



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

The US led global economic recovery continues to gather pace. Consistent with this outcome prospects for China, Hong Kong and Singapore is also optimistic. Furthermore, the growth outlook for our other major trading partners also remains positive.

Domestically, the economy continues to adjust to developments in the world economy. Following last year's strong performance, the economy is anticipated to record good growth this year. The building & construction and wholesale & retail trade sectors are expected to lead growth in 2004. However, the recent torrential rain resulting in flash floods across the country is likely to adversely affect production of primary produce like dalo and vegetables. Sugarcane and sugar output is also likely to contract as a result. Moreover, the disaster is expected to affect this year's growth.

Sectoral performances remained mixed in the year to April. The tourism industry performed well, with visitor arrivals cumulative to February rising by 18 percent over the comparable period last year. The performance of the building & construction sector has also been good. However, output in the clothing & footwear, gold and copra sectors remained weak. Encouragingly, migration of skilled workers continued to decline over the review period. Moreover, 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.

The inflation rate stood at 2.2 percent in March. During the month, the prices of food, clothing & footwear, and heating & lightning rose. The forecast for year-end inflation, however, remains at around 3 percent. This is despite the hypothesis that the prices

of some primary products are likely to increase in the near term due to anticipated short supply as a result of recent floods.

Labour market conditions continued to improve further into the year, evidenced by improvements in partial indicators of employment as well as survey data. Cumulative to March, the number of newly registered taxpayers increased to around 5,270, while the Reserve Bank's March 2004 Job Advertisement Survey, indicated higher recruitment intentions of employers, relative to the previous quarter. Looking ahead, the results of the Reserve Bank's March 2004 Fiji Employers Federation (FEF) expectations Survey, suggest that the prospects for employment creation in both permanent and temporary categories are positive. On the wage front, road transport workers were granted a 5 percent increase in the minimum rates payable to the different classes of workers in this industry, which became effective from 01 March.

Growth in the money and credit aggregates slowed in the year to February, after expanding in January. Broad money grew by 12.0 percent, following 12.9 percent growth in January. Private sector credit grew by 13.5 percent, down from 14.2 percent in January. 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, manufacturing and public enterprises sectors. Movements in commercial bank interest rates were mixed. The weighted average lending rate fell marginally to 7.32 percent. The savings deposit rate also fell to 0.44 percent, while the time deposits rate rose to 1.69 percent.

On the external front, latest Overseas Exchange Transactions (OET) data, cumulative to March, shows

that exports rose by around 9.8 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 13 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 March, Fiji's foreign reserves were around \$725 million, sufficient to cover 3.1 months of imports of goods and non-factor services or 4.5 months of imports of goods only.

SECTORAL DEVELOPMENTS

Sectoral performances remain mixed during the review period. The performance of the tourism industry has been good and outcomes in the construction sector have also been positive. Encouragingly, migration of skilled workers continued to decline over the review period. However, the recent floods in various parts of the country are likely to adversely affect this year's GDP growth.

Gross Domestic Product and Impact of Flash Flood

Although the full extent of the recent flash floods¹ is yet to be finalised, it is expected to negatively impact GDP growth for this year, possibly through a higher contraction in sugarcane and sugar output; a slower growth in other crops and livestock industries and lower subsistence production.

Tourism

The tourism industry started the year with a strong performance. According to the Fiji Islands Bureau of Statistics (FIBS), cumulative to February, visitor arrivals totalled around 68,000, an increase of 18 percent over the comparable period last year. The growth was led mainly by New Zealand, Canada, Australia, USA and Japan.

Gold

Cumulative to March, total gold production was around 29,000 ounces, representing a 6 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 \$20 million, around 6 percent lower than the comparable period last year.

Clothing and Footwear

The performance of the clothing and footwear industry was weak in 2003. Production in the industry is estimated to have declined by around 10 percent, underpinned by a decline in orders from overseas markets. Despite the lower production, total garment export earnings in 2003 amounted to around \$284 million, an increase of around 1 percent over the 2002 levels. Looking ahead, a small growth of 4 percent is forecast for production in the industry this year.

Building and Construction

The construction sector performed well in 2003, evident from the value of work put-in-place during the year. According to the Annual 2003 Quarter Building and Construction Survey² report released by FIBS, \$127 million was spent on capital works last year, an increase of around 27 percent over 2002.

Copra

The performance of the copra industry remains weak. Cumulative to February, total copra production amounted to around 1,052 tonnes, a fall of 29 percent over the corresponding period last year. The minimum mill gate price of copra was maintained at \$500 per tonne, with the Government subsidising the price by \$102.06 per tonne.

Emigration

The favourable turnaround in the growth of migration of skilled workers continued for the second month. Cumulative to February, FIBS emigration statistics show that around 1,100 people migrated, a decline of around 17 percent over the comparable period in 2003.

By occupational categories, declines were noted in all the categories. The highest decline was noted in the Professional & Technical category (32%), followed by Administration (17%), Clerical, Sales & Services (11%) and Agriculture & Production category (4%). The Professional and Technical workers category still represents the highest number of emigrating workers, followed by Clerical Sales and Services workers.

¹ Although, many parts of the Fiji Group felt the effects of the tropical depression, the brunt of the flash floods of Thursday, 8 April were felt more in Tailevu and Rakiraki.

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

Inflation

Inflation was 2.2 percent in March, compared with 1.8 percent in February. Over the month, consumer prices remained unchanged. During March, prices of food, clothing & footwear, miscellaneous items, and heating & lighting increased. These rises were offset by falls in prices of housing and transport, while prices of alcoholic drinks & tobacco, durable household goods and services recorded no change. The underlying measure of inflation, the trimmed mean, was 0.9 percent in March, down from 1.3 percent in the previous month.

In the coming months, inflation is expected to remain modest. However, the recent flash flood could nudge prices slightly higher, but this is expected to be transitory. The 2004 year-end inflation forecast remains unchanged at around 3 percent.

Labour Market

Labour market conditions continued to show optimism over the month, evidenced by improvements in partial indicators of employment as well as survey data. Cumulative to March, the number of newly registered taxpayers with the Inland Revenue Department, a partial indicator for employment, was around 5,270. Moreover, according to the Reserve Bank's March 2004 Job Advertisement Survey, the number of Job advertisements rose by around 7 percent over the last quarter.

Looking ahead, the results of the Reserve Bank's March 2004 FEF Expectations Survey, suggest that employment prospects over the next twelve months are anticipated to remain optimistic. A net 69 percent of respondents expect permanent employment to increase, while a net 55 percent of respondents expect a rise in temporary employment.³

On the wages front, road transport workers were granted a 5 percent increase in the minimum rates payable to the different classes of workers in this industry, which became effective from 1 March. Looking ahead, the recent FEF Expectations Survey revealed that the majority of respondents expect wages to rise between 0 to 5 percent over the next twelve months.

Financial Aggregates

Broad money grew by 12.0 percent in February, following a 12.9 percent growth in January. The slower growth in February as compared to January

³ Figure is calculated by taking the net, from respondents who say an increase minus those who say a decrease.

was largely due to mixed movements in the components of broad money. Narrow money⁴ fell by 1.9 percent lower than the 3.0 percent decline in January. This was underpinned by a fall in demand deposits, which more than offset increases in currency in circulation and local bills payable. On the other hand, quasi money continued its strong growth into February, rising by 24.7 percent, following a higher growth of 27.5 percent in January. The growth was driven by a 42.5 percent increase in time deposits, while savings deposits grew at a slower pace of 8.8 percent.

On the determinants of broad money, domestic credit and net foreign assets both recorded growths of 15.0 percent and 11.2 percent in February, respectively. The rise in domestic credit was due to a 13.5 percent growth in private sector credit, increase in credit to official entities by 11.3 percent and an expansion of 24.3 percent in net credit to Government.

Increases in private sector credit were driven by higher commercial bank lending to private individuals (for housing & consumption purposes), building & construction, manufacturing, real estate and public enterprises sectors. In contrast, lending to the agriculture, mining & quarrying, electricity, gas & water, and wholesale, retail, hotel & restaurants sectors fell during the review period.

On a monthly basis, new and renewed loans provided by commercial banks totalled \$59.6 million. This represented a decline of around 39.9 percent over the previous month and was largely due to lower lending to the manufacturing and wholesale & retail sectors as well as to public enterprises.

Movements in commercial bank interest rates were mixed during the review period. The weighted average commercial bank lending rate decreased by 9 basis points for the second consecutive month to 7.32 percent in February. The savings deposit rate also fell, by 2 basis points to 0.44 percent, while the time deposits rate rose by 1 basis point to 1.69 percent.

Exchange Rates

The Nominal Effective Exchange Rate⁵ index of the

⁴ 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.

⁵ 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

Fiji dollar rose by 0.6 percent in the year to March. The rise indicates an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate⁶ Index of the Fiji dollar, a gauge of our international competitiveness rose, by 1.1 percent in the year to March. The increase indicates deterioration in our international competitiveness and was mainly attributed to the relatively higher domestic inflation outcomes. Domestic inflation was 2.2 percent while average trading partner inflation was around 1.5 percent in March.

External Sector

According to the latest OET data, cumulative to

March, merchandise exports rose by around 9.8 percent, compared with an increase of around 3.6 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 13 percent, following a growth of around 24 percent in the corresponding period last year. The increase in imports payments was largely attributed to higher imports of investment goods (6.0 percent), particularly machinery & transport equipment and chemicals; and intermediate goods (8.7 percent), specifically raw materials, textiles, clothing & footwear and mineral fuels.

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appreciation of the Fiji dollar against the basket of currencies and vice versa.

⁶ 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.

FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Mar-04	Feb-04	Jan-04	Mar-03
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	-1.88(p)	-3.02(p)	31.72
Currency in Circulation (monthly average)	18.53	12.79	10.96	9.23
Quasi-Money (Time & Saving Deposits)	n.a.	24.65(p)	27.49(p)	3.04
Domestic Credit	n.a.	14.95(p)	16.12(p)	9.36
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	2.2	1.8	2.8	3.3
Food	3.0	1.5	3.5	3.9
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)	725.2(p)	743.9(p)	738.5(p)	661.2
Months of Imports (goods & non factor services)	3.1(p)	3.1(p)	3.1(p)	2.7
Months of Imports (goods)	4.5(p)	4.6(p)	4.6(p)	3.9
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	15.6	13.1	16.1
Banks' Demand Deposits (\$m)	n.a.	80.5	91.9	137.1
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.32	7.41	7.74
Savings Deposit Rate	n.a.	0.44	0.46	0.57
Time Deposit Rate	n.a.	1.69	1.68	2.06
91-day RBF Note Rate (month end)	1.25	1.19	1.19	1.25
Minimum Lending Rate (MLR) (month end)	1.75	1.75	1.75	1.75
Overnight Inter-bank Rate	0.80	0.79	0.80	0.91
5-Year Government Bond Yield	2.56	n.i.	n.i.	3.86
10-Year Government Bond Yield	4.66	n.i.	n.i.	5.66
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.5807	0.5910	0.5866	0.5021
Pound sterling	0.3179	0.3175	0.3230	0.3189
Australian dollar	0.7708	0.7665	0.7701	0.8362
New Zealand dollar	0.8835	0.8608	0.8751	0.9111
Swiss francs	0.7444	0.7494	0.7395	0.6869
Euro	0.4772	0.4753	0.4730	0.4650
Japanese yen	61.36	64.82	62.14	60.17
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	405.46	405.07	414.49	341.15
London Daily Sugar Price/tonne ^{3/}	200.70	185.69	172.69	209.00
Crude Oil/barrel ^{4/}	33.80	30.87	31.18	30.34
<p>n.a. - Not available/No activity n.i. - No issues</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>				