



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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June 2005

### OVERVIEW

Economic expansion this year continues across the globe showing a positive prospect for all our major trading partners and selected non-Japan Asian (China, Hong Kong & Singapore) countries.

Domestically, economic indicators are holding up well. Labour market conditions though slowing down, remains firm. Nevertheless, the partial indicators suggest favourable trends in investment while import growth registered a sharp fall during the first 4 months of the year. Export performance has been disappointing.

The Government had a net deficit of \$67.8 million equivalent to 1.4 percent of the GDP.<sup>1</sup> Partial indicators of labour market conditions suggest a slowdown in employment growth. Cumulative to May, 5600 new taxpayers were registered representing a fall of approximately 22 percent, which was largely due to fewer registrations in all sectors of the economy with exception of the construction sector.

Inflation stood at 2.5 percent in May compared to 1.3 percent in the previous month. The underlying measure of inflation, the trimmed mean, was 1.4 percent in May. The year-end inflation forecast remains at 4.5 percent.

Broad money grew by 21 percent to \$2.2 billion in April. This was largely associated with the increase in narrow and quasi money, which in turn was influenced by higher demand and savings deposits. Narrow money rose by around 34 percent to \$1 billion, while the quasi money rose by 11 percent. On the determinants side, total value of outstanding loans in the banking system increased by around 20 percent

underpinned by higher lending to wholesale & retail, hotels & restaurant, private individuals, and real estate sectors. New loans by commercial banks rose by 29 percent over the year. Increased borrowing by the wholesale & retail trade sectors and private individuals influenced this outcome. Also total loans and advances of Licensed Credit Institutions (LCIs) grew by around 17 percent, with the private individuals sector accounting for a prime share of these loans. Total outstanding deposits of commercial banks aggregated to \$2 billion.

On the external front, cumulative to May, current Overseas Exchange Trade (OET) data showed merchandise exports declined by 22 percent. The decline in receipts was largely attributed to the negative contribution from sugar, textile, clothing & footwear, merchanted goods, fish, other exports and timber, which outweighed the positive contributions from other re-exports, ginger and mineral water. The decline in import payments was due to negative contributions from consumption and intermediate goods, which more than offset the positive input from investment goods.

As at the end of May, foreign reserves stood at around \$727 million, sufficient to cover 3.1 months of import of goods and non-factor services or 4.1 months of import of goods only.

### SECTORAL DEVELOPMENTS

On the domestic front, the sectoral developments were quite stable during the review period. Growth, on an annual basis was noted in the copra industry and electricity. Fiji Sugar Corporation (FSC) produced around 90,400 tonnes of cane, of which 6,400 tonnes of sugar was produced. Current forecasts indicate around 12 percent growth in both cane and sugar for the 2005 calendar year.

<sup>1</sup> According to the Ministry of Finance, the provisional estimates are for the first 5 months of this year.

On the fiscal front, as indicated by recent data, the Government's net deficit for the first 5 months of the year was about \$67.8 million, representing 4.4 percent of the GDP. Additional appropriation of \$10 million is anticipated to marginally raise this year's net fiscal deficit from 3.5 to 3.7 percent of the GDP.

### **Sugar**

Recent data on production provided by the FSC shows, for week ending 13 June, approximately 90,400 tonnes of cane output was crushed into 6,400 tonnes of sugar,<sup>2</sup> giving the total cane to sugar ratio of about 14.1:1. However, this ratio is expected to improve as crushing gains momentum. Current forecasts indicate around 12 percent growth in both cane and sugar.

### **Electricity**

Electricity production remains favourable. Cumulative to May, total electricity generated was around 301 million-kilowatt hours (kwh), representing an increase of 7 percent on an annual basis.

### **Copra**

Copra, cumulative to April was around 2,800 tonnes, an increase of almost 6 percent over the comparable period in 2004. The minimum mill gate price of copra for the month of April stood at \$500 per tonne. Government's subsidy towards the mill gate price was \$39.25 per tonne.

### **Inflation**

Inflation for the month of May was 2.5 percent, 1.2 percent higher than the previous month. Over the month, consumer prices rose by 0.8 percent mainly due to higher prices of heating & lighting, transport, food and alcoholic drinks & tobacco. Costs of heating & lighting and transport increased due to a 9 percent rise in domestic fuel prices. With a rise in prices of volatile food items, the prices of food rose in aggregate. Similarly, increase in prices of spirits and beer resulted in the increase in prices of alcoholic drinks & tobacco.

The underlying measure of inflation, the trimmed mean, was 1.4 percent in May, up from 1.2 percent in April. The year-end inflation is still expected to be 4.5 percent, however, persistent high oil prices are posing some adverse risk to this assessment.

### **Labour Market**

Partial indicators of labour market conditions suggest a slowdown in employment growth. Cumulative to May, 5600 new taxpayers were registered representing a fall of around 22 percent. The decline was largely due to fewer registrations in the manufacturing, agriculture, forestry and fishing and the wholesale, retail trade, restaurants & hotels sectors over the same period last year. However, the construction sector recorded an increase of around 64 percent. Community, social and personal services sector recorded the most new taxpayers followed by the wholesale, retail trade, restaurants & hotels sector, agriculture, forestry and fishing, and finance, insurance, real estate & business services sectors.

### **Monetary Aggregates**

Broad money expanded at an annual rate of 21 percent to \$2.2 billion at the end of April 2005. The outturn was largely attributed to increases in narrow and quasi money, which in turn was influenced by rise in demand and savings deposits. Narrow money grew at an annual rate of 33.6 percent to \$1 billion, while quasi money rose by 11.2 percent during the review period.

The determinants of broad money, comprising domestic credit and net foreign assets, grew by 13.2 percent and 6.2 percent to around \$2 billion and \$692.3 million respectively over the year. The increase in the former was spurred by higher credit to private sector, which rose by 18.4 percent.

In the year to April 2005, the total value of outstanding loans in the banking system increased by 19.5 percent to \$1.7 billion. This outcome was largely underpinned by higher lending to wholesale & retail, hotels & restaurant, private individuals, and real estate sectors. Unfortunately, lending to the mining & quarrying and agricultural sectors contributed negatively to lending growth during the review period. Moreover, new loans by commercial banks stood at around \$73 million in April 2005, a decline of 1.9 percent over the month and an increase of 28.8 percent on an annual basis.

In addition, total loans and advances of LCIs grew at an annual rate of 16.8 percent during the review period to \$245 million, with more loans extended mainly to private individuals. The weighted average lending rate of LCIs was 11.62 percent at the end of April, a decline of 6 basis points over the month.

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<sup>2</sup> This year's sugar crushing season started at the Rarawai and Labasa mill on 1<sup>st</sup> June. The Lautoka mill started operations a week later.

Moreover, total outstanding deposits<sup>3</sup> of commercial banks were \$2 billion, 13.8 percent higher in comparison to last year.

On the interest rates front, at the close of April, the weighted average lending rate of commercial banks and the weighted average commercial bank time deposit declined by 5 basis points and 7 basis points to 6.87 percent and 1.80 percent respectively while the savings deposit rate remained unchanged. During the same period, interest rates on new deposit rate offered by commercial banks decreased by 15 basis point to 1.45 percent while the new lending rate increased to 7.42 percent from 7.21 percent that was recorded in the previous month. Meanwhile, interest rates offered by LCIs on new loans and advances and new time deposits decreased from 13.72 percent to 11.67 percent and from 3.61 percent to 2.99 percent respectively at the end of April 2005.

### Exchange Rates

In May 2005, the performance of the Fiji dollar was mixed against the major currencies. Bilateral movements in the exchange rate showed that the Fiji dollar strengthened against the Euro (1.4 percent) the Australian dollar (0.5 percent) and the New Zealand dollars (0.4 percent) but weakened against the US dollar (1.9 percent) and the Yen (0.2 percent).

The Nominal Effective Exchange Rate (NEER) index<sup>4</sup> of the Fiji dollar rose by 0.3 percent in the year to May, indicating an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate (REER) index<sup>5</sup> of the Fiji dollar, a gauge of our international

competitiveness, rose by 0.5 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 2.5 percent in May 2005, while average trading partner inflation was around 2.4 percent during the same period.

### External Sector

On the external front, latest OET data showed that cumulative to May, merchandise exports fell by around 22 percent, compared with an increase of around 10 percent in the corresponding period last year. The decline in receipts was largely attributed to negative contributions from sugar, textiles, clothing & footwear, merchanted goods, fish, other exports and timber, which more than offset positive contributions from other re-exports, ginger and mineral water.

Merchandise imports fell by around 3 percent cumulative to May this year, compared to a growth of around 15 percent in the corresponding period in 2004. The decline in import payments was due to negative contributions from consumption goods (-2.9 percent) and intermediate goods (-2.8 percent), which more than offset the positive contributions from investment goods (2.9 percent). The decline in imports of consumption goods was mainly underpinned by negative contribution from other imports, food, beverages and tobacco and transport equipment while mineral fuels and textiles, clothing and footwear led the decline in payments for intermediate goods. The decline in imports of investment goods was mainly due to positive contributions from machinery and electrical equipment and chemicals.

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<sup>3</sup> Private business enterprises and individuals contributed to the increase in the total deposits.

<sup>4</sup> The 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 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.

<sup>5</sup> The 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 indicates an improvement in Fiji's international competitiveness and vice versa.

## FIJI: FINANCIAL STATISTICS

<b>KEY INDICATORS</b>	<b>May-05</b>	<b>Apr-05</b>	<b>Mar-05</b>	<b>May-04</b>
<b>1. Money and Credit</b> (year-on-year % change)				
Narrow Money	n.a.	33.64	39.12	1.99
Currency in Circulation (monthly average)	8.33	8.49	10.44	13.75
Quasi-Money (Time & Saving Deposits)	n.a.	11.25	8.55	21.23
Domestic Credit	n.a.	13.23	13.99	12.64
<b>2. Consumer Prices</b> <sup>1/</sup> (year-on-year % change)				
All Items	2.5	1.3	3.0	2.4
Food	1.4	-1.3	3.5	4.0
<b>3. Reserves</b> (end of period)				
Gross Foreign Reserves (\$m)	726.6(p)	724.5(p)	715.2	756.8
Months of Imports (goods & non factor services)	3.1	3.0	3.0	3.4
Months of Imports (goods)	4.1	4.1	4.1	5.1
<b>4. Liquidity</b> (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	9.9	9.3	13.2
Banks' Demand Deposits (\$m)	n.a.	101.4	66.1	92.9
<b>5. Interest Rates (% p.a.)</b> (monthly average)				
Lending Rate (Excluding Staff)	n.a.	6.87	6.92	7.17
Savings Deposit Rate	n.a.	0.36	0.36	0.36
Time Deposit Rate	n.a.	1.80	1.87	1.72
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	n.a.	1.10	1.29	0.82
5-Year Government Bond Yield	2.71	n.i.	2.66	2.54
10-Year Government Bond Yield	5.23	n.i.	5.15	4.62
<b>6. Exchange Rates</b> <sup>2/</sup> (mid rates, F\$1 equals) (end of period)				
US dollar	0.5927	0.6042	0.5978	0.5650
Pound sterling	0.3250	0.3170	0.3181	0.3071
Australian dollar	0.7793	0.7753	0.7757	0.7877
New Zealand dollar	0.8326	0.8290	0.8448	0.8903
Swiss francs	0.7341	0.7210	0.7167	0.7031
Euro	0.4752	0.4687	0.4626	0.4602
Japanese yen	64.00	64.12	64.25	62.62
<b>7. Commodity Prices (US\$)</b> (monthly average)				
UK Gold Price/fine ounce <sup>2/</sup>	422.61	428.56	435.13	383.31
London Daily Sugar Price/tonne <sup>3/</sup>	252.99	253.35	260.44	195.66
Crude Oil/barrel <sup>4/</sup>	48.55	51.81	53.12	37.93
<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>				