



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global economic prospects remains firm with the world economy projected to grow by 4.8 percent in 2008, albeit slowing from 5.2 percent projected for 2007. This is supported to some extent by strong growth in China, India and Russia, as well as robust expansions in other emerging markets and developing countries. Economic growth for most of our trading partner countries is expected to be lower than what was earlier anticipated in 2007. This is mainly attributed to declining business investment and consumer spending. Growth in our main trading partner countries Australia and New Zealand are expected to slow to 3.7 percent and 2.3 percent, respectively.

Downside risks to world economic growth remain. Recent data have painted a much weaker picture of the US economy going forward, reflecting in part the impact of the recent turmoil in financial markets. The associated potential inflationary pressures arising from record high energy costs and geo-political tensions could also derail the positive growth outlook for this year.

Domestically, the economy is estimated to have declined by 3.9 percent in 2007. However, Fiji's economy is expected to grow by 2.2 percent in 2008. Growth this year is forecast to be broad based across most sectors, except for community, social and personal services and finance, insurance, real estate and business services.

Sectoral performances were weak in 2007. For the tourism industry in particular, visitor arrivals declined by 1.1 percent compared with levels a year ago. In addition, tourism earnings also dropped as a result of lower visitor arrivals and the discounts offered by the hotels and resorts. The cane and sugar industries were adversely affected by bad weather conditions throughout 2007. Consequently, both cane and sugar production declined by around 23.0 percent when compared with the previous

crushing season.

Consumption remained subdued in the review period, evident by declines in partial indicators of consumer spending. In 2007, net Value Added Tax collections declined by 1.0 percent on annual basis. Pay As You Earn collections also fell by around 1.0 percent in 2007 on an annual basis suggesting lower household incomes. Cumulative to November 2007, remittances declined by 27.3 percent when compared with the same period in 2006, contributing further to subdued consumption activity.

Latest statistics on the building & construction sector indicate that the total value of work put-in-place cumulative to the third quarter totaled \$165.4 million, an annual decline of 31.7 percent. By categories, in the year to Quarter 3, the value of work put-in-place by the private sector fell significantly by 28.6 percent, with the public sector recording a much stronger decline of 44.6 percent.

Inflation was 4.3 percent in 2007, underpinned by higher prices of alcoholic drinks & tobacco, clothing & footwear, miscellaneous items and durable household goods. The increases were partially due to the upward revision in excise duties on these items, in line with announcements in the 2008 National Budget. Moreover, food prices accelerated on the back of higher prices of bakery & wheat products, fresh meats, fish, dairy products, fats & oils and market items. Over the month to December, consumer prices rose by 1.0 percent.

In the approaching months, higher global oil and wheat prices, together with the increase in bus fares and flagfall rate for taxis, are expected to fuel domestic prices. Currently (23/01), the Brent Crude oil prices have eased to around US\$87.00 per barrel. However, given the volatile and fickle pricing of this commodity, soaring crude oil prices remain a

threat to the inflationary outlook.

With liquidity remaining high in the banking system, there has been mixed movements in commercial banks' interest rates. In December 2007, Bank Demand Deposits held at the Reserve Bank increased to \$331.2 million from \$320.2 million recorded in the preceding month. In the month to November 2007, the commercial banks' weighted average outstanding lending rates fell by 3 basis points to 8.59 percent while the new lending rate was up by 13 basis points to 8.69 percent. The savings deposit rate rose by 18 basis points to 0.92 percent while the time deposit rate eased by 67 basis points to 5.01 percent. Moreover, credit growth slowed further during the review period. Growth of commercial bank loans and advances decelerated to 3.2 percent in November, after rising by 5.4 percent in the preceding month.

Trade data cumulative to November indicates some growth in export earnings, while imports declined. The trade deficit, although lower than in the corresponding period in 2006, remains significant at \$1,488 million. At the end of November official foreign reserves reached \$956.5 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 December 2007, with the former indicating an appreciation of the local currency and the latter reflecting a deterioration in Fiji's international competitiveness. During this period, the Nominal Effective Exchange Rate index rose by 0.1 percent while the Real Effective Exchange Rate index increased by 2.2 percent.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	Dec-07	Nov-07	Oct-07	Dec-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	n.a	50.74	-4.57
Currency in Circulation (monthly average)	6.15	6.60	4.95	5.70
Quasi-Money (Time & Saving Deposits)	n.a	n.a	-2.11	42.01
Domestic Credit	n.a	n.a	6.89	23.59
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	4.3	4.0	3.4	3.1
Food	7.7	7.8	8.4	3.3
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	956.5 (p)	919.9 (p)	930.4 (p)	879.8
Months of Imports (goods)	4.3 (p)	4.1 (p)	4.2 (p)	3.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	12.6	15.2	6.2
Banks' Demand Deposits (\$m)	331.2	320.2	347.3	107.3
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	8.59	8.62	7.89
Savings Deposit Rate	n.a	0.92	0.74	0.84
Time Deposit Rate	n.a	5.01	5.68	9.05
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i.
Overnight Inter-bank Rate	n.t	n.t	n.t.	5.28
5-Year Government Bond Yield	n.i	n.i	n.i	n.i.
10-Year Government Bond Yield	6.39	n.i	n.i	10.75
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6447	0.6460	0.6508	0.6009
Pound sterling	0.3232	0.3134	0.3146	0.3062
Australian dollar	0.7351	0.7325	0.7084	0.7605
New Zealand dollar	0.8315	0.8386	0.8511	0.8521
Swiss francs	0.7260	0.7218	0.754	0.7344
Euro	0.4379	0.4379	0.4508	0.4570
Japanese yen	72.50	70.94	74.61	71.45
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	802.55	805.22	753.29	630.19
New York #11 Spot Market Price ^{3/}	12.49	11.8	11.86	12.47
Crude Oil/barrel ^{4/}	91.30	92.49	83.12	62.31

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