



RESERVE BANK OF FIJI

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Although the global economy remains in recession, there are now tentative signs of a turnaround. According to the International Monetary Fund, the unprecedented monetary and fiscal policy responses are slowly bearing results. The 'green shoots' of economic recovery are led by cautious optimism for the United States economy. The increase in oil prices recently to around US\$68 per barrel is also a leading indicator of the cautious optimism in global recovery. On a positive note, the Australian economy technically evaded a recession after recording a marginal growth of 0.4 percent in the March quarter.

On the domestic front, while visitor arrivals continue to perform lower than last year there is some indication that arrivals are picking up in recent months. The industry expects the hotel occupancy rates to improve to around 70 percent in the months ahead from around an average of 40 percent currently. Cumulative to April, arrivals fell by 19 percent, compared with a drop of 23 percent in March.

The sugar cane crushing season commenced in May and this will engender more economic activity in the cane growing areas and is also expected to increase consumption.

New vehicle sales, a key gauge of consumer spending, fell by 16.0 percent in May. Although imports of consumption goods posted a sizeable expansion of 22.0 percent in the first quarter, this reflected one-off imports of food destined for the flood victims. Cumulative to May, new credit for consumption purposes fell by 27.9 percent over the year.

Although new investment credit fell sharply by 57.5 percent cumulative to May, imports of investment goods rose by 11.0 percent - this was driven by base-related effects as well as high cost of building

materials. Government's recent announcement of the \$82 million road project is a positive sign for investment. The completion of the Natadola Bay Resort is also an important addition to the tourism industry. The Naisoso Island project is also progressing well.

In May, broad money contracted by 5.7 percent. Commercial banks' lending rose by 8.2 percent, led by higher lending to the wholesale, retail, hotels & restaurants, private individuals, transport, storage & communication and the public enterprise sectors. In May, the commercial banks' time deposit rate was up by 31 basis points to 4.77 percent while the savings deposit rate was unchanged at 0.73 percent.

Lending rates have started to fall. New and outstanding lending rates fell in May by 79 and 2 basis points to 8.08 percent and 8.30 percent, respectively. Furthermore, liquidity has improved considerably to around \$165.2 million (29/06).

Money market rates also showed tentative signs of easing in May, with a decline in the 91-day t-bill rate to 7.24 percent, from 7.30 percent in April. In the bonds market, the yield on the 3, 5 and 10- year bonds also declined to 7.62, 8.15 and 10.52 percent, respectively.

Latest reports indicate that Government revenue and expenditure are well within budget. Government's total spending was \$190.8 million below budgeted levels. Operating expenditure was within the target by 22 percent, while capital spending was 47 percent lower. Government's capital spending is expected to pick up in the coming months, which will generate more economic activity. Given the improvement in banking system liquidity, Government bond and T Bill issues have been well subscribed.

Cumulative to April, total export earnings fell by

21.0 percent, compared to a 41.0 percent growth in the same period in 2008. This was underpinned by lower receipts from sugar, mineral water and garments, which more-than-offset the gains from gold, fish and sweet biscuits. In the same period, imports fell by 6.8 percent. This was led by a 31.0 percent decline in imports of intermediate goods, which was offset by increase in imports of investment (7.0 %) and consumption goods (6.0 %). The trade deficit widened by 4.3 percent and registered at \$590.0 million in the first 4 months.

Cumulative to May, personal remittances rose by \$10.8 million, and registered at \$83.1 million, a 14.9 percent growth from the same period last year. The increase in remittances was most likely driven by the gains in exchange rate from the recent devaluation.

The inflation rate rose slightly in May to 0.8 percent after prices registered a 0.3 percent fall in April. The full impact of the devaluation should be reflected incrementally in the coming months, with the year-end inflation forecast at 9.5 percent. The recent surge in oil prices is a major risk to the forecast.

Foreign reserves were \$656.1 million on 2 July 2009.

The Nominal Effective Exchange Rate Index¹ of the Fiji dollar fell on an annual basis by 20.8 percent in May, reflecting the devaluation of the Fiji dollar. Similarly, the Real Effective Exchange Rate Index² of the Fiji dollar fell on an annual basis by 21.3 percent, indicating a significant improvement in our international competitiveness relative to our major trading partner countries.

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1 The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

2 The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in REER index indicates an improvement in Fiji's international competitiveness.

KEY INDICATORS	Jun-09	May-09	Apr-09	Jun-08
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	-26.7	-26.4	32.44
Currency in Circulation (monthly average)	n.a	5.2	5.8	5.73
Quasi-Money (Time & Saving Deposits)	n.a	12.3	7.6	-12.17
Domestic Credit	n.a	3.6	4.6	3.27
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	n.a	0.8	-0.3	6.9
Food	n.a	5.5	3.6	8.2
3. Reserves (end of period)				
Foreign Reserves (\$m)*	650.6(p)	640.0(p)	589.4	718.4
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	5.8	3.63	11.65
Banks' Demand Deposits (\$m)	171.1	146.9	105.20	273.1
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	8.30	8.32	7.99
Savings Deposit Rate	n.a	0.73	0.73	0.7
Time Deposit Rate	n.a	4.77	4.46	2.43
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	n.t	1.00	1.00	n.t
5-Year Government Bond Yield	8.30	8.15	8.25	5.90
10-Year Government Bond Yield	10.75	10.52	11.00	7.00
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.4871	0.4744	0.4544	0.6698
Pound sterling	0.2940	0.2968	0.3076	0.3358
Australian dollar	0.6027	0.6106	0.6263	0.6972
New Zealand dollar	0.7488	0.7714	0.7947	0.8802
Swiss francs	0.5275	0.5168	0.5164	0.6827
Euro	0.3459	0.3420	0.3426	0.4245
Japanese yen	46.78	45.19	44.34	71.13
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	948.65	921.93	891.86	888.44
New York #11 Spot Market Price ^{3/}	15.41	15.47	12.38	13.27
Crude Oil/barrel ^{4/}	68.48	57.59	50.78	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