



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The global outlook remains firm despite some setback in advanced economies. The International Monetary Fund now expects global growth at 4.3 per cent in 2011, slightly below its April projection of 4.4 percent. This is largely underpinned by sluggish economic activity in advanced economies, renewed financial volatility associated with debt challenges in Europe and persistent fiscal and financial sector imbalances in others. However, the deceleration is expected to be temporary, and is not expected to derail the current global growth prospects. The forecast for 2012 remains unchanged at 4.5 percent.

Domestically, sectoral performances showed mixed results. While visitor arrivals remain on an upward trend, gold and electricity production declined in the review period. The 2011 sugar cane crushing season has started with the Lautoka and Rarawai mills in operation. Looking ahead, domestic economic activity in most sectors – particularly in the sugar and resource-related industries – are anticipated to support the 2.7 percent growth forecast for this year.

Visitor arrivals rose by 8.5 percent on an annual basis to total 186,634 cumulative to April 2011. Visitor numbers are expected to increase further in the coming months as we approach the peak season for tourism industry in Fiji.

In line with the envisaged positive growth this year, consumer spending continues to trend upwards. Cumulative to April, Net Value Added Tax (VAT) collections, a partial indicator for consumer spending, - increased annually by 28.4 percent; a slight improvement was noted in consumer spending when allowances are made for increases in the VAT rate and average inflation over the same period. The improvement in private consumption is supported by growth in the individual incomes

indicated by increases in Pay As You Earn (PAYE) collections and inward remittances over the year, by 14.9 percent and 4.8 percent, respectively.

Gold output at the Vatukoula Gold Mines Limited (VGML) declined annually by 12.6 percent cumulative to May 2011. Re-prioritisation of development works has affected gold production so far this year. Additionally, escalating electricity costs pose a major challenge to gold mining activities. Despite the lower gold output from VGML, the outlook for the mining industry remains promising, as production is expected to start at the Wainivesi Gold mine and Nawailevu Bauxite project towards the later part of the year. Furthermore, gold prices continue to trend upwards.

Electricity generation, an indicator of economic activity, declined annually by 2.7 percent in the first five months of the year. Industry liaison suggests that this reduction is attributed to the reduced demand associated with consumers adjusting to the relatively higher electricity tariff rate. In the review period, around 62.0 percent of the national grid requirement was produced using renewable resources. This is expected to improve further once the Nadarivatu hydro project comes online later in the year.

Employment prospects deteriorated slightly in May, as indicated by results of the Job Advertisement Survey. The number of vacant positions advertised cumulative to May this year declined annually by 4.1 percent. However, the slight decline was due to base effects, as the number of jobs advertised for the tourism industry rose significantly in May 2010 consistent with the up-tick in visitor arrivals.

In the monetary sector, growth in broad money (M2) gained some momentum in May, rising from 5.3 percent in April to 8.0 percent. This was on

account of a growth in net foreign assets (34.6%), which more than offset the decline in domestic credit (-3.6%).

In the banking sector, the commercial bank weighted average outstanding lending and time deposit rates fell in May. The weighted average outstanding lending rate declined by 8 basis points to 7.36 percent while the existing time deposit rate fell by 26 basis points to 4.03 percent. However, the savings deposit rate rose by 4 basis points to 1.21 percent over the same period. Meanwhile, the commercial bank new weighted average lending rate rose by 30 basis points to 9.22 percent while the new weighted average time deposit rate fell by 15 basis points to 3.00 percent.

Total commercial bank lending rose by 5.1 percent to \$2.94 billion in May, compared to a growth of 4.2 percent in April and a marginal growth of 0.3 percent in the comparable period last year. The annual growth was largely on account of higher credit extended to the wholesale, retail, hotels and restaurants, electricity, gas & water, private individuals, transport & storage, real estate and agriculture sectors.

Liquidity, as measured by commercial banks' demand deposits at the Reserve Bank rose to \$580.4 million in June from \$520.7 million in May. This increase was largely on account of a rise in foreign reserves and a decline in the government's central account balance.

The inflation rate in May rose further to 8.8 percent, from 8.1 percent in April. Consumer prices rose by 0.7 percent over the month. About 90 percent of the increases in prices on an annual basis, were driven by the food, heating & lighting and transport categories. Excluding food & energy items (volatile items), inflation remained unchanged at 2.7 percent over the same period.

Trade data for 2010 showed that domestic exports earnings grew by 12.2 percent compared to a 9.1 percent decline in 2009. The growth was mainly underpinned by higher exports of fish, gold, timber, mineral water, garments, fruits & vegetables, and molasses which more than offset declines in earnings for sugar, sweet biscuits, corned meat and coconut oil. Including re-exports, total exports grew by 25.8 percent last year. Re-exports contributed 17.1 percent of the growth in total exports largely comprising re-exports of petroleum products (12.9 % contribution). Total imports

(excluding aircraft), also rose by 22.6 percent, compared to a 20.6 percent decline in 2009. The growth in imports was on account of higher payments in all three categories of imports. Imports of intermediate goods were higher by 49.7 percent, payments for consumption grew by 14.2 percent and investment goods rose by 9.6 percent. The trade balance, hence, worsened by 20.1 percent compared to a 23.5 percent improvement in 2009.

In May, the Fiji dollar strengthened against the Euro (3.1%) and the Australian dollar (1.6%), however weakened against the New Zealand dollar (-2.3%), the Japanese yen (-1.3%) and the US dollar (-0.7%). On an annual basis, the Fijian dollar strengthened against the US dollar (14.7%) and the Yen (2.1%) but weakened against the Australian dollar (-9.2%), the New Zealand dollar (-4.7%) and the Euro (-1.5%).

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> index rose by 0.1 percent in May indicating a slight strengthening of the Fiji dollar against its major trading partner currencies over the month. Similarly, on an annual basis, the NEER index rose by 3.6 percent, indicating an overall appreciation of the Fiji dollar against its trading partner currencies.

The Real Effective Exchange Rate (REER)<sup>2</sup> index rose by 0.7 percent over the month of May compared to a growth of 1.5 percent for the same period last month. Similarly, on an annual basis, the REER index rose by 6.5 percent, indicating a loss of Fiji's international competitiveness against its major trading partners. The loss in competitiveness was mainly attributed to the increase in the domestic inflation rate to 8.8 percent in May compared to a steady weighted average trading partner inflation rate of 3.2 percent over the same period.

Foreign reserves rose further to \$1,512.9 million at the end of June, sufficient to cover 4.5 months of imports of goods and non-factor services.

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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

**KEY INDICATORS****1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

May-11	Apr-11	Mar-11	May-10
8.8	8.1	7.6	9.4
9.3	8.4	7.5	6.5

**2. Reserves**

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

May-11	Apr-11	Mar-11	May-10
1469.2	1359.0	1278.8	1090.8

**3. Exchange Rates**

(mid rates, F\$1 equals)

(end of period)

US dollar  
Pound sterling  
Australian dollar  
New Zealand dollar  
Swiss francs  
Euro  
Japanese yen

May-11	Apr-11	Mar-11	May-10
0.5699	0.5740	0.5538	0.4970
0.3461	0.3450	0.3445	0.3448
0.5336	0.5254	0.5362	0.5880
0.6987	0.7155	0.7262	0.7330
0.4860	0.5014	0.5087	0.5761
0.3991	0.3872	0.3920	0.4054
46.14	46.78	45.90	45.20

**4. Liquidity**

(end of period)

Liquid Assets Margin to Deposit Ratio (%)  
Banks' Demand Deposits (\$m)

May-11	Apr-11	Mar-11	May-10
17.4	11.0	10.2	12.2
520.7	457.7	358.9	301.4

**5. Commodity Prices (US\$) \*\***

(monthly average)

UK Gold Price/fine ounce  
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)  
Crude Oil/barrel

May-11	Apr-11	Mar-11	May-10
1,510.6	1,476.0	1,424.0	1,205.4
26.6	29.4	33.2	19.6
114.5	122.9	115.8	76.3

**6. Money and Credit**

(year-on-year % change)

Narrow Money  
Broad Money  
Currency in Circulation (monthly average)  
Quasi-Money (Time & Saving Deposits)  
Domestic Credit

May-11	Apr-11	Mar-11	May-10
26.9	19.0	13.3	2.1
8.0	5.3	4.4	8.4
10.6	9.9	9.3	9.5
-3.3	-2.9	-1.1	12.5
-3.6	-2.8	-1.8	2.9

**7. Interest Rates (% p.a.)**

(monthly average)

Lending Rate (Excluding Staff)  
Savings Deposit Rate  
Time Deposit Rate  
14-day RBF Note Rate (month end)  
Minimum Lending Rate (MLR) (month end)<sup>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

May-11	Apr-11	Mar-11	May-10
7.36	7.44	7.44	7.54
1.21	1.17	1.15	1.06
4.03	4.29	4.42	5.63
n.i	n.i	n.i	2.88
2.00	2.00	2.50	3.50
n.t	n.t	n.t	n.t
n.i	n.i	n.i	n.i.
n.i	n.i	n.i	n.i.

<sup>1/</sup> 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.<sup>2/</sup> 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.a Not Available  
n.i No Issue  
n.t No Trade

## Sources:

\* Fiji Islands Bureau of Statistics

\*\* Bloomberg