



RESERVE BANK OF FIJI

ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

21

03

March 2004

OVERVIEW

International economic conditions improved further, led by faster-than-expected expansion in the US economy. Strong performances by Asian economies, particularly China, are also contributing to the robust recovery. Furthermore, the growth outlook for our other major trading partners also remains positive.

Domestically, following last year's strong performance, the economy is anticipated to record good growth this year. The wholesale & retail trade, restaurants & hotels and manufacturing sectors are expected to lead growth in 2004. Strong contributions are also anticipated from the building & construction and transport, storage & communication sectors.

Sectoral performances remained positive in the year to March. The tourism industry performed well, with visitor arrivals in January rising by 16 percent over the comparable period last year. Domestic demand remains strong, evident by increased currency in circulation and higher lending for consumption purposes. Robust consumption continues to be supported by increased visitor arrivals, relatively low lending rates and positive labour market conditions. In addition, investment continues to strengthen, led by the construction sector. Gold production, however, remained weak in the first two months of the year.

The inflation rate fell further in February to 1.8 percent. In the coming months, inflationary pressures are expected to remain modest, with the year end inflation projected at around 3 percent.

Labour market conditions continued to improve further into the year, with a rise in the number of new taxpayers during the first two months of the year. On

the wage front, the only significant development was the 1 percent merit-based increment paid to civil servants in February this year.

Growth in the money and credit aggregates slowed in the year to January, after expanding in December 2003. Broad money grew by 12.9 percent, following 25.2 percent in December. Private sector credit grew by 14.2 percent, down from 16.8 percent in December. The growth in private sector credit continues to be driven by higher commercial bank lending to private individuals (for housing & consumption purposes), building & construction, real estate and manufacturing sectors. Movements in commercial bank interest rates were mixed. The weighted average lending rate rose marginally to 7.41 percent. The savings deposit rate also rose to 0.46 percent, while the time deposits rate fell to 1.68 percent.

On the external front, latest Overseas Exchange Transactions (OET) data, cumulative to February, shows that exports rose by around 8.5 percent. The rise was underpinned by positive contributions from textiles, clothing & footwear, merchanted goods and fish, which more than offset negative contributions from sugar, gold and other exports. In contrast, merchandise imports rose during the same period by around 11.8 percent. Higher import payments were largely attributed to positive contributions from investment goods and intermediate goods, which more than offset negative contributions from consumption goods.

At the end of February, Fiji's foreign reserves were around \$744 million, sufficient to cover 3.1 months of imports of goods and non-factor services or 4.6

months of imports of goods only.

SECTORAL DEVELOPMENTS

Sectoral performances are expected to strengthen this year, with prospects of positive growth in all sectors of the economy.

Tourism

The tourism industry started the year with a strong performance. According to the Fiji Islands Bureau of Statistics, visitor arrivals for January totalled around 35,000, an increase of 16 percent over the comparable period last year. The growth was led mainly by Australia, US, New Zealand, Canada and the UK.

Gold

Total gold production in the first two months of the year was around 20,000 ounces, representing a 2 percent decline over the comparable period last year. The decline is attributable to lower quality ore extracted at the mine.

Total gold earnings for the review period amounted to around \$13 million, around 6 percent lower than the comparable period last year.

Inflation

In February, the inflation rate was 1.8 percent, down from 2.8 percent in January. Over the month, consumer prices fell by 0.2 percent, mainly attributed to weaker prices of food, clothing & footwear and transport. This was partially offset by an increase in the prices of heating & lighting, durable household goods, miscellaneous items, alcoholic drinks & tobacco, housing and services. The underlying measure of inflation, the trimmed mean, was 1.3 percent in February, compared with 1.8 percent in January.

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

Labour Market

Labour market conditions continued to exhibit positive developments. Cumulative to February, the number of newly registered taxpayers with the Inland Revenue Department, a partial indicator for employment, was around 3,000. The community, social & personal services sector recorded the highest number of new taxpayers, followed by the manufacturing, finance, insurance and real estate & business services sectors. On the wages front, civil

servants received a 1 percent merit-based increment in February this year.

Financial Aggregates

Broad money grew by 12.9 percent in January, following a 25.2 percent growth in December. The slower growth in January as compared to December was largely due to active open market operations undertaken by the Bank, which resulted in a fall in narrow money¹, driven by a contraction in demand deposits. On the other hand, quasi money continued its strong growth into January, rising by 27.5 percent, following a 24.1 percent growth in December. The growth was driven by a 46.4 percent increase in time deposits, while savings deposits grew at a slower pace of 10.5 percent.

On the determinants of broad money, domestic credit and net foreign assets both recorded growths of 16.1 percent and 16.3 percent in January, respectively. The increase in net foreign assets was largely underpinned by a rise in foreign reserves holdings. The rise in domestic credit, on the other hand, was due to a 14.2 percent growth in private sector credit and an expansion of 32.8 percent in net credit to Government (mainly for investment in Government securities).

Increases in private sector credit were driven by higher commercial bank lending to private individuals (for housing & consumption purposes), building & construction and manufacturing sectors. In contrast, lending to the agriculture, mining & quarrying, electricity, gas & water, central & local government and statutory bodies sectors fell during the review period.

On a monthly basis, in January total commercial bank lending rose by 0.3 percent, following an increase of 1.2 percent in the previous month. During the same period, New lending by commercial banks rose by 20.9 percent to \$99.1 million, driven largely by increased lending to the wholesale & retail services and manufacturing sectors.

Movements in commercial bank interest rates were mixed during the review period. The weighted average commercial bank lending rate rose by 2 basis points for the second consecutive month to 7.41 percent in January. The savings deposit rate also rose, by 1 basis point to 0.46 percent, while the time deposits rate fell by 2 basis points to 1.68 percent.

¹ 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.

Exchange Rates

The Nominal Effective Exchange Rate² index of the Fiji dollar rose by 0.6 percent in the year to February. The rise indicates an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate³ Index of the Fiji dollar, a gauge of our international competitiveness rose, by 0.5 percent in the year to February. The increase indicates deterioration in our international competitiveness and was mainly attributed to the relatively higher domestic inflation outcomes. Domestic inflation was 1.8 percent while average trading partner inflation was around 1.7 percent in February.

External Sector

According to the latest OET data, cumulative to

February, merchandise exports rose by around 8.5 percent, compared with an increase of around 5.5 percent in the corresponding period last year. The rise in export receipts was largely attributed to positive contributions from textiles, merchanted goods and fish, which more than offset negative contributions from sugar, gold, and other exports.

During the same period, merchandise imports rose by around 11.8 percent, following a growth of around 28.9 percent in the corresponding period last year. The increase in imports payments was largely attributed to higher imports of investment goods (8.4 percent), particularly machines, machinery & electrical equipment and chemicals; and intermediate goods (5.8 percent), specifically raw materials, textiles, clothing & footwear and mineral fuels.

RESERVE BANK OF FIJI

² 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.

³ 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.