



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy remains buoyant as growth projections for this year have been revised upwards to 5.2 percent from 4.9 percent estimated earlier. Stronger-than-expected performances in the US and Australian economies, on account of increased business investment and rising service/manufacturing activity are the major contributors to the upward revision. In addition, the emerging market economies of India, China and Russia continue to perform robustly. Looking ahead, persistently high crude oil prices and the possible negative effects of the US sub-prime market lending crisis have the potential to derail this robust global expansion.

Domestically, while consumer and business sentiment show some signs of recovery for next year, sectoral performances have remained weak. For the tourism industry in particular, visitor arrivals have not rebounded during Fiji's traditional peak tourism season – in fact, they fell by an annual 5.4 percent in the first eight months of 2007. Given lower visitor arrivals and reduced activity in the tourism industry, tourism earnings were lower by an annual 9.0 percent in the first two quarters of this year. In the sugar industry, production declined by almost 10.0 percent, cumulative to September, and the recent drought is expected to affect both the 2007 and 2008 crops.

Latest statistics on the building & construction sector indicate that the total value of work put-in-place, cumulative to the second quarter, totaled around \$113.4 million, a significant annual decline of 27.2 percent.

Monetary and credit growth slowed further in August. Annual domestic credit growth slowed to 8.8 percent, compared with 10.8 percent in July and 26.7 percent in August 2006. Additionally, commercial bank lending expanded at its slowest rate in the last four and a half years, rising by 6.8

percent in the year to September.

In September, Average Bank Demand Deposits reached a historical high of \$277.6 million - \$43 million higher than the level recorded in August. Ample liquidity in the banking system has contributed to a decline in time deposit rates. Over the month to September, the commercial banks' time deposit rate fell by 32 basis points to 6.32 percent. However during the same period, commercial banks' weighted average lending and savings deposit rates rose by 5 and 1 basis point to 8.89 and 0.85 percent, respectively.

Conditions in the labour market remained subdued. Cumulative to September, recruitment intentions fell by around 6.8 percent over the same period last year. Nevertheless, employment prospects for the next 12 months have somewhat improved as per the sentiments expressed in the September 2007 RBF Fiji Employers' Federation Survey. In addition, the survey results suggest that wages are anticipated to either fall or remain stagnant.

On the trade front, exports continued to improve on an annual basis and imports have consistently registered declines since March this year. However, the improvement in exports has not been significant enough to substantially reduce Fiji's trade gap. The lower import demand has been registered across all categories, with the decline in imports of investment goods underlining the current weak investment situation. Official foreign reserves reached \$868.0 million (provisional) at the end of September, sufficient to cover 3.7 months of imports of goods.

Inflation was 4.1 percent in September, easing for the third consecutive month this year, as lower prices of food items, alcoholic drinks & tobacco outweighed the marginal price increases in the heating & lighting, miscellaneous items, housing, durable household goods, clothing & footwear and

transport categories. On the domestic front, structural factors such as the reduction in the mark-up of basic food items in September and supply restoration of market produce have combined to ease the upward pressure on prices. The year-end inflation rate is now projected at 3.5 percent.

The Nominal Effective Exchange Rate Index of the Fiji dollar rose by 0.2 percent in the year to September, indicating an appreciation of the Fiji

dollar against the basket of currencies.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar, a gauge of our international competitiveness, rose by 2.4 percent over the year 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 relative to average trading partner inflation.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	Sep-07	Aug-07	Jul-07	Sep-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	22.60	15.11	-4.36
Currency in Circulation (monthly average)	5.63	5.61	8.39	9.44
Quasi-Money (Time & Saving Deposits)	n.a.	8.63	14.79	32.47
Domestic Credit	n.a.	8.76	10.79	27.42
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	4.1	5.1	6.4	2.8
Food	8.1	10.7	14.5	1.6
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	868.0	865.7(p)	877.3(p)	817.2
Months of Imports (goods)	3.7	4.0(p)	4.0(p)	3.5
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	13.2	11.5	11.1	3.3
Banks' Demand Deposits (\$m)	284.9	262.9	198.7	39.2
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.89	8.84	8.94	7.69
Savings Deposit Rate	0.85	0.84	0.98	0.80
Time Deposit Rate	6.32	6.64	6.77	6.63
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	5.25	5.25	5.25	5.25
Overnight Inter-bank Rate	n.t	n.t	n.t.	5.30
5-Year Government Bond Yield	6.00	6.25	n.i.	n.i.
10-Year Government Bond Yield	6.73	7.45	n.i.	9.60
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6371	0.6097	0.6309	0.5785
Pound sterling	0.3144	0.3030	0.3116	0.3083
Australian dollar	0.7236	0.7477	0.7372	0.7723
New Zealand dollar	0.8492	0.8689	0.8227	0.8797
Swiss francs	0.7475	0.7346	0.7593	0.7215
Euro	0.4503	0.4474	0.4607	0.4554
Japanese yen	73.64	70.69	75.17	68.15
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{3/}	709.10	664.92	664.61	599.54
New York #11 Spot Market Price ^{3/}	11.60	11.66	12.18	12.45
Crude Oil/barrel ^{4/}	77.13	70.80	77.20	62.77

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