



RESERVE BANK OF FIJI

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The global economy is currently in a recession. The International Monetary Fund (IMF) expects global output to decline by 1.3 percent this year, the deepest recession since World War II.

Global output is expected to pick up in 2010 and grow by 1.9 percent. The current outlook, however, is particularly uncertain with concerns that policies may be insufficient to arrest the deteriorating financial conditions and weakening economies.

The outlook for the Pacific Island economies including Fiji is that the full impact of the global economic crisis is still to be fully felt.

In light of the global economic developments, all of Fiji's major trading partner countries are expected to contract in 2009.

Largely due to the adverse effects of the global slowdown plus the impact of the recent floods, the Fiji economy is expected to contract by 0.3 percent this year.

On the sectoral side, gold production up to April 2009 was 9,718 ounces, compared to nil in the same period last year. The copra industry and electricity production noted positive results. Although visitor arrivals were weak in the first 3 months, the devaluation of the Fiji dollar is expected to make Fiji an attractive holiday destination in the coming months.

The recent regulatory policy measures on the weighted average lending rates of financial institutions should encourage investment-related lending. In addition, policy initiatives on micro-finance should encourage growth of small to medium enterprises.

The annual growth in commercial banks' lending rose to 12.0 percent in March, compared to 2.5

percent in the corresponding period last year. This was underpinned by higher lending to the wholesale, retail, hotels & restaurants, transport, storage & communication, private individuals, public enterprise, and the manufacturing sectors. The higher credit growth is also associated with the base-related impact and the special loan approvals granted for the priority sectors by the Bank.

In March 2009, both the outstanding and new lending rates rose to 8.24 percent and 8.83 percent, respectively. Similarly, the existing and new time deposit rates have also risen to 4.23 percent and 6.02 percent, correspondingly. In April, the 91-day treasury bills rate rose to 7.30 percent from 7.27 percent recorded in March.

Liquidity in the banking system improved to \$153.2 million as at 18 May 2009. This is a result of the reduction in the Statutory Reserve Deposit ratio to 5 percent, recall of offshore funds as well as the impact of the devaluation of the Fiji dollar.

On the external front, domestic exports fell by 26.5 percent in the first 2 months of the year, compared to a 3.6 percent growth in the same period in 2008. The lower domestic exports was mainly underpinned by lower receipts from sugar, mineral water, garments and fish which more than offset the gains from gold, sweet biscuits coconut oil and timber exports.

Merchandise import payments rose by around 2.3 percent cumulative to February 2009, compared with a 16.2 percent growth in the corresponding period last year.

As a result of the 20 percent devaluation, export receipts are expected to rise. The import bill is also expected to rise, but are expected to slow down as demand for some imported goods and services start to fall and import substitution begins to take effect.

The inflation rate fell from 0.5 percent in March to negative 0.3 percent in April. Following the devaluation, prices of most goods and services are expected to rise in the coming months. However, this increase in inflation will be temporary and start to moderate from the beginning of 2010.

Additionally, the devaluation and other exchange control measures undertaken since 15 April 2009, has seen an immediate improvement in the level of foreign reserves. As at 19 May, foreign reserves stood at nearly F\$629 million.

Over the year to April 2009, the Nominal Effective Exchange Rate (NEER) index fell by 13.0 percent compared to a 0.8 percent growth in the same period

last year. The sharp decline in the NEER index is on account of the devaluation on 15 April 2009.

The Real Effective Exchange Rate (REER) index declined (on an annual basis) for the third consecutive month by 15.1 percent. This is on account of both the devaluation of the Fiji dollar and yet another decline in domestic inflation, from 0.5 percent in March to -0.3 percent in April. The fall in the REER index indicates an improvement in Fiji's international competitiveness relative to our major trading partners.

The improvement in Fiji's competitiveness should bode well for our exports of goods, as well as for services, such as tourism.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Apr-09	Mar-09	Feb-09	Jan-09	Apr-08
1. Money and Credit (year-on-year % change)					
Narrow Money	n.a.	-26.0	-26.1	-24.8	43.33
Currency in Circulation (monthly average)	2.5	3.2	4.7	5.0	4.00
Quasi-Money (Time & Saving Deposits)	n.a.	3.9	6.8	10.8	-9.37
Domestic Credit	n.a.	4.9	5.3	5.5	3.52
2. Consumer Prices ^{1/} (year-on-year % change)					
All Items	-0.3	0.5	1.9	6.1	7.6
Food	3.6	5.6	7.9	15.5	10.4
3. Reserves (end of period)					
Foreign Reserves (\$m)*	631.2(p)	429.6(p)	464.0(p)	530.3(p)	781.6
4. Liquidity (end of period)					
Liquid Assets Margin to Deposit Ratio (%)	n.a.	0.93	0.58	1.89	13.21
Banks' Demand Deposits (\$m)	105.20	31.90	23.83	62.30	356.97
5. Interest Rates (% p.a.) (monthly average)					
Lending Rate (Excluding Staff)	n.a.	8.24	7.82	7.86	8.01
Savings Deposit Rate	n.a.	0.65	0.62	0.63	0.69
Time Deposit Rate	n.a.	4.23	3.95	3.65	2.69
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	n.a.	3.00	3.45	3.00	5.75
Overnight Inter-bank Rate	0.99	1.09	1.10	1.06	n.t.
5-Year Government Bond Yield	8.25	n.i.	n.i.	8.00	n.i.
10-Year Government Bond Yield	11.00	9.72	10.31	10.03	n.i.
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)					
US dollar	0.4544	0.5553	0.5352	0.5409	0.6657
Pound sterling	0.3076	0.3891	0.3743	0.3776	0.3380
Australian dollar	0.6263	0.8157	0.8237	0.8288	0.7129
New Zealand dollar	0.7947	0.9866	1.0511	1.0529	0.8581
Swiss francs	0.5164	0.6380	0.6240	0.6232	0.6909
Euro	0.3426	0.4209	0.4202	0.4172	0.4277
Japanese yen	44.34	53.96	52.65	48.64	69.27
7. Commodity Prices (US\$) (monthly average)					
UK Gold Price/fine ounce ^{2/}	891.86	923.98	941.54	856.32	912.55
New York #11 Spot Market Price ^{3/}	12.38	12.93	13.87	13.75	13.70
Crude Oil/barrel ^{4/}	50.78	46.70	43.24	44.89	110.19
<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 Marketing Company Limited ^{4/} Bloomberg</p>					