



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Month Ended July 2011

The world economy is expected to grow by 4.3 percent in 2011. While growth in advanced economies has been revised downwards to 2.2 percent from 2.4 percent owing to fiscal and financial sector problems that many of these economies face, emerging and developing economies are expected to grow strongly by 6.6 percent, underpinned by the high growth in the Asian economies. Growth remains unchanged in New Zealand while the Australian economy is now expected to expand by 2.0 percent – a slowdown by 0.7 percent from earlier forecasts. The slowdown in our major trading partner economies may pose threats to our resource based export and tourism sectors.

During the review period, there were variations in domestic sectoral outcomes. Annually higher cane production, fruits & vegetable and dalo exports receipts suggest that the rebound in Fiji's agriculture sector persists. As for industrial production, while the yearly growth in export earnings for mineral water and other domestic exports cumulative to April are indicative of some pick-up in manufacturing activity, the sixth-consecutive decline in electricity production so far this year points to continued softness in certain sectors of the domestic economy. Nevertheless, sugar production rose yearly by 10.9 percent in the first month of crushing, notable also from an improvement in the TCTS ratio.

On construction activity, the value of work put-in-place in the first quarter increased only marginally (1.8%), on an annual basis. Indicators for services sector output also showed mixed outcomes. On the upside, tourism activity is expected to further strengthen during the industry's peak season over the third quarter and feed through to wholesale & retail trade activities and certain transport categories.

In contrast, business sentiments for the communications and real estate & business services sectors are relatively subdued and the annual contraction (-9.0%) in new commercial bank lending in the year to June suggests restrained financial intermediation. Overall, some sectors are performing more strongly than the others, pointing to an uneven economic recovery and persisting subduedness in certain sectors.

Mixed results were also noted for consumption indicators. Net Value Added Tax (VAT) collections, rose annually by 37.5 percent, partly on account of the VAT rate increase in January 2011 and average inflation in the review period. However, new lending for consumption purposes dipped over the year by 16.6 percent for the third consecutive month. Looking ahead, any restoration in public sector wage increases and continued remittance inflows should bolster consumer confidence. The slight improvement in consumer spending is supported by rise in individual incomes as indicated by the increase in Pay As You Earn (PAYE) collections and inward remittances which rose annually by 11.8 percent and 10.5 percent cumulative to June and May 2011 respectively.

Investment conditions remained subdued in the year to June. Small increases were noted in the value of work put-in-place (1.8%) and in imports of investment goods (5.6%) in the first quarter of 2011. In June 2011, new lending for investment purposes grew by 139.4 percent over the month and by 6.0 percent over the year. The year ago growth rate was 29.7 percent.

Employment prospects remained weak in the year to June as reflected by the Job Advertisements Survey, a partial indicator for employment conditions. The number of vacant positions advertised during the period, declined annually by 5.1 percent. This was

mostly underpinned by a fall in demand for labour in the electricity & water, mining & quarrying and transport, storage & communication sectors. Nonetheless, with the commencement of sugar harvesting and the peak tourism season in the coming months, employment prospects for seasonal labour are anticipated to improve.

On monetary aggregates, the annual growth in broad money (M2) rose to 10.2 percent in June, from 8.0 percent at the end of May, underpinned primarily by the growth in net foreign assets by 37.9 percent, which more than offset the decline in domestic credit (-2.4%).

In the banking sector, the commercial banks' weighted average outstanding lending and time deposit rates fell in June. Over the month, the weighted average outstanding lending rate declined by 2 basis points to 7.48 percent while the existing average time deposit rate fell by 26 basis points to 3.77 percent. The savings deposit rate decreased by 6 basis points to 1.15 percent over the same period. Meanwhile, commercial banks' new weighted average lending rate fell by 131 basis points to 7.91 percent while the new weighted average time deposit rate declined by 57 basis points to 2.43 percent.

Total lending by commercial banks rose by 4.8 percent to \$2.96 billion in June, compared to a growth of 5.1 percent in May and a marginal growth of 1.3 percent in the June last year. The annual growth was largely on account of higher credit extended to the electricity, gas & water, wholesale, retail, hotels and restaurants, private individuals, agriculture and central & local government sectors.

Banks demand deposits held with the Reserve Bank rose further in July to \$660.3 million from \$580.4 million in June, driven mainly by an increase in foreign reserves (\$63.1 million).

In the external sector, the trade deficit, cumulative to April 2011, narrowed by around 10.0 percent to \$558.2 million. This compares to a 5.1 percent worsening in the same period last year. Total exports receipts grew by 2.1 percent, mainly as a result of higher re-exports during this period. Import payments fell by 5.0 percent when compared to the corresponding period in 2010.

Inflation in July eased marginally to 10.1 percent, from 10.3 percent registered in June. On an annual basis, apart from durable household goods, prices in

all other categories rose, reflecting the rising global commodity prices, especially food and oil which have fuelled the surge in consumer prices. Excluding volatile items (food, heating & lighting and transport items) inflation declined to 2.4 percent compared to 2.7 percent in June.

In July, the Fiji dollar strengthened against the Euro (3.2%) and the US dollar (2.3%), but weakened against the New Zealand dollar (-2.9%), the Japanese Yen (-1.5%) and the Australian dollar (-0.5%). On an annual basis, the Fiji dollar strengthened against the US dollar (13.1%), the Euro (3.3%) and the Yen (1.1%), but weakened against the Australian dollar (-7.4%) and the New Zealand dollar (-5.8%).

The Nominal Effective Exchange Rate (NEER)<sup>1</sup> index rose by 0.3 percent over the month to July indicating an appreciation of the Fiji dollar against its major trading partner currencies. Similarly, on an annual basis, the NEER index rose by 3.9 percent.

The Real Effective Exchange Rate (REER)<sup>2</sup> index rose marginally by 0.7 percent over the month of July, compared to a growth of 0.3 percent last month. This indicates a loss of Fiji's international competitiveness against major trading partners and is considered unfavourable for the growth of our exports market. The loss in competitiveness was mainly attributed to the higher domestic inflation rate of 10.1 percent, compared to a relatively steady weighted average trading partner inflation rate of 3.6 percent over the same period.

Foreign reserves were around \$1,576.0 million at the end of July, sufficient to cover 4.7 months of imports of goods and non-factor services.

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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

**KEY INDICATORS****1. Consumer Prices \***

(year-on-year % change)

All Items  
Food

Jul-11	Jun-11	May-11	Jul-10
10.1	10.3	8.8	5.4
11.1	11.3	9.3	4.4

**2. Reserves**

(end of period)

Foreign Reserves (\$m)<sup>1/</sup>

Jul-11	Jun-11	May-11	Jul-10
1576.0	1512.3	1469.2	1138.0

**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

Jul-11	Jun-11	May-11	Jul-10
0.5855	0.5721	0.5699	0.5178
0.3579	0.3561	0.3461	0.3318
0.5328	0.5354	0.5336	0.5756
0.6734	0.6932	0.6987	0.7151
0.4694	0.4774	0.4860	0.5392
0.4090	0.3964	0.3991	0.3961
45.53	46.22	46.14	45.03

**4. Liquidity**

(end of period)

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

Jul-11	Jun-11	May-11	Jul-10
n.a	13.7	17.4	8.8
660.3	580.4	520.7	222.9

**5. Commodity Prices (US\$) \*\***

(monthly average)

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

Jul-11	Jun-11	May-11	Jul-10
1572.8	1528.8	1510.6	1193.0
29.5	24.9	21.8	23.4
116.5	113.8	114.5	74.7

**6. Money and Credit**

(year-on-year % change)

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

Jul-11	Jun-11	May-11	Jul-10
n.a	26.4	26.9	8.0
n.a	10.2	8.0	6.2
n.a	10.1	10.6	9.1
n.a	0.01	-3.3	5.2
n.a	-2.4	-3.6	1.5

**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)<sup>2/</sup>  
Overnight Inter-bank Rate  
5-Year Government Bond Yield  
10-Year Government Bond Yield

Jul-11	Jun-11	May-11	Jul-10
n.a	7.48	7.50	7.49
n.a	1.15	1.21	0.97
n.a	3.77	4.03	5.40
n.i	n.i	n.i	2.95
2.00	2.00	2.00	3.50
n.t	n.t	n.t	1.0
n.i	n.i	n.i	n.i
n.i	n.i	n.i	n.i

<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> 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: <sup>\*</sup> Fiji Bureau of Statistics  
<sup>\*\*</sup> Bloomberg