



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Month Ended. June 2007

Economic growth of Fiji's major trading partner countries is expected to remain strong in 2007 as economic projections for Australia, New Zealand and the Euro-zone were revised upwards in May. This positive development was driven by buoyant household spending, strong business investment and high industrial production in these economies. In addition, the Japanese economy, on the back of higher business investment, is on track to grow by 2.2 percent this year, while the growth rate for the US economy is expected to be a strong 2.1 percent.

Contrary to developments in Fiji's trading partner countries, the domestic economy remains subdued. Provisional data indicate that total visitor arrivals from January to May declined by 4.7 percent over the same period last year. Other sectoral performances generally remain weak. Electricity generation experienced no growth on an annual basis.

While production activity across the real sector has been relatively weak for most of this year, inflation rose to 6.6 percent in May from 5.7 percent in April. This was driven largely by factors beyond our control such as supply shortages of market items, Australian drought-related supply disruptions of dairy and wheat products and the impact of the higher fiscal and excise duties announced in March. Core inflation, as measured by the trimmed mean,<sup>1</sup> also edged upwards to 3.3 percent from 3.2 percent in the preceding month. The gradual increase in core inflation since last year is partly a reflection of second round effects of the oil price hikes in recent years.

Looking ahead, further increases are expected in domestic fuel prices based on the current steady

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<sup>1</sup> The trimmed mean measure removes all large relative price changes in each month from overall inflation. These extreme price movements could reflect seasonality factors and policy changes. The trimmed mean in Fiji, removes the largest and smallest 15 percent price changes each month.

increase in global oil prices.

In relation to spending in the economy, partial indicators point to a slowing of consumer expenditure. Cumulative to May, Net Value Added Tax collections amounted to around \$168.6 million, a decline of around 7.5 percent over the corresponding period in 2006. Currency in circulation, consistent with lower demand, registered an average monthly contraction of 1.4 percent in the first three months of the year. Looking ahead, consumer demand is likely to remain weak as the credit conditions are expected to remain tight.

The softening of consumer expenditure has contributed to a fall in imports. Cumulative to April, payments for imports of goods fell by around 5 percent on an annual basis (compared to an 18 percent growth during the same period last year). The decline in outflows for imports was evident for all categories: investment goods (-2.9%), consumer goods (-1.9%) and intermediate goods (-0.1%).

Exports (including re-exports) on the other hand fell by around 5.6 percent, compared with a decline of around 8.1 percent in the corresponding period last year. Domestic exports also declined, contributing half of the decline in total exports. The decline in total export receipts were led by gold, re-exports, molasses, garments, sugar, mineral water, footwear & headgear, textiles, fabric & yarn. These more than offset the gains recorded in sectors such as timber, fish, fruits & vegetables, coconut oil, and yaqona.

Interest rates are generally on a downward drift due to improved liquidity conditions in the financial system in the recent months. The weighted average lending rate fell by 39 basis points to 9.34 percent in May. Outstanding time deposit and new time deposit rates fell by 49 and 78 basis points to 7.71 and 5.51 percent, respectively.

The continuation of the credit ceiling policy coupled with lower demand for money in light of a declining real sector, meant that credit growth continues to slow. Total private sector credit grew by an annual 13.9 percent at the end of April, lower than the annual growth of 17.5 percent registered in March. Loans to the private sector declined by 0.4 percent over the month of April. Lending by Licensed Credit Institutions also registered a slowdown to 7.24 percent on an annual basis to May 2007.

The Real Effective Exchange Rate Index of the Fiji dollar, a gauge of our international competitiveness, rose by 5.2 percent during the review period. The increase in this index over the year reflects a deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes.

Official foreign reserves at the end of May stood at \$830.7 million, sufficient to cover 3.4 months of imports of goods.

## **RESERVE BANK OF FIJI**

FIJI: FINANCIAL STATISTICS

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<b>KEY INDICATORS</b>	<b>May-07</b>	<b>Apr-07</b>	<b>Mar-07</b>	<b>May-06</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a	-0.94	-9.10	0.23
Currency in Circulation (monthly average)	n.a	2.14	5.79	11.68
Quasi-Money (Time & Saving Deposits)	n.a	24.05	35.08	31.68
Domestic Credit	n.a	15.18	16.69	30.34
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	6.6	5.7	4.7	1.5
Food	14.2	12.0	9.3	0.1
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	830.7(p)	832.6(p)	787.3(p)	673.4
Months of Imports (goods)	3.4(p)	3.4(p)	3.2(p)	2.9
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	8.0	5.8	3.4
Banks' Demand Deposits (\$m)	n.a	124.1	87.2	40.3
<b>5. Interest Rates (% n.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	9.34	9.73	9.84	7.11
Savings Deposit Rate	1.10	0.98	0.98	0.71
Time Deposit Rate	7.71	8.2	8.73	5.28
91-day RBF Note Rate (month end)	4.25	n.i	n.i	3.25
Minimum Lending Rate (MLR) (month end)	5.25	5.25	5.25	4.25
Overnight Inter-bank Rate	4.22	n.t	5.25	4.25
5-Year Government Bond Yield	n.i	7.73	n.i	8.80
10-Year Government Bond Yield	n.i	8.79	n.i	9.08
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.6142	0.6191	0.6078	0.5814
Pound sterling	0.3108	0.3099	0.3097	0.3085
Australian dollar	0.7461	0.7463	0.7535	0.7629
New Zealand dollar	0.8411	0.8375	0.8510	0.9083
Swiss francs	0.7525	0.7455	0.7399	0.7040
Euro	0.4572	0.4540	0.4558	0.4516
Japanese yen	74.73	73.80	71.67	65.20
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	668.40	679.29	655.01	673.56
New York #11 Spot Market Price <sup>3/</sup>	10.75	10.85	11.44	16.90
Crude Oil/barrel <sup>4/</sup>	67.50	67.31	62.14	70.18

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: <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