



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global financial conditions remain depressed despite the wide range of policy measures and actions taken by governments and central banks to arrest the decline in their respective economies. According to the IMF, global growth is projected at 0.5 percent for 2009. Latest data out of the United States confirm weakening economic activity, as indicated by the decline in homebuilding, business and consumer spending. All of our major trading partner countries are expected to contract in 2009. Fourth quarter data for 2008 showed that the Australian economy contracted by 0.5 percent. For most of our major trading partners, reduced export demand and weak consumer spending are underlining the economic contraction.

Similarly, economic activity remains weak on the domestic front. The October growth projection of 2.4 percent for 2009 is likely to be revised down substantially. In line with this outlook, consumption spending remained sluggish in January, evident from partial indicators. Value Added Tax and Pay As You Earn collections fell over the year by 5.2 and 16.2 percent, respectively, although the latter is also influenced by the increase in income tax threshold in June last year. In January, new car sales also dropped by around 16.0 percent when compared with the same period last year.

Investment conditions also remained subdued as reflected by various partial indicators for the construction industry. However, investment lending rose in January this year. Investment lending expanded by 10.0 percent in January compared to 3.0 percent registered in the corresponding period last year, led by the real estate sector.

Sectoral performances remained subdued in the early months of 2009. In line with expectations, visitor arrivals in January dropped by around 27.0 percent over the same period in 2008. There are

strong indications that the slowing world economy will heavily impact tourist arrivals. Similarly, copra production and electricity generation declined on an annual basis in the first two months of 2009. Gold production totaled 4,346 ounces up to February, compared with no gold output in the corresponding period last year.

Although partial indicators of the labour market showed mixed developments during the review period, employment conditions seem to remain restrained. Cumulative to February, around 1,300 employees were registered as new taxpayers, a significant decline from the 3,400 recorded in the same period last year. However, to some extent this is also affected by the rise in the income tax threshold last year. In contrast, the Job Advertisements Survey for February showed a growth of 7.1 percent, with the community and the social & personal services sectors recording the largest number of advertised positions.

Monetary conditions remained tight. Broad money fell in December by an annual 6.9 percent, on account of a notable decline in demand deposits (25.6 percent), while domestic credit growth slowed down to 4.8 percent in December from 6.9 percent in the previous month.

With the prevailing tight liquidity conditions, both the new time deposit and new lending rates rose in January to 5.63 percent and 8.63 percent, respectively. Similarly, the outstanding lending rate and the existing time deposits rate have also risen. In February, the 91-day treasury bills rate rose significantly to 7.00 percent from 0.40 percent recorded in October last year – its last issue.

On the external front, the merchandise trade deficit widened further by 24.0 percent (to \$2.1 billion, or 34.7 percent of GDP) in 2008. Domestic exports rose by 18.6 percent in 2008, compared to a 0.7

percent decline in 2007, driven mainly by sugar, fish, gold, timber, flour, sweet biscuits, mineral water and other domestic exports, which more than offset declines in export earnings from uncooked pasta, coral and fruit & vegetables. Excluding mineral fuel re-exports, total exports rose by 14.9 percent, compared to a 1.1 percent growth in the same period in 2007. Import payments rose by around 23 percent in 2008, compared with a decline of 7.2 percent in 2007.

On a positive note, the inflation rate in February fell from 6.1 percent in January to 1.9 percent, the lowest since July 2006. The significant fall in prices over the month was underpinned by lower charges for the transport, heating & lighting, food and miscellaneous items. Looking ahead, domestic price pressures are expected to be relatively contained and the year-end inflation forecast remains at 4.5 percent.

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

The Nominal Effective Exchange Rate index fell on an annual basis by 0.5 percent in February indicating a marginal depreciation of the Fiji dollar against our major trading partner currencies. Similarly, the Real Effective Exchange Rate (REER) index declined in February by 1.8 percent, compared to a growth of 5.4 percent in the same period last year. The decline in the REER index indicates an improvement in our international competitiveness relative to our major trading partners. This outcome was underpinned by the sharp appreciation in the US dollar and Japanese Yen against the Fiji dollar over the year, as well as the easing of domestic inflation.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Feb-09	Jan-09	Dec-08	Feb-08
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	n.a	-19.7	50.60
Currency in Circulation (monthly average)	n.a	n.a	4.9	5.22
Quasi-Money (Time & Saving Deposits)	n.a	n.a	5.6	-10.91
Domestic Credit	n.a	n.a	4.8	3.33
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	1.9	6.1	6.6	7.6
Food	7.9	15.5	11.1	10.7
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	672.2(p)	742.0(p)	760.1(p)	906.8
Months of Imports (goods)	2.7(p)	3.0(p)	2.9(p)	3.4
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	1.89	2.60	12.55
Banks' Demand Deposits (\$m)	23.83	62.24	55.10	325.61
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.86	7.72	8.25
Savings Deposit Rate	n.a	0.62	0.64	0.73
Time Deposit Rate	n.a	3.65	3.00	3.20
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	3.45	3.00	6.32	9.25
Overnight Inter-bank Rate	1.10	1.06	1.04	n.t.
5-Year Government Bond Yield	n.i	8.00	n.i	n.i
10-Year Government Bond Yield	10.31	10.03	7.67	n.i
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5352	0.5409	0.5669	0.6745
Pound sterling	0.3743	0.3776	0.3932	0.3386
Australian dollar	0.8237	0.8288	0.8201	0.7110
New Zealand dollar	1.0511	1.0529	0.9818	0.8270
Swiss francs	0.6240	0.6232	0.5998	0.7083
Euro	0.4202	0.4172	0.4029	0.4434
Japanese yen	52.65	48.64	51.19	70.99
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	941.54	856.32	817.32	920.00
New York #11 Spot Market Price ^{3/}	13.17	13.75	12.30	15.16
Crude Oil/barrel ^{4/}	43.24	44.89	41.96	94.82
<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: ^{1/} Fiji Islands Bureau of Statistics ^{2/} Bloomberg and Reserve Bank of Fiji ^{3/} Fiji Sugar Marketing Company Limited ^{4/} Bloomberg</p>				