

RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Month Ended December 2010

Economic activity in emerging economies remains strong and continues to underpin the overall global economic rebound. Risks to the world growth outlook remain on the downside, resulting with uncertainties prevailing in the European financial system, particularly on account of the Greece and Ireland crises.

All of Fiji's major trading partners posted positive quarterly growth in their latest economic assessments. The US economy recorded a 2.5 percent growth in the despite continued September quarter unemployment. Over the same period, the Australian economy registered a marginal 0.2 percent growth, a slowdown from the 1.1 percent noted in the June quarter. The New Zealand, Japanese and Euro region economies also noted positive quarterly growth in their recent assessments. The positive international economy backdrop continues to support Fiji's exports and tourism activities.

China and India both recorded strong annualized growth in the September quarter on the back of higher foreign direct investment and strengthening domestic demand, respectively.

On commodity prices, crude oil prices rose in November on speculation that cold weather in Europe will raise oil demand. Gold prices were also higher as the continuing debt crisis in Europe is expected to boost demand for the metal. World sugar prices on the other hand, fell in November on expectations that demand from China will decline.

On the domestic front, movements in partial indicators over the month reveal an improvement in domestic economic conditions. Latest data show a pick-up in private consumption while investment activity continues to be restrained. The tourism and gold industries performed strongly in the review period, while lower output was noted in the sugar industry.

Looking at tourism activity, visitor arrivals cumulative to September 2010 totalled 468,532, a yearly increase of 18.4 percent and 6.2 percent higher than the comparable arrivals figure for 2008 - Fiji's record year of visitor arrivals.

Cumulative to November 2010, gold production was 58,474 ounces, a significant growth of 96.9 percent when compared to the same period last year. This production has also benefitted from the record high gold prices. In contrast, cane and sugar output remained weak after six months of crushing, noting annual declines of 12.5 percent and 14.6 percent, respectively.

A pick-up in consumption activity was noted in the review period. Cumulative to November, Net Value Added Tax collections (a partial indicator for consumption), rose by 22.2 percent on an annual basis. Similarly, consumption related loans rose annually by 5.4 percent cumulative to October. Strong performances in visitor arrivals and remittance inflows continue to support consumption spending.

Partial indicators for investment continue to reveal low investment levels. Cumulative to July, imports of investment goods declined by 5.0 percent on an annual basis. Similarly, new lending for investment purposes cumulative to October, noted a decline of 1.1 percent on a yearly basis.

In the banking sector, monetary and credit aggregates noted a slight pick-up in private sector credit in October. Yearly growth in broad money (M2) slowed slightly to 4.7 percent in October, from 5.9 percent in the previous month, on account of a decline in domestic credit. Domestic credit declined by 1.8 percent, led by contractions in the claims on Government (-25.5%) and claims on official entities (-20.7%). These declines more than offset the increase in private sector credit, which rose by 2.2 percent in October. The rise in private sector credit was mainly underpinned by the growth in commercial banks loans and advances, which grew by 2.4 percent in the year to October.

Bank demand deposits with the Reserve Bank remained at high levels, rising over the month by \$62.9 million to \$374.6 million as at 30 November. However, as at 31 December 2010, BDD fell to \$348.4 million mainly attributed to the increase in currency in circulation and

¹ New consumption related loans also rose annually by 1.4 percent in the same period.

net increase in deposits of Government into its central account.

Inflation rose to 4.0 percent in November, from 1.6 percent in October. Over the month, consumer prices rose by 2.1 percent led by higher prices in the heating & lighting category as a result of the electricity tariff rate restructure. Core inflation, as measured by the trimmed mean, rose to 0.3 percent in November, from the 0.2 percent noted in October.

On the trade front, the merchandise trade deficit narrowed in the cumulative to July period, when compared with the same period last year. This was underpinned by higher domestic exports compared to import payments.

Foreign reserves were around \$1,305 million as at 31 December 2010, equivalent to around 4.1 months of imports of goods and non-factor services.

Movements in currencies showed a weakening of the Fiji dollar against the US dollar over the month of November, while it strengthened against the Euro and Yen. The Fiji dollar moved marginally against both the Australian and New Zealand dollars over the month. On an annual basis, the Fiji dollar recorded a 16 percent appreciation against the Euro but slight movements against the remaining basket currencies.

RESERVE BANK OF FIJI

FIJI: FINANCIAL STATISTICS

	2	Nov-10	Oct-10	Sep-10	Nov-09
KEY INDICATORS 1. Money and Cred					
(year-on-year %	_				
(year-on-year /6	thangt)				
	Narrow Money	n.a	10.6	10.2	-8.2
	Currency in Circulation (monthly average)	n.a	12.8	14.3	10.2
	Quasi-Money (Time & Saving Deposits)	n.a	1.0	3.2	12.8
	Domestic Credit	n.a	-1.8	1.6	2.6
	Domestic Credit	II.a	-1.8	1.0	2.0
2. Consumer Prices	*				
(year-on-year %	 -				
	All Items	4.0	1.6	1.1	6.0
	Food	0.9	3.9	2.5	5.2
3. Reserves					
(end of period)					
•					
	Foreign Reserves (\$m) ^{1/}	1305.5	1264.9	1192.1	1071.1
4. <u>Liquidity</u>					
(end of period)					
	Liquid Assets Margin to Deposit Ratio (%)	10.83	9.7	10.1	13.3
	Banks' Demand Deposits (\$m) ^{2/}	374.6	311.6	230.7	391.1
5. Interest Rates (%					
(monthly average)				
	I I' D ((E 1 I' 0) 0)			2.42	2.52
	Lending Rate (Excluding Staff)	7.42	7.44	7.47	7.57
	Savings Deposit Rate	1.02	1.02	1.04	0.89
	Time Deposit Rate	4.93	5.02	5.14	5.73
	14-day RBF Note Rate (month end)	2.82	2.83	2.83	n.i
	Minimum Lending Rate (MLR) (month end) 3/	3.5	3.50	3.50	3.00
	Overnight Inter-bank Rate	n.t	n.t	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	6.50
6. Exchange Rates	*				
(mid rates, F\$1 ed					
(end of period)	F 9				
	US dollar	0.5339	0.5416	0.5355	0.5247
	Pound sterling	0.3431	0.3398	0.3393	0.3172
	Australian dollar	0.5554	0.5536	0.5526	0.5737
	New Zealand dollar	0.7154	0.7184	0.7266	0.7335
	Swiss francs	0.5342	0.5323	0.5236	0.5269
	Euro	0.4070	0.3889	0.3928	0.3496
	Japanese yen	44.97	43.90	43.81	45.71
					1
7. Commodity Price	es (US\$) **				
(monthly average			1		
			1		
	UK Gold Price/fine ounce	1369.89	1342.02	1270.98	1127.04
			1	1	
	CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	35.44	35.27	31.19	22.83

n.a. - Not available/No activity

Sources:

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 as at 31 December 2010.

²/As at 30 November, 2010.
³ 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.

^{*}Fiji Islands Bureau of Statistics

^{**} Bloomberg