual increase of 15.3 percent, while commercial banks' lending for consumption purposes rose by 3.1 percent. Spending is also being supported by rising incomes, as indicated by the growth of 3.5 percent in Pay As You Earn (PAYE) collections. In addition, inward remittances have grown by 23.5 percent cumulative to February, which has supported consumption.

On a less positive note, partial indicators of

investment have only shown a mild growth into the new year. Although lending for investment purposes rose by an annual 3.0 percent up to February 2010, it is a slowdown from the growth of 12.5 percent recorded in February 2009. With no large scale investment projects expected to begin this year, investment is projected at around 14 percent of GDP in 2010, compared with 13 percent of GDP estimated for 2009.

In February, broad money (M2) expanded by 11.0 percent on an annual basis, a turnaround from a contraction of 9.5 percent recorded a year ago. The growth was underpinned by increases in quasi and narrow money. During the review period, quasi money rose by 14.6 percent, underpinned by a significant 18.6 percent growth in time deposits. Similarly, over the same period, narrow money increased by 5.7 percent, largely on account of a 3.0 percent and 10.5 percent growth in demand deposits and currency in circulation, respectively.

In the year to February, total commercial bank lending rose marginally by 0.1 percent, compared with an 11.6 percent increase recorded in the same period last year. The slowdown is attributed to a contraction in lending to public enterprises, as well as to the manufacturing, professional & business services, agricultural and real estate sectors, and to private individuals. Private sector credit contracted marginally in the year to February by 0.1 percent.

Over the month of February, the commercial banks' weighted average outstanding lending rate fell by 2 basis points to 7.48 percent, while the new lending rate rose by 78 basis points to 7.77 percent. In the same month, the commercial banks' weighted average time deposit rate rose by 2 basis points to 5.86 percent. However, the savings deposit rate fell from 0.92 percent to 0.90 percent in February, when compared with the preceding month.

Inflation in March rose to 9.4 percent from 8.1 percent in February. Over the month, consumer prices rose by 0.2 percent. The impact of the devaluation continues to influence inflation outcomes. Since the 2009 devaluation¹, consumer prices have increased by 8.7 percent. Inflation is expected to peak in April 2010 before gradually subsiding. The 2010 year-end inflation forecast was revised up to 5.0 percent from 2.0 percent, following the impact of Cyclone Tomas on prices of market items, higher oil prices as well as the weakening of the Fiji dollar against the Australian and New Zealand dollars.

In 2009, total export earnings fell by 16.4 percent compared to a 21.6 percent growth in 2008. This was on account of a decline in both re-exports (-31.3 percent) and domestic exports (-9.0 percent). A significant fall in imports of petroleum products underpinned the decline in total re-exports, while the fall in total domestic exports was driven primarily by lower earnings from sugar, mineral water, timber and garments. However, earnings from fish, gold, sweet biscuits, molasses, corned meat, ginger and other domestic exports were higher on an annual basis.

Over the same period, import payments fell by 22.3 percent, compared with a 23 percent growth in 2008. The decline was led by lower payments for all categories of imports: intermediate goods (40.0 percent); investment goods (17.6 percent); and consumption goods (8.2 percent). Overall, the 2009 merchandise trade deficit improved by 26 percent from 2008 levels.

As at 30 April 2010, foreign reserves were around \$1,086 million, equivalent to 3.4 months of imports of goods and non-factor services, while bank liquidity levels were around \$345 million. The Reserve Bank has announced an increase in the Statutory Reserve Deposit of banks from 7 percent to 8.5 percent, which will be effective from 7 June. This policy is aimed at keeping liquidity at adequate levels so as to safeguard the monetary policy objectives of price stability and adequate foreign reserves.

The Nominal Effective Exchange Rate (NEER)² index rose marginally over the month of March by 0.2 percent, reflecting a marginal appreciation of the Fiji dollar against Fiji's major trading partner currencies. However, on an annual basis, the NEER index was down by 18.9 percent in March reflecting the overall impact of devaluation in April 2009.

The Real Effective Exchange Rate (REER)³ index fell over the month of March by 0.2 percent, indicating an improvement in Fiji's international competitiveness relative to its major trading partners. The fall in REER is largely attributed to the depreciation of the Fiji dollar against the Australian and the New Zealand dollars. However, this was partly offset by the acceleration of domestic inflation, which rose to 9.4 percent during the month of March when compared to 8.1 percent in the previous month. In the same period, the weighted average trading partner inflation rose marginally from 2.0 percent to 2.2 percent.

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¹ Comparing March 2010 CPI against May 2009 CPI.

² 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.

³ 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

| | Mar-10 | Feb-10 | Jan-10 | Mar-09 |
|--|----------|----------|----------|--------|
| KEY INDICATORS | | | | |
| 1. Money and Credit | | | | |
| (year-on-year % change) | | | | |
| Narrow Money | 8.1 | 5.7 | 4.4 | -26.0 |
| Currency in Circulation (monthly average) | 10.0 | 9.1 | 9.5 | 3.2 |
| Quasi-Money (Time & Saving Deposits) | 16.9 | 14.6 | 11.0 | 3.9 |
| Domestic Credit | 5.4 | 4.2 | 3.9 | 4.9 |
| 2. Consumer Prices ^{1/} | | | | |
| (year-on-year % change) | | | | |
| All Items | 9.4 | 8.1 | 6.3 | 0.5 |
| Food | 6.0 | 4.3 | 3.6 | 5.6 |
| 3. Reserves | | | | |
| (end of period) | | | | |
| Foreign Reserves (\$m)* | 1,074.60 | 1,067.70 | 1,096.20 | 429.60 |
| 4. Liquidity | | | | |
| (end of period) | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | 12.5 | 11.2 | 11.2 | 0.9 |
| Banks' Demand Deposits (\$m) | 301.6 | 309.8 | 335.8 | 31.8 |
| 5. Interest Rates (% p.a.) | | | | |
| (monthly average) | | | | |
| Lending Rate (Excluding Staff) | 7.58 | 7.48 | 7.50 | 8.24 |
| Savings Deposit Rate | 0.93 | 0.90 | 0.92 | 0.65 |
| Time Deposit Rate | 5.84 | 5.86 | 5.84 | 4.23 |
| 91-day RBF Note Rate (month end) | n.a | n.a | n.a | n.a |
| Minimum Lending Rate (MLR) (month end) | 2.10 | 2.10 | 3.00 | 3.00 |
| Overnight Inter-bank Rate | 0.10 | 0.10 | 1.00 | 1.09 |
| 5-Year Government Bond Yield | n.i. | n.i. | n.i. | n.i. |
| 10-Year Government Bond Yield | n.i. | n.i. | n.i. | 9.72 |
| 6. Exchange Rates ^{2/} | | | | |
| (mid rates, F\$1 equals) | | | | |
| (end of period) | | | | |
| US dollar | 0.5185 | 0.5110 | 0.5159 | 0.5553 |
| Pound sterling | 0.3442 | 0.3351 | 0.3199 | 0.3891 |
| Australian dollar | 0.5644 | 0.5759 | 0.5759 | 0.8157 |
| New Zealand dollar | 0.7307 | 0.7397 | 0.7314 | 0.9866 |
| Swiss francs | 0.5532 | 0.5520 | 0.5425 | 0.6380 |
| Euro | 0.3866 | 0.3772 | 0.3691 | 0.4209 |
| Japanese yen | 48.12 | 45.54 | 46.37 | 53.96 |
| 7. Commodity Prices (US\$) | | | | |
| (monthly average) | | | | |
| UK Gold Price/fine ounce ^{2/} | 1,114.00 | 1,093.91 | 1,118.41 | 923.98 |
| New York #11 Spot Market Price ^{3/} | 20.34 | 25.03 | n.a | 12.93 |
| Crude Oil/barrel ^{4/} | 79.45 | 74.31 | 76.37 | 46.70 |

n.a. - Not available/No activity

n.i. - No issues

n.t. - No trading

* 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.

Sources:

^{1/} Fiji Islands Bureau of Statistics

^{2/} Bloomberg and Reserve Bank of Fiji

^{3/} Fiji Sugar Corporation Limited

^{4/} Bloomberg