



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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According to the International Monetary Fund (IMF), the global economy is recovering. The IMF's allocation of Special Drawings Rights (SDR) of a total of US\$250 billion to its member countries in August and September will assist this recovery. For Fiji's trading partners, there are some positive signs for Australia and New Zealand, while the economic data on the United States, Japan and the Euro-zone reveal mixed results. All of Fiji's major trading partners are expected to grow next year.

Domestically, there were some positive sectoral developments over the month. While the performance in the tourism industry in the first 6 months was well below last year levels there are signs of a strong pick-up in visitor arrivals since July, particularly from our larger source markets, Australia and New Zealand. New and increased airline services, some of which are starting towards the end of the year, should also augur well for the industry in 2010 and beyond. Electricity production increased in August on an annual basis and export earnings from fish and gold showed an annual growth. Gold earnings are being supported by high international gold prices. On the downside, cane & sugar production declined over the year to August and copra output was lower in July, when compared with the same period in 2008.

Consumption remained subdued during the review period. Net Value Added Tax (net VAT) collections fell in August, while imports of consumption goods declined cumulative to July. Spending is being restrained by weak employment conditions, evident by lower new taxpayer registrations and fewer job vacancies. However, a strong growth in remittances (34%) in July 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 7 months of the year, imports of

investment goods rose by 4.2 percent, in the same period.

The commercial banks' weighted average lending rate fell by 12 basis points to 7.65 percent in August, while the time deposit rate rose by 22 basis points to 5.36 percent in the same period. This is in line with the RBF's directive for banks to reduce their spread to 4 percent by end of this year.

Commercial banks' lending grew by 5.5 percent on an annual basis in August. With the improvement in foreign reserves, the Reserve Bank removed the ceiling for commercial bank credit from 1 September 2009. The ceiling had been imposed in December 2006.

Liquidity in the banking system rose to around \$328 million (28/09), consistent with the increase in foreign reserves. Given the high liquidity, no activity was recorded in the interbank market during the month.

Inflation was 5.1 percent in August, up from 2.2 percent in July, led by an increase in prices of all categories, except for transport and heating & lighting. Inflation is being restrained by much lower prices of energy-related items this year compared to the same period last year, which have offset, to a large degree, the recent price increases in other categories.

In the first seven months of the year, domestic exports fell by 13 percent due to lower earnings from sugar, mineral water, timber, garments, uncooked pasta, flour, and fruits and vegetables. The decline in total exports was larger at around 18 percent, due to lower receipts from re-exports of mineral fuels. Imports also fell during the same period (-16.4 percent), led mainly by lower mineral fuel payments. The merchandise trade deficit was \$982 million, 15.2 percent lower than the same

period last year.

As at 29 September, foreign reserves were around \$1.02 billion, estimated to be around 3.5 to 4 months of import cover.

Over the month of August, the Nominal Effective Exchange Rate (NEER) index rose marginally by

0.3 percent, indicating a marginal appreciation of the Fiji dollar against major trading partner currencies. However, on an annual basis, the NEER index fell (-19.8%), mainly as a result of the devaluation in April. In addition, while the Real Effective Exchange Rate (REER) index rose over the month by 4.2 percent, it fell over the year by 16 percent.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Aug-09	Jul-09	Jun-09	Aug-08
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	-26.3	-26.8	18.77
Currency in Circulation (monthly average)	4.47	3.46	2.89	6.65
Quasi-Money (Time & Saving Deposits)	n.a	14.0	14.6	-5.77
Domestic Credit	n.a	3.49	4.45	5.69
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	5.1	2.2	2.3	9.5
Food	5.7	4.1	5.4	13.9
3. Reserves (end of period)				
Foreign Reserves (\$m)*	925.9(p)	717.3	650	722.2
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	8.7	7.1	10.49
Banks' Demand Deposits (\$m)	271.8	223.4	171.1	260.4
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.77	7.96	7.85
Savings Deposit Rate	n.a	0.77	0.76	0.69
Time Deposit Rate	n.a	5.14	4.94	2.24
91-day RBF Note Rate (month end)	4.25	4.25	4.25	4.25
Minimum Lending Rate (MLR) (month end)	3.00	3.00	3.00	5.75
Overnight Inter-bank Rate	n.t	1.00	n.t	n.t
5-Year Government Bond Yield	n.i	n.i	8.26	5.90
10-Year Government Bond Yield	n.i	n.i	10.75	7.10
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5011	0.4905	0.4871	0.6281
Pound sterling	0.3078	0.2975	0.2940	0.3432
Australian dollar	0.5950	0.5953	0.6027	0.7293
New Zealand dollar	0.7313	0.7530	0.7488	0.8957
Swiss francs	0.5311	0.5339	0.5275	0.6908
Euro	0.3503	0.3487	0.3459	0.4274
Japanese yen	46.77	46.84	46.78	68.83
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	949.05	934.04	948.02	842.23
New York #11 Spot Market Price ^{3/}	21.72	17.82	15.54	15.58
Crude Oil/barrel ^{4/}	72.50	64.91	68.56	113.85

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