



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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While the international economy is continuing to gain from the strong growth in emerging market economies, debt sustainability issues are weighing on growth prospects in certain advanced economies, and by extension, global output. Furthermore, price pressures – particularly for emerging & developing economies are becoming largely broad-based on account of higher food and fuel consumption.

Domestically, economic activity remains uneven across key industries. While tourism activity continued to strengthen as indicated by the annual growth (9.9%) in visitor arrivals, sugar production recorded a marginal yearly growth (0.4%) within the first two months of crushing. In addition, copra production also rose annually (6.4%) cumulative to July this year. However, gold, electricity and cane production declined on an annual basis in the review period. Looking ahead, further improvements in cane quality and supply and fewer mill stoppages should result in a pick-up in cane and sugar output for the rest of the season. Additionally, capital works by the Vatukoula Gold Mines Limited (VGML) to date are expected to increase the company's mining capacity, with the current high international gold prices providing an incentive for increased gold production for the remainder of this year. Nevertheless, recent survey measures point to subdued business conditions for the building & construction, garments and communications industries.

Net Value Added Tax (VAT) collections, a partial indicator for consumption spending, rose annually (34.7%) cumulative to July. The increase (9.6%) in remittances in the year to June, combined with PAYE collections growth (9.8%) to July, has been supportive of recent consumption activity. However, cautiousness in consumer spending persisted given the annual decline (-40.2%) in new lending for consumption purposes, cumulative to July, and the marginal growth in consumption

imports (1.8%) in the year to May. Looking at retail conditions, the June 2011 Retail Sales Survey (RSS) suggest a 3.6 percent increase in sales this year, lower than the 4.5 percent growth expected earlier in the December 2010 Survey. Evidently, higher utility prices and uncertainties in the international and domestic economy are impacting both business and consumer confidence.

Industry liaison and anecdotal evidence suggests that investment conditions generally remain subdued with latest data indicating a slight increase in imports of investment goods (2.7%) in the first five months of 2011. However, data on new lending to the building & construction and real estate sectors revealed a 25.1 percent annual increase over the same period.

Employment prospects remained weak in the year to August as reflected by the Job Advertisement Survey. The number of vacant positions advertised during the period declined on an annual basis by 7.3 percent. This current state of weak employment conditions is expected to remain for some time as indicated by the June Business Expectations Survey.

In August, inflation rose to 10.4 percent, from 10.1 percent in July. The increase was evident across most categories but led mainly by energy and food items. Over the month, however, consumer prices declined by 0.3 percent compared to a 0.3 percent increase in the previous month. Underlying price pressures picked up momentum in August. The trimmed mean measure rose to 3.8 percent compared with 3.3 percent in July. However, excluding volatile items (food, heating & lighting and transport items) inflation remained unchanged at 2.4 percent.

On monetary aggregates, broad money (M2) rose annually by 14.2 percent in July, up from 10.2 percent in the previous month on account of growth

in narrow money by 34.4 percent and marginal growth in quasi money by 1.4 percent. Domestic credit fell further by 1.3 percent, after a decline of 2.4 percent in the previous month. This is the tenth consecutive month that domestic credit has been declining, underpinned mainly by the persistent contraction in the claims on government and official entities.

For the banking industry, over the month, the weighted average outstanding lending rate increased by 3 basis points to 7.51 percent, while the existing average time deposit rate fell further by 17 basis points to 3.60 percent. The savings deposit rate declined for the third consecutive month by 21 basis points to 0.94 percent in the same period. Meanwhile, the commercial banks' new weighted average lending rate fell by 87 basis points to 7.04 percent and the new weighted average time deposit rate fell for the fourth consecutive month by 82 basis points to 1.61 percent.

Total commercial banks' lending rose by 5.8 percent to \$3.0 billion in July, compared to the 4.8 percent growth in June and a marginal growth of 1.4 percent in the same period last year. The annual growth was largely on account of credit expansions to the electricity, gas & water, wholesale, retail, hotels and restaurants, transport & storage, private individuals, agriculture and central & local government sectors.

Liquidity in the banking system rose further in August to \$678.9 million from \$660.3 million in July, underpinned by a net increase in foreign reserves. However, this was partially offset by increases in the suspense account and government central account balances. At the end of August, liquidity was recorded at \$678.9 million.

On the trade front, total export earnings rose marginally (2.5%) cumulative to May from the same period in 2010. This was underpinned by higher earnings from re-exports, sugar, fruit & vegetables and other domestic exports which more than offset the declines in fish, gold, timber, garments, flour and sweet biscuits.

Merchandise imports however, fell (6.6%) in the same period, on account of lower payments for intermediate goods (-23.8%) - specifically mineral fuel outlays (-24.8%).

Lower demand for mineral fuels in the year to date suggests an enduring softness in certain domestic industries. As a result, the trade deficit narrowed by 13.2 percent annually in the first five months of the year. On exchange rate movements, in August, the Fiji dollar weakened against the Japanese Yen (-2.7%), the Euro (-2.2%) and the US dollar (-1.3%) but strengthened against the Australian and New Zealand dollars by 1.6 percent and 0.6 percent, respectively. On an annual basis, the Fiji dollar appreciated further against the Greenback (12.6%) and the Yen (2.1%) but depreciated further against the Kiwi (-6.7%), the Aussie (-6.0%) and the Euro (-1.3%).

In August, the Nominal Effective Exchange Rate (NEER)¹ index fell over the month by 0.2 percent, indicating a marginal depreciation of the Fiji dollar against its major trading partner currencies. However, on an annual basis, the NEER index rose by 0.7 percent. The Real Effective Exchange Rate (REER)² index fell over the month by 0.7 percent in August, compared to a growth of 0.8 percent for the same period last month - reflecting a gain in Fiji's international competitiveness. This is due to the over the month decline in Fiji's consumer price index (despite the increase in the annual inflation rate to 10.4 percent) and the general depreciation of the domestic currency against trading partner currencies as indicated by the fall in the NEER index in August.

Foreign reserves increased further over the month to \$1,631.7 million on 31 August, sufficient to cover 4.8 months of goods and non-factor services.

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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.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS**1. Consumer Prices ***

(year-on-year % change)

All Items
Food

Aug-11	Jul-11	Jun-11	Aug-10
10.4	10.1	10.3	1.2
10.9	11.1	11.3	2.5

2. Reserves

(end of period)

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

Aug-11	Jul-11	Jun-11	Aug-10
1632.7	1573.7	1512.3	1185.3

3. Exchange Rates

(mid rates, FSI equals)

(end of period)

US dollar
Pound sterling
Australian dollar
New Zealand dollar
Swiss francs
Euro
Japanese yen

Aug-11	Jul-11	Jun-11	Aug-10
0.5779	0.5855	0.5721	0.5133
0.3546	0.3579	0.3561	0.3320
0.5411	0.5328	0.5354	0.5754
0.6773	0.6734	0.6932	0.7261
0.4740	0.4694	0.4774	0.5266
0.4001	0.4090	0.3964	0.4053
44.31	45.53	46.22	43.39

4. Liquidity

(end of period)

Liquid Assets Margin to Deposit Ratio (%)
Banks' Demand Deposits (\$m)

Aug-11	Jul-11	Jun-11	Aug-10
15.4	14.8	13.7	10.6
678.9	660.3	580.4	213.0

5. Commodity Prices (US\$) **

(monthly average)

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

Aug-11	Jul-11	Jun-11	Aug-10
1755.8	1572.8	1528.8	1215.8
28.9	29.5	24.9	25.1
110.1	116.5	113.8	76.7

6. Money and Credit

(year-on-year % change)

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

Aug-11	Jul-11	Jun-11	Aug-10
n.a	34.4	26.4	6.4
n.a	14.2	10.2	5.8
n.a	9.7	10.1	11.1
n.a	1.4	0.01	5.4
n.a	-1.3	-2.4	0.6

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 Yield

Aug-11	Jul-11	Jun-11	Aug-10
n.a	7.51	7.48	7.49
n.a	0.94	1.15	1.02
n.a	3.60	3.77	5.30
n.i	n.i	n.i	2.88
2.00	2.00	2.00	3.50
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 Bureau of Statistics
** Bloomberg