



RESERVE BANK OF FIJI

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OVERVIEW

The global economy performed strongly in 2005, despite various shocks arising from natural disasters, terrorism threats and the persistent hike in oil prices. For 2006, the international economy is expected to grow by a similar robust rate of 4.3 percent. Growth prospects for all our major trading partners and selected non-Japan Asian (China, Hong Kong & Singapore) economies are also projected to remain positive this year.

On the domestic front, GDP growth for last year is estimated at 1.7 percent, driven by the strong performance of the wholesale & retail trade and hotels & restaurants sector. For 2006, the GDP growth projection is slightly better at 2.0 percent. This year's economic expansion is anticipated to be led by the agriculture, forestry, fishing & subsistence sectors, driven primarily by an expected turnaround in the performance of the sugar industry.

Over the month, partial indicators suggest that domestic demand remains firm. In particular, indicators of consumption, net VAT collections and cash collections from domestic activities, continued to rise on an annual basis. Individual incomes, a driver of consumer spending, also grew over the period as evident by growth in partial indicators, such as PAYE collections.

Aggregate demand has also been partially built around the building & construction sector, which is thriving on the back of the booming tourism industry. In addition, positive contributions from the copra and electricity industries were noted during the year. Monetary conditions throughout 2005 have also been conducive to aggregate demand growth, with lending for consumption and investment purposes increasing steadily throughout last year.

Inflation remained at modest levels in 2005. The year-end inflation rate was 2.7 percent, which was generally in line with the forecast of around 3 percent. The underlying measure of inflation, the trimmed mean, rose to 1.2 percent, from 1.1 percent recorded in November. At this stage, the year-end inflation forecast for 2006 remains at 3.5 percent.

Money and credit aggregates continued its growth momentum throughout 2005. In the year to November, total money supply rose by 19.9 percent. The growth in money supply was driven partially by higher placements in demand and savings deposits by private sector individuals and business enterprises. During the year to November, deposits with commercial banks and Licensed Credit Institutions (LCI's) grew by 19.2 percent and 3 percent, respectively.

The monetary expansion has also been aided by the continued growth in credit in the banking system. Total domestic credit rose by 22.5 percent over the year in November. This was fuelled primarily by private sector credit, which, in turn, has been boosted by loans to private individuals for housing purposes.

Interest rates movements throughout 2005 were generally conducive to borrowing, with an overall decline in lending rates. This trend continued through November, with both the weighted average commercial bank lending rate, and LCIs interest rate on new loans, declining to 6.66 percent and 11.74 percent, respectively.

In contrast, deposit rates offered by both commercial banks and LCIs, have slowly risen throughout the latter half of 2005. This trend continued over the month of November, with both commercial bank time deposit and savings deposit rates increasing to 1.87

percent and 0.40 percent, respectively. The persistent growth in deposit rates, though marginal, should create further incentive for deposit growth in 2006.

On the external front, latest Overseas Exchange Trade (OET) data showed that, cumulative to November, merchandise exports fell by around 13 percent, while merchandise imports rose by around 19 percent. The growing trade deficit has been largely attributed to Fiji's poor real sector export performance, as well as the continuing high growth in consumption levels which have fuelled imports into the country.

At the end of December 2005, official reserves were estimated at around \$822.4 million, sufficient to cover 2.8 months of imports of goods and non-factor services, or 4.2 months of imports of goods only.

SECTORAL DEVELOPMENTS

Developments in the real sector remained mixed during the review period. Consumption activity continued to hold up well in the first 11 months of 2005, while the copra and electricity industries recorded higher output. The construction sector also performed robustly, which was largely evident from the relatively higher value of work put-in-place recorded in the first three quarters of last year. On the downside though, gold and sugar production remained weak.

Consumption

Consumption levels remained strong, evident by consistent growth in partial indicators of consumer spending. Net VAT collections amounted to \$387 million, representing an increase of around 6 percent on an annual basis.

However, within the overall VAT collections¹, cash collections from domestic activities grew by 12 percent during the same period. This performance was supported by good growth in other partial indicators, such as lending for consumption purposes, which grew by 19 percent in the year to November, and imports of consumption items, which rose by 8 percent.

Sugar

Output in the cane and sugar industry remained weak during the review period. Provisional data from the Fiji Sugar Corporation (FSC) indicates that total cane produced during the 2005 season amounted to around 2.8 million tonnes, close to 7 percent lower than the

previous season. Consistent with the lower cane output, sugar production totalled just around 289,000 tonnes, representing an annual decline of 8 percent.

The lower cane and sugar output in the season was largely attributed to the relatively shorter crushing season in 2005. However, other factors such as poor supply of cane to the mills, persistent cane burning, mill-breakdowns and unfavourable climatic conditions, also hindered production during the year.

Copra

Latest statistics from the Coconut Industry Development Authority (CIDA) show that copra production, cumulative to November, amounted to around 10,400 tonnes. This represented an increase in production of around 9 percent, over the corresponding period in 2004.

In November, the minimum mill gate price of copra remained unchanged at \$500 per tonne, with the government's subsidy towards the gate price at \$87.53 per tonne.

Electricity

Electricity production held up well in 2005. Total electricity generated last year was around 685 million kilowatt hours (kwh), an increase of 6 percent on an annual basis. The production outlook for this sector is promising given the Fiji Electricity Authority's initiative in undertaking new energy projects in the coming months.

Building & Construction

The construction sector continued to perform robustly, evident by the value of work put-in-place. According to the September 2005 Building and Construction Survey² report released by the Fiji Islands Bureau of Statistics, around \$186 million was spent on capital works during the first nine months of last year, a strong increase of 64 percent on an annual basis.

By categories, the total value of work put-in-place by the private sector rose significantly by just a little over 100 percent (to \$143m) in the year to September, followed by the public sector recording an increase of 1.4 percent (to \$43m) during the same period.

Gold

Despite higher gold prices during 2005, gold production was weak. Cumulative to November, total

¹ There are 3 broad categories of VAT collections: (i) import VAT; (ii) cash collections; and (iii) VAT paid by Government.

² The survey covers all private sector enterprises operating in the private and public sectors of the construction industry.

gold output amounted to around 85,000 ounces, 29 percent lower than the corresponding level in 2004. Accordingly, exports earnings declined on an annual basis by 25 percent to \$62.3 million during the period. A number of factors such as high staff absenteeism, equipment failures and high fuel costs, affected production last year.

Inflation

Inflation remained at modest levels in 2005. Despite higher international oil prices, the domestic inflation rate ranged between 1.3 to 3.5 percent during the year. The year-end inflation rate was 2.7 percent, which was generally in line with the forecast of around 3 percent.

Over the month, consumer prices rose by 1.1 percent. This was driven by higher prices of food, alcoholic drinks & tobacco, clothing & footwear and miscellaneous items. Higher prices of food were mainly due to increases in the prices of market items, which rose by 11 percent on a monthly basis.

The underlying measure of inflation, the trimmed mean, rose to 1.2 percent from 1.1 percent recorded in November. At this stage, the 2006 year-end inflation rate is projected at 3.5 percent.

Labour Market

Overall labour market conditions in 2005 were largely favourable, although there were some lay-offs in the manufacturing sector following the expiry of the US garment quota system earlier in the year.

Some partial indicators, however, suggest a slowing in employment growth last year. In terms of new taxpayer registrations, around 6,000 individuals were registered with the Fiji Islands Revenue and Customs Authority (FIRCA) in 2005. This represented a decline of around 17 percent over the year. The community, social & personal services sector recorded the most new taxpayers, followed by the finance, insurance, real estate & business services; wholesale, retail trade, restaurants & hotels; manufacturing; construction; transport, storage & communication; agriculture, forestry & fishing; mining & quarrying; and electricity & water sectors.

Looking ahead, though, employment conditions are expected to improve in the near-term. The Reserve Bank's recent Fiji Employers Federation (FEF) survey revealed that a net of around 59 percent and 41 percent of respondents expected an increase in permanent and temporary employment, respectively. Concerning wages, the majority of the respondents

expected wage levels to increase by between 0-5 percent in the next twelve months.

The FEF survey results were partially supported by the Bank's December Survey of Job Advertisements, which reported an annual increase of 14 percent in recruitment intentions. The community, social & personal services sector continues to record the most number of advertised positions. This was followed by the wholesale & retail trade, restaurants & hotels; finance, insurance, real estate & business services; transport storage & communication and construction sectors.

Monetary Aggregates

Money and credit aggregates continued its growth momentum through 2005. Money supply rose by a further 19.9 percent over the year in November, following an earlier increase of 18.1 percent in October. This trend has been fuelled by persistent growth in all components of money supply; namely savings and time deposits, as well as currency in circulation.

Looking at the demand for funds, total domestic credit rose by a further 22.5 percent over the year in November. This was fuelled primarily by private sector credit which grew by 23.2 percent during the period. Commercial bank lending also rose by 22.1 percent during the review period, underpinned by disbursement of more loans to private individuals, as well as the wholesale & retail trade & hotels & restaurants and real estate sectors. Lending for consumption and investment purposes rose by 18.9 percent and 53.5 percent, respectively, on an annual basis.

Impetus to the credit growth in Fiji is also stemming from LCIs. Lending by LCIs rose by 16.7 percent during the review period, driven by higher lending to private individuals, real estate and building & construction sectors.

In terms of new lending, cumulative to November, new loans disbursed by commercial banks rose by 30.2 percent over the year to \$800.0 million. New loans extended by LCIs also rose during the period, amounting to around \$132.3 million, which represented a 13.3 percent increase over the comparable period in 2004.

On the supply side, total commercial bank deposits rose to around \$2.3 billion during the review period. This represented a 19.2 percent increase over the year, and follows an earlier expansion of around 16.8

percent in October. The increase reflected mainly higher placements by private sector business enterprises and private individuals in demand deposits and savings deposits. Total LCIs deposits also increased, but by a relatively more sedate rate of 3 percent, to around \$135.6 million for the period.

Interest Rates

Interest rate movements remained mixed during the month of November. Both the commercial bank time deposit and savings deposit rates rose by 6 basis points and 7 basis points to 1.87 percent and 0.40 percent, respectively. The commercial bank lending rate, however, declined over the month by 4 basis points to 6.66 percent.

Interest rates on new commercial bank loans and advances also displayed a similar trend, dropping by 5 basis points over the month to 7.62 percent.

Lending interest rates offered by LCIs are also showing a downward trend, with their respective interest rates charged on new loans declining from 12.68 percent (in October) to 11.74 percent in November. However, the weighted average LCI lending rate remained unchanged at 11.35 percent. In terms of deposit rates, the weighted average time deposit rate for LCIs rose by 21 basis points to 4.20 percent. The weighted average deposit rate on new time deposits also increased over the period, by 67 basis points to 3.70 percent.

External sector

On the external front, latest OET data showed that, cumulative to November, merchandise exports 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, merchanted goods, fish 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 with 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).

Growth in imported intermediate goods was largely driven by increased imports of mineral fuels and textiles, clothing and footwear. For investment goods, growth was largely underpinned by increased payments for machinery & electrical equipment and chemicals.

Growth in consumption goods, on the other hand, were supported by increasing imports of duty free goods, food, beverages & tobacco, transport equipment, other imports and government imports.

Exchange Rates

Bilateral movements in exchange rates revealed that, during the month of December, the Fiji dollar generally strengthened against the New Zealand (2.0 percent) and Australian dollars (0.1 percent), but depreciated against the Yen (2.2 percent), Euro (1.3 percent) and the US dollar (0.8 percent).

In December, the NEER index³ of the Fiji dollar fell by 0.3 percent over the year, indicating a slight depreciation of the domestic currency against the basket of currencies. This was accompanied by a corresponding decline in the REER index⁴ of the Fiji dollar by 0.3 percent, which reflected an improvement in the international competitiveness of our exports. The drop in the REER Index was largely due to the lower domestic inflation rate at the end of 2005, relative to our trading partners.

Reserves

At the end of December 2005, official reserves were estimated at around \$822.4 million, sufficient to cover 2.8 months of imports of goods and non-factor services, or 4.2 months of imports of goods only.

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³ 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

⁴ 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.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Dec-05	Nov-05	Oct-05	Dec-04
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	27.28	24.96	13.11
Currency in Circulation (monthly average)	11.67	11.08	11.73	11.35
Quasi-Money (Time & Saving Deposits)	n.a	13.67	12.41	8.07
Domestic Credit	n.a	22.51	23.20	12.53
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	2.7	1.9	1.9	3.3
Food	3.1	0.6	0.3	2.4
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	822.4	885.0	878.0	1045.6
Months of Imports (goods & non factor services)	2.9	3.2	3.1	4.7
Months of Imports (goods)	4.2	4.5	4.5	7.1
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	10.0	8.5	14.1
Banks' Demand Deposits (\$m)	n.a	147.5	107.0	101.0
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	6.66	6.70	7.03
Savings Deposit Rate	n.a	0.40	0.33	0.36
Time Deposit Rate	n.a	1.87	1.81	1.77
91-day RBF Note Rate (month end)	2.25	2.25	1.75	1.75
Minimum Lending Rate (MLR) (month end)	2.75	2.75	2.75	2.25
Overnight Inter-bank Rate	2.09	1.93	1.35	0.81
5-Year Government Bond Yield	3.07	2.88	2.82	2.61
10-Year Government Bond Yield	5.65	5.50	5.44	5.03
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5731	0.5775	0.5838	0.6079
Pound sterling	0.3324	0.3336	0.3306	0.3159
Australian dollar	0.7827	0.7819	0.7792	0.7799
New Zealand dollar	0.8409	0.8245	0.8300	0.8465
Swiss francs	0.7525	0.7581	0.7456	0.6881
Euro	0.4837	0.4899	0.4837	0.4458
Japanese yen	67.53	69.04	67.53	62.61
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	509.34	475.76	469.88	442.62
London Daily Sugar Price/tonne ^{3/}	356.18	306.80	299.09	261.87
Crude Oil/barrel ^{4/}	56.75	55.39	58.56	39.64
<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: ^{1/} Fiji Islands Bureau of Statistics ^{2/} Bloomberg and Reserve Bank of Fiji ^{3/} Fiji Sugar Marketing Company Limited ^{4/} Bloomberg</p>				