RESERVE BANK OF FIJI

ECONOMIC REVIEW

21 12 December 2004

OVERVIEW

International economic conditions remained favourable over the month with latest data showing that the growth prospects for all our major trading partners and selected non-Japan Asia (China, Hong Kong & Singapore) are anticipated to be positive this year. This outlook is largely due to the projected expansion in the US as well as New Zealand, Australian and Japanese economies. However, the prevailing high crude oil prices and uncertainties in the Middle East pose downside risks to the performance of these economies.

On the domestic front, the outlook for the local economy remains unchanged from last month. Economic growth is expected to be underpinned by strong performances in the construction, wholesale & retail trade, agriculture and manufacturing sectors. Domestic demand remains strong as evident by higher Value Added Tax (VAT) collections, increased currency in circulation, higher lending for consumption purposes and favourable labour market conditions. The major sectors continue to hold up well with recent information indicating that the cane & sugar industry performed favourably in the first six months of the crushing season.

Inflation stood at 3.5 percent in November compared with 2.8 percent in October. The current inflation outcome has been largely influenced by higher energy prices. In December, prices of market items are anticipated to increase, but favourable base-related effects are expected to keep overall inflation in-check. The year-end inflation is still expected to be around 3.5 percent.

Consistent with developments in the real sector, monetary & credit aggregates expanded further in October. Broad money continued to grow strongly, rising by 15.4 percent while the value of loans outstanding in the banking system rose by 16.7 percent. Lending by licensed credit institutions (LCIs) also increased by 24 percent over the year. In contrast, new loans disbursed by commercial banks declined by 38.2 percent to $43.1 million.

Movements in commercial banks interest rates were mixed in October. The weighted average lending rate of commercial banks declined further over the month by 7 basis points to 7.04 percent while the saving deposit rate rose by 1 basis point to 0.36 percent. The weighted average commercial bank time deposit rate remained at 1.77 percent. In addition, interest rates on new lending rose by 6 basis points to 7.79 percent during October.

According to the latest Overseas Exchange Trade (OET) data, in the year to November, merchandise exports fell by around 7 percent, compared with a decline of around 4 percent in the corresponding period last year. Merchandise imports rose by around 14 percent, compared with a growth of around 12 percent in the same period last year.

As at end of November, foreign reserves were around $739 million, sufficient to cover 3.3 months of imports of goods and non-factor services or 5 months of imports of goods only.

SECTORAL DEVELOPMENTS

Developments on the domestic front remained favourable during the review period. Consumption activity and individual incomes continued the upward trend experienced during the first 10 months of the year. The cane and sugar industries also maintained their momentum well into the final months of the crushing season.

Consumption

Consumer spending remained buoyant cumulative to October, evident by the robust performance of net VAT, a partial indicator of spending. During the first 10 months of the year, net VAT collections amounted to almost $329 million, representing an increase of around 10 percent over the corresponding period last year.

The increase was largely attributed to the 14 percent increase in domestic cash collections. Collections by the Customs Services and VAT received from Government Departments also supported the buoyant growth in net VAT, each growing by 3 and 1 percent, respectively.

Income

In line with favourable labour market conditions, net income tax collections amounted to around $245 million during the January to October period, representing an increase of around 11 percent over the corresponding period last year. Pay As You Earn (PAYE) collections, a partial indicator for individual incomes, totalled around $140 million during the review period, an increase of around 12 percent over the same period last year. Underpinning this healthy growth is a 5 percent annual increase in newly registered taxpayers.

Cane and Sugar

The cane and sugar industries have continued their good performance during the first 6 months of the crushing season. Latest production statistics provided by the Fiji Sugar Corporation (FSC) indicate that cane output amounted to around 2.8 million tonnes for the season to November. This represents a healthy increase of around 11 percent over the comparable period last season. According to FSC, this is mainly due to good cane supply to the mills, lower burnt cane ratio and relatively lower number of mill stoppages. With a month of crushing still left, total cane production to date has already surpassed the year-end projection of 2.7 million tonnes.

Consistent with the good cane output, total sugar produced during the review period amounted to 293,000 tonnes, representing a 2 percent increase over the same period last season. The tonnes cane to tonnes sugar ratio was around 9.5:1, relatively higher than the ratio (8.7:1) recorded over the corresponding period last season.

Inflation

Inflation stood at 3.5 percent in November, compared to 2.8 percent in October. Over the month, prices of heating & lighting, alcoholic drinks & tobacco, transport, food, durable household goods, and clothing & footwear rose. The prices of heating & lighting and transport items rose on the back of higher crude oil prices. At the same time, higher alcoholic drinks & tobacco prices were due to an increase in tariffs by 4 percent, announced in the 2005 National Budget. These were partially offset by a fall in the prices of miscellaneous items. Prices of housing and services were unchanged over the month. The underlying measure of inflation, the trimmed mean, was 1.6 percent in November, up from 1.2 percent recorded in October.

The current inflation outcome has been largely influenced by higher energy prices. Domestic fuel prices have risen by 20 percent and have directly contributed around 0.8 percentage points to this year's inflation. In December, prices of market items are anticipated to increase, but favourable base-related effects are expected to keep overall inflation in-check. Thus, the year-end inflation is still expected to be around 3.5 percent.

Labour Market

Cumulative to November, the number of newly registered taxpayers with the Fiji Islands Revenue and Customs Authority (FIRCA) was around 9,700. This represented a rise of around 6 percent over the same period last year. Finance, insurance, real estate & business services sector recorded the most new taxpayers followed by the community, social and personal services; and wholesale, retail trade, restaurants & hotels sectors.

On the wages front, the employees of Fiji Sugar Corporation and the Electrical Trades Union of Fiji members were awarded a 4 percent wages increment. In regards to the public sector, Public Service Commission and the unions are still negotiating the claims for the year.

Financial Aggregates and Interest Rates

Broad money continued to grow in the year to October, rising by 15.4 percent following an expansion of 13.4 percent in the previous month. The outturn was largely attributed to increases in narrow money, which in turn was influenced, by rises in demand deposits and currency in circulation. The continued expansion in narrow money reflects the strong transactionary demand for money amidst strong household spending and retail trade activities. The determinants of broad money, comprising domestic credit and net foreign assets, both grew over the year by 13.6 percent. The increase in the former was spurred by higher credit to official entities and the private sector, which rose by 32.9 percent and 15.3 percent, respectively, over the year.

Overall, the total value of outstanding loans in the banking system increased over the year to October by 16.7 percent (15.8 percent in the year to September). This outcome was underpinned mainly by higher lending to private individuals, real estate, manufacturing and public enterprises sectors. On the downside, lending to mining & quarrying, agriculture and central & local government sectors contributed negatively to lending growth during the review period.

New and renewed loans provided by commercial banks stood at $43.1 million in October, a fall of $26.6 million over the month (38.2 percent). Lower lending to the manufacturing, agriculture, wholesale & retail trade and public enterprises sectors largely underpinned the decline over the month.

Total loans and advances of LCIs also grew at an annual rate of 24 percent in October, with loans extended mainly to private individuals (mainly for housing purposes), real estate, with impetus also coming from building & construction and wholesale & retail trade sectors. The weighted average lending rate of LCIs was 11.79 percent during the review period compared with 11.83 percent in the previous month.

Also, during the review period, total outstanding deposits of commercial banks increased by around $19.5million over the month to record an annual growth rate of 10.4 percent, following a growth of 8.9 percent in the year to September. Higher deposits by private sector business enterprises and private individuals contributed mainly to the increase in total deposits.

The weighted average lending rate of commercial banks declined by 7 basis points to 7.04 percent at end-October. The weighted average commercial bank time deposit rate remained at 1.77 percent, while the saving deposit rate rose by 1 basis point to 0.36 percent.

Meanwhile, interest rates offered by LCIs on new loans and advances declined to 12.44 percent from 14.28 percent in September. Interest rates of new time deposit remained unchanged over the month at 3 percent

Exchange Rates

In November, the performance of the Fiji dollar was mixed against the major currencies. Bilateral movements in the exchange rate showed that the Fiji dollar strengthened against the US dollar (3.7 percent) and the Yen (0.3 percent), but weakened against the Australian (1.5 percent) and New Zealand (1.2 percent) dollars as well as the Euro (0.5 percent).

External sector

On the external front, recent OET data showed that cumulative to November, merchandise exports fell by around 7 percent, when compared with a decline of around 4 percent in the corresponding period last year. The decline in exports was largely attributed to negative contributions from sugar, fish, copra, and other exports. textiles, clothing & footwear, merchanted goods, gold, and timber, which more than offset the positive contributions from gold, merchanted goods, textiles, clothing & footwear, and timber.

Cumulative to November, merchandise imports rose by around 14 percent, when compared with a growth of around 12 percent in the same period last year. The increase was credited to higher import payments for all categories of goods. The increase in intermediate goods was led by higher payments for mineral fuels, raw materials and textiles, clothing & footwear, while machinery & transport equipment led the increase in investment goods. The positive contributions from merchanted and duty free goods underpinned the increase in payments for consumption goods.

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