



NEWS REVIEW

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OVERVIEW

Over the month, global economic conditions continued to improve. Consistent with this outcome, all our major trading partner economies are expected to record positive growth this year. Growth prospects for selected non-Japan Asia (China, Hong Kong & Singapore) have also improved, led by the strengthening global economic recovery, particularly in the major export markets.

Domestically, Consumption and investment remain upbeat, while the sugarcane, tourism and the transportation industries recorded better-than-expected outturns in 2003. However, the performance of the gold and copra industries declined last year. Inflation in 2003 was 4.2 percent, while foreign reserves were at comfortable levels. Partial indicators suggest that labour market conditions also improved further last year.

Sectoral outcomes in 2003 were mixed. The tourism industry posted an outstanding performance, despite the adverse effects of the Iraq conflict and the outbreak of the SARS virus. Apart from influencing the growth of the wholesale & retail and hotels & restaurants sector, the strong growth in arrivals also had positive flow-on effects on the transportation industry. However, output in the sugarcane industry fell in 2003.

Consumption spending remains buoyant as proceeds from Value Added Tax (VAT)¹ and Pay As You Earn (PAYE)² continued to increase over the month. Strong consumption growth continues to be supported by higher remittances from abroad, increased visitor arrivals, and low commercial bank lending rates. Moreover, favourable labour market conditions and

the resulting growth in personal incomes are also sustaining spending.

Partial indicators suggest an improvement in Investment levels. Cumulative to November 2003, import payments for investment goods were higher on an annual basis. Partial indicators also suggest increased construction activities in the short to medium term.

Reflecting the generally positive outcomes in the real sector, money and credit aggregates grew further in the year to November. Broad money expanded by around 16 percent, reflecting the continuing growth in all its components. During the same period, private sector credit grew by close to 16 percent, led by higher lending to private individuals and the manufacturing sector. Movements in commercial bank interest rates generally fell in November. The weighted average lending rate fell to 7.36 percent, while the time deposit rate declined to 1.77 percent. The savings deposit rate remained unchanged at 0.48 percent.

Recent partial indicators of employment suggest further improvements in labour market conditions. The number of newly registered taxpayers grew strongly in 2003, while the December Job Advertisement Survey indicated higher recruitment intentions of employers, relative to the previous quarter and year. Looking ahead, the results of the Reserve Bank's December 2003 Fiji employers Federation (FEF) Expectations Survey, suggest that prospects for employment creation in both permanent and temporary categories are encouraging. However, on the supply side, the steady rise in emigration remains a concern for the country in terms of the eroding skill base. The only wage development in

¹ VAT collections are a partial indicator of consumer spending.

² PAYE tax collections are a partial indicator of individual incomes.

December was a 1 percent COLA award to civil servants by the Government for 2003.

Inflation at the end of 2003 was 4.2 percent, down from 5.3 percent in November. Over the month, consumer prices rose slightly, reflecting higher prices of food and alcoholic drinks & tobacco. This year, inflation is projected to fall to around 3 percent.

On the external front, latest accrual data for the first eleven months of last year shows that exports rose by around 12 percent over the year. The rise was underpinned by positive contributions from sugar, garments, re-exports and other exports, which more than offset negative contributions from gold, fish and timber. In contrast, merchandise imports rose during the same period by around 5 percent. Higher import payments were largely attributed to positive contributions from investment and consumption goods.

At the end of December, Fiji's foreign reserves were around \$727 million, sufficient to cover 3.0 months of imports of goods and non-factor services or 4.3 months of imports of goods only.

SECTORAL DEVELOPMENTS

Sectoral performances remained mixed in 2003. The tourism industry had an outstanding performance, while cane & sugar, copra and gold production remained weak. Emigration continued to rise, representing an outflow of skilled workers from the domestic labour market. Moreover, consumption grew strongly, while investment remained robust.

Consumption

Consumer spending grew strongly last year, evident by the buoyant growth in VAT collections. For the 2003 period, net VAT collections amounted to almost \$370 million, an increase of around 34 percent over the previous year.

Income

In line with favourable labour market activity, total PAYE collections amounted to around \$155 million last year, representing an increase of around 4 percent over 2002 levels.

Tourism

The tourism industry demonstrated a strong performance last year. Cumulative to November 2003, visitor arrivals totalled 393,000, an increase of 7 percent over the comparable period in 2002. Remarkably, this is a record, as it is the first time ever

that the industry has recorded such a high number of visitors to Fiji for the first eleven months of the year.

Cane and Sugar

The sugar industry faced a challenging year in 2003, as was reflected in its performance. On a calendar year basis, total cane crushed by the Fiji Sugar Corporation (FSC) amounted to around 2.8 million tonnes, a 12 percent decline over the 2002 production levels. Some of the possible reasons underpinning the lower output were the late start to the crushing season last year, climatic conditions, milling inefficiencies and transportation problems.

On a positive note, however, the TCTS (tonnes cane to tonnes sugar) ratio improved to around 9.1:1, better than the ratio (10.1:1) recorded during 2002. The decline in the TCTS ratio signifies an improvement in sugar quality.

Copra

The performance of the copra industry remains weak. Cumulative to November 2003, total copra production amounted to around 8,800 tonnes, a fall of 33 percent over the corresponding period the previous year. The minimum mill gate price of copra was maintained at \$500 per tonne, with the Government subsidising the price by \$155.09 per tonne.

Gold

Performance of the mining and quarrying sector was weak in 2003. Total gold production amounted to just over 113,000 ounces, around 6 percent lower than previous year's levels. The annual decline is a result of lower quality ore extracted at the mines.

In line with the lower gold output, gold earnings for last year amounted to around \$77 million, around 5 percent lower than the 2002 production level.

Construction

The construction sector continued to perform robustly, evident by positive developments in partial indicators. The September Quarter Building and Construction Survey³ report released by Fiji Islands Bureau of Statistics (FIBS), shows that \$29 million was spent on capital works in the third quarter of 2003, an increase of 17 percent over the comparable period in 2002.

Looking ahead, prospects for the construction sector remain optimistic. The total number of building permits issued in the September quarter amounted to

³ The survey covers all private sector enterprises operating in the private and public sectors of the construction sector.

529 with a value of \$30.4 million. This represented an increase over the second quarter of 24.5 percent in the number, and a 2.2 percent increase in the value of building permits.

Emigration

Cumulative to November, more than 5,200 people emigrated, representing an increase of 6 percent over the comparable period in 2002. By occupational categories, the professional and technical workers category still represents the highest number of emigrants for the review period.

Financial Aggregates

Broad money grew by 15.6 percent, following a 13.6 percent growth in October. Both the components of broad money grew during the review period. Narrow money⁴ rose by 6.8 percent, after an increase of 2.9 percent in October. This was underpinned by increases in both demand deposits and currency in circulation. Quasi money⁵ also grew, rising by 23.0 percent, following a 22.7 percent growth in October, due to a rise in savings deposits and time deposits.

On the determinants of broad money, domestic credit and net foreign assets both recorded growth of 12.7 percent and 6.2 percent in the year to November, respectively. The rise in domestic credit was due to a 15.6 percent growth in private sector credit and an expansion of 12.8 percent in net credit to Government (mainly for investment in Government securities).

Increases in private sector credit were driven by higher commercial bank lending mainly to private individuals (for consumption & housing purposes) as well as to the wholesale, retail, hotels & restaurants and manufacturing (for food, beverages & tobacco), building & construction sectors. In contrast, lending to the agriculture and mining & quarrying sectors fell during the review period. On a monthly basis, total commercial bank lending rose by 0.98 percent, following an increase of 1.6 percent in the previous month. New lending by commercial banks fell by 43.5 percent in November, driven largely by monthly decreases in lending to the mining & quarrying, agriculture, professional & business services and building & construction sectors.

Commercial banks' interest rates generally followed the downward trend of previous months. The weighted average commercial bank lending rate and

⁴ Narrow money is the sum of currency in circulation and demand deposits held with commercial banks by businesses, households and public enterprises, other than the central government.

⁵ Quasi money comprises time and savings deposits of resident sectors other than central government.

time deposits rate fell by 5 basis points and 3 basis points to 7.36 percent and 1.77 percent respectively. The savings deposit rate was unchanged at 0.48 percent. During the same period, the weighted average interest rate on new loans by commercial banks rose by 111 basis points to 8.08 percent. The increase was the result of additional loans to private individuals, who are generally considered higher risk entities and hence, attract higher interest rates, compared with businesses.

Exchange Rates

The Nominal Effective Exchange Rate⁶ index of the Fiji dollar rose by 0.8 percent in the year to December. The rise indicates an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate⁷ Index of the Fiji dollar, a gauge of our international competitiveness rose, by 3.0 percent in the year to December. The increase indicates deterioration in our international competitiveness and was mainly attributed to the relatively higher domestic inflation outcomes. Domestic inflation was 4.2 percent while average trading partner inflation was around 1.9 percent in December.

External Sector

According to the latest accrual data, cumulative to November 2003, merchandise exports rose by around 12 percent, compared with a decline of about 2 percent in the corresponding period in 2002. The increase in export receipts was largely attributed to positive contributions from sugar, garments, re-exports and other exports. In the same period, merchandise imports rose by around 5 percent following a growth of around 7 percent in the corresponding period in 2002. The increase in import payments was largely attributed to higher imports of investment goods, particularly machinery and electrical equipment; and consumption goods, specifically manufactured goods.

RESERVE BANK OF FIJI

⁶ 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.

⁷ 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.