



RESERVE BANK OF FIJI

ECONOMIC REVIEW

Vol. 24

No. 05

Month Ended. May 2007

OVERVIEW

The world economy remains on track for positive growth despite the slowdown in the US economy. Global economic and financial conditions remain encouraging with all of Fiji's major trading partner countries expecting favourable, albeit slower, growth this year.

In line with earlier forecasts, recent partial indicators and anecdotal evidence point to slower growth in domestic demand. Electricity production, a partial indicator of business activity, posted a marginal decline in the year to April. Visitor arrivals in the first three months of the year also recorded a decline over the same period last year, supporting the projected decline in the tourism sector. Provisional data from the Fiji Islands Visitors Bureau indicate visitor arrivals totalled 108,000 in the first three months of 2007, representing an annual decline of 5.5 percent over the corresponding period last year. In addition, the results of Reserve Bank's Business Expectations Survey (BES) conducted in December 2006, revealed a negative outlook for general business conditions this year.

Consumption activity weakened in the review period, evident by the decline in partial indicators of consumer spending. Cumulative to April, Net Value Added Tax collections declined by around 8 percent over the corresponding period in 2006. The number of new vehicles sold, a partial indicator of consumer confidence, also recorded an annual fall of 34 percent in the first four months of the year. Furthermore, employment conditions remain subdued, contributing to the weakening of consumer demand. Private sector job recruitment intentions remain weak as indicated by a 33 percent over-the-month decline and a 34 percent annual decrease in job advertisements for the month of April. The buoyant and steady rise in household incomes over the last two years may be tapering off as Pay As You Earn collections cumulative to April, grew by a marginal 0.1 percent

compared to growth of about 12 percent registered in the comparable period last year.

There are early indications that investment conditions may deteriorate this year. The monthly growth in lending for investment purposes has also been close to zero in the months of February and March this year. Also, most respondents to the BES survey have indicated that investment in plant & machinery and buildings is likely to contract in the short-term, while only mild optimism is expected for the medium-term.

Domestic financial conditions also mirror developments in the real economy. Private sector credit slowed further to an annualised growth of 17.3 percent from 17.5 percent recorded in March. Total outstanding loans and advances of commercial banks fell on a monthly basis in April by 0.5 percent. At the same time, total commercial bank deposits rose over the month in April by 2.9 percent, on the back of upswings in holdings of time deposits.

Interest rates are generally showing a downward trend. In April, the commercial banks' time deposit rate fell over the month by 53 basis points to 8.20 percent while the savings deposit rate remained unchanged at 0.98 percent. Furthermore, the interest rate on new deposits fell by 209 basis points to 6.29 percent. The commercial bank lending rate fell over the month by 11 basis points to 9.73 percent and the interest rate on new loans fell by 35 basis points to 11.19 percent.

Inflation in April rose to 5.7 percent compared with 4.7 percent recorded in March. On a monthly basis, the growth in consumer prices stood at 0.5 percent, primarily led by higher prices of food, alcoholic drinks & tobacco, miscellaneous items, durable household goods and clothing & footwear. Transport costs, however, fell, while charges for housing, heating & lighting, and services remained unchanged.

The impact of the changes in fiscal and excise duties in March continue to feature significantly on inflation in April.

Underlying inflation, as measured by the trimmed mean, also rose, to 3.2 percent, compared to 2.9 percent recorded in the previous month.

On the external sector, the trade deficit remains a concern. Latest accrual trade data revealed that cumulative to March, around \$232 million was earned from exports, while the import bill totalled \$655 million. Import payments fell by 4.1 percent. Policies implemented by the Bank so far appear to have been effective in slowing credit and import growth. Particularly encouraging were the declines in consumption goods, as well as intermediate goods, the latter category dominated by mineral fuels, while

the fall in investment goods was less significant. Export earnings also fell, by 7.5 percent, largely as a result of declines in sugar, molasses and gold receipts.

Official foreign reserves reached \$832.6 million (provisional) at the end of April, sufficient to cover 3.4 months of imports of goods.

On exchange rate developments, the Nominal Effective Exchange Rate¹ (NEER) Index of the Fiji dollar rose by 0.4 percent in the year to April, indicating an appreciation of the Fiji dollar against the basket of currencies. The Real Effective Exchange Rate² (REER) Index of the Fiji dollar, also rose during the review period. The increase in the REER Index reflects a deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes.

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¹ The NEER index is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weight in the basket. Each weight reflects a trading partner's contribution to Fiji's total trade in goods and services. This index measures the overall movement of the Fiji dollar against the basket of currencies.

² The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. This index measures the competitiveness of the Fiji dollar against the basket of currencies.

FJI: FINANCIAL STATISTICS

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KEY INDICATORS	Apr-07	Mar-07	Feb-07	Apr-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	-9.10	n.a	11.74
Currency in Circulation (monthly average)	n.a	5.75	6.72	11.58
Quasi-Money (Time & Saving Deposits)	n.a	35.08	n.a	27.22
Domestic Credit	n.a	16.69	n.a	30.65
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	5.7	4.7	3.6	1.6
Food	12.0	9.3	5.9	0.0
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	832.6(p)	787.3(p)	802.2(p)	744.3
Months of Imports (goods)	3.4(p)	3.2(p)	3.3(p)	3.2
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	8.0	5.8	5.2	7.2
Banks' Demand Deposits (\$m)	124.1	87.2	72.7	131.1
5. Interest Rates (% n.a.) (monthly average)				
Lending Rate (Excluding Staff)	9.73	9.84	9.34	7.01
Savings Deposit Rate	0.98	0.98	0.89	0.72
Time Deposit Rate	8.2	8.73	8.80	4.24
91-day RBF Note Rate (month end)	n.i	n.i	n.i	3.25
Minimum Lending Rate (MLR) (month end)	5.25	5.25	5.25	3.75
Overnight Inter-bank Rate	n.t	5.25	n.t	4.16
5-Year Government Bond Yield	7.73	n.i	n.i	5.20
10-Year Government Bond Yield	8.79	n.i	n.i	6.83
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6191	0.6078	0.6001	0.5162
Pound sterling	0.3099	0.3097	0.3058	0.3198
Australian dollar	0.7463	0.7535	0.7614	0.7610
New Zealand dollar	0.8375	0.8510	0.8590	0.9092
Swiss francs	0.7455	0.7399	0.7301	0.7260
Euro	0.4540	0.4558	0.4530	0.4598
Japanese yen	73.8	71.67	70.70	65.77
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	679.29	655.01	664.07	608.26
New York #11 Spot Market Price ^{3/}	10.85	11.44	11.65	18.26
Crude Oil/barrel ^{4/}	67.31	62.14	57.76	70.64
<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>				