



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic prospects have improved markedly, following a strong rebound in global activity and trade during the second half of 2009. According to the International Monetary Fund (IMF), the world economy is now expected to contract by 0.8 percent in 2009, better than the earlier anticipated decline of 1.1 percent. Similarly, projected global growth for 2010 has improved to 3.9 percent from 3.1 percent previously. Although the pick up in advanced economies is expected to be sluggish, vigorous expansions in emerging economies, particularly in Asia, is expected to drive global recovery this year. A further growth of 4.3 percent is envisaged for the world economy in 2011.

Performances among Fiji's major trading partner economies remain mixed. Australia recorded its biggest job boom in more than three years in December while Japan's current account surplus widened for the fourth month in November. Meanwhile, the New Zealand, United States and the Euro-zone economies continue to recover slowly.

Fiji's growth outlook for 2010 remains positive against a backdrop of improved global performance. While performances of major sectors are currently mixed, growth is expected in the major sectors such as manufacturing, agriculture & forestry, financial intermediation, wholesale & retail trade, hotels & restaurants, construction, mining & quarrying, real estate & business services, fishing and other community, social & personal services.

In the production sector, recent data showed a rise in mining activity. Data released by the Vatukoula Gold Mines Limited (VGML) indicated that a total of 29,703 ounces of gold was produced up to November 2009, a 38.7 percent increase from the level produced in the corresponding period in the previous year. The upgrading of plant, machinery

and equipment by the VGML as well as the new venture into surface mining has contributed to the sector's positive performance in recent months.

Provisional data provided by the Fiji Islands Bureau of Statistics showed that visitor arrivals totalled 539,405 in 2009, a decline of 7.8 percent on an annual basis, compared with an 8.4 percent growth in 2008. The decline in 2009 is much narrower than what had been forecast earlier in the year owing to improved visitor numbers through the latter half. The outlook for the tourism industry is upbeat following the introduction of new airlines and new airline routes as well as active promotions, campaigns, and advertising by Tourism Fiji, to elevate Fiji as a first choice global holiday destination.

Movements in money and credit aggregates continue to reflect adequacy of foreign reserves and the high level of liquidity, albeit slow recovery in the real sector. With further improvements in foreign reserves levels over the month, liquidity reached \$335 million as at 28 January 2010. Broad money rose by 7.4 percent in the year to December, a turnaround from a decline of 6.9 percent for the same period in 2008. This increase was underpinned by strong growth in time and savings deposits and a smaller decline in narrow money. Domestic credit grew slightly by 0.6 percent in the year to December, lower than the 4.8 percent recorded a year earlier. The lower credit growth was attributed to a slower growth in private sector lending of 0.2 percent, compared with 11.2 percent in the corresponding 2008 period.

Interest rates continued to align with guidelines set by the Reserve Bank. The commercial banks' weighted average lending rate fell further by 5 basis points to 7.52 percent in December, while the

weighted time deposit rate rose by 10 basis points to 5.83 percent. The Reserve Bank removed its lending and interest spread policies effective from 1 January 2010. However, banks are encouraged to maintain current levels in interest rates in support of interest rate stability in the short to medium term.

Inflation picked up further to 6.8 percent in December from 6.0 percent in the previous month and 6.6 percent in December 2008. The increase was mainly underpinned by increases in food, transport and miscellaneous items. While inflation in 2010 is forecast at 2.0 percent, upside risks to this assessment include higher commodity prices particularly of oil in the coming months as the global economy picks up, as well as higher prices of market items in short supply following the recent Cyclone.

On the external sector, the trade deficit narrowed to \$1,218 million in the year to September 2009, on account of a larger fall in import payments compared to the decline in export receipts. The current account continued to be supported by strong

growth in personal remittances, which grew by 56.5 percent in 2009 from a year earlier.

As at 28 January 2010, foreign reserves were around \$1,096 million, equivalent to around 3.5 months of imports of goods and non-factor services.

The Nominal Effective Exchange Rate (NEER) fell marginally over the month in December. However, on a yearly basis, the NEER index fell by 18.9 percent, largely due to the devaluation and signifying a sharp depreciation in the Fiji dollar relative to major trading partner currencies.

Similarly, the Real Effective Exchange Rate (REER) index rose only slightly by 0.8 percent over the month of December, but fell over the year by 14.3 percent, largely due to the impact of the devaluation. Since the devaluation in April 2009, the REER index has risen by 7.7 percent – depicting an erosion of Fiji’s international competitiveness, on account of the relatively higher domestic inflation, and the appreciation in the FJD against the USD and the Yen.

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