



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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According to the International Monetary Fund, global economic growth is expected to slow significantly in the second half of the year, before recovering gradually in 2009. Growth prospects for the United States (US) have become dimmer, given the worsening situation in the international financial markets. This has prompted the US government to consider a financial bailout package which was eventually rejected by the US House of Representatives. Accordingly, economic growth for Fiji's other major trading partner countries is expected to slow in 2008, while expansions in emerging and developing economies are expected to lose further steam, with prevailing global inflationary concerns.

Domestic activity remains subdued. Lending for consumption purposes rose in July by 6.4 percent on an annual basis. In addition, imports of consumption goods rose by 23.8 percent cumulative to July, although this could be driven primarily by higher prices. Moreover, the poor performances of major sectors such as cane and sugar, subdued labour market conditions and the decline in remittances receipts (21.7%) are expected to moderate consumer spending.

Overall, labour market conditions are likely to be weak, even though partial indicators showed mixed movements. On an annual basis, newly registered taxpayers declined by 10.8 percent cumulative to August, while the Job Advertisements Survey for the same period reported that hiring intentions remained positive in most sectors of the economy. It is believed that the higher recruitment intentions are mostly to fill positions vacated as a result of emigration and other factors.

There are indications that investment conditions are still sluggish. Commercial banks' investment-related lending continued to slow to 10.7 percent in July, compared to a growth of 17.7 percent

registered in the same period last year. This is attributed to a decline in building & construction loans.

Recent cashflow data indicate that cumulative to June, Government recorded a net surplus of \$77.4 million or 1.3 percent of GDP, underpinned by a decline in operating expenditure and higher revenue collections. Government's capital expenditure for the first six months of the year was higher by 5.4 percent on an annual basis.

On trade developments, domestic export earnings rose by 15.2 percent in July, attributed to higher inflows from sugar, fish, mineral water, timber, sweet biscuits, flour, gold and other domestic exports. This was supplemented by earnings from re-exports, contributing to a higher growth of 20.9 percent for total exports. Total imports on the other hand, grew by 23.1 percent in July. All categories of imports - intermediate (11.6 percent), consumption (8.9 percent), and investment (2.6 percent) goods rose. The higher growth in import payments has resulted in an increase in the merchandise trade deficit to around \$1,182 million, when compared with around \$950 million recorded in the same period in 2007.

At the end of August 2008, official foreign reserves stood at \$911.3 million (provisional), sufficient to cover 3.6 months of imports of goods.

With the weak developments in the real sector as well as the credit ceiling in place, growth in money and credit aggregates continued to slow. Private sector credit grew over the year by 6.4 percent in July, compared to 9.8 percent in the same period last year. Under the provisions of the credit ceiling, special loan approvals of \$264 million were granted as at 22 August, mainly for building and construction purposes. Lending and time deposit rates fell in July to 7.89 and 2.56 percent,

respectively, while the savings deposit rate remained low at 0.69 percent. The downward pressure on interest rates is consistent with the high liquidity (\$260.4 million in August).

Inflation rose to 9.5 percent in August based on the new Consumer Price Index basket, up from 7.8 percent in July. Notably, food prices have declined over the month, while the pass-through of high oil prices from previous months into other sectors continued to be felt, despite some recent slowdown in world prices.

On exchange rate developments, both the Nominal

Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices of the Fiji dollar rose in the year to August. The NEER rose over the year by 0.3 percent, indicating an appreciation of the Fiji dollar against our major trading partner currencies. The increase in the REER index (5.4 percent), which indicates a decline in Fiji's international competitiveness against our major trading partners, was underpinned by high domestic inflation when compared with our major trading partners. Domestic inflation was 9.5 percent in August compared to a weighted average inflation of 4.1 percent recorded by our major trading partner countries.

## **RESERVE BANK OF FIJI**

FIJI: FINANCIAL STATISTICS

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<b>KEY INDICATORS</b>	<b>Aug-08</b>	<b>Jul-08</b>	<b>Jun-08</b>	<b>Aug-07</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a.	n.a.	32.44	n.a.
Currency in Circulation (monthly average)	n.a.	n.a.	5.73	7.04
Quasi-Money (Time & Saving Deposits)	n.a.	n.a.	-12.17	n.a.
Domestic Credit	n.a.	n.a.	3.27	n.a.
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	9.5	7.8	6.9	5.1
Food	13.9	12.4	8.2	10.7
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	911.3	892.1	877.2	861.3
Months of Imports (goods)	3.6	3.6	3.5	3.9
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	n.a.	11.65	11.50
Banks' Demand Deposits (\$m)	n.a.	n.a.	273.1	262.90
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a.	n.a.	7.99	8.84
Savings Deposit Rate	n.a.	n.a.	0.7	0.84
Time Deposit Rate	n.a.	n.a.	2.43	6.64
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	5.75	5.25
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	5.90	5.90	5.90	6.25
10-Year Government Bond Yield	7.10	7.05	7.00	7.45
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.6281	0.6591	0.6698	0.6097
Pound sterling	0.3432	0.3325	0.3358	0.3030
Australian dollar	0.7293	0.6983	0.6972	0.7477
New Zealand dollar	0.8957	0.8982	0.8802	0.8689
Swiss francs	0.6908	0.6908	0.6827	0.7436
Euro	0.4274	0.423	0.4245	0.4474
Japanese yen	68.83	71.26	71.13	70.69
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>3/</sup>	842.33	940.30	656.04	664.92
New York #11 Spot Market Price <sup>3/</sup>	15.58	13.61	13.27	11.05
Crude Oil/barrel <sup>4/</sup>	113.85	133.90	71.26	70.80
<p>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</p> <p>Sources: <sup>1/</sup> Fiji Islands Bureau of Statistics  <sup>2/</sup> Bloomberg and Reserve Bank of Fiji  <sup>3/</sup> Fiji Sugar Marketing Company Limited  <sup>4/</sup> Bloomberg</p>				