



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

International economic conditions remained favourable over the month. Growth prospects for all our major trading partners are anticipated to be strong this year, underpinned mainly by the strengthening global economy. On the other hand, ongoing terrorism concerns as well as rising crude oil prices continue to pose risks to the global economic growth.

Domestically, the economy is on track for good growth this year. Consumer spending remains robust, evident by higher net VAT collections, favourable labour market conditions, low lending rates and robust tourism activity.

Labour market conditions remained favourable, as evident by partial indicators. Cumulative to July, around 8,200 new individuals were registered with the Fiji Islands Revenue and Customs Authority (FIRCA). This is an increase of around 4 percent over the corresponding period in 2003.

The inflation rate stood at 2.8 percent in July compared with 2.7 percent in June. In the coming months, inflation is expected to rise slightly given the increases in prices of domestic fuel and certain imported goods. In view of this, the 2004 year-end inflation forecast is now projected at 3.5 percent from 3 percent forecasted earlier.

In line with strong domestic demand conditions, money and credit aggregates continued to expand despite the hike in our indicator rate in May. However, while there are some indications of upward movement in interest rates for the securities market, commercial banks' interest rates have continued to trend downwards and total credit in the financial system shows no sign of abating – commercial bank lending rose by 15 percent. The time and savings deposit rate both declined by 1 basis point to 1.71 and

0.35 percent respectively. The weighted average commercial bank lending rate remained unchanged at 7.17 percent.

On the latest Overseas Exchange Transaction (OET) trade data, cumulative to July, exports and imports rose by around 9 percent and 23 percent respectively. The increase in exports was underpinned by positive contributions from textiles, clothing & footwear, merchant goods, gold and timber, which more than offset negative contributions from sugar, other re-exports, other exports and copra. The rise in imports was largely led by increase in payments for intermediate goods (12.4 percent), investment goods (8.2 percent) and consumption goods (2.4 percent).

At the end of June, foreign reserves were around \$755 million, sufficient to cover 3.3 months of imports of goods and non-factor services or 5.0 months of imports of goods only.

SECTORAL DEVELOPMENTS

Developments on the domestic front have generally been positive during the review period. Good growth was registered across most sectors of the economy, with the exception of the copra industry. Consumption remained robust, while individual incomes continued to improve over the year.

Consumption

Consumer spending remained buoyant during the first half of the year, evident by the good growth in net VAT collections, a partial indicator of spending. Cumulative to June, net VAT collections amounted to almost \$186 million, representing an increase of around 5 percent over the corresponding period last year.

The increase was underpinned by a 19 percent

increase in collections from Government Departments and an 11 percent rise in domestic cash collections. However, collections by Customs Services declined by around 6 percent, in line with the lower level of gross imports during the review period.

Income

In line with favourable labour market conditions, total income tax collections cumulative to June amounted to around \$138 million, an increase of around 9 percent over the corresponding period last year. Pay As You Earn collections, a partial indicator for individual incomes, totalled \$84 million during the first half of the year, representing an increase of around 14 percent over the comparable period last year.

Tourism

The performance of the tourism industry (in terms of arrivals) has been remarkable during the first half of the year. Data from the Fiji Islands Bureau of Statistics show that visitor arrivals amounted to around 226,000 during the January to June period. This indicates an increase of around 20 percent over the comparable period last year.

Sugar

Latest production data provided by FSC indicate that cane output amounted to around 705,000 tonnes for the season to July. This represents a 23 percent increase over last year. According to FSC, this is mainly due to good cane supply to the mills and relatively lower number of mill breakdowns. Through a combination of higher quantity and quality of cane, total sugar produced amounted to 71,000 tonnes for the season to July, an increase of around 34 percent over the same period last season. For the season to July, the Tonnes Cane-Tonnes Sugar ratio was around 9.9:1, lower than the ratio (10.9:1) recorded in the same period last season, indicating an improvement in cane quality.

Copra

The performance of the copra industry remained weak during the review period. Cumulative to June, copra production amounted to around 4,900 tonnes, a decline of 15 percent over the corresponding period last year. The minimum mill gate price of copra for the month of June stood at around \$531 per tonne.

Gold

For the period to July, total gold production amounted to nearly 78,000 ounces, 15 percent higher than last year's level.

Audio Visual

Audio Visual production in Fiji has gradually picked up following the successful completion of Anaconda II. Cumulative to June 2004, around \$3.5 million of the estimated film budget had been spent in Fiji. There are currently six projects in production with total budgets of around \$38 million, and there are 32 projects in negotiation stages with budgets far exceeding \$300 million.

Public Finance

For the first half of this year, the Government deficit¹ amounted to \$52.2 million, equivalent to 1 percent of GDP. This compares favourably with the forecast of \$99.5 million deficit, or 2 percent of GDP. However, the deficit is higher when compared with the \$23.1 million (0.5 percent of GDP) recorded for the same period last year.

The higher deficit was underpinned by an 8 percent rise in total expenditure (excluding debt repayments), which offset a 2 percent increase in revenue. Against forecasts for the period, Government revenue surpassed projections by 7 percent.

Inflation

Inflation stood at 2.8 percent in July, compared with 2.7 percent in June. Over the month, consumer prices fell by 0.5 percent mainly due to lower prices of food, in particular bakery products and market items. Lower prices were also recorded in the housing and durable household goods subgroups. On the other hand, prices of alcoholic drinks & tobacco, transport and miscellaneous items rose, while prices of heating & lighting, clothing & footwear and services remained unchanged.

In the coming months, consumer prices are expected to rise slightly due to the recent rise in domestic fuel prices and expected increase in prices of certain imported items. In view of this, the 2004 year-end inflation forecast is now projected at 3.5 percent from 3 percent forecasted earlier.

Labour Market

The number of new taxpayers, a partial indicator for employment, continued to improve over the month. Cumulative to July, around 8,200 new taxpayers were registered with FIRCA. This is around 4 percent higher than the same period in 2003. Sectors that recorded the most new taxpayers included the community, social and personal services, followed by

¹ There were no asset sales recorded in the review period.

finance, insurance, real estate & business services; and the wholesale & retail trade, restaurants & hotels.

Financial Aggregates

Commercial bank lending continued to grow at a robust rate. Growth in lending on an annual basis was 15 percent in June 2004 from 13 percent in the previous month and 11 percent during the same period in 2003. The growth in private sector credit was driven by higher commercial bank lending to private individuals (for housing purposes), public enterprises, real estate, and building & construction sectors. In contrast, lending to the mining & quarrying, central & local government, agriculture and electricity, gas & water sectors contributed negatively to lending growth during the review period.

On a monthly basis, new and renewed loans provided by commercial banks were valued at \$68 million, compared to \$41m in the previous month. The increase was largely due to higher lending to the wholesale & retail trade, public enterprises, private individuals, and professional & business services, as well as to the manufacturing sector. The interest rate on new loans was 7.26 percent compared with 7.95 percent in the previous month.

Commercial bank interest rates generally fell during the review period. The weighted average commercial bank time and savings deposit rate both declined by 1 basis point to 1.71 and 0.35 percent respectively. The weighted average commercial bank lending rate remained unchanged at 7.17 percent.

Exchange Rates

The Nominal Effective Exchange Rate² index of the

Fiji dollar remained unchanged in the year to July, but rose by 0.1 percent on a monthly basis indicating an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate³ (REER) Index of the Fiji dollar, a gauge of our international competitiveness, rose by 0.4 percent in the year to July. The increase in the REER Index over the year reflects deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes. Domestic inflation increased to 2.8 percent in July, while average trading partner inflation was around 2.4 percent during the same period.

External sector

According to the latest OET trade data, cumulative to July, merchandise exports rose by around 9 percent, compared with a decline of around 5 percent in the corresponding period last year. The rise in export receipts was largely attributed to positive contributions from textiles, clothing & footwear, merchant goods, gold and timber which more than offset negative contributions from sugar, other re-exports, other exports and copra.

Cumulative to July, merchandise imports rose by around 23 percent, following a growth of around 9 percent in the corresponding period last year. This was largely underpinned by higher import payments for intermediate goods (12.4 percent) particularly mineral fuels and raw materials, investment goods (8.2 percent), specifically machinery & electrical equipment, and consumption goods (2.4 percent), specifically merchant goods.

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² The Nominal Effective Exchange Rate (NEER) index is the sum of the indices of each trading partner currency against the Fiji dollar, adjusted by their respective weight in the basket. Each weight reflects a trading partner's contribution to Fiji's total trade in goods and services. The NEER index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

³ The Real Effective Exchange Rate (REER) index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of the major trading partners. This index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness and vice versa.