



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Month Ended March 2011

The momentum in global recovery continues to persist although at varying paces across advanced and emerging market economies. The recent earthquake in Japan is estimated to have a negligible impact on the current global growth forecast given that Japan's growth is expected to decline marginally and reconstruction efforts have commenced in the affected area. However, the global outlook is threatened by inflationary pressures arising from increasing oil and food prices, ongoing civil unrest in the Middle East and North African regions and the escalating debts in some European economies.

In light of recent events, the economic performance of our major trading partners is likely to remain mixed in 2011. The US, Australian and Euro zone economies are expected to perform favourably with growth forecasts ranging from 1.6 to 3.2 percent. However, as a result of recent natural disasters, growth prospects for the New Zealand and Japanese economies have been revised downwards in 2011 to 1.1 and 1.4 percent respectively.

The impact of the downward revisions is expected to have minimal effect on Fiji's trade as exports to these two nations are usually concentrated on other regions not directly affected by the recent disasters. However, lower-than-anticipated visitor arrivals and tourism earnings over the short-term are expected, particularly from New Zealand which is a major source market. Nonetheless, the favourable exchange rate and the relatively cheaper destinations offered in Fiji, may cushion some of this impact especially with Australia and New Zealand.

On the external front, latest data revealed an improvement in the trade deficit, which narrowed on an annual basis by 8.7 percent to \$1,264 million, cumulative to October 2010. This was attributed to

a strong growth in exports by 18.1 percent and slower imports growth of 2.5 percent. The growth in export receipts was underpinned by an increase in receipts from re-exports, fish, timber, gold, mineral water and other domestic exports, while the growth in imports was led mainly by higher payments for intermediate goods. Outflows for intermediate goods rose by 9.2 percent, driven by higher mineral fuel payments.

Domestically, sectoral outcomes were mixed in the review period. While consumption indicators registered a general upward trend, the increase in VAT collections was largely attributed to the increase in the VAT rate from 12.5 to 15.0 percent, effective 1 January 2011. On investment, construction-based activity remained sluggish. However, resource-related investments – particularly in the mining, forestry and mineral water industries – are expected to strengthen in the coming months.

Visitor arrivals continue to grow, rising by an annual 8.3 percent in January, a positive start to 2011, considering the expected lower arrivals in the first half of the year.

Gold production has also been positive, although it declined over the year by 27.9 percent to 6,879 ounces in the first two months of this year. According to industry liaison, the lower gold output in the first two months of this year is a result of increased capital and drilling works, rather than production at the Vatukoula Gold Mine Limited.

Electricity generation fell on an annual basis by 4.4 percent cumulative to February on account of reduced demand due to relatively cooler weather patterns and the increase in electricity tariff rates.

Looking ahead, favourable commodity prices for

gold, fish and timber and the recovery in our trading partner economies should support the 1.3 percent domestic economic recovery envisaged for this year. Nevertheless, latest business sentiments as per the December 2010 Business Expectations Survey (BES) have generally softened, while remaining positive, over the review period from the June 2010 BES, underpinned by a relatively lower sales outlook that fed through to lower hiring, production and investment intentions.

Money and credit developments reflected a pick-up in broad money (M2) yearly growth to 4.7 percent in the first month of 2011, from 3.9 percent in the preceding month. The growth was attributed to the annual expansion in private sector credit by 3.5 percent in the review period from 3.2 percent in December 2010. Domestic credit, contracted for the fourth consecutive month by 1.7 percent in January. The decline led by a substantial slowdown in credit to Government and official entities which contracted by 36.8 and 11.0 percent respectively over the review period.

Bank liquidity remained high despite a decline over the month by \$26.0 million to \$358.9 million

in March. This was largely attributed to a contraction in foreign reserves.

In line with the surplus liquidity, interest rates generally trended downwards. While the weighted average outstanding lending rate remained unchanged at 7.42 percent for the third consecutive month, the existing commercial banks' time deposit rates fell by 15 basis points to 4.58 percent in January. The new lending and deposit rates declined to 8.14 and 3.52 percent respectively over the month to January.

Inflation rose further in February to 7.6 percent from 5.9 percent in January. On a monthly basis, consumer prices rose by 0.7 percent, mainly reflecting the impact of the increase in fuel and wheat product prices as well as higher VAT. The growth in consumer prices was underpinned by higher prices of food, heating & lighting and transport categories. Risks to the year-end outlook such as higher oil and food prices remain.

Foreign reserves were around \$1,279 million at the end of March this year, equivalent to around 3.8 months of imports of goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS

1. Consumer Prices *

(year-on-year % change)

All Items
Food

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|--------|--------|--------|--------|
| 7.6 | 5.9 | 5.0 | 8.1 |
| 7.3 | 3.8 | 2.9 | 4.3 |

2. Reserves

(end of period)

Foreign Reserves (\$m)^{1/}

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|---------|---------|---------|---------|
| 1,279.4 | 1,299.0 | 1,302.7 | 1,067.7 |

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

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|--------|--------|--------|--------|
| 0.5477 | 0.5453 | 0.5496 | 0.5110 |
| 0.3400 | 0.3442 | 0.3564 | 0.3351 |
| 0.5393 | 0.5511 | 0.5411 | 0.5759 |
| 0.7297 | 0.7083 | 0.7128 | 0.7397 |
| 0.5085 | 0.5138 | 0.5143 | 0.5520 |
| 0.3985 | 0.4012 | 0.4132 | 0.3772 |
| 44.77 | 44.70 | 44.84 | 45.54 |

4. Liquidity

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)^{2/}

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|--------|--------|--------|--------|
| 11.1 | 10.9 | 10.7 | 11.2 |
| 358.9 | 370.9 | 348.4 | 309.9 |

5. Commodity Prices (US\$) **

(monthly average)

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

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|---------|---------|---------|---------|
| 1,372.7 | 1,356.4 | 1,390.6 | 1,095.4 |
| 35.0 | 36.1 | 36.1 | 27.3 |
| 104.0 | 96.3 | 91.8 | 74.3 |

6. Money and Credit

(year-on-year % change)

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

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|--------|--------|--------|--------|
| n.a. | 13.5 | 12.3 | 5.7 |
| n.a. | 4.7 | 3.9 | 11.0 |
| n.a. | 12.1 | 11.5 | 9.1 |
| n.a. | -0.9 | -1.4 | 14.6 |
| n.a. | -1.7 | -1.7 | 4.2 |

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)^{3/}
Overnight Inter-bank Rate
5-Year Government Bond Yield
10-Year Government Bond Yield

| Feb-11 | Jan-11 | Dec-10 | Feb-10 |
|--------|--------|--------|--------|
| n.a. | 7.42 | 7.42 | 7.48 |
| n.a. | 1.07 | 1.02 | 0.90 |
| n.a. | 4.58 | 4.73 | 5.86 |
| n.i | n.i | n.i | n.a |
| 2.50 | 3.00 | 3.00 | 3.00 |
| n.t. | n.t. | n.t. | n.t. |
| n.i | n.i | n.i | n.i |
| 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 Reserve Bank as at 31 March 2011.

^{2/} As at 31 March 2011.

^{3/} 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