



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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According to the International Monetary Fund (IMF), the global economy is beginning to emerge from the recession, supported by fiscal stimulus packages and expansionary monetary policies. The IMF expects the world economy to contract by 1.1 percent this year, followed by a 3.1 percent recovery anticipated for next year. For Fiji's major trading partners, the United States economy recorded its first positive growth in the third quarter this year since the March quarter of 2008. Growth in the Australian, New Zealand and Japanese economies continue to improve this year.

The Fiji Islands Bureau of Statistics has released real Gross Domestic Product (GDP) numbers with a new base year of 2005. The change in base reflected transformations in the structure of the economy from 1995, the previous base year, to 2005. Over this period, the weights of some sectors/industries would have changed while new sectors/industries have emerged.

As a result, the real GDP growth for 2005 was 0.5 percent while the growth rate for 2006 is now estimated to be 1.9 percent. In 2007, the economy is now estimated to have contracted by a much lower rate of 0.5 percent than the 6.6 percent decline that was estimated earlier under the 1995 base. For 2008, the economy is now estimated to have declined marginally by 0.1 percent as opposed to the previous estimate of 0.2 percent growth.

The new macroeconomic forecasts recently released during the delivery of the 2010 National Budget indicate the economy is anticipated to contract by 2.5 percent this year and then grow at a rate of 1.9 percent next year.

Recent performances in the major sectors were mixed. For the tourism industry, preliminary data show visitor arrivals in recent months are improving

compared to the earlier months of the year. New airline services, providing direct flights to and from Fiji and through connecting routes, will increase airline capacity. This, in turn, will increase inbound capacity and support the recovery of the tourism industry.

Sugar production up to October was lower than a year ago owing to mill problems which affected the efficiency in producing sugar. As a result of the low performance, crushing at the three large mills has been extended by two weeks, moving the end of this year's crushing season to January next year.

The performance in the mining industry has gained some momentum from last year with production picking up and exports rising strongly supported by favourable gold prices.

Electricity production continues to grow mainly due to growth in new demand for electricity rather than demand by existing consumers. Cumulative to October, electricity production rose by 2.5 percent, annually.

Exports from the timber and garment industries have continued to be affected by the weak global economy. Fish earnings, however, have performed well.

Consumption remained subdued during the review period. Cumulative to October, net Value Added Tax (net VAT) collections and new vehicle sales both fell on an annual basis. Other partial indicators include new loans for consumption purposes and import of consumption goods, which both fell in the year to September.

Partial indicators reveal that investment generally remains subdued. Cumulative to September, new investment credit (-64.3%) and imports of

investment goods (-4.8%) were lower on an annual basis.

In terms of money and credit aggregates, broad money increased marginally by 0.3 percent over the year to October, the first yearly growth since September last year. This turnaround was due to a notable increase in quasi money of 11.9 percent and a smaller decline in narrow money of 13.8 percent. Domestic credit grew modestly by 3.5 percent in the year to October, similar to the 4.2 percent in the previous month. This was driven by a 2.9 percent increase in private sector credit, 7.4 percent increase in Government credit and a 6.8 percent increase in official credit. With the improvements in foreign reserves, liquidity in the banking system rose to around \$393 million at the end of November.

Nevertheless, to ensure liquidity in the banking system is maintained at an acceptable level while safeguarding Fiji's foreign reserves, the Reserve Bank has raised the Statutory Required Deposits (SRD) ratio from 5 percent to 7 percent effective from 7 December.

The commercial banks' weighted average lending rate fell marginally by 4 basis points to 7.60 percent in October while the weighted time deposit rate rose by 9 basis points to 5.49 percent. In addition, banks' interest rate spreads are in line with the Reserve Bank's directive to maintain spreads at 4 percent or lower by the end of this year. With the improvement in foreign reserves, the Reserve Bank has announced the removal of the lending rate ceiling and interest rate spread requirement, which will be effective from 1 January 2010.

Furthermore, the Reserve Bank will increase delegated limits to authorized commercial banks and foreign exchange dealers for specific exchange

control transactions. This will also become effective from 1 January next year.

On public finances, Government has projected a 2.5 percent deficit in 2009, within the 3 percent budgeted for the period. For next year, Government expenditure is budgeted at \$1,706.6 million while projected annual revenue is \$1,486.5 million. Consequently, Government anticipates a slightly higher deficit of 3.5 percent of GDP.

Inflation in October 2009 was 6.3 percent, unchanged from September. In October last year, prices had risen by 8.5 percent. Since the devaluation, prices have now increased by 7.6 percent. In the approaching months, although upward movements in fuel and commodity prices in the world market are expected, the depreciating US dollar against the Fiji dollar and the weaker than expected domestic demand are likely to hold off any significant rise in domestic prices. Hence, the 2009 year end inflation forecast has been revised down to 7.0 percent, from the 9.5 percent envisaged earlier.

Cumulative to September this year, the merchandise trade deficit narrowed to \$1,228 million, compared to the same period last year when it was \$1,524 million. The lower deficit is attributed to a decline in imports by 18.7 percent, mainly on account of lower payments for mineral fuels.

Domestic export earnings also fell in the first nine months of the year led by sugar, timber, garments, coconut oil and flour, which more than offset the increases from exports of gold, fish, molasses, sweet biscuits, corned meat and other domestic exports.

At the end of November, foreign reserves were \$1,071 million, equivalent to around 4 months of imports of goods and non-factor services.

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KEY INDICATORS	Oct-09	Sep-09	Aug-09	Oct-08
1. Money and Credit (year-on-year % change)				
Narrow Money	-13.8	-20.7	-23.3	2.7
Currency in Circulation (monthly average)	4.89	5.56	3.31	6.77
Quasi-Money (Time & Saving Deposits)	11.9	16.0	14.6	-0.1
Domestic Credit	3.54	4.15	3.82	3.65
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	6.3	6.3	5.1	8.5
Food	6.5	8.2	5.7	14.0
3. Reserves (end of period)				
Foreign Reserves (\$m)*	1,025.2	1,019.2	925.9	649.6
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.7	11.7	10.4	9.7
Banks' Demand Deposits (\$m)	331.3	342.3	271.8	244.8
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	7.60	7.64	7.65	7.84
Savings Deposit Rate	0.87	0.81	0.84	0.64
Time Deposit Rate	5.49	5.40	5.36	2.29
91-day RBF Note Rate (month end)	n.a	n.a	n.a	n.i.
Minimum Lending Rate (MLR) (month end)	3.00	3.00	3.00	5.4
Overnight Inter-bank Rate	n.t.	n.t	n.t	0.40
5-Year Government Bond Yield	n.i.	8.00	n.i	5.92
10-Year Government Bond Yield	n.i.	10.56	n.i	7.12
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5259	0.5133	0.5011	0.6088
Pound sterling	0.3178	0.3217	0.3078	0.3366
Australian dollar	0.5746	0.5895	0.5950	0.7591
New Zealand dollar	0.7177	0.7191	0.7313	0.9077
Swiss francs	0.5356	0.5321	0.5311	0.6623
Euro	0.3545	0.3521	0.3503	0.4214
Japanese yen	48.09	46.26	46.77	63.49
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	1040.32	994.76	949.05	813.90
New York #11 Spot Market Price ^{3/}	n.a	22.28	21.72	12.25
Crude Oil/barrel ^{4/}	73.13	67.69	72.50	73.24
<p>n.a. - Not available/No activity n.i. - No issues n.t. - No trading</p> <p>* 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>				