



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

International economic and financial conditions continued to improve, driven largely by the US economic recovery. All our major trading partners are expected to record positive growth, assisted by higher exports and buoyant domestic demand. Strong economic performances of China, and Latin America, complemented the positive global outlook. On a negative note, the South Asian earthquake and tsunami in late December severely affected coastal regions in Indonesia, Thailand, Sri Lanka and India. While the overall macroeconomic impact is still being assessed, the tourism industry has been the hardest hit.

Domestic economic conditions continue to be positive, due to good growth across all sectors of the economy. Domestic demand remains strong as evident by higher Value Added Tax (VAT)¹ collections, increased currency in circulation, higher lending for consumption purposes and improved labour market conditions. Recent data indicated increases in cane, sugar, gold, copra and electricity production.

Consumption spending remains buoyant as proceeds from VAT and Pay As You Earn (PAYE)² continue to increase over the month. Lending to private individuals for consumption purposes and imports of consumer goods continue to rise. Favourable labour market conditions and the resulting growth in personal incomes are also sustaining spending.

Inflation stood at 3.3 percent in December compared with 3.5 percent in November. During the month, prices of food, housing and alcoholic drinks & tobacco rose. This increase in food prices was largely due to higher costs of vegetable & root crops, spices, and restaurant meals. The rises were partially offset

by lower prices recorded in durable household goods and miscellaneous items.

Recent partial indicators of employment suggest further improvements in labour market conditions. Over the year, the total number of newly registered taxpayers rose by around 7.0 percent. The highest annual level of registered new taxpayers recorded. The Reserve Bank's December Survey of Job Advertisements reported an increase in firms' recruitment intentions. Over the year, this number of advertised positions rose by around 18 percent.

In line with the strong domestic economy, monetary indicators strengthened in November. Broad money continued to grow strongly, rising by 12.5 percent while the value of loans outstanding in the banking system rose by 18.2 percent. Lending by licensed credit institutions (LCIs) also increased by 23 percent over the year. New loans disbursed by commercial banks rose by 21.6 percent over the month to \$52 million.

The weighted average lending rate of commercial banks increased by 1 basis point to 7.05 percent at the end of November 2004, while the weighted average commercial bank time, and, saving deposit rates remained at 1.77 percent and 0.36 percent, respectively during the review period. Furthermore, interest rates on new lending fell by 8 basis points to 7.72 percent during November, with new loans extended at lower rates. In contrast, the new deposit rate offered by commercial banks rose by 11 basis points to 1.46 percent in November.

According to the latest Overseas Exchange Trade (OET) data, in 2004, merchandise exports rose by around 12 percent, compared with a decline of around 8 percent in the corresponding period last year.

¹ VAT collections are a partial indicator of consumer spending.

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

Merchandise imports rose by around 18 percent, compared with a growth of around 12 percent in the corresponding period last year.

As at end of 2004, foreign reserves were provisionally around \$789 million, sufficient to cover 3.3 months of imports of goods and non-factor services or 5.3 months of imports of goods only.

SECTORAL DEVELOPMENTS

Developments on the domestic front remained positive during the review period. Good growth was registered across all sectors of the economy. Consumption remained robust, while individual incomes continued to improve. On an annual basis, increases were noted for cane, sugar, gold, copra and electricity production. The construction sector is also performing well, evident from relatively higher value of work put-in-place cumulative to third quarter of 2004.

Consumption

Consumer spending remained buoyant during the year, evident by the robust performance of net VAT collections, a partial indicator of spending. Net VAT collections totalled around \$411 million last year, an increase of around 11 percent on an annual basis. Noting a record year in 2004, net VAT collections also surpassed the targeted level by \$3 million.

The record performance was underpinned by a 14 percent increase in domestic cash collections and a 5 percent increase in VAT collections by the Customs Services. Collections from the Government Department,³ however, recorded an annual decline of around 3 percent last year.

Income

In line with favourable labour market conditions, net income tax collections amounted to around \$317 million in 2004, representing an annual increase of around 11 percent. Total PAYE collections amounted to around \$176 million last year, representing an increase of around 13 percent over the levels of 2003. Total PAYE collections last year also surpassed its target by over 7 percent. This is the first time ever for Fiji Island Revenue Customs Authority (FIRCA) to achieve such a level of collections, setting another record in place.

Collections of most major revenues by FIRCA have noted annual increases last year and industry liaison

has indicated that this is particularly due to better compliance and introduction of the new Fiji Integrated Tax System.

Gold

For the January to December period, total gold production amounted to nearly 130,000 ounces, 15 percent higher than last year's level. This encouraging level of production reflects Emperor Gold Mines (EGM) commitment to achieving an annual production target of 180,000 ounces by 2006. Accordingly, earnings increased on an annual basis by 18 percent to \$91 million, during the review period.

On other industry developments, the Company's \$90 million investment program, initially scheduled to be completed in 2004, encountered some delays. To this end, EGM will continue with its plans in 2005 to complete the remaining projects under the program.

Copra

Production in the copra industry was favourable in the first 10 months of last year. Latest statistics from the Coconut Industry Development Authority (CIDA) show that cumulative to October, copra production amounted to around 8,900 tonnes, representing an increase of 7 percent over the comparable period in 2003. Part of this growth is driven by base effects of low production in 2003, owing to the effects of Cyclone Ami.

Cane and Sugar

The cane and sugar industries performed well last season. Season-end production data provided by the Fiji Sugar Corporation (FSC) indicate that, total cane output amounted to around 3 million tonnes. This represents a 15 percent increase over the previous season. According to FSC, the good performance is mainly due to good cane supply to the mills and relatively lower number of mill breakdowns this season.

In line with the good cane outturn in the cane industry, total sugar produced amounted to 313,000 tonnes for the 2004 season, which is an increase of around 4 percent over last season. Nonetheless, the Tonnes Canes to Tonnes Sugar ratio (9.6:1) has deteriorated when compared with last season (8.8:1).

Electricity Production

Electricity production continues to remain buoyant, consistent with the rise in economic activity. Cumulative to December, total electricity generated was around 646 million kilowatt hours (kwh), an increase of 3 percent over the comparable period last

³VAT from the Customs Services, Government Departments and Domestic collections are 3 separate categories of net VAT collections.

year.

Building and Construction

The construction sector continues to perform well, evident from the value of work put-in-place in the third quarter of last year. According to the latest Building and Construction Survey⁴ report released by Fiji Islands Bureau of Statistics, around \$113.5 million was spent on capital works cumulative to third quarter of last year, an increase of approximately 33 percent on an annual basis.

By categories, cumulative to September last year, the value of work put-in-place by the private sector significantly rose by around 36 percent (\$71.2m), followed by the public sector recording an increase of 27 percent (\$42.3m). This strong growth is in line with our projections of a robust performance by the construction sector for 2004.

Inflation

Inflation was 3.3 percent in December, compared to 3.5 percent in November. Over the month, consumer prices rose by 0.2 percent. During the month, prices of food, housing and alcoholic drinks & tobacco rose. The increase in food prices was largely due to higher costs of vegetable & root crops, spices and restaurant meals. These rises were partially offset by lower prices recorded in durable household goods and miscellaneous items. Prices of heating & lighting, clothing & footwear, transport and services were unchanged over the month.

Labour Market

Conditions in the labour market continued to improve, as indicated by partial indicators of employment. The Reserve Bank's December Survey of Job Advertisements reported an increase in firms' recruitment intentions over the quarter. Over the year, the number of advertised positions rose by around 18 percent. The demand for workers was driven by the community, social & personal services; wholesale & retail trade, restaurants & hotels; finance, insurance, real estate & business services; transport, storage & communications and construction related firms.

Over the year, the total number of newly registered taxpayers rose by around 7.0 percent, compared to last year. This is the highest annual level of registered new taxpayers since records were maintained. 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.

Wage growth remains modest. Looking to the future, according to the Reserve Bank's Fiji Employers Federation (FEF) survey conducted in December, around 79 percent of the respondents anticipate wages to rise between 0-5 percent, while 17 percent expect a rise between 5-10 percent.

Financial Aggregates and Interest Rates

Broad money continued to grow in the year to November, rising by 12.5 percent following an expansion of 15.4 percent in the previous month. The outturn was largely attributed to increases in narrow and quasi money, which in turn was influenced, by rises in demand and savings deposits. The determinants of broad money, comprising domestic credit and net foreign assets, both grew over the year by 13.4 percent and 7.3 percent respectively. The increase in the former was spurred by higher credit to the private sector, which rose by 16.5 percent.

Overall, the total value of outstanding loans in the banking system increased by 18.2 percent to \$1.6 billion. This outcome reflects rising business and consumer confidence and was underpinned mainly by higher lending to private individuals, manufacturing, real estate, and public enterprises sectors. Lending to wholesale & retail trade and building and construction continued to increase as well. 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 stood at \$52 million in November 2004, a rise of 21.6 percent over the month. The higher annual growth registered in loan disbursements during the review period was underpinned by the wholesale, retail, hotels and restaurants, and manufacturing sectors.

Total loans and advances of LCIs also grew at an annual rate of around 23 percent in November, with loans extended mainly to private individuals (mainly for housing purposes), transport & storage, real estate, with impetus also coming from building & construction sectors. The weighted average lending rate of LCIs was 11.78 percent during the review period compared with 11.79 percent in the previous month.

Also, during the review period, total outstanding

⁴ The survey covers all private sector enterprises operating in the private and public sectors of the construction sector.

deposits of commercial banks increased by 8.2 percent, following a growth of 10.4 percent in the year to October. Higher demand deposits by private sector business enterprises and private individuals contributed to the increase in total deposits.

The weighted average lending rate of commercial banks increased by 1 basis point to 7.05 percent at the end of November 2004, while the weighted average commercial bank time and saving deposit rates remained at 1.77 percent and 0.36 percent respectively during the review period.

Furthermore, interest rates on new lending fell by 8 basis points to 7.72 percent during November, with new loans extended at lower rates. In contrast, the new deposit rate offered by commercial banks rose by 11 basis points to 1.46 percent in November.

Meanwhile, interest rates offered by LCIs on new loans and advances and new time deposit rates increased to 13.40 percent and 3.59 percent respectively at the end of November.

Exchange Rates

In December 2004, 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 (0.1 percent), Australian dollar (0.8 percent) and Yen (0.3 percent), but weakened against the New Zealand dollar (0.1 percent) and the Euro (2.5 percent).

The Nominal Effective Exchange Rate index⁵ of the Fiji dollar rose by 0.1 percent in the year to December, indicating an appreciation of the Fiji dollar

against the basket of currencies.

The Real Effective Exchange Rate (REER) Index⁶ of the Fiji dollar, a gauge of our international competitiveness, rose by 0.9 percent during the review period. 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 3.3 percent in December 2004, while average trading partner inflation was around 2.4 percent during the same period.

External sector

On the external front, recent OET data showed that in 2004, merchandise exports rose by around 12 percent, when compared with a decline of around 8 percent in the corresponding period last year. The increase in exports was largely attributed to positive contributions from gold, other re-exports, merchant goods, textiles, clothing & footwear (TCF), and timber, which more than offset the negative contributions from other exports, sugar, and fish.

Last year, merchandise imports rose by around 18 percent, when compared with a growth of around 12 percent in the corresponding 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 TCF, while machinery & transport equipment and, chemicals, led the increase in investment goods. The positive contributions from other exports, merchanted and duty free goods underpinned the increase in payments for consumption goods.

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⁵ 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. This 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

⁶ 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.

FIJI: FINANCIAL STATISTICS

| KEY INDICATORS | Dec-04 | Nov-04 | Oct-04 | Dec-03 |
|---|---------------|---------------|---------------|---------------|
| 1. Money and Credit (year-on-year % change) | | | | |
| Narrow Money | n.a. | 20.71 | 24.90 | 26.41 |
| Currency in Circulation (monthly average) | n.a. | 11.49 | 11.79 | 10.83 |
| Quasi-Money (Time & Saving Deposits) | n.a. | 6.36 | 8.58 | 24.12 |
| Domestic Credit | n.a. | 13.43 | 13.55 | 19.48 |
| 2. Consumer Prices ^{1/} (year-on-year % change) | | | | |
| All Items | 3.3 | 3.5 | 2.8 | 4.2 |
| Food | 2.4 | 3.2 | 3.5 | 6.8 |
| 3. Reserves (end of period) | | | | |
| Gross Foreign Reserves (\$m) | 788.6(p) | 738.8 | 746.3 | 729.0 |
| Months of Imports (goods & non factor services) | 3.5 | 3.3 | 3.3 | 3.2 |
| Months of Imports (goods) | 5.3 | 5 | 5.1 | 4.7 |
| 4. Liquidity (end of period) | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | n.a. | 11.4 | 12.2 | 22.9 |
| Banks' Demand Deposits (\$m) | n.a. | 78.3 | 99.5 | 236.2 |
| 5. Interest Rates (% p.a.) (monthly average) | | | | |
| Lending Rate (Excluding Staff) | n.a. | 7.05 | 7.04 | 7.39 |
| Savings Deposit Rate | n.a. | 0.36 | 0.36 | 0.45 |
| Time Deposit Rate | n.a. | 1.77 | 1.77 | 1.70 |
| 91-day RBF Note Rate (month end) | 1.75 | 1.75 | 1.75 | 1.19 |
| Minimum Lending Rate (MLR) (month end) | 2.25 | 2.25 | 2.25 | 1.75 |
| Overnight Inter-bank Rate | 0.81 | 1.10 | 1.19 | n.a. |
| 5-Year Government Bond Yield | 2.61 | 2.60 | 2.60 | 2.80 |
| 10-Year Government Bond Yield | 5.03 | 5.00 | 5.00 | 4.72 |
| 6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period) | | | | |
| US dollar | 0.6079 | 0.6070 | 0.5855 | 0.5807 |
| Pound sterling | 0.3159 | 0.3204 | 0.3201 | 0.3266 |
| Australian dollar | 0.7799 | 0.7736 | 0.7851 | 0.7752 |
| New Zealand dollar | 0.8465 | 0.8476 | 0.8579 | 0.8876 |
| Swiss francs | 0.6881 | 0.6931 | 0.7030 | 0.7213 |
| Euro | 0.4458 | 0.4572 | 0.4597 | 0.4627 |
| Japanese yen | 62.61 | 62.43 | 62.24 | 62.18 |
| 7. Commodity Prices (US\$) (monthly average) | | | | |
| UK Gold Price/fine ounce ^{2/} | 442.62 | 438.68 | 419.91 | 406.73 |
| London Daily Sugar Price/tonne ^{3/} | 261.87 | 236.82 | 240.87 | 172.21 |
| Crude Oil/barrel ^{4/} | 39.64 | 43.13 | 49.71 | 29.88 |
| <p>n.a. - Not available/No activity n.i. - No issues n.t. - No trading</p> <p>Sources: ^{1/} Fiji Islands Bureau of Statistics ^{2/} Bloomberg and Reserve Bank of Fiji ^{3/} Fiji Sugar Marketing Company Limited ^{4/} Bloomberg</p> | | | | |