



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economic recovery is continuing, with the International Monetary Fund forecasting 4.2 percent growth for this year. While the emerging and developing economies are expected to expand by 6.3 percent this year, the advanced countries are expected to grow at a slower pace of 2.3 percent. The economic performances of Fiji's major trading partner countries have improved compared to most of last year. The United States, Japan and Australia grew by 3.0 percent, 1.2 percent and 0.5 percent, respectively in the first quarter of 2010. The Euro Zone economy also expanded marginally, by 0.2 percent, in the same period. Furthermore, recent economic indicators from New Zealand are positive indicating a turnaround in the economy.

On balance, sectoral performances domestically have been positive. Visitor arrivals continue to perform better than the 2009 levels and are expected to improve further as we move into the peak months for the tourism sector. Cumulative to April, this year visitor arrivals rose by 22.7 percent on an annual basis. Similarly, gold production remains upbeat and electricity production up to May increased by 6.6 percent on an annual basis. The 2010 sugar cane crushing season started in June and this is expected to create more economic activity in the cane growing areas.

Partial indicators suggest a pick up in consumption activity. Although new vehicle sales fell by 31 percent, cumulative to April, Net Value Added Tax (VAT) collections cumulative to April registered an annual increase of 9.5 percent, while commercial banks' lending for consumption purposes rose by 3.9 percent in the same period. Consumption is also being supported by rising incomes, as indicated by a marginal 0.3 percent rise in Pay As You Earn (PAYE) collections and inward remittances, which rose by 32.5 percent, cumulative to April this year.

On a positive note, investment is expected to pick-up. This is reflected in the results of the Business Expectations Survey which suggest a strengthening of investor confidence. Most respondents expect an increase in investment in plant & machinery as well as in buildings in the short to the medium term. In addition, commercial banks lending for investment purposes rose on an annual basis by 4.5 percent, cumulative to April.

In April, growth in broad money lost some momentum, slowing from 13.3 percent in March to 9.9 percent in April. Domestic credit growth slowed to 3.9 percent in April from 5.4 percent in the previous month while private sector credit expanded by 0.5 percent, from 0.9 percent in March. Over the same period, commercial bank lending declined marginally by 0.2 percent, attributed to a contraction in lending to public enterprises, professional & business services, agricultural, manufacturing, real estate sectors, and to private individuals.

Over the month of April, commercial banks' weighted average outstanding lending rate fell by 7 basis points to 7.51 percent, while the new lending rate rose by 18 basis points to 8.14 percent. Over the same period, both the existing and new time deposit rates rose by 2 and 34 basis points to 5.86 and 6.22 percent, respectively. Similarly, the savings deposit rate rose by 5 basis points to 0.98 percent over the month of April.

Inflation declined to 9.4 percent in May from 10.5 percent in April. On a monthly basis, consumer prices rose by 0.1 percent, due to the impact of higher crude oil prices on transport and heating & lighting. While the upside risks to inflation stemming from global recovery and trading partner inflation remains, the approved decrease in the FEA tariff by 16.5 percent on customers who use less

than 130kWh per month is expected to aid in restraining price pressures. The year-end inflation forecast remains at 5.0 percent.

In January 2010, domestic export earnings rose by 74.4 percent compared to a 41.8 percent decline in the same period in 2009. This growth was mainly led by other domestic exports, fish, timber, gold, mineral water, sweet biscuits and garments which more than offset the declines from exports of coconut oil and coral products. Including re-exports, total exports rose by 81.8 percent in January compared to the same period in 2009 when receipts fell by 42.9 percent. In the same period, import payments fell by 12.9 percent, compared to a growth of 11.7 percent in 2009. The decline was led by lower payments in all the three categories of imports. Imports of intermediate goods were lower by 22.8 percent while payments for consumption and investment goods were lower by 10.2 percent and 5.6 percent, respectively.

As at 30 June 2010, foreign reserves were \$1,100 million, equivalent to 3.5 months of imports of goods and non-factor services. Bank liquidity levels are currently around \$230 million. As the increase in the Statutory Reserves Deposit ratio to 10 percent takes effect on 7 July, liquidity is expected to fall by around \$45 million. There is still ample liquidity in the banking system and as a result, there was no

interbank activity recently. The last inter-bank rate was 1 percent, recorded in January 2010. The Reserve Bank maintained its Overnight Policy Rate at 3 percent at its last Board meeting on 25 June.

Over the month of May, the Fiji dollar strengthened against the Australian dollar, the Euro and the New Zealand dollar by 4.6 percent, 2.9 percent and 1.7 percent, respectively. Conversely, the Fiji dollar fell against the Japanese Yen by 7.9 percent and the US dollar by 4.7 percent. As a result, the Nominal Effective Exchange Rate (NEER)¹ index fell marginally by 0.2 percent in May, reflecting a marginal depreciation of the Fiji dollar against the major trading partner currencies. However, on an annual basis, the NEER index rose by 1.4 percent in May.

Similarly, the Real Effective Exchange Rate (REER)² index fell over the month of May by 0.5 percent, indicating a marginal improvement in our international competitiveness relative to the major trading partner currencies. The decrease in the REER index is largely attributed to a fall in domestic inflation over the month, when compared with the average inflation of our trading partners. Domestic inflation fell from 10.5 percent in April to 9.4 percent in May while the average trading partner inflation remained at 2.2 percent. However, on an annual basis, the REER index rose by 8.8 percent.

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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

	May-10	Apr-10	Mar-10	May-09
KEY INDICATORS				
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	2.0	8.1	-26.7
Currency in Circulation (monthly average)	n.a	10.1	10.0	5.2
Quasi-Money (Time & Saving Deposits)	n.a	15.3	16.9	12.3
Domestic Credit	n.a	3.9	5.4	3.6
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	9.4	10.5	9.4	0.8
Food	6.5	8.6	6.0	5.5
3. Reserves (end of period)				
Foreign Reserves (\$m)*	1091.4(p)	1084.4(p)	1074.6(p)	640.3
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	12.0	12.5	5.8
Banks' Demand Deposits (\$m)	301.4	349.0	301.6	146.9
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.51	7.58	8.30
Savings Deposit Rate	n.a	0.98	0.93	0.73
Time Deposit Rate	n.a	5.86	5.84	4.77
14-day RBF Note Rate (month end)	2.88	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	3.00	2.10	2.10	3.00
Overnight Inter-bank Rate	1.00	0.10	0.10	1.00
5-Year Government Bond Yield	n.i.	n.i.	n.i.	8.15
10-Year Government Bond Yield	n.i.	n.i.	n.i.	10.52
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.4970	0.5215	0.5185	0.4744
Pound sterling	0.3448	0.3404	0.3442	0.2968
Australian dollar	0.5880	0.5622	0.5644	0.6106
New Zealand dollar	0.7330	0.7209	0.7307	0.7714
Swiss francs	0.5761	0.5652	0.5532	0.5168
Euro	0.4054	0.3942	0.3866	0.3420
Japanese yen	45.20	49.06	48.12	45.19
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce 2/	1202.94	1145.50	1114.04	921.93
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) 3/	19.59	19.87	21.36	16.76
Crude Oil/barrel 4/	76.25	84.95	79.45	57.59

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^{3/} Bloomberg^{4/} Bloomberg