



RESERVE BANK OF FIJI

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Global economic conditions for the year is optimistic, with relatively higher growth rates now forecast for most of Fiji's major trading partner economies. Prices of all the major international commodities fell over the month, with sugar prices anticipated to fall further. However, gold and crude oil prices are expected to remain high in the months ahead.

On the domestic front, economic conditions remained weak during the review period. Partial indicators of consumer demand weakened over the month with new vehicle sales and merchandise imports of consumption goods falling by 25 percent and 2.3 percent, respectively, on an annual basis. Cumulative to July, net VAT collections declined by 11.3 percent over the corresponding period in 2006. Lending for consumption purposes grew by 6.6 percent over the year to July.

Investment demand continues to exhibit weakness. Imports of investment goods fell, recording a 12.0 percent decline cumulative to June compared to the same period last year. This was largely underpinned by lower payments for machinery & transport equipment and chemicals. Furthermore, growth in lending for investment purposes slowed significantly to 17.7 percent in the year to July, down from 27.6 percent in June.

Labour market conditions remained subdued in the first seven months of the year. The job advertisements survey showed a drop of around 10 percent in hiring intentions during the review period.

On a sectoral basis, the cane and sugar industries registered weak performances into the second month of crushing. Cumulative to July, the amount of cane crushed declined by 7.9 percent when compared to the corresponding period last season. Owing to a higher Tonnes Cane to Tonnes Sugar Ratio, sugar production registered an annual decline of 10.5 percent. Weak

performances were also recorded in the garment and copra industries. Additionally, the tourism industry, according to stakeholders, has seen relatively lower hotel occupancy rates this year.

Latest accrual trade data for the first half of this year, showed merchandise export earnings rise by 7.3 percent, compared with a decline of around 7.2 percent in the corresponding period last year. Domestic exports also rose by 14.1 percent. Leading the increase in domestic receipts were sugar, mineral water, fish, timber, fruits & vegetables, coconut oil, yaqona and other domestic exports. The contribution by sugar was unusually high during the review period due to seasonality factors – this reflected a one-off large export in May 2007 from the 2006 production. Merchandise imports declined during the same period by around 7.4 percent, when compared to a growth of around 17.3 percent in the corresponding period in 2006. All categories of imports declined with, the main drivers being investment goods (-3.6 percent), consumption goods (-2.3 percent) and intermediate goods (-1.5 percent).

Inflation stood at 6.4 percent in July compared to 7.1 percent in June. On a monthly basis, consumer prices fell by 0.2 percent. Lower costs of food items, clothing & footwear and alcoholic drinks & tobacco underpinned the decline in consumer prices.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar, rose by 5.3 percent in the year to July. The increase in the REER Index over the year reflects a deterioration in our international competitiveness. This is mainly attributed to the higher domestic inflation outcomes.

Official foreign reserves at the end of July stood at \$877.3 million (provisional), sufficient to cover 4.0 months of imports of goods.

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KEY INDICATORS	Jul-07	Jun-07	May-07	Jul-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	8.20	8.23	-1.73
Currency in Circulation (monthly average)	8.39	5.68	8.10	11.23
Quasi-Money (Time & Saving Deposits)	n.a	17.70	18.32	32.59
Domestic Credit	n.a	12.49	13.35	27.43
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	6.4	7.1	6.6	1.8
Food	14.5	16.5	14.2	-1.5
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	877.3	859.9(p)	830.7(p)	621.5
Months of Imports (goods)	4.0	3.9(p)	3.8(p)	2.6
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	11.1	10.3	8.7	5.3
Banks' Demand Deposits (\$m)	198.7	123.2	82.4	82.6
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.94	9.20	9.34	7.60
Savings Deposit Rate	0.98	1.01	1.10	0.74
Time Deposit Rate	6.77	7.27	7.71	5.96
91-day RBF Note Rate (month end)	n.i.	4.25	4.25	4.25
Minimum Lending Rate (MLR) (month end)	5.25	5.25	5.25	5.25
Overnight Inter-bank Rate	n.t.	n.t.	4.22	5.21
5-Year Government Bond Yield	n.i.	7.50	n.i.	n.i.
10-Year Government Bond Yield	n.i.	8.75	n.i.	9.52
6. Exchange Rates ^{2/} (mid rates, FSI equals) (end of period)				
US dollar	0.6309	0.6264	0.6142	0.5775
Pound sterling	0.3116	0.3128	0.3108	0.3098
Australian dollar	0.7372	0.7403	0.7461	0.7524
New Zealand dollar	0.8227	0.8149	0.8411	0.9334
Swiss francs	0.7593	0.7712	0.7525	0.7112
Euro	0.4607	0.4660	0.4572	0.4524
Japanese yen	75.17	77.15	74.73	66.22
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	664.61	656.04	668.40	632.67
New York #11 Spot Market Price ^{3/}	12.18	11.05	10.78	16.69
Crude Oil/barrel ^{4/}	77.2	71.26	67.50	73.90
<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>				