



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global growth for 2009 has been downgraded again on account of prolonged weakness in international financial markets as well as the failure of large bail-out packages to arrest the economic decline in various economies. The International Monetary Fund has downgraded the world economic growth projection to 0.5 percent, from the 2.2 percent expected in November last year. Most of Fiji's trading partner economies are expected to contract this year. Although the Australian economy is likely to record a growth, the expansion is anticipated to be one of the lowest in more than a decade. While inflationary pressures have subsided somewhat on the global scene, the more pressing concern now is on stimulating economic activity.

Domestically, the economy was expected to grow by 2.4 percent this year. However, the deepening global financial crisis as well as the January floods poses serious threats to this forecast. While the impact of the floods is still being assessed by various industries, preliminary estimates indicate that growth projected for 2009 is expected to be lower than previously envisaged.

Sectoral performances in 2008 were mixed and consistent with the estimated growth of 1.2 percent. While tourism, copra, electricity, gold and building & construction activities recorded improved performances, the cane & sugar output was lower over the year.

Domestic demand also remained subdued last year. Consumer demand weakened as reflected in the partial indicators of consumer spending. Value Added Tax and Pay as You Earn (PAYE) collections and inward personal remittances all fell on an annual basis. The decline in PAYE is also partially attributed to the increase in income tax threshold to \$15,000 from June 2008. Although partial indicators of investment, such as imports of investment goods and lending for investment

purposes both rose over the year, inflation adjusted total value of work put-in-place in the construction industry showed no growth. Looking forward, the prevailing political climate, the global financial crises and the weak economic performance are likely to keep investment subdued. Investment is expected to fall to around 13 percent of GDP this year, from 15 percent of GDP estimated in 2008.

Labour market conditions remain relatively weak over the year. In January, only around 500 employees were registered as new taxpayers, a massive decline from the 1,500 recorded in the same period last year. However, this is also affected to some extent by the rise in income tax threshold last year. In addition, the Job Advertisements Survey for January showed only a marginal growth, suggesting subdued recruitment intentions in the labour market. Looking ahead, the impact of the recent floods, the global economic recession and the new Wage Rise Order (coming into effect in July) are likely to keep employment conditions subdued in the months ahead.

Monetary conditions remain tight. Broad money fell further in December (by an annual 6.9%), on account of a notable decline in demand deposits (25.6%), owing to institutional and private sector business enterprise withdrawals. Domestic credit growth slowed to 4.8 percent in December, from 6.9 percent in the previous month led by decline in claims against government.

With the prevailing tight liquidity conditions, new time deposit and lending rates rose in December. Similarly, growth has also been noted on the existing time deposit and savings deposit rates. Wholesale, money and capital market interest rates have also shown growth from the previous month.

In the year to November 2008, the trade balance deteriorated further, worsening by 30.0 percent to

\$1.9 billion. Even though exports rose by 16.7 percent, this was overshadowed by the growth in imports, which rose by 24.2 percent. The increase in export receipts was underpinned by re-exports, predominantly of mineral fuels, as well as higher earnings from sugar, fish and gold. The increase in imports was across all categories, with mineral fuels, food, machinery and chemical imports contributing well over 80 percent to the growth. Remittances continued its downward trend and registered a 26.7 percent annual decline in 2008.

Inflation eased slightly to 6.1 percent in January compared with 6.6 percent in the previous month and 7.4 percent in January 2008. The slight slowdown in January inflation was mainly underpinned by lower oil prices filtering into the transport and heating & lighting categories. Nonetheless, food remained the largest contributor to inflation, buoyed by higher charges for market items as a result of the recent flood. In the months ahead, domestic price pressures are expected to mount given the supply constraints of market items. Nonetheless, supply of these products is anticipated to be restored by mid year. The 2009 year-end inflation forecast remains unchanged at 4.5 percent.

Some of the upside risks to this forecast include the volatility in crude oil and wheat prices, and the higher-than-expected increase in costs of market items due to the recent flooding. The decline in taxi fares are nonetheless expected to mitigate some of these price pressures.

At the end of February, official foreign reserves stood at around \$672.2 million (provisional), sufficient to cover 2.7 months of imports of goods only.

The Nominal Effective Exchange Rate Index of the Fiji dollar fell on an annual basis by 0.3 percent in January, indicating a marginal depreciation of the Fiji dollar against our major trading partner currencies. In addition, the Real Effective Exchange Rate Index of the Fiji dollar rose on an annual basis by 2.5 percent, indicating a deterioration in our international competitiveness relative to our major trading partner countries. This could be explained by the relatively higher domestic inflation rate, which registered 6.1 percent in January compared to a weighted average inflation rate of 2.2 percent for our major trading partner countries.

## **RESERVE BANK OF FIJI**

<b>KEY INDICATORS</b>	<b>Jan-09</b>	<b>Dec-08</b>	<b>Nov-08</b>	<b>Jan-08</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a	-19.7	-12.4	46.7
Currency in Circulation (monthly average)	n.a	4.9	4.9	5.3
Quasi-Money (Time & Saving Deposits)	n.a	5.6	5.3	-11.9
Domestic Credit	n.a	4.8	6.9	2.3
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	6.1	6.6	7.7	7.4
Food	15.5	11.1	14.1	10.3
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	742.0(p)	760.1(p)	821.3	938.2
Months of Imports (goods)	3.0(p)	2.9(p)	3.1	3.5
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	2.6	5.3	12.6
Banks' Demand Deposits (\$m)	n.a	55.10	141.7	320.2
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.72	7.78	8.28
Savings Deposit Rate	n.a	0.64	0.60	0.68
Time Deposit Rate	n.a	3.00	2.72	3.99
91-day RBF Note Rate (month end)	n.a	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	n.a	6.32	6.00	9.25
Overnight Inter-bank Rate	n.a	1.04	1.00	n.t.
5-Year Government Bond Yield	n.a	n.i	5.90	6.10
10-Year Government Bond Yield	n.a	7.67	7.20	6.50
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.5409	0.5669	0.5476	0.6559
Pound sterling	0.3776	0.3932	0.3557	0.3289
Australian dollar	0.8288	0.8201	0.8311	0.7280
New Zealand dollar	1.0529	0.9818	0.9892	0.8306
Swiss francs	0.6232	0.5998	0.6573	0.7118
Euro	0.4172	0.4029	0.4244	0.4405
Japanese yen	48.64	51.19	52.25	70.10
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	856.32	817.32	757.88	885.58
New York #11 Spot Market Price <sup>3/</sup>	13.75	12.30	12.86	13.75
Crude Oil/barrel <sup>4/</sup>	44.89	41.96	53.28	91.93
<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:  <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</p>				