



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Prevailing global economic conditions have been quite favourable. Growth in Fiji's major trading partner countries for this year is expected to be positive, underpinned by increases in household consumption, business investment and industrial production. The economic expansion in the United States, however, is expected to slow, largely attributed to a deterioration in business investment.

In contrast to the favourable world economic outlook, domestic economic conditions are relatively subdued. The economy is now projected to contract by 3.1 percent this year, compared to a 2.5 percent decline expected earlier. The major contributors to the larger decline include further contractions in the community, social and personal services and the building & construction sectors, and some drop in agricultural production, partly as a result of floods and cyclone earlier this year.

Data from the Fiji Islands Revenue and Customs Authority on Net Value Added Tax collections suggest weakness in consumer demand. There has also been a decline in merchandise imports for consumption goods from January to May this year.

The slowdown in domestic demand is probably underpinned by the weak labour market conditions and moderate growth in credit. The job advertisements survey cumulative to June, noted a fall of around 7.8 percent over the corresponding period last year. Private sector credit growth was moderate at 11.5 percent in May and 11.7 percent in June. On a monthly basis, private sector credit rose by 1.4 percent.

Investment demand also continues to exhibit weakness. Current investment indicators suggest investment decisions are being put on hold, at least for the near future. Building statistics for the March

quarter this year have reported declines in both the value and number of building permits and completion certificates, in comparison to the March quarter last year. The current weak investment climate, underpinned by a 'wait-and-see' approach taken by many investors, as well as the poor business sentiment indicated by various Reserve Bank surveys are expected to be a drag on economic growth this year.

On a sectoral basis, visitor arrivals in the first half of the year fell by 5.1 percent. Despite entering its peak season, the tourism industry is experiencing much weaker occupancy rates, relative to the same period last year. One possible reason for this could be the change in mix of travelers to Fiji – airlines have reported an increase in the ratio of 'visiting friends & relatives', a category that rarely utilises hotels for accommodation. However, fish exports grew by around 18 percent on an annual basis, in the first 5 months of the year.

Data released by the Fiji Islands Bureau of Statistics showed imports, cumulative to May, declined by around 7.9 percent compared to an 18.0 percent growth recorded in the same period last year. This seems to suggest that the weak economic climate and the tight policy stance taken by both the Reserve Bank and Government are having some effect in slowing the growth in imports. Exports, encouragingly, showed an increase. Cumulative to May, export earnings rose by around 3.5 percent compared to a decline of about 8.5 percent during the same period last year. Leading the increase in receipts were sugar, other domestic exports, fish, timber, fruits & vegetables, coconut oil and yaqona. These more than offset the declines recorded in export earnings of gold, molasses, textiles, yarn and fabric and for re-exports.

Domestic market supply shocks and global price

movements continue to drive local prices up despite the prevailing weak domestic demand. Inflation stood at 7.1 percent in June compared to 6.6 percent in May. On a monthly basis, consumer prices rose by around 0.4 percent. During June, higher costs of food items, clothing & footwear, transport, durable household goods and housing prompted the rise in overall prices. Given the price developments in the first half of the year, 2007 year-end inflation is now projected at around 7.0 percent.

The Real Effective Exchange Rate (REER) Index of the Fiji dollar, rose by 6.4 percent in the year to June. The increase in the REER Index over the year reflects a deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes.

Official foreign reserves at the end of June stood at \$859.9 million (provisional), sufficient to cover 3.5 months of imports of goods.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	Jun-07	May-07	Apr-07	Jun-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	8.23	-0.94	5.48
Currency in Circulation (monthly average)	n.a	5.94	8.45	23.22
Quasi-Money (Time & Saving Deposits)	n.a	18.32	24.05	31.77
Domestic Credit	n.a	13.35	15.18	29.38
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	7.1	6.6	5.7	1.6
Food	16.5	14.2	12.0	-0.5
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	859.9(p)	830.7(p)	832.6(p)	647.9
Months of Imports (goods)	3.5(p)	3.4(p)	3.4(p)	2.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	n.a	8.0	5.1
Banks' Demand Deposits (\$m)	n.a	n.a	124.1	88.4
5. Interest Rates (% n.a.) (monthly average)				
Lending Rate (Excluding Staff)	9.20	9.34	9.73	7.17
Savings Deposit Rate	1.01	1.10	0.98	0.73
Time Deposit Rate	7.27	7.71	8.2	5.65
91-day RBF Note Rate (month end)	4.25	4.25	n.i	n.i.
Minimum Lending Rate (MLR) (month end)	5.25	5.25	5.25	5.25
Overnight Inter-bank Rate	n.t	n.t	n.t	4.26
5-Year Government Bond Yield	n.i	n.i	7.73	n.i.
10-Year Government Bond Yield	8.75	8.75	8.79	9.38
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6264	0.6142	0.6191	0.5657
Pound sterling	0.3128	0.3108	0.3099	0.3097
Australian dollar	0.7403	0.7461	0.7463	0.7666
New Zealand dollar	0.8149	0.8411	0.8375	0.9369
Swiss francs	0.7712	0.7525	0.7455	0.7005
Euro	0.4660	0.4572	0.4540	0.4473
Japanese yen	77.15	74.73	73.80	65.19
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	656.04	668.40	679.29	597.11
New York #11 Spot Market Price ^{3/}	11.05	10.78	10.85	16.18
Crude Oil/barrel ^{4/}	71.26	67.50	67.31	68.90

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