



RESERVE BANK OF FIJI

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International economic sentiments are upbeat, following the recent upward revision of global growth by the International Monetary Fund to 4.1 percent from 3.7 percent, led by better-than-expected results for the United States and United Kingdom economies. For our other major trading partners, Euro-zone growth was slightly revised upwards. This was driven by better-than-expected outturns for economic indicators in the first quarter. For Japan, growth was revised upwards while Australia's growth outlook remained unchanged for this year. In contrast, the growth forecast for New Zealand was revised downwards, on mounting weak economic data. There is growing concern that New Zealand will be the first industrialised country to tip into recession.

Domestically, the Fiji Islands Bureau of Statistics reported that the economy contracted by 6.6 percent in 2007. The contraction was underpinned by negative performances in most sectors, except the manufacturing and electricity & water sectors, which registered marginal growth.

Recent movements in key indicators are consistent with a slight pick up in economic activity. Partial indicators of **consumption** activity, imports of consumption goods and VAT collections, rose over the year by 21.6 percent (May) and 1.8 percent (June), respectively. These increases are due in part to higher prices, and to a lesser extent, some improvement in domestic demand. Consumer spending is being supported by credit for consumption purposes, which rose over the year by 7.6 percent in May. Nevertheless, consumption is likely being restrained by lower incomes, evident by the decline in personal remittances (22.3% in May) and newly registered taxpayers (11.0% in June). Nevertheless, anecdotal evidence showed that demand for labour remains positive so far this year

consistent with the economic recovery. These developments augur well for consumer spending. There are some tentative signs that **investment** is recovering. Cumulative to May, imports of investment goods rose by 8.7 percent over the year, while the annual growth of credit for investment expanded by 8.2 percent. Notwithstanding these positive signals, stakeholder feedback indicates that business confidence remains depressed.

Recent cashflow data indicate that cumulative to April, **Government** recorded a net surplus of \$84.2 million or 1.4 percent of GDP, underpinned by higher revenue collections, which more than offset an increase in spending. The higher expenditure was driven mainly by capital spending, as operating outlays recorded a marginal growth.

The merchandise **trade** deficit deteriorated cumulative to May, to around \$789 million when compared to around \$653 million recorded in the same period in 2007. Domestic exports rose by 13.7 percent in May, led mainly by mineral water, fish, timber and garments. Total exports recorded a higher growth of 24.2 percent over the same period, owing to an increase in re-exports. Imports also rose (22.1%), led by a broad-based increase in imports of intermediate, consumption and investment goods. Given the wide trade deficit, the gains in exports are over shadowed by the increase in imports.

Mirroring real sector developments, as well as the credit ceiling in place, growth in **money and credit aggregates** continued to decelerate. In May, the slowdown in broad money growth (9.7%) was accompanied by lower domestic credit growth (4.5%). The excess liquidity in the system (\$273m in June) is placing downward pressure on interest rates – in May, the lending and time deposit rates

fell over the month to 8.0 and 2.6 percent, while the savings deposit rate remained low at 0.7 percent. However, given the provisions in place, the credit ceiling is not constraining investment. As at 27th June, special loan approvals of \$228.6 million were granted, mainly for building and construction purposes.

Inflation was 6.9 percent in June, up from 5.8 percent in the previous month. Looking ahead, the year-end inflation forecast remains at 7.5 percent, with some upside risks. At the end of June, official **foreign reserves** were around \$873.0million

(provisional), sufficient to cover 3.8 months of imports.

The Nominal Effective Exchange Rate (NEER) remained relatively stable, falling by 0.1 percent over the year to June while the Real Effective Exchange Rate (REER) rose by 3.4 percent over the same period. The rise in REER indicates a deterioration in our international competitiveness against our major trading partners. This was underpinned by high domestic inflation (6.9 percent), compared with Fiji's major trading partners' inflation of 3.7 percent.

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FIJI: FINANCIAL STATISTICS

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KEY INDICATORS	Jun-08	May-08	Apr-08	Jun-07
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	41.51	43.33	8.20
Currency in Circulation (monthly average)	n.a.	5.90	4.00	5.68
Quasi-Money (Time & Saving Deposits)	n.a.	-10.52	-9.37	17.70
Domestic Credit	n.a.	4.46	3.52	12.49
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	6.9	5.8	7.6	7.1
Food	8.2	6.3	10.4	16.5
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	873.0(p)	876.9	927.0	839.4
Months of Imports (goods)	3.8(p)	3.8	4.1	3.8
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	10.67	13.21	10.28
Banks' Demand Deposits (\$m)	n.a.	270.98	356.97	123.25
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a.	8.00	8.01	9.20
Savings Deposit Rate	n.a.	0.70	0.69	1.01
Time Deposit Rate	n.a.	2.55	2.69	7.27
91-day RBF Note Rate (month end)	n.i	n.i	n.i	n.i
Minimum Lending Rate (MLR) (month end)	n.a.	5.75	5.75	5.25
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	n.a.	5.90	n.i.	7.50
10-Year Government Bond Yield	n.a.	6.70	n.i.	8.75
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.6698	0.6746	0.6657	0.6264
Pound sterling	0.3358	0.3408	0.3380	0.3128
Australian dollar	0.6972	0.7007	0.7129	0.7403
New Zealand dollar	0.8802	0.8594	0.8581	0.8149
Swiss francs	0.6827	0.7000	0.6909	0.7712
Euro	0.4245	0.4313	0.4277	0.4660
Japanese yen	71.13	70.63	69.27	77.15
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{3/}	888.44	888.90	912.55	656.04
New York #11 Spot Market Price ^{3/}	13.27	12.18	13.70	11.05
Crude Oil/barrel ^{4/}	133.00	123.40	110.19	71.26

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