



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

Global economic and financial conditions continue to strengthen, underpinned by strong performances in the US and Japanese economies, as well as leading Asian countries like China, Singapore and Hong Kong. Prospects for our other trading partners also remain favourable.

Domestically, the economy continues to perform well. The building & construction and wholesale & retail trade sectors are expected to lead growth this year. In the coming months, positive domestic outcomes are also expected to be supported by further improvements in the global economy.

Developments in the real sector during the review period indicated positive outcomes. The performance of the tourism industry has been overwhelming. Investment is also holding up well, while emigration continued its favourable downward trend for the third consecutive month. Moreover, robust consumption continues to be supported by increased visitor arrivals, relatively low lending rates and positive labour market conditions.

The inflation rate stood at 3.2 percent in April. During the month, the prices of food, clothing & footwear, housing and durable household goods rose. In the coming months, higher prices of market items are likely to exert some upward pressure on inflation. On a positive note, low trading partner inflation should moderate import prices and thus domestic prices. The forecast for 2004 year-end inflation remains at around 3 percent.

Labour market conditions continued to improve further into the year, evident by improvements in partial indicators of employment. Cumulative to April, the number of newly registered taxpayers increased to around 6,430. On the wages front, so far

this year, private sector wage awards ranged between 2-6 percent. These increments accommodate both, Cost Of Living Adjustments as well as merit increases.

Money and credit aggregates continued to rise, reflecting the strong consumer demand. At the end of first quarter, broad money grew by 6.1 percent, largely due to an increase in currency in circulation. Private sector credit remains strong and rose by 12.0 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 continue to trend downwards. The weighted average lending rate fell marginally to 7.30 percent. The savings deposit rate and the time deposit rate also fell to 0.43 percent and 1.61 percent, respectively.

At the end of April, Fiji's foreign reserves were around \$752 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 during the review period indicated positive outcomes. The performance of the tourism industry has been overwhelming and outcomes in the construction sector have also been positive. Encouragingly, migration of skilled workers continued its favourable downward trend.

Tourism

The tourism industry fared strongly during the review period. According to the Fiji Islands Bureau of Statistics (FIBS), cumulative to March, visitor arrivals was around 105,000, representing a 22 percent

increase over the comparable period last year. Additionally, this is the first time ever that visitor arrivals have aggregated to around 105,000 during the January-March period.

Electricity Production

Electricity production remained favourable in the first quarter of this year. Cumulative to March, total electricity generation amounted to around 175 million kilowatt hours, an increase of around 6 percent over the comparable period last year.

Public Finance

Provisional figures from the Ministry of Finance¹ indicate that for the first quarter of this year, Government recorded a budget surplus of \$7.2 million, equivalent to 1.8 percent of GDP. Underpinning the surplus was a 3.1 percent decline in net expenditure (excluding loan repayments) coupled with a 6.9 percent increase in revenue². Compared with forecasts, total expenditure was lower by 25.7 percent, while net revenue collections surpassed projections by 18.4 percent.

The fall in Government expenditure was due to a 36.4 percent annual decline in capital spending. On the revenue side, direct taxes increased by 13.3 percent during the same period. In addition, indirect tax revenue collections recorded a 12.2 percent annual growth, led by increases in fiscal and excise duty collections. Compared with forecasts, direct taxes surpassed the target by 16.3 percent, while indirect taxes exceeded projections by 13.4 percent.

Emigration

The decline in the migration of skilled workers continued for the third consecutive month. Cumulative to March, emigration statistics from the FIBS show that around 1,400 people migrated to other countries, a decline of around 21 percent over the comparable levels in 2003.

By occupational categories, declines were noted in all the categories with the exception of the Administration category. The Professional & Technical category accounted for the highest decline (33%), followed by Clerical, Sales & Services (22%) and Agriculture & Production (9%). On the contrary, the Administration category recorded an increase (3%). The Professional and Technical workers category still represents the highest number of

emigrating workers and is followed by Clerical Sales and Services workers.

Inflation

Inflation was 3.2 percent in April, compared with 2.2 percent in March. Over the month, consumer prices increased by 1.7 percent mainly due to higher prices of food, clothing & footwear, housing and durable household goods. The underlying measure of inflation, the trimmed mean, was 0.9 percent in April.

The current increase in the inflation rate generally reflects the adverse effects of recent flooding on prices. In the coming months, higher prices of market items are likely to exert some upward pressure on inflation. On a positive note, low trading partner inflation should moderate import prices and thus domestic prices. On the balance, inflation is expected to remain around current levels. The forecast for 2004 year-end inflation remains at around 3 percent.

Labour Market

New taxpayers, a partial indicator for employment, remained favourable. Cumulative to April, the number of newly registered taxpayers increased to around 6,430. Sectors that recorded the most newly registered taxpayers include community, social and personal services; wholesale, retail trade, restaurants and hotels; finance, insurance, real estate & business services; and manufacturing. On the wages front, so far this year private sector wage awards range between 2-6 percent. These increments accommodate both, Cost Of Living Adjustments as well as merit increases.

Financial Aggregates

Broad money grew by 6.1 percent in March, following a 12.0 percent growth in February. The slower growth in March as compared to February was primarily due to a decline in narrow money³ 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 strong growth into March, rising by 23.1 percent, following a higher growth of 24.7 percent in February. The growth was driven by a 41.0 percent increase in time deposits, while savings deposits grew at a slower pace of 7.9 percent.

On the determinants of broad money, domestic credit

¹ Sourced from the State of Government Finances.

² There were no asset sales recorded in the review period.

³ 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.

and net foreign assets both recorded growths of 12.8 percent and 15.5 percent in March, respectively. The rise in domestic credit was due to a 12.1 percent growth in private sector credit, increase in credit to official entities by 12.5 percent and an expansion of 16.5 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 \$56.7 million. This represented a decline of around 5.0 percent over the previous month and was largely due to lower lending to the mining & quarrying, manufacturing, building & construction, real estate and professional business

services sectors.

Movements in commercial bank interest rates were on a downward trend during the review period. The weighted average commercial bank lending rate decreased by 2 basis points to 7.30 percent in March. The savings deposit rate and the time deposit rate also fell by 1 basis point to 0.43 percent and by 8 basis points to 1.61 percent, respectively.

Exchange Rates

The Nominal Effective Exchange Rate⁴ index of the Fiji dollar rose by 0.7 percent in the year to April. 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 2.0 percent in the year to April. 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 3.2 percent while average trading partner inflation was around 1.7 percent in April.

RESERVE BANK OF FIJI

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.