



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

Growth prospects for all our major trading partners and selected non-Japan Asia (China, Hong Kong & Singapore) are anticipated to be positive this year. The factors driving the good performance of major international economies are varied. However, as expected, the US economy is leading the way with strong personal consumption expenditure and greater industrial production.

Domestically, Fiji's economy is on track to record another good growth this year. The general performance of all major sectors is in line with a-priori expectations. Consumer spending remains robust, evident by higher net VAT collections, favourable labour market conditions, low lending rates and robust tourism activity.

Labour market conditions remained favourable, as evident by partial indicators. Cumulative to August, the number of new taxpayers registered with the Fiji Islands Revenue and Customs Authority (FIRCA) rose by 5.0 percent over the year.

The inflation rate stood at 2.9 percent in August compared with 2.8 percent in July. In the approaching months, domestic and import prices are expected to nudge up slightly and, as a result the 2004 year-end inflation is forecast at 3.5 percent.

Money and credit aggregates continued to grow in July. Growth in lending on an annual basis accelerated to 14.7 percent in July from 14.5 percent in the previous month. Movements in commercial bank interest rates were generally mixed during the review period. The weighted average commercial bank time deposit rate rose by 2 basis points to 1.73 percent, while the weighted average commercial bank savings rate remained unchanged at 0.35 percent. The

weighted average commercial bank lending rate declined by 4 basis points to 7.13 percent.

On the latest Overseas Exchange Transaction (OET) trade data, cumulative to August, merchandise exports and imports rose by around 14.1 percent and 17.2 percent respectively. The increase in exports was underpinned by positive contributions from textiles, clothing & footwear, merchant goods, gold, and sugar, which more than offset negative contributions from copra and other exports. The rise in imports was largely led by increase in payments for investment goods (9.5 percent), intermediate goods (6.5 percent) and consumption goods (1.2 percent).

As at the end of August, foreign reserves level was \$743.2 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 have generally been positive during the review period. Good growth was registered across most sectors of the economy, with the exception of the copra industry.

Consumption

Consumer spending continued to remain upbeat, evident by the strong growth in Net VAT collections, a partial indicator of spending. Cumulative to August, Net VAT collections amounted to almost \$257 million, representing an increase of around 14 percent over the corresponding period last year.

The increase was underpinned by a 31 percent increase in collections from Government Departments and a 14 percent rise in domestic cash collections.

Income

In line with favourable labour market conditions, total income tax collections cumulative to August amounted to around \$187 million, an increase of around 10 percent over the corresponding period last year. Pay As You Earn collections, a partial indicator for individual incomes, totalled \$113 million during the first half of the year, representing an increase of around 14 percent over the comparable period last year. Underpinning this healthy growth is a 5 percent annual increase in newly registered taxpayers.

Tourism

The tourism industry continues to grow strongly. Cumulative to August, provisional passenger movement statistics indicated that arrivals totalled to around 322,000, representing an increase of around 17 percent over the previous corresponding period.

Sugar

Latest production data provided by FSC indicate that cane output amounted to around 1.1 million tonnes for the season to August. This represents a 6 percent increase over the comparable period last year. According to FSC, this is mainly due to good cane supply to the mills and relatively lower number of mill breakdowns. Through a combination of higher quantity and quality of cane, total sugar produced amounted to 118,000 tonnes for the season to August, an increase of around 7 percent over the same period last season. The Tonnes Cane-Tonnes Sugar ratio was around 9.7:1, same as the ratio recorded in the previous comparable season.

Building and Construction

Domestic cement sales, a partial indicator of construction activity, is performing well. Cumulative to August, domestic cement sales recorded an increase of around 16 percent (66,591 tonnes), compared with the same period last year (57,305 tonnes). The strong growth in domestic sales supports our expectations of robust performance by the construction sector this year.

Electricity Production

Electricity production remains favourable. Cumulative to August, total electricity generated was around 436 million kilowatt hours (kwh). This indicates an increase of around 2 percent over the comparable period last year.

Copra

The performance of the copra industry remained weak during the review period. Cumulative to July, copra

production amounted to around 6,200 tonnes, a decline of around 7 percent over the corresponding period last year. The minimum mill gate price of copra for the month of July stood at around \$500 per tonne.

Public Finance

On the fiscal front, cumulative to August, the Government recorded a net headline deficit of \$46.4 million, equivalent to 1.5 percent of GDP. This position was underpinned by a 1 percent increase in net expenditure (excluding loan repayments), which more than offset a 7 percent rise in revenue.¹ Comparing the Government's performance so far against its Budget, net expenditure was lower by 15 percent, while net revenue surpassed projections by 7 percent.

As for Government borrowing, for the first eight months of this year, net domestic borrowing by Government was \$49 million, against \$100 million in the comparable period last year. As at the end of August 2004, total outstanding domestic debt was \$2,013 million, 12 percent more than that recorded a year ago.

Inflation

Inflation stood at 2.9 percent in August, compared with 2.8 percent in July. Over the month, consumer prices remained unchanged. During the period, the prices of miscellaneous items and food fell. The fall in food prices was largely due to weaker prices of volatile food items which was partially offset by the rise in prices of heating & lighting and transport, following a recent hike in domestic fuel prices. Higher prices were also recorded in clothing & footwear, alcoholic drinks & tobacco, and housing.

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

The year-end inflation is forecast at 3.5 percent.

Labour Market

The number of new taxpayers, a partial indicator for employment, continued to improve over the month. Cumulative to August, new taxpayers registered with FIRCA increased by 5 percent.

On the supply of labour, emigration continues to slow down. Cumulative to June, around 2,800 people took up residence abroad, representing a decline of 9 percent. During the review period, fewer workers

¹ There were no asset sales recorded in the review period.

under the professional & technical, clerical, sales & services, and administration categories migrated relative to last year. However, this was partially offset by an increase in the number of agriculture & production workers leaving Fiji.

Financial Aggregates

Commercial bank lending continued to grow at a robust rate. Growth in lending on an annual basis accelerated to 14.7 percent in July 2004 from 14.5 percent in the previous month and 11.7 percent during the same period in 2003. The expansion was driven by higher lending to private individuals (for housing purposes), real estate, public enterprises, and building & construction sectors. There were also positive contributions from the manufacturing, and wholesale & retail trade sectors. In contrast, lending to the central & local government, electricity, gas & water, and agriculture sector contributed negatively to lending growth during the review period.

On a monthly basis, new and renewed loans provided by commercial banks were valued at \$53.6 million. This represented a decrease of around 21.4 percent (\$14.6m) over the previous month and was largely due to lower lending to the wholesale & retail trade, public enterprises, private individuals, as well as to the manufacturing sector. The interest rate on new loans declined by 10 basis points from 7.26 percent to 7.16 percent during the review period.

Movements in commercial bank interest rates were generally mixed during the review period. The weighted average commercial bank time deposit rate rose by 2 basis points to 1.73 percent, while the weighted average commercial bank lending rate declined by 4 basis points to 7.13 percent. The weighted average commercial bank savings rate remained unchanged at 0.35 percent.

Exchange Rates

The Nominal Effective Exchange Rate² index of the Fiji dollar rose by 0.3 percent in the year to August, 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 0.9 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 2.9 percent in August, while average trading partner inflation was around 2.3 percent during the same period.

External sector

According to the latest OET trade data, cumulative to August, merchandise exports rose by around 14.1 percent, compared with a decline of around 8.4 percent in the corresponding period last year. The rise in export receipts was largely attributed to positive contributions from textiles, clothing & footwear, merchant goods, gold, and sugar, which more than offset negative contributions from copra, and other exports.

Cumulative to August, merchandise imports rose by around 17.2 percent, following a growth of around 9 percent in the corresponding period last year. This was largely underpinned by higher import payments for investment goods (9.5 percent) particularly mineral fuels and raw materials, intermediate goods (6.5 percent), specifically machinery & electrical equipment, and consumption goods (1.2 percent), especially merchanted and duty-free goods.

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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. This 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.