



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Month Ended. April 2007

### OVERVIEW

Global economic expansion continues, with the International Monetary Fund expecting a 4.9 percent growth this year, after an estimated growth of 5.4 percent in 2006.

On the domestic front, partial indicators and recent developments support the projected decline in the economy this year.

Performance of the tourism industry remains weak. According to industry sources, total monthly visitor arrivals in January fell by around 7.0 percent when compared with the same period in 2006. A decline was also noted when compared with the December monthly arrivals last year.

The recent flash floods and Cyclone Cliff affected the sugar cane and other crops industries in certain areas of the Northern and Western divisions. As a result, preliminary analysis suggests that the economy could contract further. This preliminary assessment will be firmed up in the coming months.

The annual rate of credit growth continues to decline as the effects of the credit ceiling and other policy actions of the Bank take effect. On a monthly basis, the growth in loans and advances, since the imposition of the ceiling has been stagnant, averaging 0.3 percent. At the same time, interest rates have eased in line with the build up in liquidity over the past months. The interest rate on 91-Day Treasury Bills fell from 12.80 percent in December last year to 8.63 percent in March. The time deposit rate has followed a similar trend.

The inflation rate in March rose to 4.7 percent from 3.6 percent in the previous month. This reflects the effect of the revised 2007 Budget's fiscal duty changes and weather patterns affecting the supply of

primary produce. The year-end inflation forecast remains at 3.5 percent.

The trade deficit remains a concern. Latest accrual data for January 2007 showed that imports were valued at \$241.2 million while exports were \$52.7 million.

As at the end of March, official foreign reserves were around \$787.3 million (provisional), equivalent to 3.2 months of imports of goods.

### SECTORAL DEVELOPMENTS

#### Tourism

Provisional data from industry sources indicate that visitor arrivals totalled over 37,000 in the first month of 2007, representing an annual decline of around 7.0 percent. For the whole year, the Fiji Islands Visitors Bureau (FIVB) expects visitor arrivals at around 514,000, a decline of 5.7 percent over last year's level.

A survey of certain tourist establishments revealed that the occupancy rate during the month of March averaged around 31.0 percent. Looking ahead, the FIVB anticipates that occupancy rates may pick up in June, the beginning of the traditional tourism peak season in Fiji. In particular, Fiji's honeymoon market is expected to record positive activity this year.

#### Impact of Flash Floods

According to the Fiji Sugar Corporation, approximately 100,000 tonnes of cane was affected during the February and March floods.

In addition, other crops were also affected during the recent floods in certain areas of the Northern and Western divisions.

## **Inflation**

The March inflation rate stood at 4.7 percent compared with 3.6 percent recorded in February. Consumer prices over the month rose by 0.4 percent, owing to higher costs of housing, food, durable household goods, clothing & footwear, alcoholic drinks & tobacco, transport, services and miscellaneous items. Some price increases were largely a reflection of changes in fiscal and excise duties announced in the Revised 2007 National Budget. On the other hand, charges for heating & lighting recorded a decline as prices of kerosene, diesel and electricity fuel surcharges fell during March.

The underlying inflation rate rose to 2.9 percent compared to 2.2 percent noted in February.

Looking ahead, inflation is expected to rise further as the cost of dairy products are likely to increase in the approaching months as a result of a prolonged drought in Australia. A relatively weaker US dollar is likely to cushion these inflationary pressures, to some extent. The year-end inflation is projected at 3.5 percent.

## **Lending**

On a monthly basis, the average growth rate of credit, since the imposition of the credit ceiling in early December 2006 is a mere 0.3 percent, indicating that credit movement is relatively stagnant. In the year to March, outstanding credit of commercial banks rose by 16.5 percent. This is a slowdown from the annual growth rate of 18.6 percent in February. Looking ahead, growth in credit is expected to be marginal.

## **Deposits**

The growth in total commercial bank deposits also declined in March, falling by 0.2 percent over February. The decline was largely attributed to the fall in demand deposits, which fell by around 1.8 percent or \$15.9 million during this period. The monthly average growth in deposits between December 2006 and March 2007 was 0.2 percent, a slowdown compared with the monthly 1.5 percent growth for the whole of 2006.

## **Liquidity**

Average Banks' Demand Deposit (BDD) rose to around \$102.9 million in March from around \$79 million in the previous month. The increase of \$23.9 million was primarily due to inflows of foreign reserves (mainly sugar receipts). Other contributing factors included, a fall in currency in circulation and Government borrowings under the Ways & Means

Facility. In April, BDD rose again to average around \$118 million.

During March, activity in the interbank rose. The total turnover recorded for the month of March was \$1.5 million compared with nil activity in February.

## **External sector**

In January this year, merchandise export earnings rose by around 37.4 percent, compared with a decline of around 28.5 percent in the corresponding period last year. Domestic exports<sup>1</sup> also rose by a large 36.9 percent. Leading the gain in domestic receipts were lumber, fish, mineral water, yaqona, footwear & headgear, fruits & vegetables, molasses and others. Export sectors that recorded declines were gold, garments, textiles & fabric and sugar. Exports appear strong mainly due to the volatile nature of the monthly data. Overall, however, exports still remain a concern.

Merchandise import outflows displayed a stronger growth during the same period. Payments for imports rose by around 39.8 percent in January this year, compared to a decline of around 17.5 percent in January 2006. Imports of mineral fuels and machinery & transport equipment explain half of the rise in payments. Other sectors which rose include food, manufactured goods, miscellaneous manufactured articles, oils & fats and chemicals.

## **Exchange Rate Developments**

On the domestic front, movements in exchange rates reveal that in March 2007, the Fiji dollar strengthened against the Yen (1.4%), US dollar (1.3%), and the Euro (0.6%) but weakened against the Australian (1.0%) and New Zealand (0.9%) dollars.

The Nominal Effective Exchange Rate Index of the Fiji dollar rose by 0.3 percent in the year to March, indicating an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar, rose by 2.8 percent during the review period. The increase in the REER Index over the year reflects a deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes.

## **RESERVE BANK OF FIJI**

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<sup>1</sup> Domestic exports refers to total exports excluding re-exports

FIJI: FINANCIAL STATISTICS

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<b>KEY INDICATORS</b>	<b>Mar-07</b>	<b>Feb-07</b>	<b>Jan-07</b>	<b>Mar-06</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a	n.a	n.a	14.01
Currency in Circulation (monthly average)	5.75	6.72	6.33	10.45
Quasi-Money (Time & Saving Deposits)	n.a	n.a	n.a	18.66
Domestic Credit	n.a	n.a	n.a	29.99
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	4.7	3.6	2.6	2.0
Food	9.3	5.9	2.7	1.2
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	787.3 (p)	802.2 (p)	847.8 (p)	793.9
Months of Imports (goods)	3.2 (p)	3.3 (p)	3.5 (p)	3.4
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	5.8	5.21	6.3	7.2
Banks' Demand Deposits (\$m)	87.2	72.7	104.7	99.7
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	9.84	9.34	8.28	6.94
Savings Deposit Rate	0.98	0.89	0.87	0.54
Time Deposit Rate	8.73	8.80	8.94	3.33
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	5.25	n.t.	5.25	4.24
5-Year Government Bond Yield	n.i	n.i	n.i	5.00
10-Year Government Bond Yield	n.i	n.i	n.i	6.74
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.6078	0.6001	0.5920	0.5575
Pound sterling	0.3097	0.3058	0.3017	0.3192
Australian dollar	0.7535	0.7614	0.7663	0.7801
New Zealand dollar	0.8510	0.8590	0.8595	0.9102
Swiss francs	0.7399	0.7301	0.7413	0.7233
Euro	0.4530	0.4530	0.4566	0.4584
Japanese yen	71.67	70.70	72.00	65.43
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	655.01	664.07	630.36	555.96
New York #11 Spot Market Price <sup>3/</sup>	11.44	11.65	11.88	18.00
Crude Oil/barrel <sup>4/</sup>	62.14	57.76	54.30	62.25
<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>				