



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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The International Monetary Fund raised the world economic growth forecast to 4.1 percent in July, up from the previous forecast of 3.7 percent, as the first half slowdown turned out to be less sharp than earlier predicted. However, the global slowdown is expected to continue through the second half of 2008, with a gradual recovery in 2009. For our major trading partners, the growth outlook is still positive, but with slower growth.

Domestically, Fiji's economy is expected to recover mildly this year. Latest forecasts indicate that economic growth for 2008 is unchanged at 1.7 percent while there were modest improvements to projections for 2009 and 2010 to 1.4 percent and 1.9 percent, respectively. Growth for 2008 is forecast to be broad-based with only the community, social & personal services and finance, insurance, real estate & business services sectors envisaged to decline.

While a small improvement has been noted in the partial indicators for **consumption**, this is to a large extent, explained by the high inflation environment. The cumulative annual increases in net VAT collections (5.3 percent) and imports of consumption goods (21.5 percent) are heavily influenced by price factors. Imports have largely been driven by mineral fuels and food, both of which have experienced significant price increases since the beginning of the year. It appears that spending is being financed by a marginal growth in incomes and a small annual growth in commercial banks' consumption lending (5.4 percent). Otherwise, remittances, which had helped finance consumption previously, continued to decline.

Latest indicators of **investment** suggest a mild growth in activity. Imports of investment goods rose marginally by 6.4 percent cumulative to June, a small rise in a high inflation environment. This was

supported by a small annual growth in investment lending. Government's capital construction expenditure in April 2008 was \$15.4 million, 34 percent higher than the \$11.5 million in the same period last year. While investment activity is recovering slowly, it is still expected to be lower than 2006 levels.

On a sectoral basis, visitor arrivals grew by around 12 percent on an annual basis, cumulative to July. It also exceeded the Fiji Islands Visitors Bureau's forecast for the period by 3.5 percent. However, filling hotel rooms remains a challenge given an approximate 20 percent increase in rooms from 2005 to 2007. Improved performances were noted for other industries as well, such as mineral water, fisheries, timber and garments. Encouragingly, gold production is also rising gradually now, from last year's level. Nonetheless, sugar production had a slow start to the crushing season as a result of mill breakdowns and transportation problems – expectations are that the performance will pick up in the approaching months.

The merchandise **trade** deficit deteriorated cumulative to June, to around \$973.6 million when compared to around \$796.4 million recorded in the same period in 2007. Domestic exports rose by 11.4 percent, led mainly by mineral water, fish, timber and other domestic exports. Total exports recorded a higher growth of 18.5 percent, owing to an increase in re-exports. Imports also rose (20.8 percent), led mainly by increases in intermediate and consumption goods while the rise in investment goods was marginal. In absolute terms, the gains in exports are over shadowed by the increase in imports, leading to the higher trade deficit.

Over the year, growth in **money and credit aggregates** continued to decelerate. The slowdown in broad money (5.7%) was influenced by lower

domestic credit growth (3.3 percent). The excess liquidity in the system (\$237 million in July) is placing downward pressure on interest rates – in June, the lending and time deposit rates fell over the month to 7.99 and 2.43 percent, respectively. However, given the provisions in place, the credit ceiling is not constraining investment. As at 1 August, special loan approvals of \$250 million were granted, mainly for building and construction purposes.

In terms of monetary policy objectives, foreign reserves were \$892.1 million as at the end of July, sufficient to cover 3.9 months of import of goods.

Inflation was 6.8 percent in July 2008 and is forecast at 7.5 percent by year-end.

The Nominal Effective Exchange Rate (NEER) remained relatively stable, rising by 0.5 percent over the year to July while the Real Effective Exchange Rate (REER) rose by 2.8 percent over the same period. The rise in REER indicates deterioration in our international competitiveness against our major trading partners. This was underpinned by high domestic inflation (6.8 percent), compared with Fiji's major trading partners' inflation of 4.2 percent.

## **RESERVE BANK OF FIJI**

FIJI: FINANCIAL STATISTICS

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<b>KEY INDICATORS</b>	<b>Jul-08</b>	<b>Jun-08</b>	<b>May-08</b>	<b>Jul-07</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a.	32.44	41.51	15.11
Currency in Circulation (monthly average)	n.a.	5.73	5.90	8.39
Quasi-Money (Time & Saving Deposits)	n.a.	-12.17	-10.52	14.79
Domestic Credit	n.a.	3.27	4.46	10.79
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	6.8	6.9	5.8	6.4
Food	10.3	8.2	6.3	14.5
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	892.1	877.8	876.9	858.4
Months of Imports (goods)	3.9	3.8	3.8	3.9
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	11.65	10.67	11.12
Banks' Demand Deposits (\$m)	n.a.	273.07	270.91	198.72
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.99	8.01	8.94
Savings Deposit Rate	n.a.	0.70	0.70	0.98
Time Deposit Rate	n.a.	2.43	2.55	6.77
91-day RBF Note Rate (month end)	n.i.	n.i.	n.i.	4.25
Minimum Lending Rate (MLR) (month end)	5.75	5.75	5.75	5.25
Overnight Inter-bank Rate	n.t.	n.t.	n.t.	n.t.
5-Year Government Bond Yield	5.90	5.90	5.90	n.i.
10-Year Government Bond Yield	7.05	7.00	6.70	n.i.
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, FSI equals) (end of period)				
US dollar	0.6591	0.6698	0.6746	0.6309
Pound sterling	0.3325	0.3358	0.3408	0.3116
Australian dollar	0.6983	0.6972	0.7007	0.7372
New Zealand dollar	0.8982	0.8802	0.8594	0.8227
Swiss francs	0.6908	0.6827	0.7000	0.7593
Euro	0.4230	0.4245	0.4313	0.4607
Japanese yen	71.26	71.13	70.63	75.17
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	940.30	888.44	888.90	664.61
New York #11 Spot Market Price <sup>3/</sup>	13.61	13.27	12.18	12.18
Crude Oil/barrel <sup>4/</sup>	133.90	133.00	123.40	77.20

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: <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