



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economic outlook is improving evidenced by upward revisions to growth expectations for developing and emerging market economies. Economic activity in these countries is anticipated to be relatively vigorous, supported by strong and swift policy responses, which have helped cushion the impact of external shocks. In contrast, recovery in advanced economies is expected to remain sluggish. In line with the rebound in global economic activity, the outlook for our major trading partner economies have improved, with all countries returning to positive growth in the third quarter of 2009, and expected to register positive growth rates in 2010 and 2011.

The domestic economy is forecast to recover modestly in 2010 following a contraction last year. Sectoral performances so far, however, remain mixed. Latest production data shows a 7.9 percent increase in electricity production in the first two months of this year, when compared with the same period last year. Visitor arrivals also picked up in February, registering a 25.1 percent annual growth from the 2009 level. Gold production has also gained momentum, as the Vatukoula mine produced around 10,000 ounces in the first 2 months of the year. On the contrary, copra production declined by almost 20 percent in January, despite a slight increase in the mill gate price.

Consumption activity picked up in the first month of this year, evident from partial indicators. In January, net Value Added Tax collections registered an annual increase of 17.2 percent, while commercial banks' lending for consumption purposes rose by 3.1 percent in the year to February. Spending is also being supported by rising incomes, as indicated by the growth of 5.9 percent in Pay As You Earn (PAYE) collections.

Lending for investment purposes grew by 3.0 percent on an annual basis in February, suggesting

some investment activity. However, the growth has slowed notably from the 12.5 percent increase recorded in the corresponding period last year.

In February, broad money (M2) expanded by 11.0 percent on an annual basis, a turnaround from a contraction of 6.9 percent recorded in the corresponding period last year. The growth was underpinned by increases in quasi and narrow money. During the review period, quasi money rose by 14.6 percent, underpinned by a significant 18.6 percent growth in time deposits. Similarly, over the same period, narrow money increased by 5.7 percent, largely on account of 3.0 and 10.5 percent growth in demand deposits and currency in circulation, respectively.

In the year to February, total commercial bank lending rose marginally by 0.1 percent, compared with an 11.6 percent increase recorded in the same period last year. The slowdown is attributed to a contraction in lending to public enterprises, as well as the manufacturing, professional & business services, agricultural and real estate sectors, and to private individuals. Private sector credit rose marginally in the year to February by 0.5 percent.

During the review month, the weighted average commercial bank outstanding lending rate fell, while the new lending and time deposit rates rose. The commercial banks' weighted average outstanding lending rate fell by 2 basis points to 7.48 percent, while the new lending rate rose by 78 basis points to 7.77 percent. In the same month, the commercial banks' time deposit rate rose by 2 basis points to 5.86 percent. However, the savings deposit rate fell from 0.92 to 0.90 percent in February, when compared with the preceding month.

Inflation rose to 8.1 percent in February from 6.3 percent in January, and 1.9 percent a year ago.

Since the devaluation in April, prices have risen by 8.5 percent. The current year-end inflation forecast is 2.0 percent but this is expected to be revised upward in light of the impact of Cyclone Tomas on prices of market items. In addition, the planned removal of price controls on certain basket items, the weakening of the Fiji dollar against the Yen, Australian and the US dollars, higher oil prices and the expected recovery in the domestic sector are expected to add price pressures in the next few months.

As at 30 March 2010, foreign reserves were around \$1,068 million, equivalent to 3.4 months of imports of goods and non-factor services. Bank liquidity

levels are currently around \$294 million.

The Nominal Effective Exchange Rate (NEER)¹ index fell over the month to February by 0.2 percent, indicating a slight depreciation in the Fiji dollar when compared with the major trading partner currencies in the basket. Similarly, on an annual basis, the NEER index fell by 19.2 percent in the review month.

The Real Effective Exchange Rate (REER)² index fell over the month by 1.4 percent, reflecting an improvement in Fiji's international competitiveness. During the same period, the REER index fell by 14.1 percent annually.

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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.

	Feb-10	Jan-10	Dec-09	Feb-09
KEY INDICATORS				
1. Money and Credit				
(year-on-year % change)				
Narrow Money	5.7	4.4	-2.8	-26.1
Currency in Circulation (monthly average)	10.5	9.5	8.6	7.6
Quasi-Money (Time & Saving Deposits)	14.6	11.0	15.0	6.8
Domestic Credit	4.2	-3.2	4.1	5.3
2. Consumer Prices ^{1/}				
(year-on-year % change)				
All Items	8.1	6.3	6.8	1.9
Food	4.3	3.6	7.7	7.9
3. Reserves				
(end of period)				
Foreign Reserves (\$m)*	1,068.80	1,096.2	1,095.8	458.5
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	11.2	11.2	11.1	0.6
Banks' Demand Deposits (\$m)	309.8	335.8	297.0	23.7
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	7.48	7.50	7.52	7.82
Savings Deposit Rate	0.90	0.92	0.92	0.62
Time Deposit Rate	5.86	5.84	5.83	3.95
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	2.10	3.00	3.00	3.45
Overnight Inter-bank Rate	0.10	1.00	1.00	1.10
5-Year Government Bond Yield	n.i.	n.i.	n.i.	n.i.
10-Year Government Bond Yield	n.i.	n.i.	n.i.	10.31
6. Exchange Rates ^{2/}				
(mid rates, FS1 equals)				
(end of period)				
US dollar	0.5110	0.5159	0.5185	0.5352
Pound sterling	0.3351	0.3199	0.3226	0.3743
Australian dollar	0.5759	0.5759	0.5796	0.8237
New Zealand dollar	0.7397	0.7314	0.7184	1.0511
Swiss francs	0.5520	0.5425	0.5375	0.6240
Euro	0.3772	0.3691	0.3615	0.4202
Japanese yen	45.54	46.37	47.91	52.65
7. Commodity Prices (US\$)				
(monthly average)				
UK Gold Price/fine ounce ^{2/}	1,093.91	1,118.41	1,134.32	941.54
New York #11 Spot Market Price ^{3/}	25.03	30.64	27.45	14.45
Crude Oil/barrel ^{4/}	74.31	76.37	74.65	43.24

n.a. - Not available/No activity

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.

Sources: ^{1/} Fiji Islands Bureau of Statistics

^{2/} Bloomberg and Reserve Bank of Fiji

^{3/} Bloomberg

^{4/} Bloomberg