



RESERVE BANK OF FIJI

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International economic conditions continue to be dominated by repercussions of the United States (US) sub-prime mortgage crisis, with growing evidence of a global economic slowdown. Latest data out of the US confirm weakening economic activity, as consumer confidence fell and business conditions worsened. For other major trading partners, growth projections for Australia and New Zealand were lowered by 10 basis points each to 3.5 percent and 2.1 percent, respectively. This reflects the deceleration of the housing market and low consumer sentiment in both economies. Recent reports for the Euro-zone remain depressed. Japan, on the other hand, recorded some positive data, with resilient business conditions and export growth.

On the domestic front, economic activity remains weak. Partial indicators reflect restrained **consumption** spending. Value Added Tax collections fell over the year by 3.9 percent cumulative to February, while payments for the import of consumption goods declined by 8.6 percent on an annual basis in January. Credit extended for consumption purposes has also slowed considerably to 3.5 percent in February from double digit growth recorded a year ago. However, recruitment intentions, as reported in the February Job Advertisements Survey, have improved while the better-than-expected outturn in visitor arrivals in February (21.1 percent higher than last year), augur well for a pick-up in consumer spending in the months ahead. Provisional data from the Fiji Islands Visitors Bureau show that visitor arrivals reached 85,017 cumulative to February 2008.

Investment conditions remain weak, as payments for the import of investment goods declined in January by 34.2 percent and credit for investment purposes continues to slow. In the year to February, investment credit growth slowed to 1.7 percent after expanding by 3.0 percent in the preceding month. Moreover, while the number of jobs advertised rose

by around 30 percent in the year to February, it is difficult to determine whether this increase is due to rising business optimism, or to a rising number of vacancies resulting from weak domestic economic conditions or emigration of skilled workers.

On a positive note, the merchandise **trade** balance narrowed in January to \$104 million from \$160 million in January 2007. Export earnings rose by around 51.8 percent, compared with an increase of around 37.5 percent in 2007, driven mainly by sugar, re-exports, mineral water and fish. On the other hand, import payments declined by around 14.5 percent, compared with an increase of 39.8 percent last year. A broad-based decline in the import of consumption, investment and intermediate goods underpinned this outcome. At the end of February 2008, foreign reserves was provisionally estimated at \$914.6 million, equivalent to 3.9 months of imports of goods only.

According to the Fiji Islands Bureau of Statistics, **inflation** rose in February to 7.6 percent, up from 7.4 percent in the previous month. This is the highest rate of inflation since January 1999. The acceleration in inflation was broad based and is underpinned by international commodity price developments, particularly for crude oil and wheat. Looking ahead, futures for these key commodity prices reveal that prices are expected to remain high.

In the year to February, commercial banks' lending growth was down to 3.2 percent when compared with 18.5 percent registered in the corresponding period last year. The ongoing slowdown in the growth rate can be largely attributed to lower lending to the building and construction sector and private individuals. Over the month to February, commercial banks' credit expanded by 0.6 percent after expanding by the same rate in the preceding month.

With persistent high liquidity, interest rates generally trended downwards. Commercial banks' time deposits and lending rate fell over the month to February by 79 and 3 basis points, to 3.20 and 8.25 percent, respectively. However, the savings deposit rate rose by 5 basis points to 0.73 percent.

The Nominal Effective Exchange Rate (NEER) Index of the Fiji dollar was up by 0.1 percent in the

year to February, indicating an appreciation of the Fiji dollar against the basket of currencies. However, the Real Effective Exchange Rate (REER) Index of the Fiji dollar, a gauge of our international competitiveness, rose by 5.4 percent over the year during the review period. The increase in the REER Index reflects a deterioration in Fiji's international competitiveness and was largely due to higher domestic inflation.

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FIJI: FINANCIAL STATISTICS

Vol.25 No.03 2008

KEY INDICATORS	Feb-08	Jan-08	Dec-07	Feb-07
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	n.a.	43.47(p)	-10.35
Currency in Circulation (monthly average)	5.22	5.34	6.15	6.72
Quasi-Money (Time & Saving Deposits)	n.a.	n.a.	-9.79(p)	37.55
Domestic Credit	n.a.	n.a.	3.16(p)	20.85
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	7.6	7.4	4.3	3.6
Food	10.7	10.3	7.7	5.9
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	914.6(p)	944.0(p)	958.7	790.5
Months of Imports (goods)	3.9(p)	4.0(p)	4.3	3.5
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	12.61	14.08	5.24
Banks' Demand Deposits (\$m)	325.52	320.15	331.13	72.72
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.25	8.28	8.46	9.34
Savings Deposit Rate	0.73	0.68	0.64	0.89
Time Deposit Rate	3.20	3.99	4.45	8.80
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	n.i	6.10	n.i	n.i
10-Year Government Bond Yield	n.i	6.50	6.39	n.i
6. Exchange Rates ^{2/} (mid rates, FSI equals) (end of period)				
US dollar	0.6745	0.6559	0.6447	0.6001
Pound sterling	0.3386	0.3289	0.3232	0.3058
Australian dollar	0.7110	0.7280	0.7351	0.7614
New Zealand dollar	0.8270	0.8306	0.8315	0.8590
Swiss francs	0.7083	0.7118	0.7260	0.7301
Euro	0.4434	0.4405	0.4379	0.4530
Japanese yen	70.99	70.10	72.50	70.70
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	920.00	885.58	802.55	664.07
New York #11 Spot Market Price ^{3/}	14.43	13.75	12.49	11.65
Crude Oil/barrel ^{4/}	94.82	91.93	91.30	57.76

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