



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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World economic growth is now projected to slow to 4.1 percent this year. The US economy is expected to expand at a much slower pace of 1.5 percent. Similar contractions are forecast for the Euro zone and Japan, at 1.6 percent and 1.5 percent, respectively. Our main trading partners, Australia and New Zealand, are also expected to grow at a slower pace in 2008. The sluggish world economic growth is partly triggered by the recent financial market turmoil and weakening US economic performance.

Domestically, the economy is estimated to have contracted by 3.9 percent in 2007 with weak performances in almost all sectors. A turnaround in economic activity, however, is expected this year with a projected growth of 2.2 percent. However, while the full assessment of the impact of Cyclone Gene on the economy has not been ascertained, the damage was mainly to infrastructure and the agriculture sector.

Visitor arrivals declined marginally in 2007. For this year, the Fiji Islands Visitors Bureau has revised its forecast upwards to 570,000 from 545,000 as some of Fiji's traditional source markets show signs of improvement. The industry, however, is concerned that tourism yield is still lower, given the heavy discounts offered, as well as the increase in room inventory.

Consumer demand, reflected by partial indicators of consumer spending, weakened in 2007. VAT collections, imports of consumption goods and inward personal remittances all fell, while lending for consumption purposes rose, albeit at a much slower rate than that recorded in 2006.

On the other hand, anecdotal evidence revealed that investment declined in 2007. Similar sentiments are expected this year as investors are likely to take a wait-and-see approach. In addition, results from business surveys and industry meetings showed that the weak economic performance and current political climate are hindering investment decisions.

Labour market conditions remained weak in some sectors of the economy in 2007, when compared to a year ago. This is owing to the economic contraction and the prevailing political climate. The tourism and mining industries were among the major sectors that led to the downturn.

Similarly, conditions in certain sectors of the labour market were weaker in January this year when compared to 2007. However, some improvement in labour market conditions are expected in the next twelve months, based on stronger recruitment intentions as shown by the Job Advertisements Survey and the results of the Fiji Employers' Federation Expectations Survey.

Inflation was 7.4 percent in January, the highest rate since 1998. The increase was led by a number of factors including soaring oil and food prices, a rise in bus fares and the flag fall rate for taxis and an increase in the fuel surcharge on electricity usage. Looking ahead, domestic and imported inflationary pressures are expected to remain prominent. A shortage of primary produce due to Cyclone Gene is expected to push prices up. In addition, rising commodity prices and the volatile nature of oil remains a threat to domestic inflation.

Monetary and credit growth continued to decelerate due to the credit ceiling, credit guidelines and

slowdown in the economy. Commercial bank lending rose by 2.2 percent in the year to December 2007, a marked decline from the 29.0 percent peak expansion recorded in May 2006. The outturn was largely influenced by lower lending to the building and construction sector and private individuals. On a monthly basis, outstanding commercial bank credit fell marginally with new loans disbursed during the month mainly going to the manufacturing sector.

Despite the build up in bank liquidity, as measured by Bank Demand Deposits, interest rate movements were mixed. New lending and deposit rates rose, while outstanding rates continued its downward trend. Money and capital market rates also fell in December last year.

Latest accrual trade data showed that in 2007, the trade balance improved by 12.6 percent after merchandise export receipts rose by a marginal 0.7 percent, while import payments declined by 7.5 percent. Leading the increase in export receipts

were mineral water, timber, sweet biscuits, flour, uncooked pasta, fruits & vegetables and fish, while the decline in import payments was a result of lower outlays for investment, intermediate and consumption goods. At end of January 2008, official foreign reserves stood at \$944 million (provisional), sufficient to cover 4.0 months of goods imports.

The Nominal Effective Exchange Rate (NEER) Index of the Fiji dollar fell marginally by 0.04 percent in the year to January, indicating a slight depreciation of the Fiji dollar against the basket of currencies. On the other hand, the Real Effective Exchange Rate (REER) Index of the Fiji dollar, a gauge of our international competitiveness, rose by 4.8 percent over the year during the review period. The increase in the REER Index over the year reflects a deterioration in Fiji's international competitiveness and was largely due to higher domestic inflation. Domestic inflation was 7.4 percent in January 2008, while average trading partner inflation was 3.1 percent.

## **RESERVE BANK OF FIJI**

FIJI: FINANCIAL STATISTICS

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<b>KEY INDICATORS</b>	<b>Jan-08</b>	<b>Dec-07</b>	<b>Nov-07</b>	<b>Jan-07</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a.	43.47(p)	43.19	-8.41
Currency in Circulation (monthly average)	5.34	6.15	6.60	6.33
Quasi-Money (Time & Saving Deposits)	n.a.	-9.79	-5.96	41.39
Domestic Credit	n.a.	3.16	3.35	22.54
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	7.4	4.3	4.0	2.6
Food	10.3	7.7	7.8	2.7
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	944.0(p)	958.7(p)	919.9	838.4
Months of Imports (goods)	4.0(p)	4.3(p)	4.1	3.7
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	14.08	12.62	6.33
Banks' Demand Deposits (\$m)	n.a.	331.16	320.09	104.69
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a.	8.46	8.59	8.28
Savings Deposit Rate	n.a.	0.64	0.92	0.87
Time Deposit Rate	n.a.	4.45	5.01	8.94
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	9.25	9.25	9.25	5.25
Overnight Inter-bank Rate	n.t.	n.t.	n.t.	5.25
5-Year Government Bond Yield	6.10	n.i	n.i	n.i
10-Year Government Bond Yield	6.50	6.39	n.i	n.i
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, FSI equals) (end of period)				
US dollar	0.6559	0.6447	0.6460	0.5920
Pound sterling	0.3289	0.3232	0.3134	0.3017
Australian dollar	0.7280	0.7351	0.7325	0.7663
New Zealand dollar	0.8306	0.8315	0.8386	0.8595
Swiss francs	0.7118	0.7260	0.7218	0.7413
Euro	0.4405	0.4379	0.4379	0.4566
Japanese yen	70.10	72.50	70.94	72.00
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	885.58	802.55	805.22	630.36
New York #11 Spot Market Price <sup>3/</sup>	13.75	12.49	11.80	11.88
Crude Oil/barrel <sup>4/</sup>	91.93	91.30	92.49	54.30

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