RESERVE BANK OF FIJI

ECONOMIC REVIEW

Vol.26 No. 07 Month Ended. July 2009

The outlook for the global economy has been revised by the International Monetary Fund. There are tentative signs that the rate of economic contraction has stabilised, given the massive fiscal and monetary stimulus packages implemented by various Governments and central banks around the globe. However, expectation for prolonged weakness in world economic activity remains. The world economy is now anticipated to decline by 1.4 percent in 2009, while a growth of 2.5 percent is expected for 2010. Our major trading partner countries have noted contractions in economic activity this year and thus central banks have kept their key indicator rates low.

On the domestic front, sectoral performances were generally mixed in the first half of the year. Cane & sugar production noted declines, mainly affected by unfavourable weather conditions and mill stoppages. Forestry, mineral water and garment exports were also lower than 2008 levels, heavily influenced by low demand abroad. While tourist arrivals registered an annual decline of 19.4 percent cumulative to April, there is optimism in the industry that these numbers will improve, spurred by a weaker Fiji dollar as well as the huge discounts offered by hotels. More positively the growth in fish exports remained firm over the year. In addition, gold output continues to slowly improve since operations at Vatukoula commenced in May 2008.

There are downside risks to the economy. These include the worsening of the swine flu, the impact of brucellosis on our dairy and beef industries and the plausible adverse effects of El Nino on the agriculture and fisheries industries.

On public finances, recent cash flow data indicate that Government recorded a net surplus of $39.6 million, equivalent to 0.7 percent of GDP in the first five months of this year. Government expenditure rose on an annual basis by 7.3 percent, underpinned by growth in both capital (22%) and operating (6%) expenditure. The State's revenue grew more modestly (2.5%) in the review period led by direct taxes, fiscal duty and hotel turnover collections.

Consumption activity remains subdued. This is evident in annual declines in VAT collections (2%), new vehicle sales (22%) and import payments (14%). Recent job losses in certain industries and reduced recruitment intentions are also suppressing consumption activity.

Recent data showed that building & construction activity improved in the first quarter this year. This was featured in annual growths in total value of work put in place (28.8%) and the total number (3.5%) and value (67.9%) of building completion certificates issued. Lending for investment purposes also grew on a yearly basis by 9.7 percent in May.

Growth in monetary aggregates slowed in the year to June. Broad money declined by 6.2 percent after a steady downturn in narrow money, driven by a fall in demand deposits. The existing weighted average time deposit rate of commercial banks rose by 17 basis points over the month to 4.94 percent while the new time deposit rate fell by 16 basis points to 6.03 percent. In line with the Reserve Bank's policy on interest rates spread, time deposit rates are expected to trend upwards in the coming months.

Commercial banks' lending rose by an annual 8.6 percent in June while the Licensed Credit Institutions' lending noted a slight increase of 3.5 percent during the review period.

High levels of liquidity continue to subdue lending rates. Commercial banks' outstanding lending rate fell by 34 basis points to 7.96 percent in June from 8.30 percent in May this year.

Cumulative to May 2009, domestic export earnings fell by 16.4 percent, led by declines in sugar, mineral water, garments and timber which more-than-offset increases in earnings for gold, fish, molasses, sweet biscuits and other domestic exports. Including re-exports, total exports fell by a larger 19.7 percent, due to declines in re-exports of mineral fuel.

Over the same period, import payments fell by 14.0 percent. Payments for intermediate goods declined by 41.6 percent led by mineral fuels while slight increases were noted for investment (3.2%) and consumption (2%) goods.

The merchandise trade deficit narrowed by 10.0 percent to $688.4 million compared to the same period last year.

The inflation rate in June was 2.3 percent (0.8% in May). Consumer prices rose by 2.9 percent over the month, the highest monthly growth since February 1998. Price increases were registered across all categories. The pass-through of the recent devaluation has started to be reflected in the price survey and this trend is expected to continue in the coming months. The year-end inflation forecast for 2009 remains at 9.5 percent. Inflation is expected to peak at around 12.0 percent in April 2010 before moderating to around 2.0 percent by end 2010. Higher-than-expected oil prices and strengthening of currencies against our local dollar pose upside risks to this assessment.

As at 31 July, foreign reserves were around $720 million.

Over the month, the Nominal Effective Exchange Rate (NEER) index rose by 0.3 percent, indicating a marginal appreciation of the Fiji dollar against major trading partner currencies. In addition, the Real Effective Exchange Rate (REER) index rose over the month by 2.7 percent, indicating a decline in international competitiveness, as domestic inflation begins to pick up. In June, domestic inflation was 2.3 percent, compared to a weighted average inflation rate of 0.5 percent for our major trading partners. However, since the devaluation in April, the NEER and REER indices have dropped further on a yearly basis by 8.7 percent and 5.6 percent, respectively, implying an improvement in Fiji's international competitiveness.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Jul-09	Jun-09	May-09	Jun-08
1. Money and Credit				
(year-on-year % change)				
Narrow Money	n.a.	-26.8	-26.7	32.44
Currency in Circulation (monthly average)	n.a.	5.1	5.2	5.73
Quasi-Money (Time & Saving Deposits)	n.a.	4.6	12.3	-12.17
Domestic Credit	n.a.	3.81	3.6	3.27
2. Consumer Prices [1/]				
(year-on-year % change)				
All Items	n.a.	2.3	0.8	6.9
Food	n.a.	5.4	5.5	8.2
3. Reserves				
(end of period)				
Foreign Reserves ($m)*	720.0(p)	650.0(p)	640.3	718.4
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	7.1	5.8	11.7
Banks' Demand Deposits ($m)	196.8	171.0	146.9	273.1
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.96	8.30	7.99
Savings Deposit Rate	n.a.	0.76	0.73	0.7
Time Deposit Rate	n.a.	4.94	4.77	2.43
91-day RBF Note Rate (month end)	n.a.	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	n.a.	3.00	3.00	5.75
Overnight Inter-bank Rate	n.a.	n.t	1.00	n.t
5-Year Government Bond Yield	n.a.	8.26	8.15	5.90
10-Year Government Bond Yield	n.a.	10.75	10.52	7.00
6. Exchange Rates [2/]				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.4905	0.4871	0.4744	0.6698
Pound sterling	0.2975	0.2940	0.2968	0.3358
Australian dollar	0.5953	0.6027	0.6106	0.6972
New Zealand dollar	0.7530	0.7488	0.7714	0.8802
Swiss francs	0.5339	0.5275	0.5168	0.6827
Euro	0.3487	0.3459	0.3420	0.4245
Japanese yen	46.84	46.78	45.19	71.13
7. Commodity Prices (US$)				
(monthly average)				
UK Gold Price/fine ounce [2/]	n.a.	948.65	921.93	888.44
New York #11 Spot Market Price [3/]	n.a.	15.41	15.47	13.27
Crude Oil/barrel [4/]	n.a.	68.48	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:
[1/] *Fiji Islands Bureau of Statistics*
[2/] *Bloomberg and Reserve Bank of Fiji*
[3/] *Fiji Sugar Marketing Company Limited*
[4/] *Bloomberg*