



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The IMF has revised world growth down to 3.7 percent for this year and is expecting a further slowdown, with growth forecast at 2.2 percent in 2009. At the recent G-20 summit, world leaders of industrialised and emerging market economies have announced a series of short to long term actions to stabilise the financial system, stimulate demand, strengthen the regulatory framework and help combat the financial crisis.

Latest economic indicators have continued to show a bleak outlook for our major trading partner countries. New Zealand, Japan and the Euro-zone (including Germany and Italy) are already in a recession. The United States and United Kingdom also expected to have slipped into recession in the last quarter.

Domestically, sectoral performances were mixed. While visitor arrivals, copra and gold production noted positive results in the year to November, the sugar industry noted a significant decline.

Although partial indicators of consumer spending, such as Value Added Tax collections and imports of consumption goods rose during the review period, these are driven primarily by higher prices rather than stronger domestic demand.

Investment conditions are still subdued. Despite some growth seen in lending for investment purposes and imports of investment goods recently, investment is expected to remain at around 15 percent of GDP, similar to levels in 2007.

Conditions in the labour market remain weaker than last year. Cumulative to November, around 7,400 employees were registered as taxpayers, representing an annual decline of around 14.2 percent. Looking ahead, prospects for employment seem favourable as indicated by the Job Advertisements Survey. However, it is assumed

that this may be driven by jobs left vacant by migrants and some employees switching jobs, rather than new job creation.

Broad money contracted by 3.0 percent in October, underpinned by a decline in narrow money while domestic credit grew by 4.8 percent. Private sector credit rose by 8.7 percent in the same period. Commercial banks' weighted average lending rate was 7.78 percent, 6 basis points lower than last month. The time and savings deposit rates were 2.39 and 0.64 percent, respectively. As a result of a decline in liquidity in the past month, wholesale interest rates have begun to show some growth. It is anticipated that cost of funds may increase in the coming months as a result of tighter market liquidity.

The merchandise trade deficit widened by 28.6 percent in the year to October (to \$1.7 billion), compared with the same period last year. Exports rose by around 21 percent, led by earnings from sugar, fish, timber, gold, garments, mineral water, re-exports and other domestic exports, while imports (excluding aircraft) rose by around 25 percent. The growth in imports was led by all categories of imports: intermediate, consumption and investment goods.

At the end of November, official reserves were around \$824.7 million, sufficient to cover 3.1 months of imports of goods only.

The inflation rate fell to 7.7 percent in November from 8.5 percent recorded in October, driven primarily by lower fuel costs. Concerns of global slowdown have affected the global oil price, which fell to US\$50 a barrel at the end of November.

The 2008 year-end inflation projection remains intact at 7.5 percent. Next year, inflationary pressures are likely to ease given weaker global

demand and relatively lower prices of commodities.

In November, the Nominal Effective Exchange Rate (NEER) fell by 0.7 percent over the year. The annual fall in NEER indicates a depreciation of the Fiji dollar against our major trading partner currencies.

In contrast, the Real Effective Exchange Rate (REER) grew by 1.8 percent on an annual basis indicating a deterioration in our international competitiveness against our major trading partners. The rise in REER was underpinned by higher domestic inflation outcomes compared to our major trading partners.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Nov-08	Oct-08	Sep-08	Nov-07
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	-10.2	2.7	43.2
Currency in Circulation (monthly average)	n.a.	6.8	6.1	6.6
Quasi-Money (Time & Saving Deposits)	n.a.	3.9	-0.1	-6.0
Domestic Credit	n.a.	4.8	3.7	3.4
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	7.7	8.5	9.8	4.0
Food	14.1	14.0	15.7	7.8
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	824.7(p)	860.8(p)	892.3	921.6
Months of Imports (goods)	3.1(p)	3.2(p)	3.3	4.2
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	6.6	9.7	12.6
Banks' Demand Deposits (\$m)	n.a.	172.71	244.84	320.09
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.78	7.84	8.59
Savings Deposit Rate	n.a.	0.64	0.64	0.92
Time Deposit Rate	n.a.	2.39	2.29	5.01
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	n.i.
Minimum Lending Rate (MLR) (month end)	6.00	5.4	5.4	9.25
Overnight Inter-bank Rate	1.00	0.85	0.40	n.t
5-Year Government Bond Yield	5.90	5.87	5.92	n.i
10-Year Government Bond Yield	7.20	7.16	7.12	n.i
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5476	0.5600	0.6088	0.6460
Pound sterling	0.3557	0.3400	0.3366	0.3134
Australian dollar	0.8311	0.8197	0.7591	0.7325
New Zealand dollar	0.9892	0.9447	0.9077	0.8386
Swiss francs	0.6573	0.6364	0.6623	0.7218
Euro	0.4244	0.4329	0.4214	0.4379
Japanese yen	52.25	55.24	63.49	70.94
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	757.88	813.9	827.59	805.22
New York #11 Spot Market Price ^{3/}	12.86	12.25	14.73	11.80
Crude Oil/barrel ^{4/}	53.28	73.24	99.06	92.49
<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>				