



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The expansion in the global economy continues to lose momentum since the beginning of the year, driven by the sustained weakening of the United States (US) economy. Latest economic indicators suggest that the recent financial market turmoil have filtered through to other sectors of the economy and to other developed countries. This is further substantiated by the consistent downward revision to the projected global growth rates, as well as for Fiji's major trading partner countries. The IMF has revised this year's world growth forecast downwards to 3.7 percent in April from 4.1 percent projected in January. Likewise, world economic growth for next year is now forecast at 3.8 percent, down from 4.4 percent envisaged earlier.

Domestically, the real sectors of the economy recorded subdued performance in the first four months of the year. Latest data and anecdotal evidence suggest slow recovery in most of the sectors. While partial indicators of consumption and incomes suggest mild optimism, investment activity remains sluggish. Moreover, the latest Retail Sales Survey and Business Expectation Survey results also hint of similar subdued expectations in the coming months. However, on a positive note, visitor arrivals showed an annual increase of 14.1 percent in the first four months of the year.

Labour market conditions appear to have improved in some sectors, when proxied by the number of jobs advertised. Cumulative to April, the number of jobs advertised rose by around 9.5 percent when compared with a year ago. The demand for labour was higher mainly in the manufacturing; electricity & water; mining & quarrying and community, social & personal services related firms.

The increase can be attributed to some expected improvement in business confidence and general

optimism of economic activity this year coupled with emigration of skilled workers.

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. In addition, over the month to April, commercial banks' outstanding lending interest rate was down by 23 basis points to 8.01 percent. Similarly, the commercial banks' current and new time deposits rates were down by 30 and 152 basis points to 2.69 and 1.25 percent, respectively. However, the savings deposits and the new lending rates were up by 1 and 59 basis points to 0.69 and 8.81 percent, respectively. The prevailing low interest rates are a reflection of high liquidity conditions in the market. Bank Demand Deposits at the end of May remained high at \$271.0 million after hitting an all-time-high of \$356.9 million at the end of April, 2008.

Furthermore, domestic credit growth slowed to 3.5 percent in the year to April after rising by 15.2 percent in the corresponding period last year. The outturn was attributed to a substantial slowdown in private sector credit, as a result of subdued economic activity and the credit ceiling.

Inflation fell to 5.8 percent in May from 7.6 percent recorded in April.¹ This compares with an inflation rate of 6.6 percent in May last year. For the first time since September 2007 consumer prices declined by 0.1 percent over the month. The fall in prices were led by lower costs of food items and clothing & footwear. Marginal decreases in charges for preserved meat, fresh & preserved fruits, spices, top dressings, confectionery and some vegetables & rootcrops underpinned lower prices in the food category. Moreover, cheaper costs of men's and

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

children's wear underpinned the decline in the clothing & footwear category.

Consumer prices in May have weakened partly due to base related effects and some improvement in the supply of primary produce (vegetables and root crops).

The removal of Value Added Tax from eggs and fiscal duties from rice, tinned fish and cooking oil which will be effective from 1 June and the 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.

Latest accrual trade data showed that cumulative to March this year merchandise export earnings (excluding aircraft) rose by 26.8 percent when compared with the same period in 2007. The increase was largely attributed to higher earnings from re-exports, sugar, mineral water, fish, other domestic exports, flour, molasses and coconut oil.

The better performance from these commodities were partially offset by lower earnings from gold, fruits & vegetables, timber, coral & similar materials, footwear & headgear and garments. Excluding the re-exports of mineral fuels, exports increased by 20.6 percent when compared to a decline of around 9.2 percent over the same period in 2007. Domestic export earnings rose by around 21.7 percent when compared with the same period

in 2007. This was influenced by mineral water exports as well as some off-seasonal receipts from sugar exports.

Merchandise imports rose by around 11 percent, during the first quarter, compared to a decline of around 6.1 percent in the corresponding period last year. The increase in imports was underpinned by higher payments for intermediate goods (6.5 percent) and consumption goods (5.0 percent). Payments for investment goods, however, fell (-0.5 percent), led by lower imports of machinery and transport equipment.

The merchandise trade balance deteriorated, cumulative to March 2008, to around \$418 million when compared to around \$409 million recorded in the same period in 2007.

At the end of April, official foreign reserves were around \$926.7 million, sufficient to cover 4.1 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 increase in the REER index, which indicates a deterioration in Fiji's international competitiveness, was underpinned by higher domestic inflation, when compared with Fiji's major trading partner countries inflation. Domestic inflation was 5.8 percent compared to an average of 3.3 percent recorded by our major trading partners.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	Apr-08	Mar-08	Feb-08	Apr-07
1. Money and Credit (year-on-year % change)				
Narrow Money	43.33	51.60	50.60	-0.94
Currency in Circulation (monthly average)	4.00	7.73	5.22	8.78
Quasi-Money (Time & Saving Deposits)	-9.37	-10.29	-10.91	24.05
Domestic Credit	3.52	3.13	3.33	15.18
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	7.6	7.5	7.6	5.7
Food	10.4	10.4	10.7	12.0
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	926.7	899.3	906.8	811.9
Months of Imports (goods)	4.1	3.9	4.0	3.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	13.29	12.37	12.55	8.0
Banks' Demand Deposits (\$m)	356.97	311.57	325.61	124.1
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	8.01	8.24	8.25	9.73
Savings Deposit Rate	0.69	0.68	0.73	0.98
Time Deposit Rate	2.69	2.99	3.2	8.2
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	5.75	5.75	9.25	5.25
Overnight Inter-bank Rate	n.t	1.53	n.t.	n.t
5-Year Government Bond Yield	n.i.	5.80	n.i	7.73
10-Year Government Bond Yield	n.i.	6.60	n.i	8.79
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6657	0.6682	0.6745	0.6191
Pound sterling	0.3380	0.3347	0.3386	0.3099
Australian dollar	0.7129	0.7291	0.7110	0.7463
New Zealand dollar	0.8581	0.8405	0.8270	0.8375
Swiss francs	0.6909	0.6641	0.7083	0.7455
Euro	0.4277	0.4229	0.4434	0.4540
Japanese yen	69.27	66.28	70.99	73.80
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	912.55	969.09	920.00	679.29
New York #11 Spot Market Price ^{3/}	13.70	14.63	15.16	10.85
Crude Oil/barrel ^{4/}	110.19	103.48	94.82	67.31

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