RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economic expansion is losing momentum, as the financial crisis intensifies in the advanced economies. The International Monetary Fund (IMF) predicts the US economy will tip into a mild recession in 2008 and economic activity in the other advanced economies will be sluggish this year, due to trade and financial spillovers. In line with these conditions, the IMF has downgraded the world economic growth projection for 2008 to 3.7 percent, from an earlier forecast of 4.1 percent. Similarly, the IMF now anticipates a lower growth of 3.8 percent for the world economy in 2009, from 4.4 percent forecast earlier. The risks to the global growth are inclined to the downside, mainly underpinned by the uncertainty associated with the financial market crisis.

Domestically, the real sector outlook generally remains weak. Latest data show subdued sectoral performance, in line with forecasts anticipated for the year. Cumulative to March this year, Net Value Added Tax and Pay As You Earn collections, respective partial indicators of consumption activity and individual incomes, recorded marginal growth compared to the same period last year. Consumption and investment lending slowed considerably to 2.5 percent and 2.3 percent in March, from 9.5 percent and 31.2 percent, respectively, in the same period last year. Moreover, the latest Business Expectations Survey indicates a relatively weak outlook for general business conditions over the next 12 months, although sentiments have improved a little from the June 2007 Survey. However, on a positive note, visitor arrivals showed an increase of 19.3 percent in the first three months of the year, when compared with the same period last year.

The economic recovery expected for this year is now projected to be lower at 1.7 percent, compared with a 2.2 percent growth anticipated earlier. Looking ahead, economic growth for 2009 and 2010 has been revised downwards to 1.1 percent and 1.6 percent, respectively.

Labour market conditions appear to be improving with the number of jobs advertised cumulative to March increasing by 13.9 percent over the corresponding period last year. The demand for labour was higher mainly in the electricity & water and community, social & personal services sectors. Nonetheless, the higher recruitment intentions could partially be to fill positions left vacant due to emigration and natural attrition. Overall, labour market conditions are still soft.

Commercial banks' annual credit growth slowed to 2.5 percent in March, compared with 16.5 percent in the corresponding period last year. The slowdown is attributed to lower lending to the building and construction sector and to private individuals. In addition, over the month to March, commercial banks' new lending and new time deposits rates were up by 17 and 92 basis points to 8.22 and 2.77 percent, respectively. In the same period, outstanding lending and time deposits rates were down by 1 and 21 basis points to 8.24 and 2.99 percent, respectively. Similarly, money market interest rates have fallen, while capital market rates rose in March. The prevailing low interest rates are a reflection of high liquidity conditions in the market - Bank Demand Deposits at the end of March were $311.6 million, compared to $325.6 million in February 2008.

Broad money rose by 12.1 percent in the year to March after rising by 14.9 percent in the same period last year. The slowdown is attributed to a turnaround in quasi money. During the review period, quasi money contracted by 10.3 percent after expanding by 35.1 percent in the corresponding period last year. The decline in time deposits has underpinned the contraction in quasi money. In the year to March, time deposits declined by 19.6 percent. With excess liquidity and declining interest rates, there has been a shift of funds from time to demand deposits. Demand deposits rose by 72.2 percent in March when compared with the same period last year.

Domestic credit slowed to 3.2 percent in March after rising by 16.9 percent in the corresponding period last year. The outturn was underpinned by substantial slowdown in private sector credit as a result of subdued levels of economic activity and the credit ceiling in place.

Managing domestic inflation in light of external commodity price shocks remains a challenge for the economy. The March inflation rate was 7.5 percent, slightly down from 7.6 percent registered in February. This compares with 4.7 percent noted in March last year. Prices in all categories were higher than the same period last year. Food items continues to contribute significantly to inflation (close to 50%), underpinned by increases in the price of wheat. Transport costs rose on the back of soaring global energy prices. In the approaching months, the effects of increases in international prices are expected to filter into domestic food and its respective down-line product prices along with likely increases in transport and heating & lighting charges.

On the trade front, export receipts are projected to grow by 7.7 percent in 2008, while import payments are expected expand by 4.6 percent. However, given that imports are still valued at about $3 billion and exports at $1.3 billion, Fiji will continue to have a significant trade deficit of about $1.7 billion this year.

The latest accrual trade data this year appears to be consistent with trade projections. Cumulative to February 2008, merchandise export earnings (excluding aircraft) rose by around 16.4 percent, compared with an increase of around 38.3 percent over the same period in 2007. Leading the increase in export receipts were re-exports, mineral water, fish, flour, coconut oil and molasses. These more than offset the declines recorded in exports of gold, timber, sugar, other domestic exports, sweet biscuits and garments.

Domestic exports increased by around 3.6 percent, compared to around 48.6 percent in 2007.

Over the same period, import payments (excluding aircraft) increased by around 16.2 percent compared with an increase of 3.5 percent over the same period in 2007, underpinned by increases in payments for intermediate and consumer goods. The increase in payments for intermediate goods (10.1 percent) was attributed to increases in outflows for mineral fuels and to a lesser extent, oils & fats. The higher payments for consumer goods (6.6 percent) was led by food, manufactured goods, beverages & tobacco and miscellaneous items. On the other hand, the decline in payments for investment goods (-0.4 percent) was led by chemicals and machinery & transport equipment. Excluding mineral fuels, imports grew by 4.5 percent, compared to an increase of 5.7 percent during the same period in 2007.

The merchandise trade deficit (excluding aircraft) worsened during the first two months of 2008 to around $292.1 million when compared to around $251.7 million recorded in the same period in 2007. Personal remittances fell significantly in January 2008 to around $10.3 million, compared with $18.6 million in the same period last year. The decline in remittances could be due to the depreciation of the US dollar, as well as, the weak labour market conditions resulting from the global economic slowdown.

At the end of March, official foreign reserves were around $898.8 million (provisional), sufficient to cover 3.9 months of imports.

Both the Nominal Effective Exchange Rate and Real Effective Exchange Rate (REER) indices of the Fiji dollar rose in the year to March. The increase in the REER index, which indicates a deterioration in Fiji's international competitiveness, was underpinned by higher domestic inflation, when compared with our major trading partners' inflation. Domestic inflation was 7.5 percent compared to 3.1 percent recorded by our major trading partners.

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FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Mar-08	Feb-08	Jan-08	Mar-07
1. Money and Credit				
(year-on-year % change)				
Narrow Money	51.60	50.60	46.74	-9.10
Currency in Circulation (monthly average)	7.73	5.22	5.34	5.75
Quasi-Money (Time & Saving Deposits)	-10.29	-10.91	-11.88	35.08
Domestic Credit	3.13	3.33	2.29	16.85
2. Consumer Prices 1/				
(year-on-year % change)				
All Items	7.5	7.6	7.4	4.7
Food	10.4	10.7	10.3	9.3
3. Reserves				
(end of period)				
Gross Foreign Reserves ($m)*	898.8	906.3	937.7	767.3
Months of Imports (goods)	3.9	4.0	4.1	3.5
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	12.37	12.55	12.61	5.76
Banks' Demand Deposits ($m)	311.57	325.61	320.19	87.22
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	8.24	8.25	8.28	9.84
Savings Deposit Rate	0.68	0.73	0.68	0.98
Time Deposit Rate	2.99	3.20	3.99	8.73
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	5.75	9.25	9.25	5.25
Overnight Inter-bank Rate	1.53	n.t.	n.t.	5.25
5-Year Government Bond Yield	5.8	n.i	6.10	n.i
10-Year Government Bond Yield	6.6	n.i	6.50	n.i
6. Exchange Rates 2/				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.6682	0.6745	0.6559	0.6078
Pound sterling	0.3347	0.3386	0.3289	0.3097
Australian dollar	0.7291	0.7110	0.7280	0.7535
New Zealand dollar	0.8405	0.8270	0.8306	0.8510
Swiss francs	0.6641	0.7083	0.7118	0.7399
Euro	0.4229	0.4434	0.4405	0.4558
Japanese yen	66.28	70.99	70.10	71.67
7. Commodity Prices (US$)				
(monthly average)				
UK Gold Price/fine ounce 2/	969.09	920.00	885.58	655.01
New York #11 Spot Market Price 3/	14.63	15.16	13.75	11.44
Crude Oil/barrel 4/	103.48	94.82	91.93	62.14

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*