



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW AND RECENT DEVELOPMENTS

Economic prospects for the international economy remain firm although there is some evidence of a slowdown in growth when compared to 2005. There were slight downward revisions to growth rates for the United States, Australia and New Zealand, but the prospects for Japan and the European economies were slightly improved. Growth prospects for China, Hong Kong and Singapore are also quite firm, with China in particular, expecting a buoyant 9 percent growth rate. Crude oil prices, while largely stable so far this year, remain close to the 2005 highs and continue to pose a downside risk to overall global economic growth.

The domestic economic growth rate is expected to improve slightly in 2006. Growth this year is expected to be led by the agriculture, forestry, fishing & subsistence sector followed by the wholesale & retail trade and hotels and restaurants; and the building and construction sectors.

Investment, which has been supportive of growth, is likely to remain robust. Latest partial indicators, such as imports of investment goods and lending for investment purposes show healthy growth. Data from commercial banks revealed that outstanding loans for investment purposes grew by 65 percent in January, following a 45 percent rise in 2005.

Following two years of strong annual growth of around 30 percent, the value of work put in place by the building and construction sector is expected to record an increase of around 4 percent in 2006. Some of the large-scale private sector projects expected to commence/continue this year include: the Carpenters Towers, Denarau Beach Resort, Hilton Fiji Beach Resort and Spa and Likuliku Lagoon Resort. This is in addition to the large public sector projects already in progress, such as the Rewa Bridge, extension to the Ports and an upgrade of the airports. These

construction activities, as well as other forms of capital investment (such as purchase of machinery and electrical equipment), is anticipated to take the investment level this year to around 17 percent of GDP.

On the external front, there were some positive signs in the first month of the year. However, with data available for only one month, it is too early to draw optimistic conclusions. Trade forecasts for 2006 remain bleak and the general weakness in traditional exports is not expected to match mounting import levels.

The latest Overseas Exchange Trade (OET) data showed that in January 2006, merchandise exports rose by around 25 percent year-on-year, compared with a decline of around 50 percent in the same period last year. The rise in receipts was largely attributed to higher earnings from sugar, other exports, gold, re-exports of mineral fuels, copra, merchanted goods, timber and ginger which more than offset lower receipts from textiles, clothing & footwear, fish and other re-exports.

During the same period, merchandise imports rose by around 26 percent, compared to a negative growth of around 16 percent in January 2005. The increase in import payments was due to positive contributions from all categories: consumption goods (14.9 percent), investment goods (9.6 percent) and intermediate goods (1.1 percent).

On the whole, exports are still underperforming whilst imports continue to grow. The mounting imports bill is reflective of the strong consumer demand being witnessed and it is in light of this strong consumer demand that the Bank recently introduced some monetary tightening measures.

The new measures are aimed at curbing credit growth, which generally has been financing the higher import payments, and to provide for a more conducive environment for flow through of earlier interest rate increases. The new measures include an increase in the Statutory Reserve Deposit ratio from the current 5 percent to 7 percent¹ of all licensed commercial banks' deposits and similar liabilities and a 50 basis point increase in the margin between the official indicator rate and the Minimum Lending Rate (MLR). The new MLR will be 100 basis points above the official indicator rate which will bring it to 4.25 percent.

In line with stronger domestic demand, money and credit aggregates continued to grow strongly in the year to December 2005. Provisional statistics show that money supply rose by 15 percent in the year to December, a slight slowdown from the 19.9 percent recorded for the year to November. For 2005, the outturn was largely attributed to increases in all components of money supply; demand, time and savings deposits with impetus also coming from currency in circulation.

For 2006, total commercial bank credit data for January grew by a historical high of 22.8 percent. Credit expansion continues to be primarily driven by borrowing from private individuals, building & construction and wholesale & retail sectors. Loans to private individuals for housing purposes continue to dominate and accounts for 79.8 percent of total lending to this sector.

On interest rates, commercial banks' weighted average lending rates declined over the quarter, while deposit rates rose. As at January 2006, the weighted average lending rate was 6.62 percent while savings and time deposit rates were 0.46 percent and 2.33 percent, respectively.

Foreign reserves, at the end of February, totalled \$854 million. This is equivalent to 4 months of imports of goods.

MACROECONOMIC DEVELOPMENTS

Inflation

Inflation in February stood at 2.2 percent compared with 2.3 percent in January. Over the month, consumer prices rose by 0.2 percent. During the month, prices of housing, services, miscellaneous items and durable household goods rose. The

increases of prices in these categories were partially offset by falls in costs of alcoholic drinks & tobacco and clothing & footwear. Prices of food, heating & lighting and transport remained unchanged. Higher housing prices is mainly due to the increase in rent for private dwellings, while the services subgroup was surveyed again in February, thus capturing more price increases in the subgroup.

The underlying measure of inflation, the trimmed mean, rose to 1.8 percent from 0.9 percent recorded in January. The year-end inflation forecast remains at 3.5 percent.

Labour Market

Notwithstanding a slowdown noticed in some sectors, labour market conditions on the whole are improving.

Cumulative to February, around 2,600 individuals were registered as taxpayers with the Fiji Islands Revenue and Customs Authority, declining by around 2 percent over the same period in 2005. Registrations in most sectors fell, except for the community, social & personal services and others sectors² which increased by 18 percent and 175 percent, respectively. The declines were largely due to fewer registrations in the construction; electricity & water; mining & quarrying; transport storage & communication; and agriculture, forestry & fisheries sectors.

The community, social & personal services sector recorded the largest number of new taxpayers followed by the finance, insurance, real estate & business services; manufacturing; wholesale, retail trade, restaurants & hotels; transport, storage & communications; construction; agriculture, forestry & fisheries, mining & quarrying and the others sectors.

Monetary & Credit Aggregates

Money and credit aggregates continued its growth momentum into 2005. Provisional statistics reveal that money supply rose by 15.0 percent in the year to December 2005, following a rise of 19.9 percent in the preceding month. The outturn was largely attributed to increases in all the components of money supply; demand, time and savings deposits with impetus also coming from currency in circulation.

Total domestic credit also rose by 26.6 percent during the review period, fuelled primarily by private sector credit which grew by 24.5 percent, after a growth of 23.2 percent recorded in November. The growth in private sector credit was in line with higher

¹ This policy will be effective from 8 May, 2006.

² Others sector includes those taxpayers for which activities are not defined.

commercial bank lending.

Total commercial bank credit grew by a historical high of 22.8 percent over the year to January 2006. Credit expansion continues to be primarily driven by borrowing by private individuals, and the building & construction and wholesale & retail sectors. Over the year to January, total credit to private individuals rose by 24 percent. Comparable data for 2005 showed a steady increase throughout the year and recent data indicates an on-going rising trend. Loans for housing purposes continue to dominate and accounts for 79.8 percent of total lending to the private individual sector and 26.6 percent of total loans by commercial banks.

Credit for consumption purposes slowed during the review period. Over the year to January, the level of consumption credit outstanding increased at an annualised rate of 11.4 percent, compared to 17.7 percent recorded in December. Lending for investment purposes grew by 65 percent during the review period totalling \$310 million at the end of January. New loans disbursed by commercial banks recorded an annual increase of 40 percent, while on a monthly basis total new loans declined by 23.2 percent to \$80.2 million.

On the supply side, total commercial bank deposits rose by 17.9 percent in the year to January 2006 to around \$2.4 billion, following a growth of 15.7 percent in December.

Interest Rates

Interest rate movements during the January period were generally on an upward trend. Both the commercial bank time deposit and savings deposit rates increased, by 30 basis points and 6 basis points to 2.33 percent and 0.46 percent, respectively. The commercial bank lending rate, however, declined marginally over the month by 1 basis point to 6.62 percent. In addition, interest rates on new deposits and new loans by commercial banks also rose, by 96 basis points to 3.19 percent and 29 basis points to 6.91 percent, respectively.

Exchange Rates

Bilateral movements in exchange rates reveal that during the month of February, the Fiji dollar generally strengthened against the New Zealand dollar (1.8 percent), Euro (0.6 percent) and the Australian dollar (0.1 percent), while it depreciated against the Yen (2.6 percent) and US dollar (1.4 percent).

External sector

On the external front, there were some positive signs in the first month of the year although with data available for only one month it is too early to draw optimistic conclusions. Forecasts for 2006 remain bleak and the general weakness in traditional exports is not expected to match mounting import levels. The latest OET data showed that in January 2006, merchandise exports rose by around 25 percent, compared with a decline of around 50 percent in the corresponding period in 2005. The increase in receipts was largely attributed to higher earnings from sugar, other exports, gold, re-exports of mineral fuels, copra, merchanted goods, timber and ginger which more than offset lower receipts from textiles, clothing & footwear, fish and other re-exports.

During the same period merchandise imports rose by around 26 percent, compared to a negative growth of around 16 percent in the corresponding period in 2005. The increase in import payments was due to positive contributions from all categories: consumption goods (14.9 percent), investment goods (9.6 percent), and intermediate goods (1.1 percent). The higher payments for consumption goods were largely attributed to higher import payments for duty free goods, food, beverage & tobacco, transport equipment and other imports. The growth in investment goods was largely made up of increases in imports of machinery & electrical equipment which more than offset the decline in chemicals. The rise in intermediate goods was underpinned by the increase in payments for textiles, clothing & footwear and raw materials which more than offset the negative contribution from mineral fuels.

RESERVE BANK OF FIJI

FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Feb-06	Jan-06	Dec-05	Feb-05
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a	n.a	17.59	31.43
Currency in Circulation (monthly average)	10.22	9.88	11.67	10.64
Quasi-Money (Time & Saving Deposits)	n.a	n.a	12.76	7.28
Domestic Credit	n.a	n.a	26.85	12.29
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	2.2	2.3	2.7	3.5
Food	3.0	3.7	3.1	3.7
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	853.6	905.8	822.4	1025.7
Months of Imports (goods)	4.0	4.3	4.2	5.3
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a	9.4	8.3	12.3
Banks' Demand Deposits (\$m)	n.a	113.8	71.5	85.5
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a	6.62	6.63	6.92
Savings Deposit Rate	n.a	0.46	0.40	0.36
Time Deposit Rate	n.a	2.33	2.03	1.77
91-day RBF Note Rate (month end)	2.25	n.i	2.25	1.75
Minimum Lending Rate (MLR) (month end)	3.75	2.75	2.75	2.25
Overnight Inter-bank Rate	n.t	n.t	2.09	0.82
5-Year Government Bond Yield	4.00	n.i	3.07	2.64
10-Year Government Bond Yield	6.73	n.i	5.65	5.08
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5708	0.5788	0.5731	0.6074
Pound sterling	0.3281	0.3276	0.3324	0.3166
Australian dollar	0.7743	0.7736	0.7827	0.7724
New Zealand dollar	0.8654	0.8501	0.8409	0.8420
Swiss francs	0.7547	0.7452	0.7525	0.7060
Euro	0.4816	0.4790	0.4837	0.4586
Japanese yen	66.32	68.09	67.53	63.90
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	555.63	547.21	509.34	422.69
London Daily Sugar Price/tonne ^{3/}	440.88	384.81	356.18	265.37
Crude Oil/barrel ^{4/}	59.92	63.57	56.75	45.56
<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>				