

## OVERVIEW

World growth prospects continue to be positive, led by the US and Chinese economic expansion and supported by the economic recovery in Japan. The outlook for our other trading partner countries remains favourable. Nevertheless, sustained high crude oil prices pose a downside risk to the global growth momentum.

On the domestic front, economic indicators such as consumption spending, income and credit growth remain buoyant. Such growth has been supported by the relatively low interest rate environment. In terms of our monetary policy objectives, current inflation remains low and foreign reserves are adequate.

Over the review period, real sector developments were mixed. In the year to October, copra production showed an increase of around 10 percent. On the other hand, gold production declined by around 29 percent during the same period, largely attributed to operational problems such as equipment failures and low quality ore.

Consumption spending remained upbeat, marked by an increase in domestic *Value Added Tax* (VAT) collections by around 12 percent cumulative to October. Higher personal income levels were also recorded during the same period reflected in a rise in *Pay As You Earn* (PAYE) tax collections by 6 percent. Looking ahead, the recent wage & salary increments to hotel and banking sector employees should add a further thrust to overall household income levels.

Partial indicators suggest a slowdown in employment. Cumulative to November, around 5,800 individuals were registered as taxpayers with the Fiji Islands Revenue and Customs Authority (FIRCA). This represents a decline of around 17 percent over the corresponding period last year.

Inflation was 1.9 percent in November, unchanged from October. The underlying measure of inflation, the trimmed mean, remained unchanged at 1.1 percent in November. Accordingly, the year-end inflation forecast is maintained at around 3 percent.

Credit growth continues to increase, primarily due to higher lending by commercial banks and Licensed Credit Institutions (LCI's). In the year to October, commercial bank lending rose by 23 percent, driven largely by higher lending to private individuals, the wholesale & retail trade and hotels & restaurants, and real estate sectors. Over the same period, lending by LCI's also rose by 16 percent.

Interest rate movements were mixed during October. The commercial bank time deposit rate rose by 2 basis points to 1.81 percent, while the savings deposit rate declined by 6 basis points to 0.33 percent. The commercial bank lending rate, however, remained unchanged at 6.7 percent during the review period. Likewise, the weighted average LCI's lending rate was unchanged at 11.35 percent in October, while the weighted average time deposit rate for LCI's fell by 7 basis points to 3.99 percent.

On the external front, latest Overseas Exchange Trade (OET) data showed that cumulative to November, merchandise export earnings fell by around 13 percent. The decline in receipts was largely credited to negative contributions from textiles, clothing & footwear, fish, merchanted goods, and other re-exports

On the other hand, merchandise imports rose by around 19 percent during the same period with strong growth recorded in imports of goods in all categories; intermediate goods (9.1 percent), investment goods (7.3 percent), and consumption goods (3.0 percent).

At the end of November, reserves were estimated at around \$884.9 million, sufficient to cover 3.2 months of imports of goods and non-factor services, or 4.5 months of imports of goods only.

## **SECTORAL DEVELOPMENTS**

Developments on the domestic front generally remained positive during the review period. Cumulative to October, partial indicators of consumption and income remained upbeat. The copra industry also performed well, but gold production remained weak.

### ***Consumption***

In the year to October, consumption remained buoyant, evident by the growth in partial indicators of consumer spending. Net VAT collections amounted to \$347.2 million, an increase of around 6 percent, compared with the same period last year.

Moreover, cash collections from domestic activities amounted to around \$178 million, representing an annual 12 percent growth during the review period. Cash collections had shown signs of slowing during the review period, when compared against collections in earlier months. However, with the approaching festive season, collections are expected to pick-up.

### ***Income***

Collections from the Inland Revenue Services rose cumulative to October. Total net income tax revenue amounted to around \$269.0 million, around 10 percent higher than the level recorded over the corresponding period last year.

Consistent with the firm labour market conditions, PAYE tax collections totalled around \$147.7 million, representing a 6 percent increase over the previous comparable period.

### ***Inflation***

Inflation was 1.9 percent in November, unchanged from October. The underlying measure of inflation, the trimmed mean, remained unchanged at 1.1 percent in November. Looking ahead, the year-end inflation forecast for 2005 is maintained at around 3 percent.

### ***Copra***

Latest statistics from the Coconut Industry Development Authority (CIDA) show that cumulative to October, copra production amounted to around 9,800 tonnes, representing an increase of 10 percent over the corresponding period last year.

The minimum mill gate price of copra remained unchanged at \$500 per tonne during the review period. Government's subsidy towards the mill gate price was \$124.84 per tonne.

### ***Gold***

Total gold output, in the year to October, totalled around 77,000 ounces, 29 percent lower than the corresponding level in 2004. Major challenges that have affected production levels so far this year have been the high levels of staff absenteeism, equipment failures and low quality of ore extracted. Accordingly, gold earnings declined, on an annual basis, by 26 percent to \$56.1 million.

### ***Labour Market***

Conditions in the labour market continue to slow, as revealed by partial indicators of employment. Cumulative to November, around 5,800 individuals were registered as taxpayers with FIRCA. This represents a decline of around 17 percent over the corresponding period last year. The community, social and personal services sector has registered the highest number of taxpayers so far this year, followed by the finance, insurance, real estate & business services; wholesale, retail trade, restaurants & hotels; manufacturing, construction and transport, storage and communication sectors, respectively.

In addition, the Fiji Islands Hotel and Tourism Association awarded hotel workers a pay rise of 5 percent, backdated to January of this year. This is part of the 3-year agreement with the National Union of Hospitality, Catering and Tourism Industries to pay 5 percent increases each year until 2007.

### ***Monetary & Credit Aggregates***

Credit growth remains strong as evident by higher lending by commercial banks and LCI's. In the year to October, the total value of loans disbursed by commercial banks grew further by 23.1 percent, driven in large part by higher lending to private individuals, as well as the wholesale & retail trade and real estate sectors. Lending by LCIs rose by 15.7 percent during the review period, following an increase of 16.4 percent in September.

In addition, cumulative to October, new loans disbursed by commercial banks rose by 30.8 percent to \$735.0 million, from \$562.1 million recorded in the same period last year.

Similarly, LCI's cumulative new loans rose by 9.6 percent in the year to October, to \$117.9 million

from \$107.6 million recorded during the same period in 2004.

On the supply side, total commercial bank deposits rose by 16.8 percent in the year to October 2005 to around \$2.3 billion, following a growth of 17.3 percent in September. The increase reflected mainly higher placements by private sector business enterprises and private individuals in demand and savings deposits. On a monthly basis, total commercial bank deposits also rose by 0.5 percent, underpinned by rises in time deposits of statutory bodies.

Total LCI's deposits increased to \$152.9 million, representing an annual growth of 16.7 percent in October. The growth in deposits was largely underpinned by an increase in time deposit placements under 12-24 months maturity. Over the month, LCI's total deposits rose by 1.6 percent.

#### ***Interest Rates***

Interest rate movements varied during the review period. The commercial bank time deposit rate rose by 2 basis points to 1.81 percent, while the savings deposit rate declined by 6 basis points to 0.33 percent during the month of October.

The commercial bank lending rate, however, remained unchanged at 6.70 percent during the review period. The new lending rate of commercial banks increased to 7.67 percent from 7.23 percent recorded in September, while the new time deposit rate fell by 3 basis points to 1.47 percent in October.

Similarly, the weighted average LCI lending rate remained unchanged at 11.35 percent in October, while the weighted average time deposit rate for LCIs fell by 7 basis points to 3.99 percent. The lending rate on new loans disbursed by LCIs increased to 12.68 percent from 11.43 percent recorded in the previous month and the weighted average deposit rate on new time deposits fell by 13 basis points to 3.03 percent.

#### ***External Conditions***

Latest OET data showed that, cumulative to November, merchandise export earnings fell by around 13 percent, compared with an increase of around 3 percent in the corresponding period last year.

The decline in receipts was largely attributed to negative contributions from textiles, clothing & footwear, fish, merchanted goods, and other re-exports, which more than offset positive contributions from sugar, ginger, gold, mineral water and copra.

During the same period, merchandise imports rose by around 19 percent, compared to a growth of around 14 percent in the corresponding period in 2004. The increase in import payments was due to positive contributions from all categories; intermediate goods (9.1 percent), investment goods (7.3 percent), and consumption goods (3.0 percent). The rise in intermediate goods was largely made up of increases in imports of mineral fuels and textiles, clothing and footwear imports, while the growth in imports of investment goods was underpinned by the increase in payments for machinery & electrical equipment and chemicals. The higher payment for consumption goods was largely attributed to the increase in contribution from other imports, duty free goods, food, beverages & tobacco, transport equipment and government imports.

#### ***Exchange Rates***

Bilateral movements in exchange rates reveal that during the month of November, the Fiji dollar generally strengthened against the Yen (2.2 percent), Euro (1.3 percent) and the Australian dollar (0.3 percent), while it depreciated against the US (1.1 percent) and the New Zealand dollars (0.7 percent).

## **RESERVE BANK OF FIJI**

## FIJI: FINANCIAL STATISTICS

<b>KEY INDICATORS</b>	<b>Nov-05</b>	<b>Oct-05</b>	<b>Sep-05</b>	<b>Nov-04</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a	n.a.	25.49	20.71
Currency in Circulation (monthly average)	n.a	11.73	10.41	11.49
Quasi-Money (Time & Saving Deposits)	n.a	n.a.	12.91	6.36
Domestic Credit	n.a	n.a.	22.58	13.43
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	1.9	1.9	1.7	3.5
Food	0.6	0.3	-0.1	3.2
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)*	884.9	878.8	939.0	995.9
Months of Imports (goods & non factor services)	3.2	3.1	3.4	4.5
Months of Imports (goods)	4.5	4.5	4.8	6.8
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	8.5	10.4	11.4
Banks' Demand Deposits (\$m)	n.a	107.0	122.6	78.3
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a	6.7	6.70	7.05
Savings Deposit Rate	n.a	0.33	0.39	0.36
Time Deposit Rate	n.a	1.81	1.79	1.77
91-day RBF Note Rate (month end)	2.25	1.75	1.75	1.75
Minimum Lending Rate (MLR) (month end)	2.75	2.25	2.25	2.25
Overnight Inter-bank Rate	1.93	1.35	1.45	1.10
5-Year Government Bond Yield	2.88	2.82	2.77	2.60
10-Year Government Bond Yield	5.50	5.44	5.39	5.00
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.5775	0.5838	0.5850	0.6070
Pound sterling	0.3336	0.3306	0.3320	0.3204
Australian dollar	0.7819	0.7792	0.7697	0.7736
New Zealand dollar	0.8245	0.8300	0.8467	0.8476
Swiss francs	0.7581	0.7456	0.7563	0.6931
Euro	0.4899	0.4837	0.4858	0.4572
Japanese yen	69.04	67.53	66.11	62.43
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	475.76	469.88	454.23	438.68
London Daily Sugar Price/tonne <sup>3/</sup>	306.80	299.09	278.12	236.82
Crude Oil/barrel <sup>4/</sup>	55.39	58.56	62.98	43.13
<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>				