



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 and selected non-Japan Asian economies are anticipated to be favourable 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.

On the domestic front, sectoral developments have been generally positive. The economy is projected to grow by 4.7 percent this year. The tourism industry continues to perform exceptionally well, with visitor arrivals in the first five months of this year rising by 22 percent on an annual basis. Sugar and cane production have been higher in June compared with the corresponding period last year. Investment and consumer spending are also holding up well.

Labour market conditions also remained favourable, as evident by partial indicators. Cumulative to June, around 7,700 new individuals were registered with the Fiji Islands Revenue and Customs Authority (FIRCA). On the supply side, the favourable declining trend in the migration of skilled workers continued for the fifth consecutive month this year.

The inflation rate stood at 2.7 percent in June compared with 2.4 percent in May. In the coming months, inflation is expected to remain moderate. The 2004 year-end inflation forecast remains at around 3 percent.

Consistent with developments in the real sector, credit aggregates continued to expand in the year to May. Private sector credit remains strong and rose by 12.5 percent due to increased lending to private individuals (for housing purposes), public enterprises, building &

construction, as well as the wholesale & retail trade sectors. Movements in commercial bank interest rates were mixed. The weighted average lending rate fell marginally to 7.17 percent. The savings deposit rate also fell to 0.36 percent, while the time deposit rate rose to 1.72 percent.

On the external front, latest accrual data, cumulative to May, show that merchandise exports fell by around 5 percent. The decline in export receipts was largely attributed to negative contributions from re-exports, sugar, fish, gold, mineral water and garments, which more than offset the positive contributions from other exports and timber. In the same period, merchandise imports also fell by around 12 percent. The decline in import payments was largely underpinned by lower import payments for investment and intermediate goods, which more than offset positive contributions from consumption goods.

At the end of June, foreign reserves were around \$732 million, sufficient to cover 3.2 months of imports of goods and non-factor services or 4.8 months of imports of goods only.

SECTORAL DEVELOPMENTS

Sectoral performances remained mixed during the review period. The tourism industry continues to experience a consistent and strong increase in visitor arrivals from almost all major source markets. In addition, construction activity remained buoyant, and electricity generation, which partly reflects the level of demand in the economy, increased in the review period. Sugar and cane production also increased in June compared with the corresponding period last year. However, on the negative side, copra production remained weak.

Tourism

The tourism industry has been performing exceptionally well during the review period. According to the Fiji Islands Bureau of Statistics (FIBOS), cumulative to May, visitor arrivals was around 181,000, representing an increase of around 22 percent over the comparable period last year.

For the January to May period, visitor arrivals from almost all our major markets rose, with the exception of Continental Europe. The largest increase in arrivals was recorded from New Zealand (48%) followed by Australia (32%), Canada (32%), US (21%), Japan (14%), Others¹ (12%) and the United Kingdom (3%).

Sugar

Total cane crushed in June 2004 amounted to around 90,000 tonnes, a marginal improvement over the levels attained in June last season. In line with the higher cane output, sugar production amounted to 6,400 tonnes, an increase of 14 percent over the comparable period last season, owing to improved cane quality, as reflected in a lower TCTS (tonnes cane to tonnes sugar) ratio of 13.9:1 (lower than the ratio of 15.8:1 recorded a year ago).

Building and Construction

The construction sector continues to perform well, evident from the value of work put-in-place in the first quarter of this year. According to the latest Building and Construction Survey² report released by FIBOS, around \$34 million was spent on capital works in the first quarter of this year, an increase of approximately 14 percent over the comparable period in 2003.

However, a total of 441 building permits were issued during the review period, representing a 3 percent decline over the 2003 level. On the same note, the total value of permits issued for the first quarter was approximately \$27 million, a decrease of around 61 percent over the comparable period last year³.

Electricity

Electricity production remained favourable in the second quarter of this year. Cumulative to June, total electricity generation amounted to around 338 million kilowatt hours, an increase of around 3 percent over

the comparable period last year. Given that electricity is used in almost all economic processes, the favourable outcome in electricity generation indicates improving domestic economic conditions.

Copra

The performance of the copra industry remained weak during the review period. Cumulative to May, copra production amounted to around 3,800 tonnes, a decline of 23 percent over 2003 levels. The minimum mill gate price of copra for the month of May stood at around \$520 per tonne.

Emigration

Favourable turnaround in the migration of skilled workers continued for the fifth consecutive month this year. Cumulative to May, around 2,400 people migrated to other countries, representing a decline of approximately 9 percent over the comparable levels in 2003.

During the review period, fewer workers under the professional & technical and clerical, sales & services categories migrated relative to last year. However, this was partially offset by an increase in the number of agriculture & production and administrative workers leaving Fiji.

Inflation

Inflation stood at 2.7 percent in June, compared with 2.4 percent in May. Over the month, consumer prices rose by 0.2 percent mainly due to housing, alcoholic drinks & tobacco, transport and miscellaneous items. This was partially offset by a fall in the prices of food items. The underlying measure of inflation, the trimmed mean, was 1.1 percent in June, up from 0.7 percent in the previous month.

In the coming months, inflation is expected to remain moderate. The 2004 year-end inflation forecast remains at around 3 percent.

Labour Market

The number of new taxpayers, a partial indicator for employment, continued to improve over the month. Cumulative to June, around 7,700 new taxpayers were registered with FIRCA. This is around 6 percent higher than the same period in 2003. Sectors that recorded the most new taxpayers included the community, social and personal services, followed by the wholesale & retail trade, restaurants & hotels; finance, insurance, real estate & business services; and others sector.

¹Others' includes Pacific Islands, South Korea, Malaysia, Taiwan, rest of Asia and other remaining countries.

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

³ According to the FIBOS, the high value of permits in the first quarter of 2003 was due to the permits issued for the construction of the SPG sporting facilities.

Financial Aggregates

Commercial bank lending continued to grow at a robust rate. Growth in lending on an annual basis was 12.5 percent in May 2004 from 13.4 percent in the previous month and 11.8 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), building & construction, public enterprises, the wholesale & retail trade sectors as well as to the real estate and manufacturing sectors. In contrast, lending to the mining & quarrying, central & local government, electricity, gas & water and professional & business services sectors contributed negatively to lending growth during the review period.

On a monthly basis, new and renewed loans provided by commercial banks totalled \$40.6 million. This represented a significant decline of around 32.4 percent over the previous month and was largely due to lower lending to public enterprises, wholesale & retail trade, professional & business services, building & construction as well as to manufacturing sectors.

Movements in commercial bank interest rates were mixed during May. The weighted average commercial bank lending rate decreased by 4 basis points to 7.17 percent in May. The savings deposit rate also fell by 6 basis point to 0.36 percent, while the time deposit rate rose by 4 basis points to 1.72 percent.

Exchange Rates

The Nominal Effective Exchange Rate⁴ index of the

Fiji dollar rose by 0.1 percent in the year to June. The rise indicates an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate⁵ Index of the Fiji dollar, a gauge of our international competitiveness rose, by 0.8 percent in the year to June. The increase in the REER Index indicates deterioration in our international competitiveness and was mainly attributed to the relatively higher domestic inflation outcomes. Domestic inflation was 2.7 percent while average trading partner inflation was around 2.0 percent in June.

External sector

According to the latest accrual data, cumulative to May, merchandise exports fell by around 5 percent, compared with a growth of around 8 percent in the corresponding period last year. The decline in export receipts was largely attributed to negative contributions from re-exports, sugar, fish, gold, mineral water and garments, which more than offset the positive contributions from other exports and timber. Cumulative to May, merchandise imports fell by around 12 percent, following a growth of around 33 percent in the corresponding period last year. The decline in imports payments was largely underpinned by the lower import payments for investment goods (-8.9 percent) particularly machinery & electrical equipment and chemicals, and intermediate goods (-5.0 percent), specifically mineral fuels, and oils & fats which more than offset positive contributions from consumption goods (1.6 percent), specifically manufactured goods, miscellaneous manufactured goods and beverages & tobacco.

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⁴ 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.

⁵ 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.