



RESERVE BANK OF FIJI

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Prospects for global growth have deteriorated over the past month. The world growth projection for this year has been revised downwards further by the International Monetary Fund (IMF) to 3.7 percent from 3.9 percent envisaged in October. Similarly, for 2009, a 2.2 percent growth is projected, compared to 3.0 percent in October.

Recent economic indicators continue to signal weak economic conditions for all of our major trading partners. The Japan, Euro-zone and New Zealand economies are already in recession, while the growth rates for US and Australia were revised down for this year, as well as for 2009. Global actions to support financial markets and mitigate the impact of this recession are underway in most major industrialised economies.

Domestic activity remains restrained. This year, the domestic economy is forecast to grow by 1.2 percent (lower than the earlier forecast of 1.7 percent), mostly led by the wholesale & retail trade and hotels & restaurants; transport & communication; and mining & quarrying; sectors. The economy is projected to grow by 2.4 percent next year (higher than the earlier forecast of 1.4 percent).

The economic projection for 2009 is in line with government expenditure expected for next year. In the 2009 National Budget, government expenditure is budgeted to increase by 12.3 percent, which is anticipated to more than offset the 6.0 percent growth projected for annual revenue. The fiscal deficit for next year is projected at 3.0 percent of GDP.

Poor performances were recorded for major sectors of the economy, such as sugar and gold, coupled with weak electricity production.

Latest partial indicators of consumption activity was

mixed. Imports of consumption goods rose cumulative to September this year, driven primarily by higher prices. In September, both new and outstanding lending for consumption purposes rose, while visitor arrivals were also higher on an annual basis.

Labour market conditions are relatively weaker than last year. Newly registered taxpayers declined by 10 percent cumulative to October, while the October Job Advertisements Survey indicated that hiring intentions remained positive in most sectors of the economy. The higher recruitment intentions is likely a result of higher incidence of emigrating workers, rather than new job creation.

There are indications that investment conditions remain sluggish. Partial indicators show weak construction activity, consistent with the outlook for this sector. Nevertheless, on a positive note, both new and outstanding lending for investment purposes has shown significant growth. Imports of investment goods also rose by around 16 percent, cumulative to September this year.

Growth in money and credit aggregates decelerated in September, as broad money and domestic credit grew by around 1 percent and 4 percent, respectively. Commercial banks' lending interest rates have generally trended down, and are currently at 7.84 percent. The time and savings deposit rate was 2.29 and 0.64 percent, respectively.

The merchandise trade deficit continued to deteriorate cumulative to September, to around \$1.5 billion, compared to around \$1.2 billion recorded in the same period in 2007. Exports rose by around 22 percent, led by improved earnings from sugar, fish, timber, gold, mineral water, re-exports and other domestic exports, while imports (excluding aircraft) grew by 26 percent. This growth was broad based, attributed to increases in all import categories of

intermediate, consumption and investment goods.

This year, exports (excluding aircraft) are projected to grow by 17.9 percent, but slow to a growth of 0.8 percent in 2009. On the other hand, imports (excluding aircraft) are envisaged to grow by 21.8 percent this year, while a slower growth of 3.3 percent is expected next year.

At the end of October, official foreign reserves stood at around \$861 million (provisional), sufficient to cover 3.2 months of imports of goods only.

Inflationary pressures have abated somewhat, as international crude oil prices continue to plunge. As such, inflation eased to 8.5 percent in October, down from the 20-year high of 9.8 percent recorded

in September. The year-end inflation forecast remains unchanged at 7.5 percent. For 2009, inflation is projected to ease, underpinned by declining commodity prices, relatively lower trading partner inflation and expected spare capacity in the domestic economy.

In October, the Nominal Effective Exchange Rate (NEER) declined further by 0.7 percent over the year. The annual fall in NEER indicates a depreciation of the Fiji dollar against our major trading partner currencies.

The Real Effective Exchange Rate (REER) grew by 2.2 percent on an annual basis, indicating deterioration in our international competitiveness. The rise in REER reflects higher domestic inflation outcomes compared with our major trading partners.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Oct-08	Sep-08	Aug-08	Oct-07
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	2.70	18.77	50.74
Currency in Circulation (monthly average)	6.77	6.06	6.65	4.95
Quasi-Money (Time & Saving Deposits)	n.a.	-0.12	-5.77	-2.11
Domestic Credit	n.a.	3.65	5.69	6.89
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	8.5	9.8	9.5	3.4
Food	14.0	15.7	13.9	8.4
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	860.8	892.3	909.9	934.8
Months of Imports (goods)	3.2	3.3	3.4	4.3
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	9.7	10.49	15.2
Banks' Demand Deposits (\$m)	n.a.	244.84	260.32	347.3
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.84	7.85	8.62
Savings Deposit Rate	n.a.	0.64	0.69	0.74
Time Deposit Rate	n.a.	2.29	2.24	5.68
91-day RBF Note Rate (month end)	n.a.	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	5.4	5.4	5.75	9.25
Overnight Inter-bank Rate	n.t.	0.4	n.t.	n.t.
5-Year Government Bond Yield	5.87	5.92	5.90	n.i.
10-Year Government Bond Yield	7.16	7.12	7.10	n.i.
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5600	0.6088	0.6281	0.6508
Pound sterling	0.3400	0.3366	0.3432	0.3146
Australian dollar	0.8197	0.7591	0.7293	0.7084
New Zealand dollar	0.9447	0.9077	0.8957	0.8511
Swiss francs	0.6364	0.6623	0.6908	0.754
Euro	0.4329	0.4214	0.4274	0.4508
Japanese yen	55.24	63.49	68.83	74.61
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	813.9	827.59	842.23	753.29
New York #11 Spot Market Price ^{3/}	12.25	14.73	15.58	11.86
Crude Oil/barrel ^{4/}	73.24	99.06	113.85	83.12
<p>n.a. - Not available/No activity n.i. - No issues n.t. - No trading * Official reserves includes foreign reserves holdings of the RBF and Non-Bank Financial Institution, as per the new definition of official reserves</p> <p>Sources: ^{1/} Fiji Islands Bureau of Statistics ^{2/} Bloomberg and Reserve Bank of Fiji ^{3/} Fiji Sugar Marketing Company Limited ^{4/} Bloomberg</p>				