



How Is Inflation Measured in Fiji?

Inflation is the general increase in prices of goods and services in an economy. It indicates the rate of change in prices over some period - such as one year - though other periods can be used.

Like most central banks, one of the monetary policy objectives of the Reserve Bank of Fiji (RBF) is to maintain price stability (low inflation). Low inflation is important as it preserves the buying power of money, thus protecting peoples' savings. It also assists businesses in making sound investment decisions. Low inflation is therefore an important precondition for promoting sustainable economic growth.

There are various types of inflation. The rate at which your money loses value depends on the type of inflation prevalent. These include low, moderate, galloping and hyperinflation.

Low inflation is normally characterised by inflation rates between 1-5 percent, while moderate inflation ranges between 5-30 percent. On the other hand, galloping inflation occurs when prices increase at double or triple digits higher than 30 percent.

Hyperinflation is a more extreme case of price increases. During this phase, inflation stands at the rate of a thousand, a million or even a billion percent per year.

Countries like Germany, Peru, Brazil and Argentina have had episodes of hyperinflation.

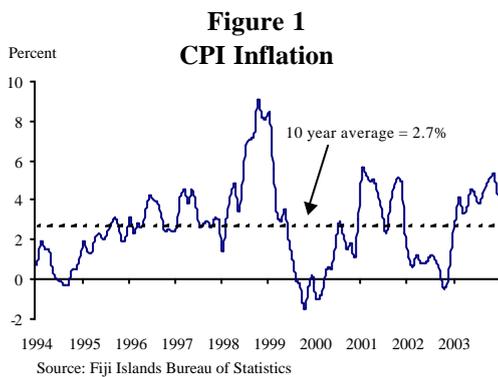
How inflation is measured varies from country to country, however, the most common measure of inflation is the Consumer Price Index (CPI).

CPI inflation is calculated using surveys. Firstly, the national statistical agency derives a basket of goods and services that an average household purchases in a month. Secondly, it assigns the proportion of expenditure that is spent on each of the category of goods and services in the basket. This proportion determines the weight of each of these categories in the basket. Thirdly, it conducts an initial survey on the prices of these items. The time of this original survey is referred to as the base year. Fourthly, the agency surveys the price of these items every month. Finally, it calculates the movement in prices of these items from the results of the original survey. This movement in prices is called inflation.

In Fiji, the Fiji Islands Bureau of Statistics (FIBS) is responsible for measuring inflation. The FIBS measures inflation based on a CPI basket derived in 1993. In total, the basket contains around 330 items. The table given below shows the subgroups in Fiji's CPI basket and their respective weights.

Table 1: The Consumer Price Index	
Section	Weight (%)
Food	35.36
Housing	16.49
Transport	12.85
Services	7.58
Durable household goods	6.52
Alcoholic drinks & tobacco	6.13
Clothing & footwear	5.39
Heating & lighting	4.90
Miscellaneous items	4.78
All Items	100.00
Source: Fiji Island Bureau of Statistics	

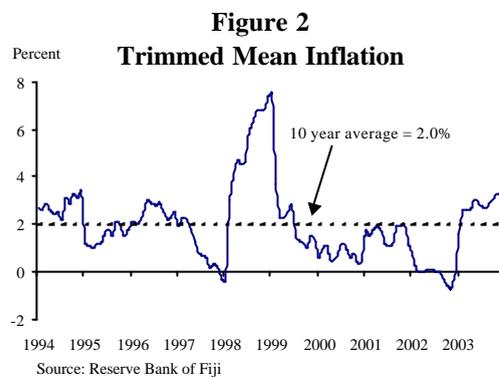
During the past decade, CPI inflation in Fiji averaged around 2.7 percent (see Figure 1). Thus, it can be said that Fiji is amongst the countries that have enjoyed low inflation, as it falls between the 1-5 percent range mentioned earlier.



The CPI inflation (often referred to as headline inflation), sometimes reflects large temporary shocks such as changes in weather conditions,

taxes, subsidies, etc. that affects prices of goods and services. Central banks therefore also focus on an additional measure known as the underlying or core inflation. Under this measure, temporary price changes are excluded from headline inflation to determine the actual trend in inflation. The impact of these temporary changes is short-lived and should not be considered for policy making purposes.

The RBF compiles an underlying measure of inflation called trimmed mean, which excludes extreme positive and negative price changes. Trimmed mean inflation over the past decade averaged around 2 percent (see Figure 2).



In summary, Fiji continues to enjoy relatively low inflation. This phenomenon is largely due to our fixed exchange rate regime, as over 60 percent of our inflation is caused by foreign factors such as import prices. The FIBS provides the headline inflation figures on a monthly basis and the RBF uses it to calculate the underlying measure of inflation, both of which are considered when making decisions on monetary policy.

RESERVE BANK OF FIJI

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