

RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Developments in the global economy continue to support the pick-up in the domestic economy. While the recovery in the advanced economies is showing signs of slowing, growth in most of Asia remains strong. However, the outturn in Asia is still below the rapid pace experienced in the earlier recovery, with the exception of Japan where earthquake-related damages have significantly affected economic activity. At the same time, growth in other emerging markets and transition economies has been encouraging.

However, uncertainties remain on the horizon. Global risks prevail in terms of rising unemployment and inflation, and even though global food prices were unchanged in April this year - they are still 36 percent higher when compared with the same period last year. In addition, the geopolitical tensions in the Middle East and North Africa pose risks for further rises in crude oil prices.

Domestically, the performance of the economy last year was supported by the improved global economic recovery. In 2010, Fiji's economy is estimated to have grown marginally by 0.6 percent driven by the positive performance of the manufacturing, hotels and restaurants, mining, financial intermediation and services, and real estate sectors. This year, aggregate growth is expected to be 2.7 percent. Growth is predicted to be broad based in 2011 with a marginal decline expected in the construction sector. Most sectors of the economy (like tourism and mining) are expected to maintain their 2010 growth momentum into this year. Specifically, the sugar sector is forecast to increase production this year given the reforms currently undertaken within the industry.

Looking ahead, labour market conditions are expected to improve on the back of the higher

economic activity forecast for this year. This is supported by the results of the December 2010 Business Expectations Survey which reflect a generally positive business outlook for 2011, and the Job Advertisement survey, also a partial indicator for employment, which noted an annual increase in job advertisements of 0.5 percent, cumulative to April 2011.

From an expenditure point of view, private consumption is expected to support the pick-up in domestic demand this year. Data collected up to February 2011, pointed out that, net VAT collections, a partial indicator of spending, surpassed the February 2010 figures by 29.5 percent. Investment expenditure is expected to slowly pick up based on the Government's higher allocation for capital spending in 2011, which increased by 56.7 percent over the 2010 budget amount, to \$525.5 million.

On the interest rates front, the weighted average outstanding lending rate of commercial banks decreased by 5 basis points to 7.44 percent in March 2011, while the existing time deposit rate fell by 9 basis points to 4.42 percent. The savings deposit rate rose by 2 basis points to 1.15 percent over the same period. The commercial banks' new lending and deposit rates rose by 46 basis points and 16 basis points to 8.06 percent and 3.75 percent, respectively.

Lending by banks grew when compared with the same period last year. As at March 2011, the total value of outstanding loans in the banking system increased by 4.5 percent to \$2.9 billion. This increase was largely underpinned by higher lending to private individuals, real estate and wholesale & retail, hotels & restaurant sectors, and electricity, gas & water sectors. Moreover, the expected lower interest rates, improving labour market conditions

and the improved economic outlook for this year, should provide added impetus for credit expansion in 2011.

Inflation in April increased to 8.1 percent from 7.6 percent in March. Over the month, consumer prices rose by 1.2 percent, mainly reflecting higher prices for wheat products, market items and some miscellaneous items. Considering the higher-than-expected oil and food price movements over the past three months, higher trading partner inflation forecast and the improved growth outlook, the year-end inflation forecast for 2011 is now revised upwards to 7.0 percent from the 6.0 percent

projected earlier.

On the external sector, latest accrual trade data showed that merchandise exports and imports grew annually by 13.3 percent and 4.1 percent, respectively, cumulative to November 2010. Cumulative to March 2011, remittances amounted to around \$63.4 million, a marginal decline of around 0.2 percent compared to a 26.0 percent growth in 2010.

Foreign reserves were around \$1,470 million as at 31 May 2011, equivalent to around 4.3 months of imports of goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS		Apr-11	Mar-11	Feb-11	Apr-10
1. Consumer Prices *					
(year-on-year % change)				
A 11	Items	8.1	7.6	7.6	10.5
Foo		8.4	7.5	7.6	8.6
100	п	0.4	1.5	7.3	8.0
2. Reserves					
(end of period)					
Fore	eign Reserves (\$m) ^{1/}	1359.0	1278.8	1308.1	1083.9
3. Exchange Rates					
(mid rates, F\$1 equals)					
(end of period)					
IIS	dollar	0.5740	0.5538	0.5477	0.5215
	nd sterling	0.3450	0.3445	0.3400	0.3404
	tralian dollar	0.5254	0.5362	0.5393	0.5622
	Zealand dollar	0.7155	0.7262	0.7297	0.7209
	ss francs	0.5014	0.5087	0.5085	0.5652
Euro		0.3872	0.3920	0.3985	0.3942
	nese yen	46.78	45.90	44.77	49.06
4. <u>Liquidity</u> (end of period)					
Liqu	nid Assets Margin to Deposit Ratio (%)	11.0	10.2	11.1	12.0
	ks' Demand Deposits (\$m)	457.7	358.9	384.9	349.0
5. Commodity Prices (US\$) ww				
(monthly average)	<u>1</u>				
	G 113. //	4.454.0	4.424.0	4.050.0	4.440.5
	Gold Price/fine ounce	1,476.0	1,424.0	1,372.0	1,148.6
	CE No. 11 Sugar Spot Price/Global (US cents/Pound) de Oil/barrel	29.4 122.9	33.2 115.8	35.0 104.0	19.9 85.0
Cru	de Oli/barrei	122.9	115.8	104.0	85.0
6. Money and Credit					
(year-on-year % change	9)				
Nar	row Money	n.a	13.3	14.0	2.0
	ad Money	n.a	4.4	4.3	9.9
	rency in Circulation (monthly average)	n.a	9.3	12.0	10.1
	si-Money (Time & Saving Deposits)	n.a	-1.1	-1.7	15.3
	nestic Credit	n.a	-1.8	-2.7	3.9
7. Interest Rates (% p.a.) (monthly average)					
			_		
	ding Rate (Excluding Staff)	n.a	7.44	7.49	7.51
	ngs Deposit Rate	n.a	1.15	1.13	0.98
	e Deposit Rate	n.a	4.42	4.51	5.86
	lay RBF Note Rate (month end)	n.i	n.i	n.i	n.i
	imum Lending Rate (MLR) (month end) 2/	2.00	2.50	2.50	3.00
	rnight Inter-bank Rate	n.t	n.t	n.t	n.t
	ear Government Bond Yield	n.i	n.i	n.i	n.i
10-3	Year Government Bond Yield	n.i	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 Racanya Rank

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:

Not Available n.a No Issue No Trade n.i n.t

* Fiji Islands Bureau of Statistics
** Bloomberg Sources: