



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy remains in recession. The International Monetary Fund (IMF) expects the global economy to contract by 1.3 percent this year.

According to the IMF, the global recession should trough towards the end of 2009 with global output picking up and growing at around 1.9 percent in 2010. This outlook, however, is dependent on various stimulus policies implemented by advanced and emerging economies, having the desired positive effect.

In line with the global economic developments, all of Fiji's major trading partners are expected to contract in 2009 but begin to show modest recovery next year.

On the domestic front, the sugar season commenced in May with crushing at the Penang mill. Other mills will commence production in June with the season scheduled to come to an end in November. Growth in export earnings were noted for gold, fish, forestry and copra in the first quarter this year. Garment and mineral water earnings, however, were weak.

Global economic conditions continue to affect visitor arrivals although the devaluation is expected to make Fiji a more competitive destination in the months ahead.

On the trade front, a fall in imports is encouraging but the decline in exports remains a concern. While the recent devaluation favours a rise in export earnings in the future, the falling global demand and supply-side constraints is still a concern.

Domestic exports fell by 12 percent in the first quarter, compared to a 21.7 percent growth in the same period in 2008.

Merchandise import payments marginally fell by

around 0.2 percent in March 2009, compared to 11 percent growth in the same period in 2008. Payments rose for consumption goods (21.6 percent) and investment goods (11.4 percent), while a decline was noted in imports of intermediate goods (-28.7 percent), a result of lower fuel prices.

Overall, the trade deficit widened by around 9 percent (to \$454.4 million) in the first quarter compared to the same period in 2008, when the deficit was \$417.6 million.

Cumulative to April 2009, personal remittances were around \$59 million, the same level recorded in the corresponding period last year.

Overall labour market conditions remained subdued. Cumulative to April, around 2,600 employees were registered as new taxpayers with the Fiji Islands Revenue and Customs Authority, compared with 5,600 employees in the same period last year. The lower registration could be partly due to the rise in income tax threshold to \$15,000 in June 2008.

On labour market prospects, cumulative to April this year, recruitment intentions as partially indicated by the Job Advertisements Survey, registered a growth of 4.2 percent on an annual basis (2,261 to 2,356).

On an annual basis, private sector credit grew by 8.7 percent in April, attributed to higher disbursements to the wholesale, retail, hotels & restaurants sector (11.9 percent), particularly tourism (21.5 percent), transport & storage sector (68.6 percent), and the manufacturing sector (11.8 percent). Special approvals by the Reserve Bank at the end of April stood at \$387.3 million.

In April, commercial banks outstanding and new lending rates rose by 8 and 4 basis points to 8.32 and 8.87 percent, respectively. More recently, the

policy measures on interest rates announced in April are already beginning to have a downward impact on lending rates.

On the other hand, the banks' existing and new time deposit rate rose over the month by 23 and 37 basis points to 4.46 and 6.39 percent respectively, as commercial banks attempt to attract more funds and align their interest rates to RBF's new policy on interest rate spread. Similarly, the savings deposit rate rose by 8 basis points to 0.73 percent in April.

Liquidity in the banking system improved to \$168.5 million as at 16 June 2009. Improvement in liquidity conditions saw reduced interbank activity and some downward movement in money and capital market rates. The interbank rate moved marginally over the month, while there was a

reduction in the 91-day treasury bill rate. Similarly, yields for 3, 5 and 10 year government bonds fell.

Government bond issues are now seeing oversubscriptions, an important turn around from three months ago when these bonds were being undersubscribed.

The inflation rate was 0.8 percent in May, up from negative 0.3 percent in April. The annual increase in prices was mainly driven by higher food prices. Following the announcement of the 20 percent devaluation, prices of most goods and services are expected to rise in the coming months. This rise in inflation will be temporary and start to moderate from mid 2010.

As of 16 June, foreign reserves stood at \$650 million.

RESERVE BANK OF FIJI

KEY INDICATORS	May-09	Apr-09	Mar-09	May-08
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	-26.4	-26.0	41.51
Currency in Circulation (monthly average)	n.a	5.8	3.2	5.90
Quasi-Money (Time & Saving Deposits)	n.a	7.6	3.9	-10.52
Domestic Credit	n.a	4.6	4.9	4.46
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	0.8	-0.3	0.5	5.8
Food	5.5	3.6	5.6	6.3
3. Reserves (end of period)				
Foreign Reserves (\$m)*	640.0(p)	588.0(p)	429.6(p)	731.6
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	3.63	0.93	10.67
Banks' Demand Deposits (\$m)	146.9	105.20	31.90	270.91
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	8.32	8.24	8.01
Savings Deposit Rate	n.a	0.73	0.65	0.70
Time Deposit Rate	n.a	4.46	4.23	2.55
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	1.00	1.09	n.t
5-Year Government Bond Yield	8.15	8.25	n.i.	5.90
10-Year Government Bond Yield	10.52	11.00	9.72	6.70
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.4744	0.4544	0.5553	0.6746
Pound sterling	0.2968	0.3076	0.3891	0.3408
Australian dollar	0.6106	0.6263	0.8157	0.7007
New Zealand dollar	0.7714	0.7947	0.9866	0.8594
Swiss francs	0.5168	0.5164	0.6380	0.7000
Euro	0.3420	0.3426	0.4209	0.4313
Japanese yen	45.19	44.34	53.96	70.63
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	921.93	891.86	923.98	888.90
New York #11 Spot Market Price ^{3/}	15.47	12.38	12.93	12.18
Crude Oil/barrel ^{4/}	57.59	50.78	46.70	123.40

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