



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 26

No. 08

Month Ended. August 2009

According to the International Monetary Fund (IMF), the global economy is beginning to pull out of recession. However, the rate of stabilisation is uneven and the recovery is expected to be sluggish. Over the month, some of our trading partner countries have shown tentative signs of recovery and have emerged out of recession. Looking ahead, a modest recovery is expected for the global economy and for most of our major trading partner countries next year.

In order to combat any further downturn and accelerate recovery, the IMF has raised additional funds and approved a general allocation of Special Drawing Rights (SDRs) equivalent to US\$250 billion, so as to provide liquidity to the global economic system.

Being a member of the IMF, Fiji has also benefited from this additional allocation. As a result of this financial assistance by the IMF due to the global economic and financial crisis, Fiji's foreign reserves were boosted by \$165 million on 28 August. A further \$25 million will be received on 9 September. This amount is based on Fiji's quota in the IMF as a member. Consequently, foreign reserves as at 31 August were around \$924 million, higher than the \$717 million recorded at end-July. The level of reserves at end-August was the highest since \$912 million was recorded in December 2000.

Sectoral developments over the month were mixed. Electricity production increased in July on an annual basis. Similarly, gold and fish exports were higher than in the comparable period in 2008. On the downside, however, cane & sugar production declined over the year to July. While still weak, the performance of the tourism industry seems to be improving, as the annual contraction in visitor arrivals slowed in July from the previous month. Looking ahead, the weaker Fiji dollar and the

various discounts on offer should support the recovery of the tourism industry.

Sentiments for general business conditions are improving, although most respondents to the June Business Expectations Survey still expect a contraction in business conditions this year. The increase in imports of investment goods in the first half of the year likely reflects improving sentiments for investment in plant and machinery, as well as in buildings in the next 12 months.

Consumption was subdued in the review period. New vehicle sales fell cumulative to July, while imports of consumption goods recorded a marginal decline during the first half of the year. Weak labour market conditions are restraining spending, although this may be offset to some extent by remittances, which increased by 18 percent in the year to June.

Monetary and credit aggregates continue to mirror developments in the real sector. Cumulative to July, broad money declined over the year by around 6 percent, underpinned by falling demand deposits. Domestic credit remained subdued, growing by around 3 percent in the same period. Private sector credit growth stabilised to around 12.5 percent in July from 14.5 percent in June. Banking system liquidity has increased to around \$269 million (25/08), consistent with the increase in foreign reserves. Commercial banks' lending rate fell by 19 basis points to 7.77 percent, while the time deposit rate rose by 20 basis points to 5.14 percent over the month in July. The savings deposit rate also increased by 1 basis point to 0.77 percent in July.

Cumulative to June this year, domestic export earnings fell, led by declines in sugar, mineral water, textiles, garments, timber, footwear & headgear and flour which more than offset increases

in earnings for gold, fish, molasses, sweet biscuits and other domestic exports. Re-exports of mineral fuels declined significantly, thus contributing more to the fall in total exports.

Over the same period, import payments also declined led by lower payments for intermediate goods which fell significantly led by mineral fuels, and payments for consumption goods which declined marginally.

Consequently, the merchandise trade deficit narrowed by 8.0 percent to around \$870 million in the first half of the year. This was underpinned by lower imports which more than offset the decline in exports over the same period.

Inflation was 2.2 percent in July, led by an increase in prices of all categories except for transport and

heating & lighting. Inflation is lower than expected, mainly on account of much lower contributions from energy-related items, which have offset to a large degree the recent price increases in other items. Despite the recent increase in bus and taxi fares, the year-end inflation forecast remains at 9.5 percent. Moreover, inflation is expected to moderate to 2.0 percent next year.

Over the month of July, the Nominal Effective Exchange Rate (NEER) index rose marginally by 0.04 percent, indicating a marginal appreciation of the Fiji dollar against major trading partner currencies. However, given the devaluation in April, the NEER index fell (-20.7%) on an annual basis. In addition, while the Real Effective Exchange Rate (REER) index rose over the month by 0.6 percent, on an annual basis it recorded a decline of 19.6 percent.

## **RESERVE BANK OF FIJI**

<b>KEY INDICATORS</b>	<b>Jul-09</b>	<b>Jun-09</b>	<b>May-09</b>	<b>Jul-08</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	-26.3	-26.8	-26.7	24.9
Currency in Circulation (monthly average)	3.46	2.89	1.75	4.0
Quasi-Money (Time & Saving Deposits)	14.0	14.6	12.3	-7.4
Domestic Credit	2.85	3.81	3.6	4.9
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	2.2	2.3	0.8	6.9
Food	4.1	5.4	5.5	8.2
<b>3. Reserves</b> (end of period)				
Foreign Reserves (\$m)*	717.3(p)	650.0(p)	640.3	718.4
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	8.7	7.1	5.8	10.6
Banks' Demand Deposits (\$m)	223.4	171.1	146.9	237.0
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	7.77	7.96	8.30	7.89
Savings Deposit Rate	0.77	0.76	0.73	0.69
Time Deposit Rate	5.14	4.94	4.77	2.56
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	3.00	3.00	3.00	5.75
Overnight Inter-bank Rate	1.00	n.t.	1.00	1.53
5-Year Government Bond Yield	n.i.	8.26	8.15	5.90
10-Year Government Bond Yield	n.i.	10.75	10.52	7.05
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.4905	0.4871	0.4744	0.6591
Pound sterling	0.2975	0.2940	0.2968	0.3325
Australian dollar	0.5953	0.6027	0.6106	0.6983
New Zealand dollar	0.7530	0.7488	0.7714	0.8982
Swiss francs	0.5339	0.5275	0.5168	0.6908
Euro	0.3487	0.3459	0.3420	0.4230
Japanese yen	46.84	46.78	45.19	71.26
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	934.04	948.02	921.93	888.44
New York #11 Spot Market Price <sup>3/</sup>	17.82	15.54	15.47	13.27
Crude Oil/barrel <sup>4/</sup>	64.91	68.56	57.59	133.00

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.

Sources: <sup>1/</sup> Fiji Islands Bureau of Statistics

<sup>2/</sup> Bloomberg and Reserve Bank of Fiji

<sup>3/</sup> Fiji Sugar Marketing Company Limited

<sup>4/</sup> Bloomberg