



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The global economy entered into a severe economic downturn in the second half of 2008. In the face of an unfolding global financial crisis, the International Monetary Fund (IMF) estimated that world economic growth slowed to 3.4 percent in 2008 from 5.2 percent in 2007. For 2009, the global economy will decelerate even further, growing by only 0.5 percent, with risks firmly on the downside, as financial markets remain under stress. Economic growth rates for Fiji's major trading partners are expected to slow in 2009, with some economies expected to contract.

Domestic activity remains subdued. This year, the domestic economy is projected to grow by 2.4 percent. However, given the impact of the recent floods and the deepening of the global financial crisis, 2009 growth is now expected to be revised lower. Visitor arrivals had a positive performance in 2008 but reservations about 2009 emerged as evidence of the global slide mounted. Despite spare capacity in the tourism industry and additional promotional efforts, visitor arrivals may not improve in 2009.

Consumption activity also remained quite modest in 2008. Although borrowing for consumption purposes showed an annual growth (12.1%), net VAT collections (a partial indicator of consumption activity) declined by 2.9 percent on an annual basis. Growth in imports of consumption goods (20.6%) was largely due to price factors. While tight credit conditions may further dampen lending, the impact of the January floods on the cane & sugar and wholesale & retail trade industries is also likely to keep consumption subdued in 2009.

Labour market conditions in 2008 were relatively weaker than the previous year, even though partial indicators were mixed. The number of new registered taxpayers declined by 15.5 percent in 2008, while recruitment intentions, indicated by the

Job Advertisements Survey, were positive. Employment conditions in the first few months of 2009 are expected to be negatively affected by the floods as well as the slowdown in the tourism sector.

Partial indicators of investment activity have shown mixed outcomes. Cumulative to November 2008, imports of investment type goods rose by an annualised 18.9 percent. Lending for investment purposes (including lending to building & construction and real estate) also rose by 14.2 percent in 2008. However, although the value of work put-in-place in the first 9 months of 2008 noted a growth compared to the same period in 2007, it was still lower than the comparable period of 2006. Looking ahead, the falling number and value of building permits issued do not augur well for the industry.

In November broad money contracted by an annual 3.3 percent while domestic credit rose by 6.9 percent on an annual basis. The growth in domestic credit was underpinned by private sector credit which grew by 11.5 percent.

Interest rate movements reflected tight liquidity conditions. In November, commercial banks' savings and time deposit rates were up by 4 and 28 basis points to 0.64 and 3.00 percent, respectively. Correspondingly, the new lending and new time deposit rates rose by 132 and 162 basis points to 8.45 and 4.53 percent, respectively.

The merchandise trade deficit continued to deteriorate cumulative to November 2008, to around \$1.9 billion. Domestic exports rose by 13.6 percent and were supplemented by earnings from re-exports, contributing to a higher growth for total exports (16.7 percent). However, imports grew by a higher 24.2 percent cumulative to November. For 2009, the trade deficit is expected to widen as

exports are expected to slow significantly (0.8 percent) while imports are envisaged to grow by 3.3 percent. Furthermore, domestic exports alone are expected to decline by 1.3 percent in 2009.

At the end of January, official foreign reserves stood at around \$737.5 million (provisional), sufficient to cover 3.0 months of imports of goods only.

By the end of 2008, inflation improved to 6.6 percent from the peak of 9.8 percent in September. Price pressures eased due to lower commodity prices (including fuel), a result of the financial crisis and the ensuing slowing global demand. For 2009, the year end inflation may slow to around 4.5 percent with downside risks, underpinned by

declining commodity prices, relatively lower trading partner inflation and expected spare capacity in the domestic economy.

The Nominal Effective Exchange Rate (NEER) index fell on an annual basis by 0.3 percent. The fall in NEER over the year indicates a depreciation of the Fiji dollar against our major trading partner currencies.

The Real Effective Exchange Rate index rose over the year by 1.8 percent, indicating a deterioration in our international competitiveness against our major trading partners. The outcome was underpinned by a higher domestic inflation relative to the 3.2 percent average registered by our major trading partners.

**RESERVE BANK OF FIJI**

<b>KEY INDICATORS</b>	<b>Dec-08</b>	<b>Nov-08</b>	<b>Oct-08</b>	<b>Dec-07</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a	-12.4	-10.2	43.5
Currency in Circulation (monthly average)	n.a	4.9	6.8	6.2
Quasi-Money (Time & Saving Deposits)	n.a	5.3	3.9	-9.8
Domestic Credit	n.a	6.9	4.8	3.2
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	6.6	7.7	8.5	4.3
Food	11.1	14.1	14.0	7.7
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	761.2(p)	822.0(p)	856.1(p)	958.7
Months of Imports (goods)	2.9(p)	3.1(p)	3.2(p)	4.4
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	5.3	6.6	14.1
Banks' Demand Deposits (\$m)	n.a	141.7	172.7	331.1
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a	7.78	7.78	8.46
Savings Deposit Rate	n.a	0.60	0.64	0.64
Time Deposit Rate	n.a	2.72	2.39	4.45
91-day RBF Note Rate (month end)	n.a	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	n.a	6.00	6.00	9.25
Overnight Inter-bank Rate	n.a	1.00	0.85	n.t
5-Year Government Bond Yield	n.a	5.90	5.87	n.i
10-Year Government Bond Yield	n.a	7.20	7.16	6.39
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.5669	0.5476	0.5600	0.6447
Pound sterling	0.3932	0.3557	0.3400	0.3232
Australian dollar	0.8201	0.8311	0.8197	0.7351
New Zealand dollar	0.9818	0.9892	0.9447	0.8315
Swiss francs	0.5998	0.6573	0.6364	0.7260
Euro	0.4029	0.4244	0.4329	0.4379
Japanese yen	51.19	52.25	55.24	72.50
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	817.32	757.88	813.90	802.55
New York #11 Spot Market Price <sup>3/</sup>	12.30	12.86	12.25	12.49
Crude Oil/barrel <sup>4/</sup>	41.96	53.28	73.24	91.30
<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: <sup>1/</sup> Fiji Islands Bureau of Statistics  <sup>2/</sup> Bloomberg and Reserve Bank of Fiji  <sup>3/</sup> Fiji Sugar Marketing Company Limited  <sup>4/</sup> Bloomberg</p>				