



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Latest economic indicators show that the global economy continues to recover. In its April update, the International Monetary Fund again raised its forecasts for global growth. For 2010, global growth is expected to be around 4.2 percent, up from the previous projection of 3.9 percent. Even though the overall outlook has improved, significant disparities remain across the globe. Growth in Asia remains strong, with the current focus on withdrawing policy stimulus to prevent inflationary pressures from building up. Other advanced economies continue to improve but rising debt and high unemployment could hamper their recovery. On the other hand, the fiscal crisis in Europe is expected to affect economic growth for the Euro zone and possibly, the global economy.

On the domestic front, macroeconomic forecasts recently released indicate that the Fiji economy is expected to grow by 1.8 percent this year compared with the 2.2 percent decline registered in 2009. With a rebound in our trading partner economies, exports are expected to grow by 9.5 percent, while a higher growth of 12.5 percent is anticipated for imports.

Recent performances in the major sectors support the expected recovery of the domestic economy this year. In the first four months of the year, visitor arrivals performed well, recording a growth of 22.7 percent over the corresponding 2009 period. The good growth is underpinned by new airlines providing direct and en-route services to Fiji, as well as prevailing competitive accommodation packages. Gold production also rose significantly on an annual basis by 68.6 percent, cumulative to April. During the same period, electricity production rose by 5.5 percent. On the other hand, copra output fell by 27.9 percent cumulative to March.

Consumption activity appears to be strengthening as

evidenced by partial indicators. Net Value Added Tax (VAT) collections cumulative to March rose by 13.7 percent. However, new vehicle sales remain depressed as, cumulative to March, a 40.1 percent annual decline was recorded.

Growth in broad money lost some momentum in the year to April, slowing from 13.3 percent in March to 9.9 percent in April. This was underpinned by a slowdown in both narrow and quasi money. Following a decline in demand deposits in April, narrow money growth fell from 8.1 percent in March to 2.0 percent in the review period. Similarly, growth in quasi money slowed to 15.3 percent in the year to April, from 16.9 percent in the previous month. This was underpinned by a slowdown in savings and time deposits. Savings deposits growth slowed to 8.7 percent in April from 10.3 percent recorded in the preceding month while time deposit growth slowed to 19.2 percent in the same period from 21.0 percent registered in March. The slowdown in monetary aggregates in April is largely a reflection of the slowdown in net foreign assets and domestic credit. As at 31 May liquidity in the banking system was around \$301 million.

Commercial banks' credit declined by 0.2 percent over the year to April, compared with a growth of 10.2 percent registered in the corresponding period last year. This decline was attributed to large contractions in credit to the public enterprises, manufacturing, professional & business services, private individuals and the agriculture sectors. Consequently, private sector credit growth slowed to 0.5 percent in April, compared with a growth of 8.7 percent recorded a year ago.

The movement of commercial banks' lending rates was mixed over the month of April. The weighted average outstanding lending rate fell by 7 basis points to 7.51 percent, while the new lending rate

rose by 18 basis points to 8.14 percent. During the same period, both the existing and new time deposit rates rose by 2 and 34 basis points to 5.86 and 6.22 percent, respectively. Similarly, the savings deposit rate rose by 5 basis points to 0.98 percent.

Inflation declined to 9.4 percent in May, from 10.5 percent in April. However, on a monthly basis, consumer prices rose by 0.1 percent, mainly reflecting the impact of high crude oil prices in March and April on domestic fuel prices in May¹. A year ago, inflation was 0.8 percent. Inflation is expected to gradually subside from May after the peak in April. The recently announced monetary tightening² is expected to help keep price pressures in-check. The 2010 year-end inflation forecast remains at 5.0 percent.

Over the month of April, the Fiji dollar fell against the Australian and the New Zealand dollars by 0.4 and 1.4 percent, respectively. Conversely, the Fiji dollar strengthened against the Euro and the Japanese Yen by 2.0 percent each and by 0.6 percent against the US dollar. As a result, the

Nominal Effective Exchange Rate (NEER)³ index rose marginally by 0.1 percent in April, reflecting a marginal appreciation of the Fiji dollar against the major trading partner currencies. However, on an annual basis, the NEER index fell by 7.4 percent in April.

Similarly, the Real Effective Exchange Rate (REER)⁴ index rose over the month of April by 1.4 percent, indicating a decline in our international competitiveness relative to the major trading partner currencies. The increase in the REER index is largely attributed to a rise in domestic inflation over the month, when compared with the average inflation of our trading partners. Domestic inflation rose from 9.4 percent to 10.5 percent while the average trading partner inflation fell from 2.2 percent to 1.8 percent in the review period. However, on an annual basis, the REER index rose by 0.9 percent.

Foreign reserves as at 31 May stood at \$1,091 million, equivalent to 3.4 months of imports of goods & non factor services.

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¹ Effectively, it takes 2 months for international crude oil prices (monthly) to be reflected in the CPI.

² Effective from 7 June 2010, the Statutory Reserve Deposit requirement will be increased to 8.5 percent. This will be further increased to 10.0 percent, effective from 07 July 2010.

³ 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.

⁴ 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

| | Apr-10 | Mar-10 | Feb-10 | Jan-10 | Apr-09 |
|---|-----------|-----------|-----------|----------|--------|
| KEY INDICATORS | | | | | |
| 1. Money and Credit | | | | | |
| (year-on-year % change) | | | | | |
| Narrow Money | 2.0 | 8.1 | 5.7 | 4.4 | -26.4 |
| Currency in Circulation (monthly average) | 10.1 | 10.0 | 9.1 | 9.5 | 2.5 |
| Quasi-Money (Time & Saving Deposits) | 15.3 | 16.9 | 14.6 | 11.0 | 7.6 |
| Domestic Credit | 3.9 | 5.4 | 4.2 | 3.9 | 4.6 |
| 2. Consumer Prices^{1/} | | | | | |
| (year-on-year % change) | | | | | |
| All Items | 10.5 | 9.4 | 8.1 | 6.3 | -0.3 |
| Food | 8.6 | 6.0 | 4.3 | 3.6 | 3.6 |
| 3. Reserves | | | | | |
| (end of period) | | | | | |
| Foreign Reserves (\$m)* | 1083.9(p) | 1074.6(p) | 1067.7(p) | 1,096.20 | 589.40 |
| 4. Liquidity | | | | | |
| (end of period) | | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | 12.0 | 12.5 | 11.2 | 11.2 | 3.6 |
| Banks' Demand Deposits (\$m) | 349.0 | 301.6 | 309.8 | 335.8 | 105.2 |
| 5. Interest Rates (% p.a.) | | | | | |
| (monthly average) | | | | | |
| Lending Rate (Excluding Staff) | 7.51 | 7.58 | 7.48 | 7.50 | 8.32 |
| Savings Deposit Rate | 0.98 | 0.93 | 0.90 | 0.92 | 0.73 |
| Time Deposit Rate | 5.86 | 5.84 | 5.86 | 5.84 | 4.46 |
| 91-day RBF Note Rate (month end) | n.i. | n.i. | n.i. | n.i. | n.i. |
| Minimum Lending Rate (MLR) (month end) | 2.10 | 2.10 | 2.10 | 3.00 | 3.00 |
| Overnight Inter-bank Rate | 0.10 | 0.10 | 0.10 | 1.00 | 1.00 |
| 5-Year Government Bond Yield | n.i. | n.i. | n.i. | n.i. | 8.25 |
| 10-Year Government Bond Yield | n.i. | n.i. | n.i. | n.i. | 11.00 |
| 6. Exchange Rates^{2/} | | | | | |
| (mid rates, F\$1 equals) | | | | | |
| (end of period) | | | | | |
| US dollar | 0.5215 | 0.5185 | 0.5110 | 0.5159 | 0.4544 |
| Pound sterling | 0.3404 | 0.3442 | 0.3351 | 0.3199 | 0.3076 |
| Australian dollar | 0.5622 | 0.5644 | 0.5759 | 0.5759 | 0.6263 |
| New Zealand dollar | 0.7209 | 0.7307 | 0.7397 | 0.7314 | 0.7947 |
| Swiss francs | 0.5652 | 0.5532 | 0.5520 | 0.5425 | 0.5164 |
| Euro | 0.3942 | 0.3866 | 0.3772 | 0.3691 | 0.3426 |
| Japanese yen | 49.06 | 48.12 | 45.54 | 46.37 | 44.34 |
| 7. Commodity Prices (US\$) | | | | | |
| (monthly average) | | | | | |
| UK Gold Price/fine ounce 2/ | 1145.5 | 1,114.04 | 1,093.91 | 1,118.41 | 891.86 |
| CSCE No. 11 Sugar Spot Price/Global (US cents/Pound) 3/ | 19.87 | 21.36 | 27.29 | n.a | 14.45 |
| Crude Oil/barrel 4/ | 84.95 | 79.45 | 74.31 | 76.37 | 50.78 |

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

^{3/} Bloomberg

^{4/} Bloomberg