



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The global economy continues to recover well. Emerging economies particularly in Asia are spearheading the recovery with output growth returning to pre-crisis levels while performances in major advanced economies are moderate. However, uncertainties about a sustainable global recovery remain. The world economy is expected to grow by 4.6 percent in 2010.

Domestically, recent data suggests a pick-up in consumer spending and increased tourism activity. In addition, exports of gold, fish, and timber performed well in the first five months of the year when compared to the same period last year. In contrast, the performance of the sugar sector remains weak.

Visitor arrivals maintained its strong performance from the beginning of the year, supported by the economic recovery in our major source countries, a favourable exchange rate and more accommodative flight schedules. Visitor arrivals rose by 21.4 percent in the first five months of this year when compared to the same period last year. The recent re-introduction of Air Pacific's Nausori-Auckland flight twice a week and the added Sydney-Nadi daily service are expected to boost inbound tourist travel.

Similarly, gold production rose as a result of increased capital investment by the Vatukoula Gold Mines Ltd (VGML). In line with higher sectoral activities, electricity production expanded by 7.1 percent on an annual basis in July. On the downside however, cane production increased only marginally by 0.8 percent while sugar production fell by 8.0 percent during the first two months of the 2010 crushing season when compared with the same period in the 2009 season.

Consumer spending rose, albeit at a modest pace,

supported by improved labour market conditions, higher incomes and increased lending. Net Value Added Tax (VAT) collections rose annually by 6.5 percent in the first half of the year. Taxpayer registrations rose yearly by 46 percent for the cumulative to July period, indicating some new additions to the labour force. Moreover, recent data on Jobs advertised show that hiring intentions are gradually improving. Lending for consumption purposes rose by 3.5 percent in the year to July. Remittances also rose annually by 16.4 percent to \$144 million during the first six months of this year.

On the other hand, partial indicators for investment showed that investment generally remains low. Imports of investment goods fell by 5.6 percent in the year to May while investment lending by commercial banks picked up in July, rising over the year by 8.3 percent. Nonetheless, investment is expected to pick-up over the next 6-12 months in line with positive sentiments in the Business Expectations Survey.

Money and credit developments showed a pick-up in the yearly growth in broad money by 6.2 percent while the annual expansion in domestic credit remained around 1.5 percent in July. The higher broad money growth was due to a pick-up in demand deposits and currency in circulation while the modest increase in domestic credit reflected a marginal growth in private sector credit. Liquidity conditions in the banking system remained stable at around \$213 million despite a decline of around \$10 million in August. The decline in bank liquidity is attributed to an increase in the statutory reserve deposits (SRD), and open market sales of RBF Notes.

Commercial Bank interest rates fell over the month of July. The outstanding weighted average lending rate fell over the month by 3 basis points to 7.49

percent while the new lending rate rose by 111 basis points to 8.30 percent in July. Both the existing and new weighted average time deposit rate fell by 5 and 11 basis points to 5.40 and 5.03 percent, respectively. The savings deposit rate also fell by 2 basis points to 0.97 percent.

Inflation slowed further to 5.4 percent in July, a marginal drop from 5.5 percent in June. On a monthly basis, apart from heating & lighting and transport, prices rose in all other categories. This was mainly influenced by the higher prices for some alcoholic spirits, beer, cigarettes and market items. On balance, the year-end inflation forecast remains at 5.0 percent.

On the external sector, the merchandise trade deficit cumulative to May narrowed significantly by around 13 percent to \$597 million. Domestic export earnings grew by 14.7 percent attributed to higher exports of mineral water, timber, gold, fish and other domestic exports which more-than-offset declines in sugar, molasses, coconut oil and yaqona receipts. Including re-exports, total export earnings rose by 20.6 percent. Import payments fell marginally by 0.3 percent, led by lower payments for investment goods which fell by 1.7 percent underpinned by lower imports of machinery and transport equipment. This was partially offset by

increases in intermediate (1.2 percent) and consumption goods (0.2 percent).

As at 31st August 2010, foreign exchange reserves were around \$1,186 million, equivalent to around 3.7 months of imports of goods and non-factor services.

Over the month of July, the Fiji dollar weakened against the Euro (3.5%), the Australian dollar (2.4%) and the New Zealand dollar (1.1%) but strengthened against the US dollar (3.5%) and the Japanese Yen (1.6%). As a result, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index rose marginally by 0.3 percent in July, reflecting a marginal appreciation of the Fiji dollar against our major trading partner currencies. Similarly, on an annual basis, the NEER index rose by 1.2 percent.

The Real Effective Exchange Rate (REER)<sup>2</sup> index rose marginally over the month to July by 0.8 percent, indicating a deterioration in our international competitiveness relative to the major trading partner currencies. The rise in the REER index was largely attributed to the relatively higher domestic inflation rate of 5.4 percent when compared to the weighted average trading partner inflation of 1.9 percent. On an annual basis, the REER index rose by 4.8 percent.

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<sup>1</sup> The NEER index 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.

<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

|  | Jul-10    | Jun-10  | May-10  | Jul-09 |
|--|-----------|---------|---------|--------|
| <b>KEY INDICATORS</b>                                |           |         |         |        |
| <b>1. Money and Credit</b>                           |           |         |         |        |
| (year-on-year % change)                              |           |         |         |        |
| Narrow Money   | 8.0       | 6.9     | 2.1     | -26.3  |
| Currency in Circulation (monthly average)            | 9.1       | 9.1     | 9.5     | 3.5    |
| Quasi-Money (Time & Saving Deposits)                 | 5.2       | 10.2    | 12.5    | 14.0   |
| Domestic Credit                                      | 1.5       | 2.9     | 2.9     | 3.5    |
| <b>2. Consumer Prices *</b>                          |           |         |         |        |
| (year-on-year % change)                              |           |         |         |        |
| All Items  | 5.4       | 5.5     | 9.4     | 2.2    |
| Food   | 4.4       | 3.3     | 6.5     | 4.1    |
| <b>3. Reserves</b>                                   |           |         |         |        |
| (end of period)                                      |           |         |         |        |
| Foreign Reserves (\$m) <sup>1/</sup>                 | 1138.6(p) | 1,100.9 | 1,091.4 | 717.3  |
| <b>4. Liquidity</b>                                  |           |         |         |        |
| (end of period)                                      |           |         |         |        |
| Liquid Assets Margin to Deposit Ratio (%)            | 8.8       | 10.9    | 12.2    | 8.7    |
| Banks' Demand Deposits (\$m)                         | 222.9     | 244.0   | 301.4   | 223.3  |
| <b>5. Interest Rates (% p.a.)</b>                    |           |         |         |        |
| (monthly average)                                    |           |         |         |        |
| Lending Rate (Excluding Staff)                       | 7.49      | 7.52    | 7.54    | 7.77   |
| Savings Deposit Rate                                 | 0.97      | 0.99    | 1.06    | 0.77   |
| Time Deposit Rate                                    | 5.40      | 5.45    | 5.63    | 5.14   |
| 14-day RBF Note Rate (month end)                     | 2.95      | 2.96    | 2.88    | n.i.   |
| Minimum Lending Rate (MLR) (month end) <sup>2/</sup> | 3.50      | 3.50    | 3.50    | 3.00   |
| Overnight Inter-bank Rate                            | n.t       | n.t     | n.t     | 1.00   |
| 5-Year Government Bond Yield                         | n.i.      | n.i.    | n.i.    | n.i.   |
| 10-Year Government Bond Yield                        | n.i.      | n.i.    | n.i.    | n.i.   |
| <b>6. Exchange Rates **</b>                          |           |         |         |        |
| (mid rates, F\$1 equals)                             |           |         |         |        |
| (end of period)                                      |           |         |         |        |
| US dollar  | 0.5178    | 0.5003  | 0.4970  | 0.4905 |
| Pound sterling                                       | 0.3318    | 0.3319  | 0.3448  | 0.2975 |
| Australian dollar                                    | 0.5756    | 0.5894  | 0.5880  | 0.5953 |
| New Zealand dollar                                   | 0.7151    | 0.7229  | 0.7330  | 0.7530 |
| Swiss francs   | 0.5392    | 0.5412  | 0.5761  | 0.5339 |
| Euro   | 0.3961    | 0.4105  | 0.4054  | 0.3487 |
| Japanese yen   | 45.03     | 44.32   | 45.20   | 46.84  |
| <b>7. Commodity Prices (US\$) **</b>                 |           |         |         |        |
| (monthly average)                                    |           |         |         |        |
| UK Gold Price/fine ounce                             | 1196.38   | 1231.80 | 1202.94 | 934.04 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) | 23.41     | 21.24   | 19.59   | 18.57  |
| Crude Oil/barrel                                     | 74.74     | 74.88   | 76.25   | 64.91  |

n.a. - Not available/No activity

n.i. - No issues

n.t. - No trading

<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.

Sources:

\* Fiji Islands Bureau of Statistics

\*\* Bloomberg