RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The financial crisis that erupted with the United States (US) sub-prime mortgage collapse has intensified in the past month and is considered the most severe shock in financial markets since the 1930s. The International Monetary Fund has consequently revised world growth down to 3.9 percent this year, and a further slowdown to 3.0 percent is now expected for 2009. Likewise, growth projections for all of Fiji's major trading partner countries have been revised downwards for 2008. In particular, New Zealand's economy is already in recession and Japan's economy contracted in the second quarter. For next year, all of Fiji's major trading partner countries' growth projections have been downgraded significantly. To arrest the crisis from further meltdown, most major central banks and Governments have cut interest rates; injected substantial amounts of liquidity and approved billions of dollars in rescue packages to bolster their banking systems.

The global financial crisis and economic slowdown in our major trading partner countries is expected to have some dampening effect on the domestic economy. It is likely that visitor arrivals from our major source markets and demand for our exports may soften. In addition, inward personal remittances will continue its downward trend as the crisis will adversely affect the labour market in these countries. However, growth in our import bill is expected to slow down due to lower oil and commodity prices. Overall, the effects of weaker global growth pose downside risks to Fiji's growth outlook.

So far this year however, performances in key sectors have been varied. Relatively strong growth has been recorded in visitor arrivals, gold production and mineral water output while the cane and sugar industries, as well as, the building and construction sectors have registered notable declines. Most other sectors show little change.

Partial indicators for consumer demand are consistent with weak consumption activity. Inward personal remittances have declined while Value Added Tax collections have risen only marginally in an environment of high prices. While consumption lending has picked up recently, this is mainly base related. In addition, while imports of consumption and intermediate goods have showed strong growth, this is largely price driven.

Labour market conditions remained weak in the review period. While approximately 7,100 employees were registered as new taxpayers cumulative to September, this is 9.6 percent lower than the same period last year. It is likely that the bulk of new taxpayers are replacing old or migrating workers rather than filling new positions. This is also supported by Pay As You Earn (PAYE) collections which has declined so far this year. However, looking ahead, employment prospects are positive as reflected in the growing demand for recruitment intentions based on the latest Fiji Employers' Federation (FEF) Expectations Survey.

Money and credit growth outcomes were mixed. Broad money (M2) decelerated further in August to 4.9 percent as growth in foreign assets slowed. However, commercial banks' lending rose to 7.1 percent on an annual basis as both consumption and investment lending accelerated.

According to the latest accrual trade data, although merchandise exports rose significantly (26.2 %) in the first eights months of 2008, the trade deficit widened by approximately $231 million to $1.3 billion. The out turn reflected growth in imports driven by intermediate and consumption goods which more than offset the rise in exports.

At the end of September 2008, official foreign reserves stood at $911.3 million (provisional), sufficient to cover 3.6 months of imports of goods.

The consumer price index reached a new 20-year high of 9.8 percent in September, compared with 4.1 percent recorded a year ago. The higher inflation rate is underpinned by rising food and transportation charges. However, the index declined on a monthly basis and a similar trend is expected in the remaining months of the year as fuel prices are expected to fall. The year-end inflation forecast remains unchanged at 7.5 percent. For 2009, inflation is projected to ease to 4.5 percent, a reflection of declining oil and commodity prices and relatively lower trading partner inflation.

On exchange rate developments, in September, the Nominal Effective Exchange Rate (NEER) fell on an annual and monthly basis by 0.2 percent and 0.5 percent, respectively. The annual fall depicts a depreciation of the Fiji dollar against our major trading partner currencies. The Real Effective Exchange Rate (REER) rose by 4.6 percent on an annual basis indicating a decline in our international competitiveness against our major trading partner countries. The increase in REER mainly reflects higher domestic inflation outcomes compared to our major trading partners. However, the REER fell by 2.2 percent over the month.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Sep-08	Aug-08	Jul-08	Sep-07
1. Money and Credit				
(year-on-year % change)				
Narrow Money	n.a.	18.77	24.87	39.35
Currency in Circulation (monthly average)	6.06	6.65	3.99	5.63
Quasi-Money (Time & Saving Deposits)	n.a.	-5.77	-7.36	1.70
Domestic Credit	n.a.	5.70	4.86	8.45
2. Consumer Prices [1/]				
(year-on-year % change)				
All Items	9.8	9.5	7.8	4.1
Food	15.7	13.9	12.4	8.1
3. Reserves				
(end of period)				
Gross Foreign Reserves ($m)*	897.1	911.3	892.1	871.8
Months of Imports (goods)	3.6	3.6	3.5	4.0
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	10.49	10.64	13.20
Banks' Demand Deposits ($m)	n.a.	260.32	236.96	284.87
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.85	7.89	8.89
Savings Deposit Rate	n.a.	0.69	0.69	0.85
Time Deposit Rate	n.a.	2.24	2.56	6.32
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	n.i
Minimum Lending Rate (MLR) (month end)	5.4	5.75	5.75	5.25
Overnight Inter-bank Rate	0.4	n.t	n.t	n.t
5-Year Government Bond Yield	5.92	5.90	5.90	6.00
10-Year Government Bond Yield	7.12	7.10	7.05	6.73
6. Exchange Rates [2/]				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.6088	0.6281	0.6591	0.6371
Pound sterling	0.3366	0.3432	0.3325	0.3144
Australian dollar	0.7591	0.7293	0.6983	0.7236
New Zealand dollar	0.9077	0.8957	0.8982	0.8492
Swiss francs	0.6623	0.6908	0.6908	0.7475
Euro	0.4214	0.4274	0.423	0.4503
Japanese yen	63.49	68.83	71.26	73.64
7. Commodity Prices (US$)				
(monthly average)				
UK Gold Price/fine ounce [2/]	827.59	842.33	940.30	709.10
New York #11 Spot Market Price [3/]	14.73	15.58	13.61	11.60
Crude Oil/barrel [4/]	99.06	113.85	133.90	77.13

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*

Sources:
[1/] *Fiji Islands Bureau of Statistics*
[2/] *Bloomberg and Reserve Bank of Fiji*
[3/] *Fiji Sugar Marketing Company Limited*
[4/] *Bloomberg*