



RESERVE BANK OF FIJI

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Global growth prospects continue to weaken further as reflected by recent releases of key macroeconomic data from the developed economies. The deceleration in the international economic conditions was initially influenced by the repercussions of the US sub-prime mortgage crisis. However, more recently, growth prospects have been lowered due to soaring crude oil and commodity prices. Rising inflation is now a growing global concern.

On the domestic front, sectoral developments were mixed. Visitor arrivals continue to grow strongly and Value Added Tax (VAT) collections, a partial indicator of consumer spending, rose in the first five months. However, lending for investment purposes by commercial banks and imports of investment goods continued its downward trend. This is supported by the results of the Business Expectations Survey and Fiji Employers' Federation Expectations Survey, which point to a decline on capacity utilisation and planned investment in building and machinery.

According to partial indicators of employment, conditions in the labour market also paint a mixed picture. The latest data on newly registered taxpayers with the Fiji Islands Revenue & Customs Authority showed that close to 6,200 individuals were registered, cumulative to May this year. This equates to an annualised decline of around 11.0 percent. The sectors which recorded lower registrations over last year include the mining & quarrying; agriculture, forestry & fishing and community, social & personal services.

In contrast, according to the recent Job Advertisements Survey, cumulative to May, the number of vacant positions advertised rose by around 13.2 percent over the year. The demand for labour was higher mainly in the community, social & personal services; transport, storage &

communications; electricity & water and construction sectors while other sectors recorded a decline.

Commercial banks' annual credit growth slowed to 4.7 percent in April, compared with 12.4 percent in the corresponding period last year. The slowdown is largely attributed to lower lending to the building and construction sector and borrowing by private individuals. Due to the significant build up in liquidity since early last year, owing to the credit ceiling in place and the weak demand for funds, commercial banks' interest rates continued to track downwards. In April, the outstanding lending interest rate fell by 23 basis points to 8.01 percent. Similarly, the commercial banks' outstanding time deposits rate declined by 30 basis points to 2.69 percent. However, the savings deposit rate edged up by 1 basis point to 0.69 percent.

Inflation fell to 5.8 percent in May from 7.6 percent in the previous month.¹ The outcome in May was lower than the 6.6 percent a year ago. For the first time since September 2007 consumer prices have fallen on a monthly basis, led by lower costs of food items and clothing & footwear.

The removal of VAT from eggs and fiscal duties from rice, tinned fish and cooking oil, which was effective from 1 June, as well as base related effects will result in annual inflation trending downwards for the next few months. However, a pick up in inflation is expected towards the later part of the year. Based on the futures prices of crude oil and other basic commodities, as well as the higher trading partner inflation outlook, the RBF has revised its end-year inflation from 5.0 percent to 7.5 percent.

To further assist the people from the rising food and

¹ The annual average inflation rate in May remained unchanged at 5.9 percent.

fuel prices, the Government has increased the income tax threshold from \$9,000 to \$15,000 from 1 June 2008.

Merchandise trade exports totalled \$405 million in the first four months of 2008 and was 33.0 percent higher than that recorded in the corresponding period in the previous year. The increase was led by a rise in sugar, re-exports of petroleum products and mineral water exports. During the same period, merchandise imports rose by around 16.9 percent to \$994 million underpinned by an increase in payments for food and mineral fuels.

Cumulative to April 2008, the merchandise trade

balance deteriorated to around \$589 million from \$546 million recorded in the same period in 2007.

Official reserves at the end of May were estimated at around \$877 million, sufficient to cover 3.8 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 May. The REER rose over the year to May by 3.1 percent, indicating a deterioration in our international competitiveness. The outcome was underpinned by higher domestic inflation (5.8 percent), when compared with our major trading partners' inflation of 3.3 percent.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	May-08	Apr-08	Mar-08	May-07
1. Money and Credit (year-on-year % change)				
Narrow Money	41.51	43.33	51.60	8.23
Currency in Circulation (monthly average)	5.90	4.00	7.73	8.10
Quasi-Money (Time & Saving Deposits)	-10.52	-9.37	-10.29	18.32
Domestic Credit	4.46	3.52	3.13	13.35
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	5.8	7.6	7.5	6.6
Food	6.3	10.4	10.4	14.2
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	877.3	927.0	899.3	811.8
Months of Imports (goods)	3.8	4.1	3.9	3.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	10.67	13.21	12.37	8.7
Banks' Demand Deposits (\$m)	270.98	356.97	311.57	82.4
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.00	8.01	8.24	9.34
Savings Deposit Rate	0.70	0.69	0.68	1.10
Time Deposit Rate	2.55	2.69	2.99	7.71
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	1.53	4.22
5-Year Government Bond Yield	5.90	n.i.	5.80	n.i
10-Year Government Bond Yield	6.70	n.i.	6.60	n.i.
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6746	0.6657	0.6682	0.6142
Pound sterling	0.3408	0.3380	0.3347	0.3108
Australian dollar	0.7007	0.7129	0.7291	0.7461
New Zealand dollar	0.8594	0.8581	0.8405	0.8411
Swiss francs	0.7000	0.6909	0.6641	0.7525
Euro	0.4313	0.4277	0.4229	0.4572
Japanese yen	70.63	69.27	66.28	74.73
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{3/}	888.90	912.55	969.09	668.40
New York #11 Spot Market Price ^{3/}	12.18	13.70	14.63	10.78
Crude Oil/barrel ^{4/}	123.40	110.19	103.48	67.50

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