



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

Global economic conditions continued to improve over recent months, with the run of news being generally positive. 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.

Domestically, the economy continues to strengthen. Over the month, sectoral outcomes were generally positive. The tourism industry continues to perform buoyantly, with visitor arrivals in the first four months of this year rising by 22 percent on an annual basis. Investment and consumer spending are also holding up well, while emigration continued its favourable downward trend for the fourth consecutive month. Labour market conditions also remained favourable.

The inflation rate stood at 2.4 percent in May. Over the month, consumer prices fell by 0.4 percent mainly due to lower prices of food and durable household goods. The underlying measure of inflation, the trimmed mean, was 0.7 percent in May, down from 0.9 percent in the previous month. In the coming months, inflation is anticipated to remain around current levels. The forecast for 2004 year-end inflation remains at around 3 percent.

In the labour market, conditions generally improved in the first five months of the year, evident by latest partial indicators. Cumulative to May, around 7,200 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 fourth consecutive month this year.

Money and credit aggregates continued to grow, albeit at a slower pace. In the year to April, broad money grew by 4.7 percent, following a 6.1 percent growth in

March. Private sector credit remains strong and rose by 13.4 percent due to increased lending to public enterprises, building & construction, real estate, transport & storage, manufacturing and agriculture sectors as well as to private individuals (for housing & consumption purposes). Movements in commercial bank interest rates were mixed. The weighted average lending rate fell marginally to 7.21 percent. The savings deposit rate also fell to 0.42, while the time deposit rate rose to 1.68 percent.

On the external front, latest Overseas Exchange Transactions (OET) data, cumulative to April, merchandise exports rose by around 14 percent. The rise was underpinned by positive contributions from textiles, clothing & footwear, fish, merchanted goods and gold, which more than offset negative contributions from sugar and other exports. In the same period, merchandise imports also rose by around 20 percent. Higher import payments were largely attributed to positive contributions from investment goods, intermediate goods and consumption goods.

At the end of May, Fiji's foreign reserves were around \$757 million, sufficient to cover 3.3 months of imports of goods and non-factor services or 5.0 months of imports of goods only.

SECTORAL DEVELOPMENTS

Sectoral performances remained mixed during the review period. The tourism industry continues to perform buoyantly. Investment and Consumption are holding up well, while migration of skilled workers continued its favourable downward trend for the fourth consecutive month. However, performance of the mining and quarrying sector has been weak.

Tourism

The tourism industry has been performing exceptionally well during the review period.

According to the Fiji Islands Bureau of Statistics (FIBS), cumulative to April, visitor arrivals was around 142,000, representing an increase of around 22 percent over the comparable period last year.

For the January to April 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 (45%) followed by Australia (35%), Canada (29%), US (21%), Japan (15%), Others¹ (9%) and the United Kingdom (2%).

Gold

Cumulative to April, total gold production amounted to just over 38,000 ounces (38,466), around 6 percent lower than last year's level. The decline is largely due to lower quality ore extracted at the mine.

Consumption

Cumulative to April, net Value Added Tax (VAT) collections, a partial indicator of consumer spending, amounted to around \$120 million, a marginal decline of around 0.2 percent over the corresponding period last year. Declines were recorded in VAT collected from Customs Services (4.0 percent) and Government Departments (3.0 percent). However, VAT collections from other domestic categories were higher during the review period, by around 11.0 percent.

As for customs revenue collections cumulative to April, this amounted to around \$89.5 million, an increase of around 18 percent over the corresponding period last year. Fiscal duty and excise duties collections, both major components of customs revenue, rose by 17 percent and 25 percent, respectively.

Emigration

Favourable turnaround in the migration of skilled workers continued for the fourth consecutive month this year. Cumulative to April, around 1,900 people migrated to other countries, representing a decline of approximately 14 percent over the comparable levels in 2003.

By occupational categories, declines were noted in Professional & Technical (30%) and Clerical, Sales & Services (17%) categories. On the other hand, emigrating workers from the Administration and Agriculture & Production categories experienced an increase of 7 percent and 3 percent respectively.

Notably, this is the first time that workers in the Clerical, Sales and Services together with Agriculture and Production category represent the highest number of emigrating workers for the review period. Emigrating workers in the Professional & Technical category follow these two categories closely.

Public Finance

On the fiscal front, provisional figures from the Ministry of Finance² indicate that, cumulative to April, Government recorded a budget surplus of \$9.6 million, equivalent to 0.6 percent of GDP. Underpinning the surplus was a 5.2 percent decline in net expenditure (excluding loan repayments) coupled with a 0.3 percent increase in revenue³. Compared with forecasts, total expenditure was lower by 22.1 percent, while net revenue collections surpassed projections by 6.2 percent. This reflects a buoyant domestic demand and improved compliance by the FIRCA, which has resulted in strong and above-forecast revenue collections for the first quarter of the year.

On the expenditure side, the fall in Government spending was underpinned by a 43.5 percent annual decline in capital spending. On the other hand, direct taxes increased by 15.0 percent, while indirect tax revenue collections recorded a 2.4 percent annual growth. The growth in indirect tax collections was led by increases in excise duty (25.2%) and fiscal duty (17.2%) collections. Notably, both direct and indirect tax collections surpassed the targeted levels by 18.9 percent and 4.7 percent, respectively.

In the first five months of 2004, net domestic borrowing by Government was only \$10 million, against \$64.7 million in the comparable period last year. As at the end of May 2004, total outstanding domestic debt was \$1974 million, 11.9 percent more than that recorded a year ago.

Inflation

Inflation stood at 2.4 percent in May, compared with 3.2 percent in April. Over the month, consumer prices fell by 0.4 percent mainly due to lower prices of food and durable household goods. The underlying measure of inflation, the trimmed mean, was 0.7 percent in May, down from 0.9 percent in the previous month.

The inflation rate has come down as the supply of primary produce normalised, following a temporary shortage caused by the recent flood. In the coming months, inflation is anticipated to remain around

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

²Sourced from the State of Government Finances.

³There were no asset sales recorded in the review period.

current levels. 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 May, around 7,200 new individuals were registered with FIRCA. This is around 4 percent higher than the same period in 2003. Sectors that recorded the most new taxpayers included the finance, insurance, real estate & business services; wholesale, retail trade, restaurants & hotels and community, social and personal services.

Financial Aggregates

Broad money grew by 4.7 percent in April, following a 6.1 percent growth in March. The slower growth in April as compared to March was primarily due to a decline in narrow money⁴ by 11.8 percent. This was underpinned by a fall in demand deposits and local bills payable, which more than offset increases in currency in circulation. On the other hand, quasi money continued its robust growth into April, rising by 17.9 percent, largely due to a build up in time deposits.

On the determinants of broad money, domestic credit and net foreign assets both recorded growths of 13.8 percent and 24.1 percent in April, respectively. The rise in domestic credit was due to a 13.4 percent growth in private sector credit, increase in credit to official entities by 16 percent and an expansion of 15.2 percent in net credit to Government.

Growth in private sector credit was driven by higher commercial bank lending to public enterprises, building & construction, real estate, transport & storage, manufacturing and agriculture sectors as well as to private individuals (for housing & consumption purposes). In contrast, lending to the non-bank financial institutions, central & local government, electricity, gas & water, wholesale, retail, hotels & restaurant, and mining & quarrying sectors contributed negatively to lending growth during the review period.

On a monthly basis, new and renewed loans provided by commercial banks totalled \$60.1 million. This represented an increase of around 6.0 percent over the previous month and was largely due to higher lending to public enterprises and the building & construction

sectors

Movements in commercial bank interest rates were mixed during the review period. The weighted average commercial bank lending rate decreased by 6 basis points to 7.21 percent in April. The savings deposit rate also fell by 1 basis point to 0.42 percent, while the time deposit rate rose by 7 basis points to 1.68 percent.

Exchange Rates

The Nominal Effective Exchange Rate⁵ index of the Fiji dollar rose by 0.2 percent in the year to May. The rise indicates an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate⁶ Index of the Fiji dollar, a gauge of our international competitiveness rose, by 0.5 percent in the year to May. 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 2.4 percent while average trading partner inflation was around 1.8 percent in May.

External sector

According to the latest OET data, cumulative to April, merchandise exports rose by around 14 percent, compared with a negative growth of around 6 percent in the corresponding period last year. The increase in export receipts was largely attributed to positive contributions from textiles, clothing and footwear, fish, merchanted goods and gold, which more than offset negative contributions from sugar and other exports. Cumulative to April, merchandise imports rose by around 20 percent, following a growth of around 15 percent in the corresponding period last year. The increase in imports payments was largely attributed to positive contributions from investment goods (10.4 percent), specifically machinery & electrical equipment and chemicals, intermediate goods (9.2 percent) particularly mineral fuels, textiles, clothing & footwear and raw materials, and consumption goods (0.1 percent), specifically some types of other imports.

RESERVE BANK OF FIJI

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. 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.

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.

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.