



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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International economic conditions generally remained upbeat as the pace of recovery continues. According to the International Monetary Fund (IMF), world economic growth forecasts were unchanged at 4.4 percent and 4.5 percent for 2011 and 2012, respectively. However, the recovery remains unbalanced with growth in advanced economies expected at only 2.4 percent this year while emerging and developing economies are predicted to grow at a higher 6.5 percent in 2011 and 2012. Unemployment is still considerably high with output and growth below potential in many developed economies, while inflationary pressures emanating from high food and commodity prices, pose a serious challenge for policy makers in emerging economies. Nevertheless, the IMF acknowledges that while inflation may be high for some time, this will not derail the current global growth outlook significantly.

Domestically, recent macroeconomic projections reveal that this year, the Fiji economy is projected to grow by 2.7 percent compared to the earlier anticipated recovery of 1.3 percent. Similarly, economic growth for 2012 and 2013, have been revised upwards to 2.1 percent and 1.9 percent, respectively.

Mixed performances have been noted in the real sector in the year to date. Electricity production fell on an annual basis by 2.7 percent cumulative to March this year, driven by lower demand from commercial and residential customers, possibly due to higher tariff rates. Recent data reflect some upsurge in consumption activity, supported by improved employment conditions. Cumulative to February this year, net Value Added Tax (VAT) collections increased annually, by 29.5 percent. While this may be largely attributed to the increase in the VAT rate this year, projected increases in

visitor arrivals and retail sales should also support consumer spending this year.

Consumer spending is somewhat being supported by rising incomes, as indicated by the growth of 19.3 percent in Pay as You Earn (PAYE) collections cumulative to February.

Nevertheless, real household incomes have been eroding due to higher prices and this continues to be a drag on consumer spending. In addition, there may still be some softness in consumer demand, given the annually lower new lending for consumption purposes by 11.4 percent cumulative to March this year and remittance inflows which fell by 17.9 percent cumulative to February 2011.

Partial indicators of investment remain weak. Cumulative to November 2010, imports of investment goods rose by a marginal 0.5 percent, while new lending for investment purposes fell by 87.5 percent cumulative to March 2011. While survey responses of investment intentions remain subdued, an up-tick in building permits issued in 2010 suggest increased construction activity in 2011. Nevertheless, the 2010 value of work put-in-place data indicates that construction activity is still below 2006 levels. However, an improvement in the implementation rate of public sector projects and continued resource-related investments should underline some growth in investment activity this year.

Labour market conditions appear to be improving, as indicated by partial indicators. The Job Advertisement survey, a partial indicator of employment, noted an annual 3.6 percent increase cumulative to March, driven by the finance, insurance, real estate & business services sector.

In the monetary sector, growth in broad money marginally rose to 4.4 percent in March from 4.3 percent in February on account of a slight pick-up in private sector credit expansion, which rose from 3.8 percent to 3.9 percent in the same period. However, growth in Net Foreign Assets slowed to 19.5 percent from 23.0 percent and domestic credit further fell by 2.3 percent in March. The decline in claims on government (-41.0%) continues to be the major driver in the slowdown in domestic credit, followed by claims on official entities (-17.9%).

Bank liquidity remained at high levels, after rising over the month by \$107 million to \$466 million in April. The outturn was due to the rise in foreign reserves.

Interest rate movements were mixed in March. Both the weighted average outstanding lending rate and the existing time deposit rate eased over the month. The outstanding lending rate fell by 5 basis points to 7.44 percent while the existing time deposit rate declined by 9 basis points to 4.42 percent. On the contrary, the new lending rate rose by 46 basis points to 8.06 percent and the new deposit rate increased by 16 basis points to 3.75 percent in the same period.

Inflation remained heightened at 7.6 percent in March. Over the month, price increases were registered in all categories except for the heating & lighting, alcoholic drinks & tobacco and services categories. Inflation is expected to moderate

slightly to 6.0 percent at the end of the year although this is currently under threat from rising international oil and food prices.

On the external front, latest data revealed an improvement in the trade deficit, which narrowed on an annual basis by 3.1 percent to \$1,415 million, cumulative to November 2010. This was attributed to a strong growth in exports by 13.3 percent and slower imports growth of 4.1 percent. The former was underpinned by an increase in receipts from re-exports, timber, mineral water, fish, gold, sweet biscuits, garments, flour, fruits & vegetables and other domestic exports. Over the same period, the increase in imports was underpinned by higher payments for intermediate goods (11.1%), consumption goods (1.9%) and investment goods (0.5%). The increase in outflows for intermediate goods was led by a 13.1 percent increase in mineral fuel outlays, largely reflecting higher international crude oil prices. For 2011, exports are projected to grow strongly by 10.3 percent, following a 21.0 percent rise in 2010, while imports are expected to rebound by 11.4 percent this year following relatively low growth of 3.2 percent in 2010. Additionally, the outlook for the tourism sector looks more optimistic after tourism earnings rose by a significant 20.0 percent in 2010, supported by increase in visitor arrivals.

Foreign reserves were around \$1,359.6 million as at 29 April 2011, equivalent to around 4.0 months of imports of goods and non-factor services.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food7.6 7.6 5.9 9.4
7.5 7.3 3.8 6.0**2. Reserves**

(end of period)

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

1278.8 1308.1 1299.0 1074.6

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

US dollar
Pound sterling
Australian dollar
New Zealand dollar
Swiss francs
Euro
Japanese yen0.5538 0.5477 0.5453 0.5185
0.3445 0.3400 0.3442 0.3442
0.5362 0.5393 0.5511 0.5644
0.7262 0.7297 0.7083 0.7307
0.5087 0.5085 0.5138 0.5532
0.3920 0.3985 0.4012 0.3866
45.90 44.77 44.70 48.12**4. Liquidity**

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)10.2 11.1 10.9 12.5
358.9 384.9 370.9 301.6**5. Commodity Prices (US\$) ****

(monthly average)

UK Gold Price/fine ounce
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)
Crude Oil/barrel1,424.0 1,372.7 1,356.4 1,113.3
33.2 35.0 36.1 21.4
115.8 104.0 96.3 79.3**6. Money and Credit**

(year-on-year % change)

Narrow Money
Broad Money
Currency in Circulation (monthly average)
Quasi-Money (Time & Saving Deposits)
Domestic Credit13.3 14.0 13.5 8.1
4.4 4.3 4.7 13.3
9.3 12.0 12.1 10.0
-1.1 -1.7 -0.9 16.9
-2.3 -2.7 -1.7 5.4**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)^{2/}
Overnight Inter-bank Rate
5-Year Government Bond Yield
10-Year Government Bond Yield7.44 7.49 7.42 7.58
1.15 1.13 1.07 0.93
4.42 4.51 4.58 5.84
n.i n.i n.i n.i
2.50 2.50 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.^{2/} 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