



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

The world economy is expected to grow by 5 percent, the highest for nearly three decades. The upward revision of the global economic expansion reflects the strong growth in the US, which is supported by the exceptionally rapid growth in Asian economies (particularly China). In line with the global economic recovery, all our major trading partners are anticipated to record higher growth this year compared to last year. Global imbalances, notably gaping deficits in the United States, and the level of global crude oil prices still pose key risks.

Economic data for Fiji indicate that conditions largely remain positive. Consumer spending remains strong. Sectoral performances continue to hold up well. There are preliminary signs for a pickup in exports, though growth in imports still post higher. Firm labour market and investment conditions, modest inflation as well as relatively lower interest rates in turn, are complimenting the current economic environment.

Labour market conditions remained favourable, as evident by partial indicators. Cumulative to September, new taxpayers registered with the Fiji Islands Revenue and Customs Authority (FIRCA) rose by 6.0 percent over the year.

The inflation rate stood at 3.4 percent in September compared with 2.9 percent in August. Flow on effects of higher oil prices and stringer world demand are expected to filter into consumer prices later. Domestic price pressures are anticipated to remain serene, in line with modest wage increases. The year-end inflation forecast is unchanged at 3.5 percent.

Money and credit aggregates continued to grow. Total outstanding loans in the banking system increased further by 14.3 percent in the year to August. This

period saw a general increase across commercial banks' interest rates. Specifically, the weighted average commercial bank time deposit rate and saving deposit rate rose by 4 basis points and 1 basis point to 1.77 percent and 0.36 percent respectively. The weighted average commercial bank lending rate rose by 4 basis points to 7.17 percent. Interest rates on new lending and deposit rates trended upwards by 41 basis points and 2 basis points, correspondingly.

On the external front, Overseas Exchange Transactions (OET) data showed that cumulative to August, merchandise exports rose by around 14 percent, when compared with an 8 percent decline in the corresponding period last year. The increase in exports was largely attributed to positive contributions from textiles, clothing & footwear, merchanted goods, gold, sugar and timber. On the flip side, merchandise imports rose by around 17 percent, when compared with a 12 percent gain last year. The increase was credited to higher import payments for all categories of goods.

As at the end of August, foreign reserves level was around \$743 million, sufficient to cover 3.2 months of imports of goods and non-factor services or 4.9 months of goods.

SECTORAL DEVELOPMENTS

Developments on the domestic front remained generally positive during the review period. Partial indicators suggest robust consumer spending, while investment levels are positive. Growth prospects in all sectors are encouraging. Increases were noted in visitor arrivals and production of sugar cane and sugar, gold and electricity rose over the year. Output in the copra industry remained unchanged from last year's level. The construction sector is also performing well, evident from relatively stronger

performances of partial indicators.

Moreover, the outcome of the June 2004 Business Expectations Survey also indicates a positive outlook for general business conditions and investment over the short and medium term, while prospects for employment and production are encouraging.

Consumption

Consumer spending continued its upward trend, evident by the strong growth in Net VAT collections, a partial indicator of spending. Cumulative to September, Net VAT collections amounted to almost \$291 million, representing an increase of around 11 percent over the corresponding period last year.

The increase was underpinned by a 13 percent increase in domestic cash collections. Collections from the Government and Customs Departments also supported the buoyant growth in Net VAT, each growing by 6 and 0.3 percent respectively.

Income

In line with favourable labour market conditions, total income tax collections cumulative to September amounted to around \$226 million, an increase of around 12 percent over the corresponding period last year. Pay As You Earn collections, a partial indicator for individual incomes, totalled \$126 million during the first 9 months of the year, representing an increase of around 14 percent over the comparable period last year. Underpinning this healthy growth is a 6 percent annual increase in newly registered taxpayers.

Tourism

The performance of the tourism industry remains upbeat. Anecdotal evidence suggests that arrivals increased by 17 percent during the January to September period over the previous corresponding period.

As the industry nears the end of the peak season, monthly visitor arrivals are expected to slow down. Nonetheless, it is expected that year-end arrivals would likely be higher than the current projection of 445,000 for the year.

On other industry developments, Savusavu is hosting the 2004 South Pacific World Music Festival from November 22 to 27, which is jointly organised by Air Pacific Limited, Savusavu boutique resorts and the

Fiji Visitors Bureau. Additionally, Blue Lagoon Cruises has added another cruise vessel to its fleet, which will hopefully further boost tourism in the Yasawas and the Mamanucas.

Sugar

Latest production data provided by the Fiji Sugar Corporation (FSC) indicate that cane output amounted to around 1.6 million tonnes for the season to September¹. This represents a 4 percent increase over the comparable period last season. According to FSC, this is mainly due to good cane supply to the mills, lower burnt cane ratio, and relatively lower number of mill breakdowns. Consistent with the good cane output, total sugar produced during the review period amounted to 172,000 tonnes, representing a marginal increase over the same period last season. The TCTS ratio was around 9.5:1, relatively higher than the ratio (9.2:1) recorded over the comparable period last season.

Gold

Cumulative to September, total gold production amounted to 98,000 ounces, 19 percent higher than last year's level. On a monthly basis, gold production totalled over 11,000 ounces, which represents an annual increase of 49 percent. The strong growth in gold production supports EGM's intention of gradually increasing its production level towards an annual production target of 180,000 ounces by 2006. Accordingly, earnings increased on an annual basis by 21 percent to \$68.1 million, during the review period.

Building and Construction

The construction sector performed well during the first half of this year, evident from the value of work put-in-place. According to the latest Building and Construction Survey² report released by the Fiji Islands Bureau of Statistics (FIBOS), around \$66.8 million was spent on capital works in the first half of this year, an increase of approximately 18 percent over the comparable period last year.

Moreover, latest statistics from FIBOS show that a total of 871 building permits were issued in the first half of the year. This represents a marginal decline over the comparable period in 2003. On the same note, the total value of permits issued totalled approximately \$80 million, a decrease of around 18 percent on an annual basis.

¹ As at 27 September, sourced from FSC's Weekly Mill Performance Reports.

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

Electricity Production

Electricity production remained favourable. Cumulative to September, total electricity generated was around 484 million kilowatt hours (kwh). This represented an increase of 2 percent on an annual basis.

Copra

Production in the copra industry remained unchanged from last year's level. Latest statistics from the Coconut Industry Development Authority (CIDA) show that cumulative to August, copra production amounted to around 7,300 tonnes, unchanged over the comparable period last year.

The minimum mill gate price of copra for the month of July stood at \$500 per tonne. Government's subsidy towards the mill gate price was \$22.87 per tonne.

Inflation

Inflation was 3.4 percent in September, compared with 2.9 percent in August. Over the month, consumer prices rose by 0.7 percent, mainly due to the higher prices of food and durable household goods. The rise in food items was largely due to higher prices of spices, dairy products, and fruits. This was partially offset by decreases in the prices of miscellaneous items, clothing & footwear, alcoholic drinks & tobacco and transport. The prices of housing, heating & lighting and services were unchanged over the month.

The underlying measure of inflation, the trimmed mean, was 1.2 percent in September, down from 1.3 percent in the previous month.

Inflation outcome remains in line with expectations. In future, some flow on effects of higher oil prices and stringer world demand are expected to filter into consumer prices. On a favourable note, domestic price pressures are anticipated to remain serene, in line with modest wage increases. The year-end inflation forecast is unchanged at 3.5 percent.

Labour Market

Partial indicators of employment suggest a favourable development in the labour market conditions. Cumulative to September, new taxpayers registered with the Fiji Islands Revenue and Customs Authority (FIRCA) rose by around 6.0 percent over 2003. Finance, insurance, real estate & business services sector recorded the most new taxpayers followed by the community, social and personal services; and

wholesale, retail trade, restaurants & hotels sectors.

On the supply of labour, emigration continues to slow down. Cumulative to July, around 3,300 people migrated, representing a decline of 6 percent. Fewer workers under the professional & technical and clerical, sales & services categories migrated relative to the same period last year. However, this was partially offset by an increase in the number of agriculture & production and administrative workers leaving Fiji.

Financial Aggregates

Broad money continued to grow strongly in the year to August, rising by 20.5 percent following an expansion of 18.0 percent in the previous month. The determinants of broad money, comprising domestic credit and net foreign assets, recorded annual growth rates of 12.2 percent and 25.9 percent respectively. The increase in the former was spurred by higher credit to official entities and private sector credit, which rose by 25.1 percent and 13.1 percent respectively, over the year. New and renewed loans represented an increase of around 8.2 percent (\$4.4m) over the previous month, largely due to higher lending to the wholesale & retail trade, private individuals, real estate, building & construction and the manufacturing sectors.

In the year to August, lending by Licensed Credit Institution (LCI's) grew by 23 percent led largely by higher lending to private individuals (mainly for housing purposes), with impetus also coming from building & construction, real estate, wholesale & retail trade, and manufacturing sectors. The weighted average lending rate of LCIs was 11.82 percent during the review period compared with 11.88 percent in the previous month.

Moreover, lending by non-bank financial institutions (excluding FNPF) was around \$420.8 million at the end of July. This represented a decline of 1.1 percent over the month and was largely attributed to lower lending to transport & storage, manufacturing, real estate and agricultural sectors. The total value of outstanding deposits held by commercial banks rose by 13.3 percent over the year, following a growth of 12.3 percent in the year to July. The increase reflected higher placements of private sector business enterprises and private individuals in demand deposits. Similarly, new time deposits rose by 23.2 percent over the same period last year and by 39.0 percent over the month.

This period saw a general increase across commercial

banks' interest rates. In particular, the weighted average commercial bank time deposit rate and saving deposit rate rose by 4 basis points and 1 basis point to 1.77 percent and 0.36 percent respectively. Likewise the weighted average commercial bank lending rate rose by 4 basis points to 7.17 percent.

Recent data also indicate upward movement in the interest rates offered on money market and capital market securities.

Reflecting rising business and consumer confidence, the total amount of outstanding loans in the banking system increased further by 14.3 percent in the year to August. This outcome was underpinned mainly by higher lending to private individuals, real estate, manufacturing, public enterprises, building & construction and the wholesale, retail, hotels & restaurants sectors. On the downside, lending to the agriculture, mining & quarrying, central & local government contributed negatively to lending growth during the review period.

Exchange Rates

The Nominal Effective Exchange Rate index of the Fiji dollar rose marginally in the year to September, indicating an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate³ (REER) Index of the Fiji dollar, a gauge of our international

competitiveness, rose by 1.2 percent during the review period. The increase in the REER Index over the year reflects deterioration in our international competitiveness and was largely due to higher domestic inflation outcomes. Domestic inflation increased to 3.4 percent in September, while average trading partner inflation was around 2.2 percent during the same period.

External sector

According to the latest OET trade data, cumulative to August, merchandise exports rose by around 14 percent, when compared with an 8 percent decline in the corresponding period last year. The increase in exports was largely attributed to positive contributions from textiles, clothing & footwear, merchanted goods, gold, sugar and timber, which more than offset the negative contributions from other re-exports, other exports and copra. Cumulative to August, merchandise imports rose by around 17 percent, when compared with a 12 percent gain in the corresponding period last year. The increase was credited to higher import payments for all categories of goods. The increase in intermediate goods was led by higher payments for mineral fuels, raw materials and textiles, clothing & footwear, while machinery & transport equipment and chemicals led the increase in investment goods. The positive contribution from merchanted and duty free goods underpinned the increase in payments for consumption goods.

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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.