



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

22

05

May 2005

### OVERVIEW

Global economic and financial conditions were unchanged over the month of May. The world growth forecast remains at 4.3 percent, although continuing high crude oil price could dampen the growth momentum. The growth prospects for all our major trading partners and selected non-Japan Asian (i.e. China, Hong Kong and Singapore) economies are anticipated to remain favorable. This is largely attributed to the optimistic outlook for the US economic recovery,<sup>1</sup> and continued rapid Chinese economic expansion.

The growth forecast for the domestic economy stays at 1.2 percent for this year. However continuing adverse developments in the garment industry will have considerable downside implications to sector output and employment. Although consumption is holding up well, the deteriorating labour market conditions could have possible slowdown effects on future consumption spending levels.

At present, however, consumer spending continues to grow strongly. In the first 4 months of the year, net Value Added Tax (VAT) collections rose by 11 percent.<sup>2</sup> Improving personal incomes, reflected by higher Pay As You Earn (PAYE) collections has assisted this growth.

Looking ahead, the partial indicators for the labour market suggest a softening of labour conditions. Cumulative to April, the number of newly registered taxpayers<sup>3</sup> fell by around 21 percent to 5063. This decline was largely attributed to lower registrations across many sectors of the economy. The building

and construction sector was the only exception. Furthermore, continuing adverse developments in the garment sector will add further strain to Fiji's employment situation.

Over the month of April, inflation was 1.3 percent, compared to 3 percent in March. The underlying measure of inflation, the trimmed mean, was 1.2 percent in April. The year-end inflation forecast remains unchanged at 4.5 percent and accounts for proposed increases in bus and taxi fares.

Broad money is estimated to have expanded at an annual rate of 21 percent to \$2.2 billion by the end of March. This was largely attributed to the rise in both narrow and quasi money, which were, in turn, flow-on effects of increases in demand deposits and savings deposits during the period. Credit growth remains strong, with the total value of outstanding loans increasing by 19 percent in March. Most of the commercial bank lending was directed towards private individuals, real estate, and wholesale & retail and hotels & restaurant sector. New loans in the first 3 months of the year amounted to \$203 million, representing an increase of 18 percent over the year. In addition, loans from licensed credit institutions (LCIs) grew by 17 percent during the quarter. In both instances, private individuals were the major recipients of the loans.

Commercial bank interest rates in March generally rose. The time deposit rate rose by 10 basis points to 1.87 percent. In addition, new lending rose by 19 basis points to 7.21 percent, while new deposit rates rose marginally by 1 basis point to 1.60 percent.

On the external front, latest Overseas Exchange Trade (OET) data showed that merchandise exports fell by around 37 percent cumulative to March this year.

<sup>1</sup> US economy is expected to grow by 3.7 percent this year, led by improvement in business investment and personal consumption.

<sup>2</sup> Percentages are reported as annual growth rates, unless stated otherwise.

<sup>3</sup> A partial indicator of labour conditions.

This was largely attributed to seasonal factors such as lower receipts from sugar, textiles, clothing & footwear, fish, merchanted goods, gold and other exports. This more than offset positive contribution from re-exports of commodities such as mineral fuels.

Merchandise imports also fell over the review period. Cumulative to March this year, a decrease of around 4 percent was recorded. This was largely driven by the fall in payments for consumption goods, which more than offset the increases seen for investment and intermediate goods.

As at the end of April, foreign reserves stood at \$725 million<sup>4</sup>, sufficient to cover 3.0 months of imports of goods and non-factor services or 4.1 months of imports of goods only.

## **SECTORAL DEVELOPMENTS**

On the domestic front, the tourism industry continues to perform well. Latest data indicates that visitor arrivals for the first quarter of the year totaled 119,000, representing an increase of 14 percent over the same period last year. In contrast, the gold industry performed weakly during the review period. A contraction of around 8 percent in production was recorded in the first 3 months of the year. Factors reported to have contributed to the decline are delayed investment plans, higher absenteeism and the poor quality of ore extracted at the mines.

### **Consumption**

For the first 4 months of the year, consumer spending remained buoyant. This was reflected in the strong performance of net VAT collections, a partial indicator of consumption spending levels. Over the period, net VAT collections amounted to around \$134 million, representing an 11 percent increase over the previous comparable period.

### **Income**

Individual income levels, as evident by PAYE collections, a partial indicator of income levels, remained high. During the January to April period, a total of \$59 million in PAYE collections was recorded. This represented an estimated 8 percent increase over the comparable period in 2004. Higher income levels could be a possible driver behind the strong consumption spending levels seen for recent years.

### **Visitor Arrivals**

Visitor arrivals maintained its momentum into the first quarter of the year. On a monthly basis, total arrivals cumulative to March was 119,000; an increase of 14 percent over the comparable period in 2004.

### **Gold**

Total gold output, cumulative to March this year, amounted to almost 26,000 ounces, 8 percent lower than the corresponding level in 2004. The lower output during the review period is mainly attributed to higher rates of staff absenteeism, delays in deepening of the Phillips Shaft and poor quality of ore extracted at the mines.

### **Inflation**

Inflation stood at 1.3 percent in April, compared with the 3.0 percent recorded in March. Over the month, consumer prices fell by 0.1 percent mainly due to the fall in prices of miscellaneous items, durable household goods, food and housing.

The trimmed mean, which is the underlying measure of inflation, was 1.2 percent for the month of April.

The current year-end inflation forecast remains unchanged at 4.5 percent, and accounts for the proposed increases in bus and taxi fares.

### **Labour Market**

New taxpayer registrations suggest a possible downturn in labour market conditions. Cumulative to April, 5063 new taxpayers were registered, which represented a fall of around 21 percent over the year. The decline was largely attributed to lower registrations in all major sectors, with the exception of the construction sector.

In terms of composition, the wholesale & retail trade and restaurants & hotels sector recorded the most new taxpayers followed by the community, social and personal services sector, manufacturing, and finance, insurance and real estate sector.

In the coming months, the loss of jobs for workers in garment factories that were exporting to the US will probably stand at over 3,500. This will further strain Fiji's current labour market conditions.

### **Financial Aggregates**

Broad money expanded at an annual rate of 21 percent to \$2.2 billion for the first 3 months of the year. This outturn was largely attributed to increases

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<sup>4</sup> This is a provisional estimate.

in narrow and quasi money, which in turn were influenced by rises in demand deposits and savings deposit. Narrow money grew at an annual rate of 39.1 percent to \$1 billion, while quasi money rose by 8.6 percent during the review period.

The determinants of broad money, comprising domestic credit and net foreign assets, grew by 14 percent and 12.4 percent to \$2 billion and \$710 million, respectively over the year. The increase in domestic credit was largely from higher credit to private sector, which rose by 18.6 percent

In the year to March, the total value of outstanding loans in the banking system increased by 19.2 percent to \$1.7 billion. Higher lending to private individuals, real estate, wholesale & retail and hotels & restaurant sectors largely drove this growth. On the downside, there were declines in lending to the mining & quarrying sector, agriculture, and central & local government sectors.

New loans in the first 3 months of the year amounted to around \$203 million, an increase of 18 percent over the year. Borrowing by private individuals for housing and consumption purposes underpinned this growth, with increases also noted in the manufacturing, and the wholesale & retail trade, hotels and restaurant sectors.

Total loans and advances of licensed credit institutions (LCIs) grew at an annual rate of 17.3 percent to \$239.1 million, during the review period, with the majority of the loans extended to private individuals. The weighted average lending rate of LCIs was 11.68 percent at the end of March.

Total outstanding deposits of commercial banks totaled \$2 billion, during the review period, which represented an 11.8 percent increase over the same period a year ago. Higher demand deposits placed by private individuals and domestic business enterprises contributed to the increase in total deposits.

On the interest rates front, the weighted average lending rate of commercial banks and savings deposit rate remained unchanged at 6.92 percent and 0.36 percent respectively at the end of March, while the weighted average commercial bank time deposit rate rose by 10 basis point to 1.87 percent.

During the same period, interest rates on new lending and the new deposit rate offered by commercial banks increased by 19 basis points and 1 basis point to 7.21 percent and 1.60 percent respectively over the month.

Meanwhile, interest rates offered by LCIs over the month on new loans and advances, decreased by 43 basis points to 13.72 percent. During the same period, new time deposit rates also increased to stand at 3.61 percent.

### **Exchange Rates**

During the month of April, the performance of the Fiji dollar was largely mixed against the major currencies. Bilateral movements in the exchange rate showed that the Fiji dollar strengthened against the Euro (1.3 percent), and US dollar (1.1 percent), but weakened against the New Zealand dollar (1.9 percent), Yen (0.2 percent), and the Australian dollar (0.04 percent).

### **External sector**

On the external front, latest OET data showed that for the first 3 months of the year, merchandise exports fell by around 37 percent, somewhat contrary to the 10 percent increase recorded in the same period in 2004. The decline in receipts was largely attributed to negative contributions from sugar, textiles, clothing & footwear, fish, merchanted goods, gold and other exports, which more than offset positive contributions from re-exports of mineral fuels.

Merchandise imports fell by around 4 percent cumulative to March this year, compared to a growth of around 13 percent in the corresponding period in 2004. The lower import payment was attributed to decline in payments for consumption goods (7.6 percent), which more than offset the increase in investment goods (2.6 percent) and intermediate goods (1.3 percent).

The decline in imports of consumption goods was largely driven by negative contributions from food, beverages & tobacco, other imports and transport equipment, while higher payments for machinery & electrical equipment and chemicals underpinned the increase in investment goods. In addition, the increase in intermediate goods was largely attributed to positive contributions from mineral fuels.

## **RESERVE BANK OF FIJI**

## FIJI: FINANCIAL STATISTICS

<b>KEY INDICATORS</b>	<b>Apr-05</b>	<b>Mar-05</b>	<b>Feb-05</b>	<b>Apr-04</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a.	39.12	31.43	-9.02
Currency in Circulation (monthly average)	10.44	10.44	10.64	12.12
Quasi-Money (Time & Saving Deposits)	n.a.	8.55	7.28	17.86
Domestic Credit	n.a.	13.99	12.29	13.59
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	1.3	3.0	3.5	3.2
Food	-1.3	3.5	3.8	5.7
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)	724.5(p)	715.2	760.7	752.1
Months of Imports (goods & non factor services)	3.0	3.0	3.2	3.4
Months of Imports (goods)	4.1	4.1	4.3	5.1
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	9.3	12.3	13.1
Banks' Demand Deposits (\$m)	n.a.	66.1	85.5	78.6
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a.	6.92	6.92	7.21
Savings Deposit Rate	n.a.	0.36	0.36	0.42
Time Deposit Rate	n.a.	1.87	1.77	1.68
91-day RBF Note Rate (month end)	1.75	1.75	1.75	1.25
Minimum Lending Rate (MLR) (month end)	2.25	2.25	2.25	1.75
Overnight Inter-bank Rate	1.1	1.29	0.82	0.93
5-Year Government Bond Yield	n.i.	2.66	2.64	n.i.
10-Year Government Bond Yield	n.i.	5.15	5.08	n.i.
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.6042	0.5978	0.6074	0.5621
Pound sterling	0.317	0.3181	0.3166	0.3174
Australian dollar	0.7753	0.7757	0.7724	0.7784
New Zealand dollar	0.8290	0.8448	0.8420	0.9044
Swiss francs	0.7210	0.7167	0.7060	0.7347
Euro	0.4687	0.4626	0.4586	0.4748
Japanese yen	64.12	64.25	63.90	61.90
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	428.56	435.13	422.69	405.99
London Daily Sugar Price/tonne <sup>3/</sup>	253.35	260.44	265.37	203.28
Crude Oil/barrel <sup>4/</sup>	51.81	53.12	45.56	33.21
<p>n.a. - Not available/No activity  n.i. - No issues  n.t. - No trading</p> <p>Sources: <sup>1/</sup> Fiji Islands Bureau of Statistics  <sup>2/</sup> Bloomberg and Reserve Bank of Fiji  <sup>3/</sup> Fiji Sugar Marketing Company Limited  <sup>4/</sup> Bloomberg</p>				