RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economic recovery is ongoing led by emerging economies in Asia. Nonetheless, the performances of some advanced economies remain subdued. Recent data revealed some moderation in the pace of growth, particularly for the US, led by weak household incomes and confidence. Accordingly, the International Monetary Fund (IMF) has cautioned continued uncertainty of the outlook with risks elevated somewhat. The world economy is expected to grow by 4.8 percent in 2010, before slowing to 4.2 percent next year.

Growth in Fiji's major trading partner countries, Australia and New Zealand, remain firm, supported by stronger growth in China. The Euro Zone economy has shown more positive signs of recovery driven by Germany and the UK.

Recent data on sectoral performances domestically showed mixed results. While most sectors have shown up-beat performances, evident by increased production and higher export receipts, other sectors particularly the cane and sugar industries, have performed poorly.

Gold production more than doubled to 40,975 ounces up to August this year. Increased capital investment has assisted this notable upturn and is expected to underpin higher output in the months ahead. Higher international gold prices also continue to boost export performance in the sector. In addition, other sectors particularly fish and timber fared well, evident by higher annual export receipts during the first half of the year.

On the downside, cane and sugar production fell annually in the first three months of the 2010 crushing season by a marginal 0.4 percent and 3.0 percent, respectively. Frequent mill stoppages due to mechanical faults underpinned this poor output. The TCTS ratio at the end of August this year was 13.0, higher than last year's ratio of 12.6, implying poor sugar extraction and reduced mill efficiency.

Provisional data from the Fiji Islands Bureau of Statistics (FIBOS) showed that cumulative to June 2010, visitor arrivals totalled 273,160, an annual increase of 21.6 percent, the highest six-monthly total recorded since 2003. Visitor arrivals in the review period rose by 0.9 percent when compared to the corresponding period in 2008, a record year for visitor arrivals. Persistent marketing and promotion by Tourism Fiji, the introduction of new airline routes and consistent improvement of overseas ratings for Fiji's tourism industry are expected to underline the projected annual rebound in tourism for 2010.

Tourism earnings totalled $199.2 million for Quarter 1, 2010, an annual growth of 27.2 percent and 3.0 percent growth over the same period in 2008. While the increase in tourism earnings may be attributed to greater spending by tourists on account of the devalued Fiji dollar, it is noted that the industry has operated on heavy discounting since 2007.

Consumer spending showed modest improvements in the review period. Net VAT collections grew by an annual 10.4 percent up to August 2010, which could be partly attributed to increased compliance and higher tourism activity. Remittances remained buoyant and grew over the year by 14.4 percent cumulative to July. Lending for consumption purposes also rose annually by 8.5 percent in the year to August. In addition, the latest June 2010 Business Expectations Survey (BES) results showed an improvement in business conditions for both the short and medium-term, suggesting some improvements in the labour market conditions. In contrast, the Job Advertisement survey noted a marginal annual decline of 0.8 percent cumulative to August.

Investment conditions generally remained weak. Imports for investment goods declined during the first half of the year by 12.9 percent compared to a slight growth of 3.7 percent in the same period last year. The Quarter 1, 2010 construction survey also showed a decline in value of work put-in-place by 24.5 percent on a yearly basis although an increase of 2.8 percent was registered over the previous quarter. However, investment lending for August rose by 7.5 percent year-on-year and 0.5 percent over the month. In addition, cumulative to August, new lending for investment purposes rose by 9.3 percent year-on-year and 8.4 percent over the month reflecting some recovery in lending for investment purposes.

Money and credit developments showed a pick-up in the yearly growth in broad money by 5.8 percent while the annual expansion in domestic credit remained around 0.6 percent in August. The higher broad money growth was due to a pick-up in demand deposits and currency in circulation. 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 partly attributed to an increase in the commercial banks statutory reserve deposits (SRD).

Commercial bank interest rate movements were mixed over the month of August. The outstanding weighted average lending rate remained unchanged at 7.49 percent while the new lending rate fell by 121 basis points to 7.09 percent during the review period. Both the existing and new weighted average time deposit rate fell by 10 and 41 basis points to 5.30 and 7.09 percent, respectively. Contrastingly, the savings deposit rate rose by 5 basis points to 1.02 percent.

Inflation dropped further to 1.2 percent in August, a significant decline from 5.4 percent in July. On a monthly basis, consumer prices fell by 0.6 percent. The lower prices were mainly underpinned by relatively large declines in prices of market items and some food items, as well as lower prices for household kerosene, petrol, diesel and spare parts.

The 2010 year-end inflation forecast has been revised downwards to 4.0 percent from 5.0 percent, assisted by lower-than-expected international oil prices and average trading partner inflation.

External sector developments showed that during the first half of the year, the merchandise trade deficit narrowed significantly by 14.0 percent to $749 million, driven by higher export earnings and static import payments.

Domestic export earnings rose by 18.4 percent during the review period, led by higher receipts from mineral water, fish, timber, gold and other domestic exports, which more than offset declines in earnings for sugar, molasses and coconut oil. Including re-exports, total export earnings rose by 23.7 percent compared to a decline of 19.2 percent in the same period last year.

Import payments fell by 0.1 percent during the first half of the year, lower than the fall of 12.7 percent in the same period last year. The slight downturn was led by a decline in payments for investment goods by 12.9 percent mainly for machinery & transport equipment. Contrastingly, payments for intermediate and consumer goods rose by 13.3 percent and 0.9 percent, respectively, led by a 15.6 percent increase in mineral fuel payments, during the review period.

As at 30 September 2010, foreign exchange reserves were around $1,193 million, equivalent to around 3.8 months of imports of goods and non-factor services.

Over the month of August, the Fiji dollar weakened against the Japanese Yen (3.6%), the US dollar (0.9%) and the Australian dollar (0.04%) but gained ground against the Euro (2.3%) and the New Zealand dollar (1.5%). The Nominal Effective Exchange Rate (NEER)1 index rose marginally over the month of August by 0.1 percent, indicating an overall appreciation of the FJD against the major trading partner currencies. Similarly, on an annual basis, the NEER index rose by 1.0 percent.

The Real Effective Exchange Rate (REER)2 index, rose marginally by 0.3 percent on an annual basis, indicating slight erosion of Fiji's international competitiveness against major trading partner currencies. This is considered unfavourable for the growth of exports as it favours imports from competing countries. However, over the month of August, the REER index fell by 0.6 percent, attributed to the lower domestic inflation rate of 1.2 percent when compared to the weighted average trading partner inflation of 1.9 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

	Aug-10	Jul-10	Jun-10	Aug-09
KEY INDICATORS				
1. Money and Credit				
(year-on-year % change)				
Narrow Money	6.4	8.0	6.9	-23.3
Currency in Circulation (monthly average)	11.1	9.1	9.1	3.3
Quasi-Money (Time & Saving Deposits)	5.4	5.2	10.2	14.6
Domestic Credit	0.6	1.5	2.9	3.8
2. Consumer Prices *				
(year-on-year % change)				
All Items	1.2	5.4	5.5	5.1
Food	2.5	4.4	3.3	5.7
3. Reserves				
(end of period)				
Foreign Reserves ($m)[1/]	1,185.3	1,138.00	1,100.4	925.9
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.6	8.8	10.9	10.4
Banks' Demand Deposits ($m)	213.0	222.9	244.0	271.8
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	7.49	7.49	7.52	7.65
Savings Deposit Rate	1.02	0.97	0.99	0.84
Time Deposit Rate	5.30	5.40	5.45	5.36
14-day RBF Note Rate (month end)	2.88	2.95	2.96	n.i
Minimum Lending Rate (MLR) (month end) [2/]	3.50	3.50	3.50	3.00
Overnight Inter-bank Rate	n.t	1.00	n.t	n.t
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
6. Exchange Rates **				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.5133	0.5178	0.5003	0.5011
Pound sterling	0.3320	0.3318	0.3319	0.3078
Australian dollar	0.5754	0.5756	0.5894	0.5950
New Zealand dollar	0.7261	0.7151	0.7229	0.7313
Swiss francs	0.5266	0.5392	0.5412	0.5311
Euro	0.4053	0.3961	0.4105	0.3503
Japanese yen	43.39	45.03	44.32	46.77
7. Commodity Prices (US$) **				
(monthly average)				
UK Gold Price/fine ounce	1215.81	1192.97	1232.92	949.38
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	25.09	23.41	21.24	22.39
Crude Oil/barrel	76.69	74.74	74.83	72.50

n.a. - Not available/No activity
n.i. - No issues
n.t. - No trading

[1/] *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.*

[2/] *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*