



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global economic activity continues to rebound, albeit at a varied pace across the major regions. During the first half of the year, global economic conditions strengthened, supported by increases in industrial production, trade and inventory. However, advanced economies continue to record weak consumer spending, mainly attributed to low consumer confidence, stagnant incomes and high unemployment.

Domestically, Fiji's 2010 GDP growth projection of 1.8 percent is expected to be revised downward notably. This is on account of projected larger output declines in agriculture – mainly underpinned by the weak performance of the sugar industry to date; transport, storage & communications; health & social work; real estate & business services and the community, social & personal services sectors.

Latest data suggests improved performances in Fiji's key industries, except sugar. While strong growth has been noted in the tourism, gold, timber and fish industries through higher export values; sugar production has remained weak.

The tourism sector continues to perform strongly, evident by record visitor arrivals. Cumulative to July, visitor arrivals rose by 19.4 percent when compared to the same period last year and by 2.9 percent in comparison to the same period in 2008 – Fiji's record year for visitor arrivals. The July visitor arrival figure of 66,536 visitors is a new record for monthly visitor arrivals. This monthly increase follows the usual peak season for visitor arrivals in Fiji.

Similarly for the mining sector, in the year to September, gold production more than doubled to 47,853 ounces, favourably supported by the current high international gold prices.

In contrast, cane and sugar production continues to decline. In the first four months of the crushing season (June to September), cane and sugar production fell annually by 9.1 percent and 13.9 percent, respectively. In addition, the TCTS ratio for the review period deteriorated to 12.9, from 12.2 in the corresponding period last year – pointing to prevalent inefficiencies within the sugar industry.

Demand is still generally weak but has noted some improvements from last year's level. Net Value Added Tax (VAT) collections up to September 2010, grew annually by 13.4 percent. However, consumption activity has risen more modestly in real terms after allowances are made for increased compliance and a relatively higher average annual inflation rate of 6.3 percent over the same period. Supporting the pick up in consumer spending are higher remittances and tourism receipts which noted annual increases of 6.6 percent cumulative to September and 27 percent in the first quarter, respectively. The strong growth in personal remittances is in line with the pick-up in the global economy, supported by exchange rate gains arising from the Fiji dollar devaluation in April 2009. Contrastingly, the annual expansion in new consumption lending by banks slowed to 3.5 percent in September from 8.5 percent in August, suggesting a slowdown in consumer demand.

Recent data signal overall subdued investment performance despite business expectations for improved investment activity in plant & machinery. Cumulative to June, imports of investment goods fell by 5.1 percent on an annual basis. Moreover, growth in new lending for investment purposes by banks, slowed to 4.4 percent in September from 9.3 percent in August.

On the trade account, the merchandise trade deficit narrowed significantly in the first half of the year,

on the back of stronger growth in export earnings (up 23.7 percent) while import payments remained stagnant (down 0.1 percent).

In the banking sector, growth in broad money (M2) picked up marginally in September to 5.9 percent, from 5.8 percent in the previous month. The slight uptick in M2 was primarily underpinned by the acceleration in domestic credit expansion, which rose from 0.6 percent in August to 1.6 percent in September. The pickup in domestic credit growth in September was led by private sector credit growth, which rose to 2.7 percent in September, from 1.5 percent in the previous month.

Commercial banks' demand deposits with the Reserve Bank rose substantially by \$81.0 million to \$311.6 million in October. This was mainly on account of a significant rise in foreign reserves (\$72.3 million), net redemption of RBF Notes (\$22.5 million), and an increase in underwritten government securities (\$9.4 million) during the review period.

Inflation fell to 1.1 percent in September, a marginal decline from 1.2 percent in August. On a monthly basis, however, consumer prices rose by 0.6 percent. Over the month, prices rose in the food (underpinned by volatile food items), heating & lighting and transport categories.

The 2010 inflation forecast has been revised down to 4.0 percent. However, downside risks to this assessment remain, including the recent structural

revision in the electricity tariff rate which will be effective early November. On a positive note, the current lower-than-expected oil prices, a steady US dollar and the recent ruling by the Commerce Commission on the reduction of mark-ups on some basic food items are expected to ease some price pressures.

As at 29 October 2010, foreign exchange reserves stood at \$1,265.5 million, equivalent to around 4.0 months of imports of goods and non-factor services.

The Fiji dollar weakened against the Australian dollar and Euro in September, by 4.0 percent and 3.1 percent, respectively. Over the same period, however, the local currency gained against the US dollar (4.3 percent), Japanese Yen (3.3 percent) and New Zealand dollar (0.1 percent). Accordingly, the Nominal Effective Exchange Rate (NEER)<sup>1</sup> index rose over the month of September by 0.2 percent. This indicated an overall appreciation of the Fiji dollar against the major trading partner currencies. Similarly on an annual basis, the NEER index rose marginally by 1.0 percent.

The Real Effective Exchange Rate (REER)<sup>2</sup> index fell by 0.2 percent over the month of September. This reflected a marginal gain in the international competitiveness of the Fiji dollar against major trading partner currencies. The decline is attributed to the lower domestic inflation rate of 1.1 percent when compared to the weighted average trading partner inflation of 1.8 percent.

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<sup>1</sup> 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.

<sup>2</sup> 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

	Sep-10	Aug-10	Jul-10	Sep-09
<b>KEY INDICATORS</b>				
<b>1. Money and Credit</b>				
(year-on-year % change)				
Narrow Money	10.2	6.4	8.0	-20.7
Currency in Circulation (monthly average)	12.6	11.1	9.1	5.6
Quasi-Money (Time & Saving Deposits)	3.2	5.4	5.2	16.0
Domestic Credit	1.6	0.6	1.5	4.2
<b>2. Consumer Prices *</b>				
(year-on-year % change)				
All Items	1.1	1.2	5.4	6.3
Food	2.5	2.5	4.4	8.2
<b>3. Reserves</b>				
(end of period)				
Foreign Reserves (\$m) <sup>1/</sup>	1,192.1	1,185.3	1,138.0	1,019.2
<b>4. Liquidity</b>				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.1	10.6	8.8	11.7
Banks' Demand Deposits (\$m) <sup>2/</sup>	311.6	213.0	222.9	342.4
<b>5. Interest Rates (% p.a.)</b>				
(monthly average)				
Lending Rate (Excluding Staff)	7.47	7.49	7.49	7.64
Savings Deposit Rate	1.04	1.02	0.97	0.81
Time Deposit Rate	5.14	5.30	5.40	5.40
14-day RBF Note Rate (month end)	2.83	2.88	2.95	n.i.
Minimum Lending Rate (MLR) (month end) <sup>3/</sup>	3.50	3.50	3.50	3.00
Overnight Inter-bank Rate	n.t	n.t	1.00	n.t
5-Year Government Bond Yield	n.i.	n.i.	n.i.	8.00
10-Year Government Bond Yield	n.i.	n.i.	n.i.	10.56
<b>6. Exchange Rates **</b>				
(mid rates, F\$1 equals)				
(end of period)				
US dollar	0.5355	0.5133	0.5178	0.5133
Pound sterling	0.3393	0.3320	0.3318	0.3217
Australian dollar	0.5526	0.5754	0.5756	0.5895
New Zealand dollar	0.7266	0.7261	0.7151	0.7191
Swiss francs	0.5236	0.5266	0.5392	0.5321
Euro	0.3928	0.4053	0.3961	0.3521
Japanese yen	43.81	43.39	45.03	46.26
<b>7. Commodity Prices (US\$) **</b>				
(monthly average)				
UK Gold Price/fine ounce	1270.98	1215.81	1192.97	996.59
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	31.19	25.09	23.41	23.11
Crude Oil/barrel	77.79	76.69	74.74	67.69

n.a. - Not available/No activity

n.i. - No issues

n.t. - No trading

<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> As at 29 October, 2010.<sup>3/</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.

Sources: \* Fiji Islands Bureau of Statistics

\*\* Bloomberg