



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions continued to gain momentum backed by steady performances of the emerging and developing countries. According to the International Monetary Fund, the world economy is expected to grow by 3.9 percent in 2010 and 4.3 percent in 2011. However, growth in advanced economies remained sluggish and more dependent on government stimulus.

The economic performance of Fiji's major trading partner countries remained mixed. The higher growth anticipated for the Australian economy is expected to be underpinned by the recovery in demand for commodities especially by China. In the United States, the unemployment rate fell in January while factory orders increased along with consumer spending, fueling optimism of economic recovery. Similarly, Japan's unemployment rate fell in December while manufacturing and exports rose. The Euro zone is recovering, albeit at a very weak pace. New Zealand's unemployment rate rose during the fourth quarter of 2009 and its home-building approvals fell in December, an indication of continued weakness.

Domestically, Fiji's economy is anticipated to make a modest recovery of 1.9 percent in 2010. The growth is expected to be led by the manufacturing, agriculture & forestry, financial intermediation, wholesale & retail trade, hotels & restaurants, construction, mining & quarrying, real estate, fishing and other community, social & personal services sectors. The positive outlook for Fiji's economy is supported by the economic recovery in selected trading partner countries, with an expected pick up in export demand and higher visitor arrivals.

In the production sector, gold output gained momentum in 2009. Recent data from the Vatukoula Gold Mines Limited (VGML) showed that a total of 35,062 ounces was produced in 2009, a yearly growth of 59.4 percent. Investment in new

capital machinery and equipment by VGML and the venture into surface mining have contributed largely to this growth.

A positive outlook is expected for the tourism industry in 2010, based on improvements in visitor numbers in the latter half of 2009 and supported by the introduction of new airlines and routes, discounted package deals, active promotions, campaigns and advertising by Tourism Fiji.

In the sugar industry, a total of 2.2 million tonnes of cane were crushed to produce 167,664 tonnes of sugar over the 2009 season. When compared with the performance in the 2008 season, cane and sugar production fell by 3.3 and 19.4 percent, respectively. The significant fall in sugar output is due to low cane supply to the mills as well as problems faced by the upgraded mills in the earlier months of the season. The Total Cane-to-Sugar ratio for the 2009 season was 13.4 compared to the ratio of 11.2 for the 2008 season, indicating a deterioration in sugar quality.

Recent monetary aggregate data indicate an improvement in liquidity conditions. As of 25 February, liquidity was \$319.3 million. Consistent with this, broad money rose annually by 8.4 percent in January, compared with a 6.9 percent expansion recorded for the same period in 2009. This increase was underpinned by expansions in time, savings and demand deposits together with a rise in currency in circulation. However, domestic credit fell by 3.2 percent in the year to January, compared with a growth of 5.5 percent recorded in the same period in preceding year. This was attributed to a decline in credit extended to the Government, which fell by 32.2 percent, followed by a decline in credit to official entities and the private sector, which fell by 13.9 and 0.02 percent, respectively.

In the year to January, commercial banks' credit

growth slowed to 0.4 percent, compared with 10.9 percent recorded in the corresponding period last year. The slowdown is attributed to a decline in lending to the manufacturing, professional & business enterprises, mining & quarrying, agriculture and the 'others' sectors.

During the review month, the commercial banks' outstanding lending rate fell, while the new lending and time deposit rates rose. Over the month to January, the commercial banks' weighted average outstanding lending rate fell by 2 basis points to 7.50 percent. However, in the same month the new lending rate rose by 82 basis points to 6.99 percent. Commercial banks' savings deposit rate remained unchanged at 0.92 percent, while the weighted time deposit rate rose by 1 basis point to 5.84 percent.

Inflation in January was 6.3 percent. The impact of the devaluation on prices is expected to continue in the next few months. Although the year-end inflation is expected to be 2.0 percent, this forecast may be revised upwards in light of the emerging risks in the domestic and external sectors. The recent weakening of the Fiji dollar against the Japanese Yen, Australian and the US dollar, the upward revision in the average trading partner

inflation for 2010, the supply shortage of market items after cyclone Mick and the expected recovery in the domestic sector are expected to add to price pressures in the next few months.

As at 26 February 2010, foreign reserves were \$1,069 million, equivalent to around 3.4 months of imports of goods and non-factor services.

In the month to January, the Nominal Effective Exchange Rate (NEER)¹ index remained relatively stable, with only a marginal increase (0.1%). Compared to the same month in 2009, the NEER index fell by 18.8 percent, indicating a depreciation of the Fiji dollar against major trading partner currencies.

However, the Real Effective Exchange Rate (REER)² index rose by 2.4 percent over the month to January, underpinned by a relatively higher domestic inflation, when compared with the trading partner countries' inflation. The average trading partner inflation was low at 1.9 percent during the review month. On a positive note, when compared to the same period in 2009, the REER index fell by 15.0 percent, indicating an improvement in Fiji's international competitiveness relative to major trading partners.

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¹ 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.

² 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

| | Jan-10 | Dec-09 | Nov-09 | Jan-09 |
|--|------------|------------|----------|--------|
| KEY INDICATORS | | | | |
| 1. Money and Credit | | | | |
| (year-on-year % change) | | | | |
| Narrow Money | 4.4 | -2.8 | -8.2 | -24.8 |
| Currency in Circulation (monthly average) | 9.5 | 8.6 | 7.5 | 5.0 |
| Quasi-Money (Time & Saving Deposits) | 11.0 | 15.0 | 12.8 | 10.8 |
| Domestic Credit | -3.2 | 4.1 | 2.6 | 5.5 |
| 2. Consumer Prices ^{1/} | | | | |
| (year-on-year % change) | | | | |
| All Items | 6.3 | 6.8 | 6.0 | 6.1 |
| Food | 3.6 | 7.7 | 5.2 | 15.5 |
| 3. Reserves | | | | |
| (end of period) | | | | |
| Foreign Reserves (\$m)* | 1,096.2(p) | 1,095.8(p) | 1,071.1 | 530.0 |
| 4. Liquidity | | | | |
| (end of period) | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | 11.2 | 11.1 | 13.3 | 1.9 |
| Banks' Demand Deposits (\$m) | 335.8 | 297.0 | 391.1 | 62.3 |
| 5. Interest Rates (% p.a.) | | | | |
| (monthly average) | | | | |
| Lending Rate (Excluding Staff) | 7.50 | 7.52 | 7.57 | 7.86 |
| Savings Deposit Rate | 0.92 | 0.92 | 0.89 | 0.63 |
| Time Deposit Rate | 5.84 | 5.83 | 5.73 | 3.65 |
| 91-day RBF Note Rate (month end) | n.a | n.a | n.a | n.a |
| Minimum Lending Rate (MLR) (month end) | 3.00 | 3.00 | 3.00 | 3.00 |
| Overnight Inter-bank Rate | 1.00 | 1.00 | 1.00 | 1.06 |
| 5-Year Government Bond Yield | n.i. | n.i. | n.i. | 8.00 |
| 10-Year Government Bond Yield | n.i. | n.i. | 6.50 | 10.03 |
| 6. Exchange Rates ^{2/} | | | | |
| (mid rates, F\$1 equals) | | | | |
| (end of period) | | | | |
| US dollar | 0.5159 | 0.5185 | 0.5247 | 0.5409 |
| Pound sterling | 0.3199 | 0.3226 | 0.3172 | 0.3776 |
| Australian dollar | 0.5759 | 0.5796 | 0.5737 | 0.8288 |
| New Zealand dollar | 0.7314 | 0.7184 | 0.7335 | 1.0529 |
| Swiss francs | 0.5425 | 0.5375 | 0.5269 | 0.6232 |
| Euro | 0.3691 | 0.3615 | 0.3496 | 0.4172 |
| Japanese yen | 46.37 | 47.91 | 45.71 | 48.64 |
| 7. Commodity Prices (US\$) | | | | |
| (monthly average) | | | | |
| UK Gold Price/fine ounce ^{2/} | 1,118.41 | 1,134.32 | 1,120.57 | 856.32 |
| New York #11 Spot Market Price ^{3/} | n.a | 24.81 | 22.77 | 12.30 |
| Crude Oil/barrel ^{4/} | 76.37 | 74.65 | 77.03 | 44.89 |

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