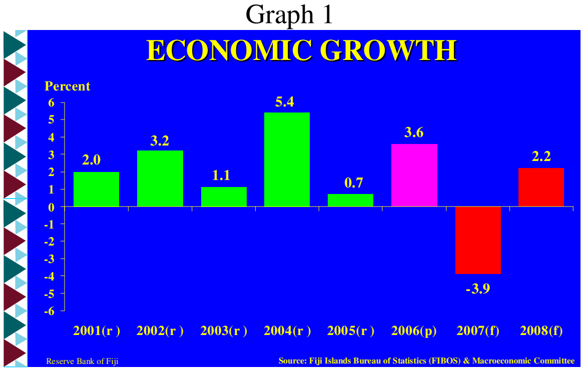
RESERVE BANK OF FIJI
FIJI: ECONOMIC UPDATE

December 2007

The Fiji economy is estimated to have expanded by 3.6 percent in 2006 (Graph 1), underpinned by growth in the finance, insurance, real estate & business services; wholesale & retail trade, hotels & restaurants; manufacturing; building & construction; community, social & personal services and electricity & water sectors. In 2007, the domestic economy is projected to decline by 3.9 percent.

Graph 1



The projected contraction for 2007 is anticipated to be largely underpinned by a decline in the community, social & personal services and building & construction sectors. The wholesale & retail trade, hotels & restaurants; finance, insurance, real estate & business services; mining & quarrying; transport & communication; agriculture, forestry, fishing & subsistence and manufacturing sectors are also projected to contribute to this decline. The electricity & water sector is the only sector anticipated to contribute positively in 2007.

Looking ahead, the economy is expected to grow by 2.2 percent in 2008. Growth in 2008 is forecast to be driven by an expected turnaround in the sugar and tourism industries.

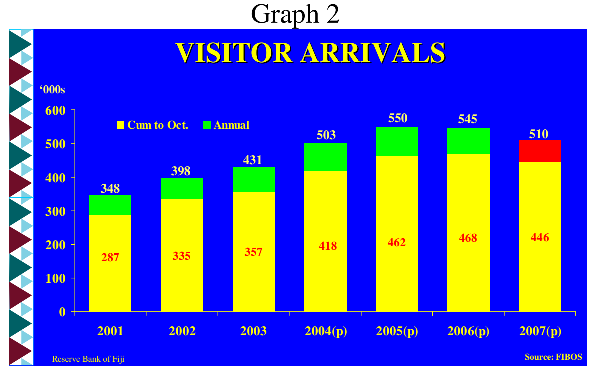
Sectoral Performance

Looking at the recent performance of the tourism industry, provisional data from the Fiji Islands Bureau of Statistics indicate that visitor arrivals totalled 446,305 cumulative to October (Graph 2), an annual decline of 4.6 percent. However, compared to the Fiji Islands Visitors Bureau's projections, total visitors in the first ten months of the year was higher by 3.8 percent.

In line with lower visitor arrivals, tourism earnings declined by an annual rate of 9.0 percent, cumulative to Quarter 2 of this year. As per the categories, business-related earnings in the review period fell by an annualised 8.6 percent while earnings under the personal category declined by 9.0 percent.

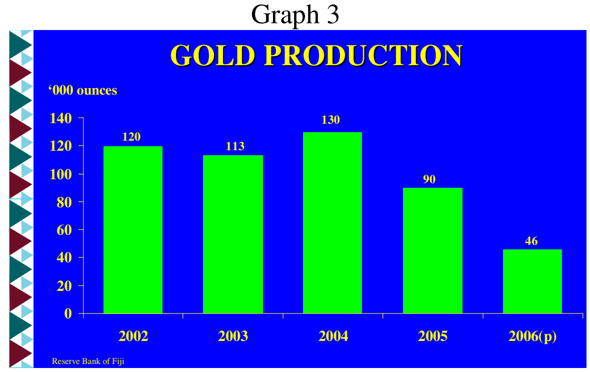
Nevertheless, a recovery in visitor arrivals is expected in 2008.

Graph 2



In 2006, gold production totalled around 46,000 ounces (Graph 3), representing an annual decline of about 49.2 percent. Emperor Gold Mining (EGM) Limited, the previous owners of the Vatukoula mine, closed operations in December 2006 which resulted in around 1,600 workers being laid off.

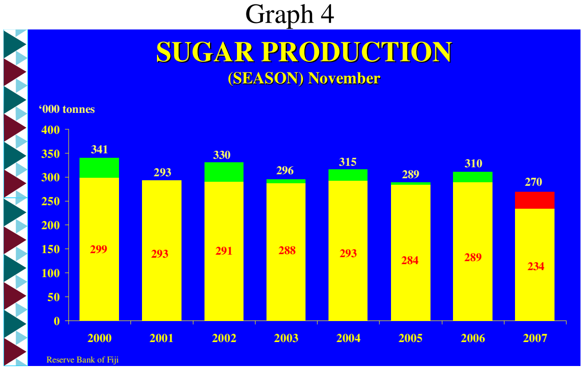
Graph 3



Around mid 2007, Westech Gold Fiji Limited took over the operations of the EGM and commenced with rehabilitation and maintenance work to facilitate the commencement of mining at Vatukoula. While only a small amount of gold production may be realised this year, output is expected to be higher in 2008. The re-opening of the mine has also resulted in the re-employment of around 150 people, which is expected to increase further as operations at the mine gain momentum.

On sugar production, latest statistics from the Fiji Sugar Corporation Limited show that sugar production amounted to 234,351 tonnes cumulative to November this year (Graph 4), representing a decline of 18.8 percent. The lower sugar production was underpinned by low cane supply due to the flash floods and drought conditions earlier this year coupled with operational and plant problems at the country's sugar mills.

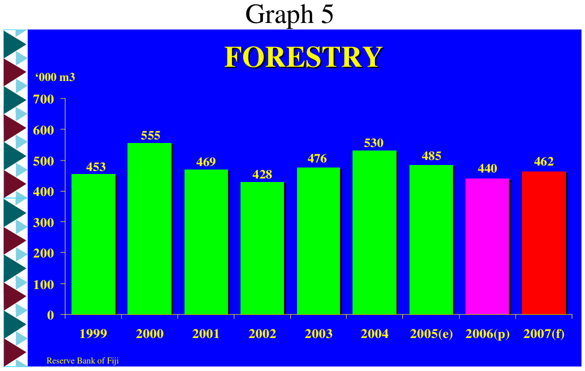
Graph 4



The reform of the sugar industry is in progress, with mill refurbishments expected to be completed before the 2008 harvesting season. The mill upgrades are expected to improve sugar production. The industry has a medium term target to increase cane production from around 2.8 million tonnes currently to around 4.0 million tonnes by 2010.

Looking at the forestry industry, timber production is estimated to have declined by 9.3 percent last year. For 2007, timber production is anticipated to rise by 5.0 percent (Graph 5), largely driven by good prospects for mahogany and pine log production. By September 2007, export of forestry products had grown by 41.3 percent on an annual basis.

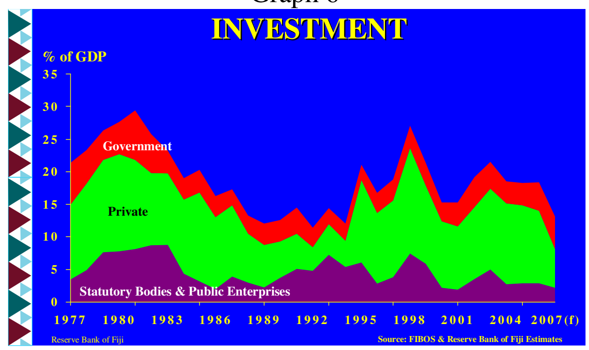
Graph 5



Macroeconomic Indicators

Investment for this year is expected to be weak, as indicated by the performance of partial indicators. Cumulative to September 2007, imports of investment type goods fell by an annualised 15.4 percent. In addition, lending to private individuals for housing and investment purposes (includes lending to building & construction and real estate) also slowed when compared with the same period last year.

Graph 6



In the building & construction sector, the total value of work put-in-place cumulative to the June 2007 quarter totalled $113.4 million, representing a decline of 27.2 percent over the comparable period last year.

In terms of categories, cumulative to the second quarter, work put-in-place by the private sector registered a decline of 25.9 percent (to $92.5 million against $124.7 million put-in-place in the same period last year). On the same note, the public sector recorded a fall of 32.6 percent (to $20.9 million against $31.0 million recorded in the comparable period in 2006).

The June 2007 Business Expectations Survey indicate that while business sentiments are still subdued, a gradual recovery is expected for the next 12 months. Over the next 12 months net[1] 17 percent of respondents expect increased investment in plant & machinery, which is nonetheless, lower than sentiments expressed in the previous surveys.

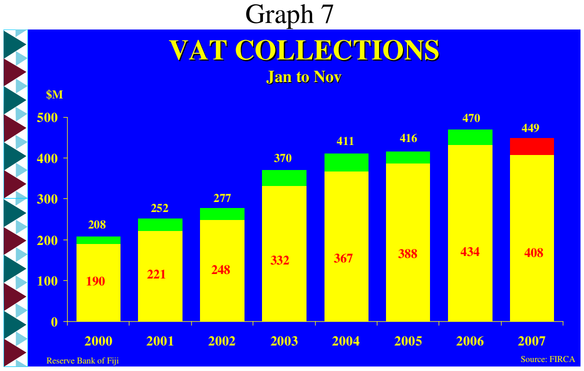
Major projects that are still ongoing include construction work at the Carpenters Tower, Tappoo Retail Outlet, Great Council of Chiefs complex, the Fiji Islands Revenue and Customs Authority's new headquarters, Laucala Island Resort and Funworld

[1] Net is calculated by subtracting the number of respondents expecting a decrease from the number of respondents expecting an increase.

Centre. In addition, the Natadola Bay Project has also recommenced after being on hold for nearly half the year. Furthermore, work on the $300 million Haven Project in Nausori (an integrated property development project) has commenced, while the development of the $100 million Apollo Hospital Project in Lautoka is in preparatory stages.

Consumer demand has also remained subdued so far this year. In the year to October, lending for consumption purposes, a partial indicator of consumer spending, slowed when compared with the same period last year.

Graph 7



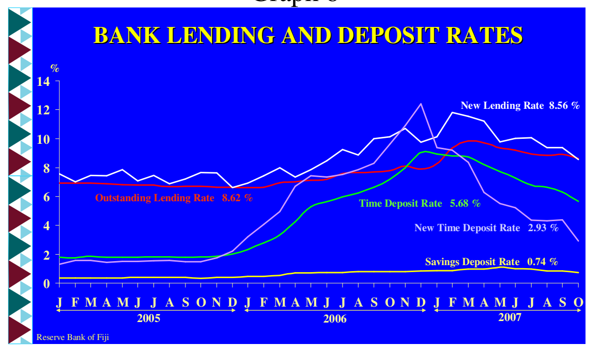
In addition, cumulative to November 2007, net Value Added Tax (VAT) collections totalled $407.7 million, representing an annual decline of around 6.1 percent. This weak performance was underpinned by declines in customs services revenue (-12.0 percent) and other Government department receipts (-11.3 percent).

Credit growth continues to slowdown. Private sector credit slowed to 5.8 percent in the year to October compared with 25.5 percent in the same period last year. Total commercial bank credit grew by 5.4 percent over the year to October 2007, primarily driven by lending to, electricity, gas and water, wholesale retail, hotel and restaurants, real estate, private individuals and manufacturing sectors.

The annual growth rate in broad money (M2) was 18.1 percent in October 2007 compared with 15.1 percent in the same period last year. The growth in money supply was largely attributed to increases in demand deposits.

Interest rates declined over the month to October (Graph 8) due to liquidity build up in the financial system. The commercial bank lending rate, savings deposit rate and time deposit rate declined by 27, 11 and 64 basis points to 8.62, 0.74 and 5.68 percent, respectively.

Graph 8

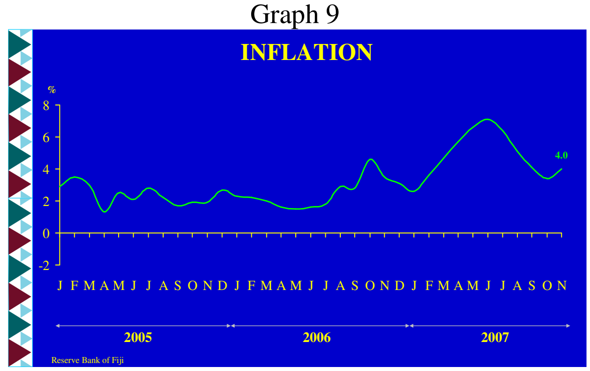


Over the month to November, the Fiji dollar weakened against the Yen, Euro, New Zealand and US dollar but strengthened against the Australian dollar.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar rose by 1.8 percent in the year to November indicating deterioration in our international competitiveness. The Nominal Effective Exchange Rate (NEER) rose by 0.2 percent in the same period depicting a slight appreciation of the Fiji dollar.

The inflation rate in November stood at 4.0 percent, up from the 3.4 percent noted in October.[2] (Graph 9).

Graph 9



Consumer prices rose by around 0.7 percent in November mainly contributed by higher prices in the heating & lighting category, transport, food, clothing & footwear, durable household goods and alcoholic drinks & tobacco categories. The imposition of the new electricity surcharge[3]

[2] The Annual Average Inflation rate remained unchanged from October at 4.7 percent.

[3] It increased from 1.88 cents per unit to 3.23 cents per unit on 1st November.

underpinned the higher charges in the heating & lighting category while higher costs of bakery and wheat products and some market produce contributed to higher food prices. On the other hand, prices of miscellaneous and housing items fell while costs of services remained unchanged.

The trimmed mean, a measure of core inflation, remained unchanged from October at 2.8 percent.

The increase in consumer prices in November were mainly determined by higher imported wheat prices and some market items in the food category. These increases were expected in line with Prices and Incomes Board announcement as well as the pick up in demand for market items in November.

Looking ahead, on the domestic front, changes announced in the 2008 National Budget is expected to ease inflation somewhat by December. Moreover, demand-pull inflationary pressures are expected to continue to place upward pressures on food prices during the festive season.

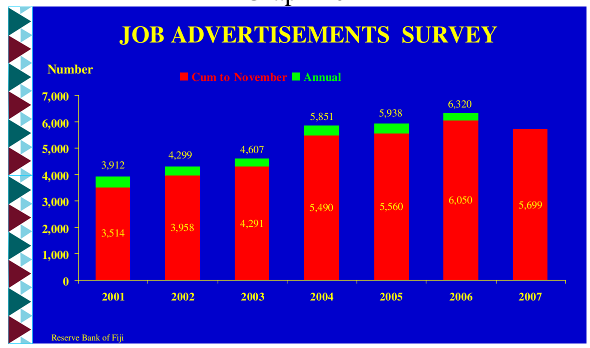
On the international front, global crude oil prices are beginning to ease to around US$90 per barrel. However, this is not a guaranteed downward trend given the volatile and fickle nature of these markets and so global oil prices may continue to fuel imported inflation in the coming months.

Nevertheless, in balancing the impact of the above-mentioned factors, the year-end inflation projection remains at around 3.5 percent.

According to survey data, employment conditions remain weak in certain sectors, accredited to the contraction in the economy and relatively weaker investor confidence. Cumulative to November, recruitment intentions fell by around 5.8 percent over the comparable period in 2006 (Graph 10).

Employment prospects were mainly lower in the finance, insurance, real estate & business services; construction; electricity & water; mining & quarrying; wholesale & retail trade, restaurants & hotels and transport, storage & communication based companies.

Graph 10



Latest accrual trade data showed that cumulative to September this year, merchandise exports rose by around 2.7 percent, compared with an increase of around 0.9 percent in the corresponding period last year. Domestic exports increased by 5.2 percent compared to a decline of 3.5 percent in the same period last year.

Leading the increase in domestic receipts were other domestic exports, mineral water, timber, sugar, fruits & vegetables, uncooked pasta, garments, flour and fish.

These more than offset the declines recorded in sectors such as re-exports, molasses, corned meat of bovine animals, sweet biscuits and footwear & headgear.

Excluding re-exports of mineral fuels, exports rose by around 6.0 percent cumulative to September 2007, compared to around 1.8 percent decline in the same period in 2006.

Merchandise import payments declined during the same period by around 11.0 percent, when compared to a growth of 19.7 percent in the corresponding period in 2006. All categories of imports declined with the main drivers being investment goods (4.5 percent) such as machinery & electrical equipment and chemicals; intermediate goods (4.1 percent) which was led by mineral fuels and crude materials; and consumption goods (2.4 percent) mainly consisting of manufactured goods, miscellaneous manufactured articles, food and beverages & tobacco.

Excluding mineral fuels, imports declined by 10.5 percent compared to a 12.4 percent growth in the same period last year.

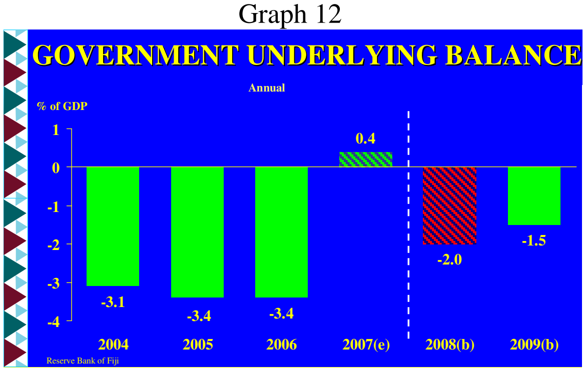
In the review period, the trade balance narrowed slightly to $1,198 million, compared with $1,477 million in the same period last year.

Graph 11

At the end of October 2007, official foreign reserves were provisionally around $930.4 million (Graph 11), sufficient to cover 4.3 months.

In the 2008 National Budget, Government's Cashflow data indicates a fiscal surplus of $22.4 million, equivalent to 0.4 percent of GDP, for 2007. This outcome is underpinned by an estimated 14.2 percent annual decline in expenditure and a 2.0 percent annual decline in revenue.

Graph 12



In 2008, government expenditure is expected to increase by 19.4 percent, which would more than offset the 8.1 percent projected increase in annual revenue. The fiscal deficit for next year is projected at 2.0 percent of GDP.

Government's outstanding debt for this year is estimated at $2,803.4 million, equivalent to 50.3 percent of GDP. This compares with the 2006 estimated debt level of $2,863.1 million, equivalent to 52.2 percent of GDP.

For next year, Government debt is projected at $2,919.9 million (50.1% of GDP).

Summary

In 2007, the domestic economy is projected to decline by 3.9 percent due to the subdued performances of the tourism, construction and mining industries. In addition, lower spending by Government will provide lower fiscal stimulus to the economy.

Albeit an improvement in exports in the first nine months of 2007 together with a fall in imports, the trade gap is still large, despite narrowing marginally.

Credit growth has now stabilised an improvement in the level of foreign exchange reserves has been noted.

The major challenge for the economy at this stage and into the medium-term lies predominantly in correcting the trade imbalance via the promotion of exports.

Reserve Bank of Fiji