



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global growth prospects remain firm for the remainder of the year, largely driven by developing economies, particularly China, India and Russia, who collectively, account for a large proportion of global growth. Our closest trading partner countries, Australia and New Zealand, are also experiencing buoyant growth with further upward revisions to growth forecasts, as manufacturing and consumer demand continue to out-perform. However, US economic growth is expected to stagnate into next year, influenced partially by the subprime market crisis.

Crude oil prices have experienced a recent surge rising close to US\$100 per barrel, not too far from the all time highs of the 1980s of around US\$105 per barrel. Unlike the eighties, however, prices continue to be absorbed by the market and have not halted the global expansion. However, persistent high oil prices remain a downside risk to world growth.

Domestically, sectoral performances have remained weak in the review period, with little sign of recovery in the remaining months of 2007. For the tourism industry in particular, visitor arrivals remain weak compared to levels a year ago.

Consumer demand continues to wane as evident in lower Value Added Tax collections and reduced imports of consumer goods. Remittance levels were also weak cumulative to September, lower by 30 percent over a year ago.

Total government expenditure for this year is estimated to decline. In the 2008 National Budget, Government's Cashflow indicates a fiscal surplus of \$22.4 million will be achieved this year, equivalent to 0.4 percent of GDP. This outcome is expected to be underpinned by an estimated 14.2 percent annual decline in expenditure and a 2.0 percent annual decline in revenue. The economy is now expected

to contract by 3.9 percent this year compared with the 3.1 percent decline anticipated earlier.

Looking ahead, for 2008, the economy is expected to recover with a growth of 2.2 percent. This projection is also in line with government expenditure expected for next year. In the 2008 National Budget, government expenditure is expected to increase by 19.4 percent, which is anticipated to more than offset the 8.1 percent projected increase in annual revenue. The fiscal deficit for next year is projected at 2.0 percent of GDP.

Inflation was 3.4 percent in October, easing for the fourth consecutive month this year since its peak at 7.1 percent in June. However, consumer prices rose on a monthly basis (0.9 percent) in October for the first time in four months. The rise was largely attributed to food prices, particularly high wheat prices being reflected in cereal products, as well as local bakery products.

Looking ahead, inflationary pressures are expected to emanate from higher global crude oil prices. The Commerce Commission has approved an increase in the electricity fuel surcharge from 1.88 cents/unit to 3.23 cents/unit, effective from 1 November 2007. These upward price pressures should, however, be partly mitigated by the weakening US dollar and its impact on import prices. After incorporating the above-mentioned factors, the year-end inflation projection remains at around 3.5 percent.

The build-up in liquidity continues to place downward pressure on interest rates. In October, Bank Demand Deposits reached \$347.3 million. Over the same period, interest rates have generally fallen. The weighted average outstanding and new lending rates fell by 27 basis points and 83 basis points, to 8.62 percent and 8.56 percent, respectively. Similarly, both the savings and time

deposit rates fell by 11 basis points and 64 basis points, to 0.74 percent and 5.68 percent, respectively. Credit growth slowed further during the review period. The growth in commercial banks' loans and advances fell to 5.4 percent in October, from 6.8 percent in September.

Trade data cumulative to September indicates continuous improvement in export earnings while imports are showing declines. The trade deficit,

although lower than the 2006 level, remains significant at \$1,198 million. At the end of October official foreign reserves reached \$930.6 million (provisional), sufficient to cover 4.3 months of goods imports.

Both the Nominal and Real Effective Exchange Rate indices of the Fiji dollar rose in the year to October, indicating an appreciation of the local currency.

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KEY INDICATORS	Oct-07	Sep-07	Aug-07	Oct-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	39.29	22.60	-7.59
Currency in Circulation (monthly average)	4.99	5.63	5.61	9.34
Quasi-Money (Time & Saving Deposits)	n.a.	1.70	8.63	35.74
Domestic Credit	n.a.	8.46	8.76	25.39
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	3.4	4.1	5.1	4.6
Food	8.4	8.1	10.7	4.5
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	930.6	868.3	859.5	873.7
Months of Imports (goods)	4.3	4.0	3.9	3.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	15.2	13.2	11.5	4.0
Banks' Demand Deposits (\$m)	347.3	284.9	262.9	48.3
5. Interest Rates (% n.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.62	8.89	8.84	7.80
Savings Deposit Rate	0.74	0.85	0.84	0.82
Time Deposit Rate	5.68	6.32	6.64	7.19
91-day RBF Note Rate (month end)	n.i	n.i	n.i	4.25
Minimum Lending Rate (MLR) (month end)	9.25	5.25	5.25	5.25
Overnight Inter-bank Rate	n.t.	n.t	n.t	5.36
5-Year Government Bond Yield	n.i	6.00	6.25	n.i.
10-Year Government Bond Yield	n.i	6.73	7.45	9.94
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6508	0.6371	0.6097	0.5861
Pound sterling	0.3146	0.3144	0.3030	0.3081
Australian dollar	0.7084	0.7236	0.7477	0.7611
New Zealand dollar	0.8511	0.8492	0.8689	0.8792
Swiss francs	0.754	0.7475	0.7346	0.7315
Euro	0.4508	0.4503	0.4474	0.4605
Japanese yen	74.61	73.64	70.69	68.81
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	753.29	709.10	664.92	586.76
New York #11 Spot Market Price ^{3/}	11.86	11.60	11.66	12.07
Crude Oil/barrel ^{4/}	83.12	77.13	70.80	58.36

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: ^{1/} Fiji Islands Bureau of Statistics

^{2/} Bloomberg and Reserve Bank of Fiji

^{3/} Fiji Sugar Marketing Company Limited

^{4/} Bloomberg