



ECONOMIC REVIEW

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Latest economic indicators show greater certainty in terms of the global recovery. The International Monetary Fund has raised its forecast for global growth. The world economy is now anticipated to contract by 1.1 percent, compared to the 1.4 percent contraction envisaged earlier. Global growth prospects for 2010 were also revised up to 3.1 percent. For Fiji's trading partners, the Australian, New Zealand and Japanese economies all recorded growth in the second quarter. While the United States and the Euro Zone economies contracted, the declines were less severe than the first quarter.

Recent performances in the major sectors were mixed. In terms of visitor arrivals, industry indicators show that the numbers have improved compared to the early months of the year. Airline capacity will increase in December this year with the commencement of Air Pacific's Nadi-Hong Kong service and Continental Micronesia's Honolulu service via Guam. In addition, V-Australia will replace its sister Virgin Blue group airline, Pacific Blue, on the Sydney-Nadi route with more modern jets and increased capacity. The increase in inbound capacity is expected to support the recovery of the tourism industry further. Visitor arrivals cumulative to August fell by 13.0 percent over the year.

Sugar production up to September was lower than a year ago owing to mill problems which affected the efficiency in producing sugar. The European Union (EU) preferential sugar price declined by 22 percent on 1 October, bringing the total price reduction since 2006 to 36 percent. More positively, world market sugar prices hit a 28-year high of US25.02 cents per pound on 31 August.

The performance in the mining industry has gained some momentum from last year with a strong rise in exports. Favourable gold prices are a positive impetus for the gold industry.

In other sectors, export earnings of timber, mineral water and garments have continued to be affected by the weak global economy. Fish earnings, however, have performed well. Electricity production has also risen over the year.

Consumption remained subdued during the review period. Cumulative to September, net Value Added Tax (net VAT) collections and new vehicle sales both fell on an annual basis. Other partial indicators include new loans for consumption purposes and import of consumption goods, which both fell in the year to August. However, a strong annual growth in remittances (39% up to September) may support consumption activity in the coming months.

Partial indicators for investment were mixed during the review period. While new investment credit fell in the first 8 months of the year, imports of investment goods rose by 1.7 percent, in the same period.

In terms of money and credit aggregates, broad money declined by 1.6 percent compared to the 4.0 percent fall in August. This was due to a 21 percent decrease in narrow money which more than offset a 16 percent increase in quasi money. Domestic credit grew modestly by 4.2 percent in the year to September, from 3.8 percent in the previous month. This was largely driven by a 4.4 percent increase in private sector credit and an 8.7 percent increase in official credit. Credit to the government fell in September on an annual basis. With the improvement in foreign reserves, liquidity in the banking system rose to around \$331 million at the end of October.

The commercial banks' weighted average lending rate fell marginally by 1 basis point to 7.64 percent in September while the weighted time deposit rate rose by 4 basis points to 5.40 percent. Movement in bank interest rates have generally been in line with

the RBF's directive for a reduction in banks' interest spread to 4 percent by the end of this year.

Inflation in September 2009 was 6.3 percent, up from 5.1 percent in August. In September last year, prices had risen by 9.8 percent, the highest in 20 years. In the approaching months, movements in fuel and commodity costs are expected to continue influencing import prices. Prices of market items are also expected to rise during the festive season. The year-end forecast remains at 9.5 percent.

Cumulative to August this year, the merchandise trade deficit narrowed to \$1,092 million, compared

to the same period last year when it was \$1,306 million. The lower deficit is attributed to a decline in imports by 18.6 percent, mainly on account of lower payments for mineral fuels.

Domestic export earnings also fell in the first eight months of the year by 17.4 percent led by sugar, mineral water, timber, garments, coconut oil and flour, which more than offset the increases from exports of gold, fish, molasses, sweet biscuits, corned meat and other domestic exports,

As at 4 November, foreign reserves were \$1.05 billion.

RESERVE BANK OF FIJI

FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Sep-09	Aug-09	Jul-09	Sep-08
1. Money and Credit (year-on-year % change)				
Narrow Money	-20.7	-23.3	-26.3	2.7
Currency in Circulation (monthly average)	5.56	3.31	3.46	6.06
Quasi-Money (Time & Saving Deposits)	16.0	14.6	14.0	-0.1
Domestic Credit	4.15	3.82	3.49	3.65
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	6.3	5.1	2.2	9.8
Food	8.2	5.7	4.1	15.7
3. Reserves (end of period)				
Foreign Reserves (\$m)*	1019.2(p)	925.9	717.3	704.3
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	11.7	10.4	8.7	9.7
Banks' Demand Deposits (\$m)	342.4	271.8	223.4	244.8
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	7.64	7.65	7.77	7.84
Savings Deposit Rate	0.81	0.84	0.77	0.64
Time Deposit Rate	5.40	5.36	5.14	2.29
91-day RBF Note Rate (month end)	4.25	4.25	4.25	n.i.
Minimum Lending Rate (MLR) (month end)	3.00	3.00	3.00	5.4
Overnight Inter-bank Rate	n.t.	n.t.	1.00	0.40
5-Year Government Bond Yield	8.00	n.i.	n.i.	5.92
10-Year Government Bond Yield	10.56	n.i.	n.i.	7.12
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5133	0.5011	0.4905	0.6088
Pound sterling	0.3217	0.3078	0.2975	0.3366
Australian dollar	0.5895	0.5950	0.5953	0.7591
New Zealand dollar	0.7191	0.7313	0.7530	0.9077
Swiss francs	0.5321	0.5311	0.5339	0.6623
Euro	0.3521	0.3503	0.3487	0.4214
Japanese yen	46.26	46.77	46.84	63.49
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	994.76	949.05	934.04	827.59
New York #11 Spot Market Price ^{3/}	22.28	21.72	17.82	14.73
Crude Oil/barrel ^{4/}	67.69	72.50	64.91	99.06
<p><i>n.a.</i> - Not available/No activity <i>n.i.</i> - No issues <i>n.t.</i> - 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.</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>				