



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic conditions continue to improve, supported by strong performances in Asia and modest upturns in other advanced and emerging economies. Economic recovery in Fiji's major trading partners is also gaining momentum. The Australian economy recorded its third straight expansion in the September quarter while the Euro-zone emerged from the recession in the same period. Meanwhile, growth in the New Zealand, United States and Japanese economies continue to pick up.

Prospects for recovery in the domestic economy remain promising. Improved expectations that foreign reserves will continue to stabilize have resulted in the recent revision in Fiji's outlook by Standard and Poor's in December. The improved outlook from negative to stable reflects improving prospects in the tourism sector, effective use of capital controls by the Reserve Bank, the devaluation of the Fiji dollar in April and an allocation of Special Drawing Rights from the International Monetary Fund.

Recent performances in major sectors remain mixed, in line with the expected 2.5 percent decline in the economy in 2009. However, the outlook for growth in 2010 is encouraging, with expected recoveries in the sectors for manufacturing (3.6%), agriculture & forestry (3.9%), financial intermediation (3.7%), wholesale & retail (3.6%), hotels & restaurants (5.1%), construction (3.5%), mining & quarrying (35.5%), real estate & business services (0.8%) and fishing (2.0%). However, the cyclone just before Christmas may depress growth marginally in 2010.

Investment stimulus measures announced in the 2010 Budget are expected to boost infrastructural development relating to roads, water and electricity,

particularly in under-developed regions. Other policy measures expected to help stimulate domestic spending and sectoral activity in 2010 include tax holidays and duty exemptions for companies investing in hotel development in Tax Free Regions, Short Life Investment Package, commercial agriculture and agro-processing for bio-fuel production. Moreover, the removal of fiscal duties on luxury items and the VAT refund system for tourists are expected to boost tourism spending beginning in the new year. The tax incentives for the corporate sector as well as the removal of price controls also augur well for business conditions in 2010.

Recent data on money and credit aggregates largely reflect the stabilisation in foreign reserves and improvement in liquidity conditions. On an annual basis, broad money rose, for the second consecutive month since September 2008, by 3.6 percent in November – underscored by strong growth in time deposits and a rise in the level of demand deposits. With further increases in foreign reserves, liquidity reached \$297 million as at 31 December 2009.

Interest rates continued to converge within the levels set by the Reserve Bank in April. The commercial banks' weighted average lending rate fell marginally by 3 basis points to 7.57 percent in November, while the weighted time deposit rate rose by 24 basis points to 5.73 percent. Financial prices are expected to remain at these levels in the short to medium term.

Inflation registered at 6.8 percent in December. The 2010 year end inflation is expected at 2.0 percent. Upside risks to inflation are expected to stem from the possible short supply of market items following the recent cyclone and upward pressures on global oil and commodity prices as recovery in the global

economy fully takes hold. However, the weakening US dollar should provide some buffer to increases in global prices.

On external sector developments, the recovery in global demand, along with the gradual restoration of domestic market confidence - in line with positive international sentiments on the recovery of the domestic economy - should augur well for Fiji's external position. In 2009, the current account deficit is expected to improve to -8.7 percent of GDP, from -17.7 percent in 2008.

The improvement in the current account is achieved on the back of strong public policies, which includes fiscal discipline on the part of Government, tight exchange controls and the devaluation of the

currency. This is supported by weak domestic demand conditions, through lower domestic consumption and declining imports this year. The persistent weakening of the Fiji dollar relative to the Australian and New Zealand dollars should also provide further boost to the current account.

However, the expected rise in global oil and commodity prices is expected to pose downside risks to the current account in the short to medium term.

As at 31 December 2009, foreign reserves were around \$1,096 million, equivalent to around 3.7 months of imports of goods and non-factor services.

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KEY INDICATORS	Dec-09	Nov-09	Oct-09	Dec-08
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	-8.2	-13.8	-19.7
Currency in Circulation (monthly average)	n.a	7.5	4.9	4.9
Quasi-Money (Time & Saving Deposits)	n.a	12.8	11.9	5.6
Domestic Credit	n.a	-0.7	3.5	4.8
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	6.8	6.0	6.3	6.6
Food	7.7	5.2	6.5	11.1
3. Reserves (end of period)				
Foreign Reserves (\$m)*	1095.8(p)	1071.1(p)	1,025.2	558.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	13.3	10.7	2.6
Banks' Demand Deposits (\$m)	297.0	391.1	331.3	55.2
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.57	7.60	7.72
Savings Deposit Rate	n.a	0.89	0.87	0.64
Time Deposit Rate	n.a	5.73	5.49	3.00
91-day RBF Note Rate (month end)	n.a	n.a	n.a	n.a
Minimum Lending Rate (MLR) (month end)	3.00	3.00	3.00	6.32
Overnight Inter-bank Rate	1.00	n.t	n.t.	1.04
5-Year Government Bond Yield	n.i	n.i.	n.i.	n.i
10-Year Government Bond Yield	n.a	6.50	n.i.	7.67
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5185	0.5247	0.5259	0.5669
Pound sterling	0.3226	0.3172	0.3178	0.3932
Australian dollar	0.5796	0.5737	0.5746	0.8201
New Zealand dollar	0.7184	0.7335	0.7177	0.9818
Swiss francs	0.5375	0.5269	0.5356	0.5998
Euro	0.3615	0.3496	0.3545	0.4029
Japanese yen	47.91	45.71	48.09	51.19
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	1134.32	1120.57	1040.32	817.32
New York #11 Spot Market Price ^{3/}	24.81	22.77	23.16	12.30
Crude Oil/barrel ^{4/}	74.65	77.03	73.13	41.96
<p>n.a. - Not available/No activity n.i. - No issues n.t. - No trading * 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.</p> <p>Sources: ^{1/} Fiji Islands Bureau of Statistics ^{2/} Bloomberg and Reserve Bank of Fiji ^{3/} Fiji Sugar Corporation Limited ^{4/} Bloomberg</p>				