RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Vol. 29 No. 02 Month Ended February 2011

The global economy continues to recover well from the worst recession in the last 60 years. However, the recovery is unbalanced as growth in major advanced economies remains below potential while expansion in emerging and developing economies continues to be buoyant. Issues and risks that currently need to be managed include high unemployment in advanced economies, overheating in emerging markets and high food and fuel prices. In light of these developments, G-20 countries have agreed on measures to strengthen the international financial system in collaboration with the International Monetary Fund.

Growth in our major trading partner countries was largely positive in 2010. The US economy is estimated to have grown by 2.9 percent, led by a rebound in business investment and consumption. The Australian economy is expected to have expanded by 2.7 percent, while the Japanese and Euro-zone economies grew by 4.3 and 1.7 percent, respectively. Despite the effects of the earthquake last year, which slowed growth in the third quarter, the New Zealand economy is still estimated to have grown by 1.7 percent. Nonetheless, favourable performances in the Chinese and Indian economies in 2010 and anticipated positive growth this year, will continue to drive global growth, thereby providing the much-needed impetus for recovery in both the international and our own domestic economy in 2011.

In line with the pickup in global economic activity, international commodity prices generally rose in February. The recent political unrest in Libya and other Middle East countries pushed crude oil prices above US$110 per barrel for the first time since September 2008. Gold prices also rose in late February as violence in North Africa fuelled demand for the precious metal as a haven against risk.

For Fiji, further stability gains were made in our external sector, where the trade deficit narrowed over the year by 6.8 percent to $1,017.8 million, cumulative to August 2010. This was underpinned by a sturdy growth in exports (17.1%) coupled with subdued demand for imports (2.9%), which were supported by comparatively lower oil and commodity prices in 2010. Higher receipts were recorded for mineral water, fish, timber, sweet biscuits, gold and garments, while the growth in imports was led mainly by mineral fuels, chemical products and manufactured goods.

Domestically, developments in partial indicators for both consumption and investment in 2010 were largely in line with the marginal growth estimated for the year (0.1%). While there was some pick up in retail sales (7.0%), imports of consumption goods (cumulative to August 2010) fell over the year by 0.8 percent and new loans extended for consumption purposes in 2010 fell by 12.5 percent. Investment activity was also subdued, reflected in the yearly fall in imports of investment goods cumulative to August 2010 (-3.5%), as well as the annual decline in new loans for investment purposes in 2010 (-11.1%). On a positive note, the tourism, gold and electricity industries performed better than expected in 2010 and should continue this performance in 2011. As for sugar, improvements to farm and milling efficiency are critical for a turnaround in production from the successive declines recorded since 2007. The economy, however, is expected to pick up by 1.3 percent in 2011 led by the financial intermediation; fishing; education; manufacturing; hotels & restaurants; mining & quarrying; public administration & defence; construction; wholesale & retail and the electricity & water sectors.

In the banking sector, monetary and credit aggregates recorded a slowdown in December.

Broad money (M2) continued on a downward trend, with its annual growth slowing from 5.1 percent in November to 3.9 percent. The slowdown in M2 through 2010 was underpinned mainly by the decline in domestic credit, which contracted by 1.7 percent in December. Domestic credit fell on account of the substantial slowdown in credit to the Government and official entities in 2010. However, this was partly offset by private sector credit which gained some momentum in December, rising by 3.2 percent, the highest since September 2009. The upturn was on account of higher commercial bank lending to the wholesale, retail, hotels and restaurants; real estate; private individuals; and the transport & storage sectors.

Excess liquidity, as measured by commercial bank demand deposits with the Reserve Bank, rose over the month by $14.1 million to $384.9 million in February. The outturn was due to the decline in currency in circulation and increase in foreign reserves.

Reflecting the high liquidity in the banking system throughout last year, outstanding lending (7.42%) and time deposits (4.73%) rates remained on a downward trajectory in 2010. Bank demand deposits are currently around $384.9 million (28/2).

Inflation in January rose further to 5.9 percent, from 5.0 percent in December last year. Consumer prices rose by 2.1 percent over the month, mainly reflecting the impact of the increase in VAT on all categories in the consumer basket together with the higher crude oil price in the review period. Core inflation, as measured by the trimmed mean, rose to 5.2 percent in January, from 2.7 percent noted in December.

Foreign reserves were about $1,309 million as at 28 February 2011, equivalent to around 3.9 months of imports of goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS

	Jan-11	Dec-10	Nov-10	Jan-10
1. Consumer Prices *				
(year-on-year % change)				
All Items	5.9	5.0	4.0	6.3
Food	3.8	2.9	0.9	3.6
2. Reserves				
(end of period)				
Foreign Reserves ($m) [1/]	1,356.4	1,302.7	1,281.4	1,096.0
3. Exchange Rates				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.5453	0.5496	0.5339	0.5159
Pound sterling	0.3442	0.3564	0.3431	0.3199
Australian dollar	0.5511	0.5411	0.5554	0.5759
New Zealand dollar	0.7083	0.7128	0.7154	0.7314
Swiss francs	0.5138	0.5143	0.5342	0.5425
Euro	0.4012	0.4132	0.4070	0.3691
Japanese yen	44.70	44.84	44.97	46.37
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	10.7	10.8	11.2
Banks' Demand Deposits ($m)	370.9	348.4	374.6	335.8
5. Commodity Prices (US$) **				
(monthly average)				
UK Gold Price/fine ounce	1,356.4	1,390.6	1,369.9	1,118.0
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	36.1	36.1	35.4	28.9
Crude Oil/barrel	96.3	91.8	85.7	76.4
6. Money and Credit				
(year-on-year % change)				
Narrow Money	n.a	12.3	12.0	4.4
Currency in Circulation (monthly average)	n.a	7.9	11.5	9.9
Quasi-Money (Time & Saving Deposits)	n.a	-1.4	0.6	11.0
Domestic Credit	n.a	-1.7	-0.6	3.9
7. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	n.a	7.42	7.42	7.50
Savings Deposit Rate	n.a	1.02	1.02	0.92
Time Deposit Rate	n.a	4.73	4.93	5.84
14-day RBF Note Rate (month end)	n.a	n.i	2.82	n.i
Minimum Lending Rate (MLR) (month end) [2/]	n.a	3.50	3.50	3.00
Overnight Inter-bank Rate	n.a	n.t.	n.t	1.00
5-Year Government Bond Yield	n.a	n.i	n.i	n.i
10-Year Government Bond Yield	n.a	n.i	n.i	n.i

[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.*

Note:

n.i No Issue

n.t No Trade

Sources: * *Fiji Islands Bureau of Statistics*

** *Bloomberg*