RESERVE BANK OF FIJI

ECONOMIC REVIEW

Vol. 22 No. 11 Month Ended. November 2005

OVERVIEW

The global economic outlook remains favourable, with positive growth projections for our major trading partners and selected non-Japan Asian (China, Hong Kong & Singapore) economies. Buoyant business investment and strong consumer spending continue to support growth prospects for our trading partners. However, the persistent high crude oil prices continue to pose risks to this optimistic outlook.

Domestically, resilient consumer spending continues to be supported by strong credit growth. In addition, the Government's expansionary budget is also likely to provide further impetus to aggregate demand. Imports continue to surge while exports decline further, adding pressure on foreign reserves.

Real sector developments over the month were quite encouraging. In particular, the cane & sugar industries performed well during the June to October crushing period, with cane and sugar output both higher than last year's results.

In line with the positive real sector developments, credit continued to rise. Commercial bank lending rose by 23 percent in the year to September while lending for housing purposes rose by around 25 percent in the same period. Funds lent by Licensed Credit Institutions (LCIs) also continued to rise, recording a growth of around 16 percent over the review period. On the supply side, total commercial bank deposits increased further by around 17 percent in the year to September.

Interest rate movements were mixed during the review period. Both the commercial bank time deposit rate and savings deposit rate declined by 2 basis points and 1 basis point to 1.79 percent and 0.39 percent, respectively. The commercial bank lending rate, however, rose by 2 basis points over the month to 6.70 percent. However, the weighted average LCIs lending rate fell in September by 6 basis points to 11.35 percent.

Partial indicators of employment continue to reflect an easing in the labour market. Cumulative to October, around 5,700 individuals were registered as taxpayers with the Fiji Islands Revenue and Customs Authority (FIRCA), an annualised decline of around 17 percent.

Inflation in the year to October was 1.9 percent, compared with 1.7 percent in the previous month. The year-end inflation forecast is maintained at around 3 percent.

As at October, official foreign reserves are estimated at around $879 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 DEVELOPMENT

Domestic Conditions

Developments on the domestic front remained positive during the review period. Cane, sugar and electricity production rose during the January to October period.

Cane and Sugar

According to the Fiji Sugar Corporation's (FSC) latest mill report, around 2.5 million tonnes of cane was crushed during the review period. On an annual basis, this represents a 10 percent increase in the level recorded over the same period last year. Consistent with this favourable performance, sugar production aggregated to 266,000 tonnes, around 10 percent higher than the level recorded over the previous comparable period. The Tonnes Cane to Tonnes

Sugar ratio was around 9.5:1, unchanged from the level recorded over the same period last year.

The good outturn is mainly underpinned by the relatively early start of the crushing season this year, good supply of cane to the mills and fewer plant breakdowns. Nonetheless, the high incidence of cane burning remains a concern. Production in the coming weeks is expected to decelerate as the season draws to a close.

Electricity & Water

Electricity production continues to hold up well. Cumulative to October, total electricity generated was around 563 million kilowatt hours (kwh). This represented an increase of around 5 percent on a year-on-year basis.

Public Finance

The Government anticipates a net deficit of $203.5 million, or 4.3 percent of GDP this year. This is mainly on account of higher-than-expected increases in several expenditure components, coupled with the non-sale of Government assets worth around $40 million.

For 2006, the Government has announced an expansionary policy, with the net deficit projected at $202.0 million, equivalent to 4.0 percent of GDP. This accounts for the $30 million worth of shares that Government is expected to sell next year. The underlying deficit (excluding asset sales) is projected at $232.0 million, equivalent to 4.6 percent of GDP. Encouragingly, the Government is anticipating an operating surplus in 2006, indicating that deficit financing will likely be directed towards capital formation.

Inflation

Inflation in October stood at 1.9 percent, compared with 1.7 percent recorded in September. During the month, consumer prices fell by 0.1 percent, underpinned by lower prices of food, transport, durable household goods, alcoholic drinks & tobacco and miscellaneous items. Prices of clothing & footwear rose over the month while costs of housing, services and heating & lighting remained unchanged. The underlying measure of inflation, the trimmed mean, was 1.1 percent in October, down from 1.3 percent in September.

Looking ahead, for 2006, inflation is expected to fall due to the removal of VAT from certain items. It is estimated to cause a one-off fall in inflation of around 1.1 percentage points, which will come into effect in January. However, this will be partially offset by the flow-on effects from higher excise duty. Given this, the 2006 year-end inflation is now expected to be around 3.5 percent, compared with the 4 percent projected earlier.

Labour Market

Partial indicators of employment continue to reflect an easing in the labour market. Cumulative to October, around 5,700 individuals were registered as taxpayers with the FIRCA; a fall of around 17 percent over 2004. The community, social and personal services sector registered the highest number of taxpayers followed by the finance, insurance, real estate & business services; wholesale, retail trade, restaurants & hotels; manufacturing, construction and transport, storage and communication sector.

On the wages front, the Fiji Local Government Officers Association (FLGOA) recently awarded 32 of its members in the Nadi Town Council with a 3 percent pay rise based on Cost Of Living Adjustment (COLA). Moreover, around 29,000 civil servants were given COLA awards ranging from 0.4 to 11.4 percent. This is expected to be paid out by the end of this year.

Monetary & Credit Aggregates

Broad money rose by a further 18.6 percent in the year to September, following a rise of 15.4 percent in August. The outturn was largely attributed to increases in all the components of money supply; demand deposits, savings and time deposits with impetus also coming from currency in circulation. On an annual basis, currency in circulation rose by 12.9 percent.

Looking at the demand for funds, total domestic credit also rose, by a further 22.6 percent over the year in September, fuelled primarily by private sector credit which grew by 23.4 percent, after a strong growth of 24.3 percent recorded in August. The growth in private sector credit was in line with higher commercial bank lending, which rose by 22.6 percent, underpinned by higher loan disbursements to private individuals, and the wholesale & retail trade & hotels & restaurants and real estate sectors.

Impetus to the credit growth in Fiji is also stemming from LCIs. Lending by LCIs rose by 16.4 percent during the review period, following an increase of 15.2 percent in August. Similar to commercial banks, the growth in LCI's loan disbursements is largely driven by private individuals, the real estate and building & construction sectors.

In addition, cumulative to September, new loans disbursed by commercial banks rose by 29.0 percent to $669.6 million from $519.0 million recorded in the same period last year. LCIs cumulative new loans rose by 10.1 percent in the year to September, to $106.2 million from $96.5 million recorded during the same period in 2004.

On the supply side, total commercial bank deposits rose by 17.3 percent in the year to September 2005 to around $2.3 billion, following growth of 17.7 percent in August. The increase reflected mainly higher placements by private sector business enterprises and private individuals in demand and savings deposits. On a monthly basis, total commercial bank deposits also rose, by 1.4 percent, underpinned by increases in time deposits of non bank financial institutions.

Total LCIs deposits increased to $150.5 million, representing an over the year rise of 22.0 percent. The growth in deposits was largely underpinned by an increase in time deposit placements under 12-24 months maturity. Over the month, LCIs total deposits rose by 3.0 percent.

Interest Rates

Interest rate movements remained mixed during the review period. Both the commercial bank time deposit rate and savings deposit rate declined by 2 basis points and 1 basis point to 1.79 percent and 0.39 percent respectively. The commercial bank lending rate, however, rose over the month to 6.70 percent by 2 basis points. This trend is continuing with interest rates on new loans and advances also recording an increase (by 36 basis points) in September to 7.23 percent.

Lending interest rates offered by LCIs are on a downward trend. The weighted average LCI lending rate fell in September by 6 basis points to 11.35 percent. Similarly, the lending rate on new loans disbursed by LCIs declined to 11.43 percent from 12.48 percent recorded in the previous month. The weighted average time deposit rates for LCIs fell to 4.06 percent by 6 basis points and the weighted average deposit rates on new time deposits also fell by 27 basis points to 3.16 percent.

External sector

On the external front, latest Overseas Exchange Trade (OET) data showed that cumulative to September, merchandise exports fell by around 11 percent, compared with an increase of around 6 percent in the corresponding period last year. The decline in receipts was largely attributed to negative contributions from textiles, clothing & footwear, merchanted goods, fish, other re-exports, which more than offset positive contributions from sugar, re-exports of mineral fuel, ginger and mineral water.

During the same period, merchandise imports rose by around 20 percent, compared to growth of around 16 percent in the corresponding period in 2004. The increase in import payments was due to positive contributions from all categories; intermediate goods (9.4 percent), investment goods (7.2 percent), and consumption goods (3.4 percent). The rise in intermediate goods was largely made up of increases in imports of mineral fuels and textiles, while the growth in imports of investment goods was underpinned by an increase in payments for machinery & electrical equipment and chemicals. The higher payment for consumption goods was largely attributed to higher payments for food, beverages & tobacco, duty free goods, government and other imports.

In the revised trade forecast (accrual), released by the Macroeconomic Policy Committee in the 2006 Budget, exports (excluding aircraft) are anticipated to grow by 2.7 percent, compared to the previous forecast of 1.9 percent in 2005. The upward revision is driven by the relatively higher receipts from re-exports and other domestic exports, which more than offset the declines in garment and gold earnings, coupled with lower receipts from sugar and mineral water. For 2006, a stronger growth of 7.6 percent is envisaged, before moderating to 2.3 percent in 2007. Exports growth is anticipated to rebound to 5.9 percent in 2008.

Imports, however, are expected to record a lower growth of 3.3 percent this year, when compared to the previous forecast of 6.6 percent. The downward revision is expected to stem from a slowdown in imports of mineral fuels, machinery & transport equipment. This is expected to more than offset the relatively lower payments for manufactured goods.. Looking ahead, imports are expected to increase by 10.2, 0.8 and 4.3 percent in 2006, 2007, and 2008, respectively.

Exchange Rates

Bilateral movements in exchange rate reveal that during the month of October, the Fiji dollar generally strengthened against the Yen (2.2 percent) and Australian dollar (1.2 percent), while it depreciated against the New Zealand dollar (2.0 percent), Euro (0.4 percent) and the US dollar (0.2 percent).

In October, the Nominal Effective Exchange Rate (NEER) index[1] of the Fiji dollar fell by 0.1 percent over the year. This was accompanied by a fall in the Real Effective Exchange Rate (REER) Index[2] of the Fiji dollar by 1.1 percent during the same period. The decline in the REER Index over the year was largely due to lower domestic inflation outcomes.

RESERVE BANK OF FIJI

[1] 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.

[2] 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.

Vol.22 No.11 2005

FIJI: FINANCIAL STATISTICS

KEY INDICATORS	Oct-05	Sep-05	Aug-05	Oct-04
1. Money and Credit				
(year-on-year % change)				
Narrow Money	n.a.	25.49	20.57	24.90
Currency in Circulation (monthly average)	11.73	10.41	8.88	11.79
Quasi-Money (Time & Saving Deposits)	n.a.	12.91	10.83	8.58
Domestic Credit	n.a.	22.58	21.98	13.55
2. Consumer Prices [1/]				
(year-on-year % change)				
All Items	1.9	1.7	2.2	2.8
Food	0.3	-0.1	1.8	3.5
3. Reserves				
(end of period)				
Gross Foreign Reserves ($m)*	878.8	939.5	967.0	1005.7
Months of Imports (goods & non factor services)	3.1	3.4	3.5	4.5
Months of Imports (goods)	4.5	4.8	5.0	6.8
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	10.4	10.7	12.2
Banks' Demand Deposits ($m)	n.a.	122.6	108.4	99.5
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	n.a.	6.70	6.68	7.04
Savings Deposit Rate	n.a.	0.39	0.4	0.36
Time Deposit Rate	n.a.	1.79	1.81	1.77
91-day RBF Note Rate (month end)	1.75	1.75	1.75	1.75
Minimum Lending Rate (MLR) (month end)	2.75	2.25	2.25	2.25
Overnight Inter-bank Rate	1.35	1.45	1.27	1.19
5-Year Government Bond Yield	2.82	2.77	2.73	2.60
10-Year Government Bond Yield	5.44	5.39	5.34	5.00
6. Exchange Rates [2/]				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.5838	0.5850	0.5831	0.5855
Pound sterling	0.3306	0.3320	0.3264	0.3201
Australian dollar	0.7792	0.7697	0.7794	0.7851
New Zealand dollar	0.8300	0.8467	0.8461	0.8579
Swiss francs	0.7456	0.7563	0.7398	0.7030
Euro	0.4837	0.4858	0.4771	0.4597
Japanese yen	67.53	66.11	64.89	62.24
7. Commodity Prices (US$)				
(monthly average)				
UK Gold Price/fine ounce [2/]	469.88	454.23	437.74	419.91
London Daily Sugar Price/tonne [3/]	299.09	278.12	264.22	240.87
Crude Oil/barrel [4/]	58.56	62.98	64.09	49.71

n.a. - Not available/No activity
n.i. - No issues
n.t. - No trading
* *Official reserves includes foreign reserves holdings of the RBF and Non-Bank Financial Institution, as per the new definition of official reserves*

Sources:
[1/] *Fiji Islands Bureau of Statistics*
[2/] *Bloomberg and Reserve Bank of Fiji*
[3/] *Fiji Sugar Marketing Company Limited*
[4/] *Bloomberg*