RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Vol. 28 No. 01 Month Ended January 2011

Global economic growth projections have been revised upward as recovery in advanced and developing and emerging market economies advances. The International Monetary Fund (IMF) now expects the world economy to grow by 4.4 percent in 2011 from the 4.2 percent envisaged earlier. A further 4.5 percent growth is projected for 2012. The upward revision was due to general improvements in global financial conditions and stronger-than-expected consumption activity in the United States and Japan during the second half of 2010. Nonetheless, the uneven recovery pace continues with China and India on the lead. Downside risks to the recovery remain, especially on the uncertainty of the Euro area crisis, high commodity prices and the possible overheating in emerging markets.

Domestically, the Fiji economy is projected to grow by 1.3 percent this year following a slight expansion of 0.1 percent forecast in 2010. In 2012, the economy is anticipated to advance further by 0.8 percent. While visitor arrivals, gold production and consumer spending picked-up further towards the end of 2010; lower sugar and cane output and subdued investment activity was also evident during this period.

The tourism industry performed exceptionally well last year as reflected in the 17.6 percent annual growth in visitor arrivals cumulative to October. Furthermore, provisional estimates from the industry suggest that 2010 is the new record year for tourism, with arrivals exceeding 600,000.

Following the recommencement of mining activity at the Vatukoula Gold Mines Limited (VGML) in May 2008, gold production has continued to expand - registering a yearly increase of 77.2 percent in 2010. While this is still below the levels attained prior to the temporary closure of the VGML in December 2006, the outlook for the industry, nevertheless, looks favourable as high world market prices for the commodity and the increased productive capacity of the VGML continue to sustain local production.

Last year, the cane and sugar industries were adversely affected by frequent mill breakdowns, which restrained the harvesting and delivery of cane to the mills – and a relatively shorter crushing season. Consequently, both cane and sugar production declined in 2010 by around 20.9 percent and 21.5 percent on an annual basis.

Partial indicators of consumption suggest an increase in domestic demand in the review period, though still restrained as indicated by relevant lending data. Net Value Added Tax (VAT) collections rose by 23.1 percent in 2010, implying positive consumer demand. The continued strong growth in visitor arrivals and inflows of remittances in 2010 is expected to have supported the favourable outcome. Nevertheless, there may still be cautionary consumer behaviour given that new consumption lending contracted by an annual 6.0 percent cumulative to November.

Comparatively, there were mixed outcomes for investment indicators in the review month. Although new investment lending rose by an annual 8.6 percent cumulative to November 2010, imports of investment goods recorded an annual decline of 4.8 percent cumulative to July in the same year. Nonetheless, anecdotal evidence from the construction industry and the decline in private sector activity for value-of-work put in place up to September 2010, suggest that investment remained subdued towards the end of last year. However, investment activity is likely to pick up in 2011, in line with the economic recovery anticipated for this year. Supporting this, the Bank's June 2010 Business Survey recorded positive sentiments by businesses on future investment activity in the economy, although the levels suggested remained relatively subdued.

Labour market conditions showed improvements towards the end of last year, evident by increases in the Job Advertisement Survey data, a partial indicator for employment. The number of jobs advertised in 2010 showed an annual increase of around 5.9 percent. However, this would include positions left vacant by retirees, immigrants and those switching jobs.

Growth in broad money (M2) gained some momentum in November, rising year-on-year by 5.1 percent compared to a 4.7 percent growth in October. This was underpinned mainly by the growth in Net Foreign Assets which rose over the year by 21.4 percent, a slight slowdown from 25.6 percent in the previous month. In the same period, domestic credit declined by 0.6 percent, compared to -1.8 percent in October. This was led largely by the decline in claims on Government (23.0 %) and claims on official entities (10.9 %), offsetting the slight pick-up in private sector credit in November (2.7%).

The increase in private sector credit was in turn driven largely by the growth in commercial banks' loans and advances, which grew by 3.4 percent in the year to November. During this period, higher commercial bank lending were noted for the wholesale, retail, hotel & restaurant, real estate, private individuals, public enterprise and transport & storage sectors.

Reflecting more than adequate levels of liquidity in the banking system, interest rates generally declined in November. The commercial banks' outstanding weighted average lending rate fell over the month by 2 basis points to 7.42 percent while the new lending rate fell by 25 basis points to 8.11 percent. During the same period, the time deposit rates fell from 9 basis points to 4.93 percent while the savings deposit rate remained unchanged at 1.02 percent.

Commercial banks' demand deposits with the Reserve Bank fell by 7 percent ($26.2m) in December to $348.4 million. This was largely attributed to the marked increase in currency in circulation, which rose by $33.1 million over the month as a result of the higher volume of transactions over the festive season.

Latest data on the external front reveal that the merchandise trade deficit narrowed on an annual basis during the first seven months of 2010 as a result of higher domestic exports compared to import payments. For this year, Fiji's trade imbalance is forecast to widen, albeit slightly driven by the anticipated higher imports as the economy recovers.

The inflation rate in December was noted at 5.0 percent, up from the 4.0 percent in November. Over the month, a 1.6 percent increase was noted in consumer prices led by higher prices in the food and alcoholic drinks & tobacco categories. Core inflation, as measured by the trimmed mean, rose to 2.7 percent in December, from the 0.3 percent noted in November.

Foreign reserves amounted to $1,299.6 million at the end of January 2011, equivalent to around 3.8 months of imports of goods and non-factor services. This represented a decline of 0.2 percent when compared with the end of 2010 but an increase of 18.6 percent when compared with the same period last year.

Bilateral movements of the domestic currency against major trading partner currencies were mixed over the month of December. The Fiji dollar weakened against the Australian (2.6%) and New Zealand (0.4%) dollars as well as the Japanese Yen (0.3%). However, it strengthened against the US dollar (2.9%) and the Euro (1.5%). On an annual basis, the Fiji dollar fell against the Australian dollar (6.7%), Yen (6.4%) and the New Zealand dollar (0.8%) but rose against the Euro (14.3%) and the US dollar (6.0%).

The Nominal Effective Exchange Rate (NEER)[1] index remained stagnant over the month of December as opposed to a monthly growth of 0.2 percent in the previous month. This indicates that the Fiji dollar was relatively stable against its major trading partner over the month of December. Contrastingly, on an annual basis, the NEER index rose by 0.9 percent indicating an overall appreciation of the Fiji dollar against its trading partner currencies.

The Real Effective Exchange Rate (REER)[2] index rose by 0.3 percent over the month of December 2010 compared to a growth of 2.0 percent in November. This indicates a marginal loss of Fiji's international competitiveness against major trading partners and is considered unfavourable for our exports. The decline in competitiveness was mainly attributed to an increase in the domestic inflation rate from 4.0 to 5.0 percent over the month compared to a smaller increase in the weighted average trading partner inflation rate from 2.0 to 2.3 percent over the same period.

The Reserve Bank eased monetary policy in November last year by reducing the Overnight Policy Rate from 3.00 to 2.50 percent. To complement this accommodative stance, exchange control measures were also relaxed and the coverage of the $40 million Import Substitution and Export Finance Facility was extended to include the renewable energy sector.

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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.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS

	Dec-10	Nov-10	Oct-10	Dec-09
1. Consumer Prices *				
(year-on-year % change)				
All Items	5.0	4.0	1.6	6.8
Food	2.9	0.9	3.9	7.8
2. Reserves				
(end of period)				
Foreign Reserves ($m)[1/]	1299.6	1281.4	1264.9	1095.8
3. Exchange Rates				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.5496	0.5339	0.5416	0.5185
Pound sterling	0.3564	0.3431	0.3398	0.3226
Australian dollar	0.5411	0.5554	0.5536	0.5796
New Zealand dollar	0.7128	0.7154	0.7184	0.7184
Swiss francs	0.5143	0.5342	0.5323	0.5375
Euro	0.4132	0.4070	0.3889	0.3615
Japanese yen	44.84	44.97	43.90	47.91
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.7	10.8	9.7	11.1
Banks' Demand Deposits ($m)	348.4	374.6	311.6	296.6
7. Commodity Prices (US$) **				
(monthly average)				
UK Gold Price/fine ounce	1390.6	1369.9	1342.0	1134.7
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	36.1	35.4	35.3	25.3
Crude Oil/barrel	91.8	85.7	82.9	74.7
5. Money and Credit [2/]				
(year-on-year % change)				
Narrow Money	12.0	10.6	10.2	-8.2
Currency in Circulation (monthly average)	11.5	12.8	14.3	10.2
Quasi-Money (Time & Saving Deposits)	0.6	1.0	3.2	12.8
Domestic Credit	-0.6	-1.8	1.6	2.6
6. Interest Rates (% p.a.) [2/]				
(monthly average)				
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/]	3.50	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

[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 as at 31 January 2011.
[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.

Note:

n.i   No Issue
n.t   No Trade

Sources: * *Fiji Islands Bureau of Statistics*
** *Bloomberg*