



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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OVERVIEW

International economic fundamentals remain firm, with the global economy anticipated to grow by 4.9 percent this year. This is in spite of some expected slowing in the larger economies of the US, Japan and the Euro-zone. Australia and New Zealand are expected to grow at a faster pace while various Asian economies (China, Hong Kong and Singapore) are also on track for positive economic growth this year. Although crude oil prices rose in February, it is still relatively lower than its peak in August last year. Consequently, average trading partner inflation is projected to be lower than 2006.

Domestically, latest indicators suggest that in 2006, the economy expanded by less than the earlier anticipated growth rate of 3.6 percent. The less-than- envisaged outcome resulted mainly from the impact of the political developments on the tourism industry in the final months of 2006 as well as the unanticipated closure of the Vatukoula gold mine in early December. In addition, although the sugar industry registered good performance last year, growth in the industry was lower than expected.

For 2007, early indications are that the economy will contract. The tourism and related industries are expected to register a decline, while there will be no further contribution from the gold industry. The Interim Administration's decision to retain the Value Added Tax (VAT) rate at 12.5 percent will somewhat cushion the projected contraction of the wholesale and retail industry. The non-imposition of trade sanctions is expected to sustain a modest growth in the manufacturing sector.

Employment conditions generally weakened, as close to 3,000 jobs were lost as a result of the decline in tourist visits coupled with the closure of the Emperor

Gold Mining (EGM) Company Limited in December.¹ Job vacancies growth also weakened, evident by the results of the December Survey of Job Advertisements. However, more recent data on newly registered taxpayers show some increases. According to the Fiji Islands Revenue & Customs Authority (FIRCA), close to 2,000 individuals were registered in January, an annual increase of around 58.0 percent. The strong growth in taxpayer registrations possibly include employment in positions left vacant by emigrants, as well as those finding jobs after the normal school year.

In January, inflation was 2.6 percent compared with 3.1 percent in December last year. During January, consumer prices fell as costs of heating & lighting and transport dropped due to the decline in prices of petroleum products. The underlying measure of inflation, the trimmed mean, rose to 2.0 percent compared to 1.9 percent recorded in December last year. The rise in underlying inflation can be attributed to the second round effects of fuel price increases which are gradually filtering into businesses cost structures, leading to a general increase in core prices.

On the fiscal front, the Interim Government announced that a loss of \$190 million in revenue is anticipated for 2007. This will be mainly due to the non-increase in VAT rate above the current level of 12.5 percent, and combined with the negative revenue effects of the expected economic contraction this year. In response to this, the Interim Government has identified expenditure cuts accordingly, so as to maintain the target deficit at 2.0 percent of GDP. The new Budget will be announced on 2 March.

¹ Estimate was based on the results of the Fiji Employers Federation Employment Disruption Survey Result for December 2006 combined with the job loss figure at the EGM.

Trade performance continues to be dismal. Latest accrual trade data showed that cumulative to November 2006, export earnings fell by around 0.7 percent, compared to a 0.1 percent fall in the corresponding period in 2005. The fall in export earnings is even more pronounced at 3.0 percent without the re-export of mineral fuels. Merchandise import payments, on the other hand, rose by around 16.9 percent, higher than the growth of around 10.5 percent in the same period in 2005.

As at the end of January, official foreign reserves were at \$791.2 million (provisional), equivalent to 3.2 months of import of goods only.

SECTORAL DEVELOPMENTS

Latest indicators to GDP growth indicate that the economy grew by less than the 3.6 percent growth envisaged earlier. The decline in tourism activity and the closure of the gold mine in the final quarter of the year were the key reasons for the downward revision, although growth in certain industries was also lower than expected. For 2007, industry feedback points to a possible economic contraction.

Partial indicators of consumption and individual incomes showed a firm growth in 2006. However, output in the copra and gold industries remained weak last year.

Consumption

Consumption continued its robust performance in 2006, evident by the growth in partial indicators of consumer spending. On an annual basis, Net VAT collections amounted to \$470 million, an increase of around 13.0 percent when compared with the 2005 level. During this period, Net VAT collections accounted for 9.6 percent of GDP, compared with 9.0 percent of GDP in the previous year.

The strong performance was underpinned by increases in collections from Government departments (14.0 percent), domestic cash collections (11.0 percent) and customs services collections (3.0 percent).

Income

Net income tax collections amounted to around \$411 million in 2006, representing an annual increase of around 18.0 percent. In addition, last year, Total Pay As You Earn collections, a partial indicator of individual incomes amounted to around \$215 million, representing an increase of around 19.0 percent on an annual basis.

Tourism

According to provisional data from the Fiji Islands Bureau of Statistics, visitor arrivals for 2006 totalled around 545,000, representing a 0.9 percent decline on an annual basis. This is also 5.4 percent lower than the initial visitor arrivals projection of 576,000 by the Fiji Islands Visitors Bureau.

Copra

Looking at Copra, the latest statistics from the Coconut Industry Development Authority show that cumulative to November, copra production amounted to around 10,100 tonnes, representing a decline of around 10.0 percent over the corresponding period in 2005.

In the review period, the minimum mill gate price of copra remained unchanged at \$500 per tonne. Government's subsidy towards the mill gate price was \$65.32 per tonne.

Electricity

Electricity production continues to grow. In the first month of 2007, total electricity generated by the Fiji Electricity Authority was around 68 megawatt hours, an increase of 4.9 percent on an annual basis.

Inflation

Inflation in January was 2.6 percent compared with 3.1 percent in December last year. During January, consumer prices fell by 0.7 percent as costs of heating & lighting and transport fell due to the decline in prices of petroleum products. This was partially offset by increases in prices of alcoholic drinks & tobacco, miscellaneous items, clothing & footwear, durable household goods, food and housing. On the other hand, service charges remained unchanged. The rise in import and excise duties, effective since the previous 2007 Budget announcement, are now showing some impact on the prices of items under miscellaneous, clothing & footwear and durable household goods categories. The increase in food prices were due to higher prices recorded for market items and bakery & wheat products, while increases in prices of repair items led to higher housing costs.

The underlying measure of inflation, the trimmed mean, rose to 2.0 percent compared to 1.9 percent recorded in December last year. The rise in underlying inflation can be attributed to the second round effects of fuel prices which are gradually filtering into businesses cost structures, leading to a general increase in core prices.

Looking ahead, price pressures are likely to be moderate, especially with the relatively lower global crude oil prices compared to the corresponding period last year. There are expectations of higher prices for food items in the coming months as a moderate El Nino effect is expected to affect market supplies. Moreover, the recent rise in prices of flour and sharps is likely to result in higher prices of other downline wheaten and bakery products. Nonetheless, this will be mitigated somewhat by the decision of the Interim Administration to maintain the VAT rate at 12.5 percent. On the external front, inflationary pressures seem to be contained as trading partner inflation is expected to be lower than 2006. Thus, the 2007 year-end inflation rate is projected at 3.0 percent.

Labour Market

Employment conditions generally weakened in December and January. With the decline in tourism activity, many tourist establishments have temporarily laid off casual and part time staff, while some full time staff are also on reduced hours of employment. In addition, the EGM Company Limited has laid off 1,615 workers, for whom Government has now announced a \$0.6 million rehabilitation & up-skilling scheme. Since December 2006, it is estimated that close to 3,000 workers have lost their jobs. However, more recent data on newly registered taxpayers show some growth. According to the FIRCA, close to 2,000 individuals were registered in January, an annual increase of around 58.0 percent. The strong growth in taxpayer registrations possibly include employment in positions left vacant by emigrants, as well as those finding jobs after the normal school year.

The most number of new taxpayers were registered in the community, social & personal services sector followed by the finance, insurance, real estate & business services; manufacturing; transport, storage & communications and wholesale, retail trade, restaurants & hotels sectors.

On the wages front, recently the Public Rental Board employees were awarded a wage increase of 2.0 percent for established staff and 4.0 percent for unestablished staff. This was backdated to 1 January 2006.

Monetary and Financial Developments²

• Lending

As reported in the previous month's economic review, commercial banks' credit rose by 21.4 percent in the

year to December 2006. The growth was underpinned by higher commercial bank credit disbursements to private individuals (mainly for housing purposes) and the building & construction, real estate, manufacturing and wholesale & retail trade sectors. The annual growth rate of credit outstanding for consumption purposes rose by 10.9 percent during the review period. Investment lending outstanding of commercial banks also increased, rising by 59.7 percent during the review period to \$415.5 million.

Lending by Licensed Credit Institutions (LCIs) also rose in the year to December, increasing by 14.3 percent to \$320.7 million after a growth of 17.5 percent in the previous month. The increase was underpinned by higher lending to the real estate sector and to private individuals.

• Deposits

Total commercial bank deposits rose by 19.9 percent (\$474.5 million) in the year to December 2006 to around \$2.9 billion, following a growth of 18.8 percent in November. The outturn was underpinned mainly by higher time deposits which rose by 81 percent (\$581 million) to around \$1.3 billion on the back of higher interest rates offered by commercial banks on term deposits. Of the total deposit in December, time deposits accounted for 45.3 percent, demand deposits 33.3 percent and savings deposits 21.4 percent. On a monthly basis, total commercial bank deposits rose by 2.9 percent.

• Interest Rates

Interest rates generally rose during the review period. Both the commercial banks' time and savings deposit rates increased by 106 basis points and 3 basis points, to 9.05 percent and 0.84 percent, respectively. The commercial bank lending rate fell over the month by 21 basis points to 7.89 percent. Moreover, interest rates on new deposits rose by 150 basis points to 12.41 percent while the interest rate on new loans extended by commercial banks fell by 94 basis points to 9.75 percent. Additionally, banks were offering as much as 14 percent to wholesale depositors in December.

Similar trends emerged from LCIs. In December, the interest rate on new deposits rose to 12.11 percent from 10.47 percent in November. This denotes an increase of 164 basis points in December, emerging from attractive rates offered by credit institutions.

External sector

Subdued exports remain a concern. Latest accrual trade data showed that cumulative to November 2006,

² Available monetary and credit data remains the same as per the January review.

export earnings fell by around 0.7 percent, compared to a 0.1 percent fall in the corresponding period in 2005. The decline in export earnings was even more pronounced at 3.0 percent without the contribution from re-exports of mineral fuels.

Export earnings from most of the traditional sectors have fallen over the review period. This included earnings from garments, sugar, gold, molasses, timber, footwear & headgear, textiles and coconut oil. These are the more significant sectors and hence the decreases in these areas more than offset the higher inflows from re-exports, mineral water, fish, fruits & vegetables, yaqona and others.

Higher imports continue to pose risks to a wider trade deficit. Cumulative to November last year, merchandise import payments rose by around 16.9 percent compared with a growth of around 10.5

percent in the same period in 2005.

Higher import payments were reflected in all categories: intermediate, investment and consumption type goods. Mineral fuels and crude materials contributed to the higher import payments for intermediate goods, while the higher outflows for investment goods was led by machinery and chemicals imports. For consumption goods, the increase was due to higher payments for food and manufactured goods.

Exchange Rate Developments

On the domestic front, movements in exchange rates reveal that in the first month of 2007, the Fiji dollar strengthened against the New Zealand (0.9%) and Australian (0.8%) dollars and the Yen (0.8%), but weakened against the US dollar (1.5%) and the Euro (0.1 %).

RESERVE BANK OF FIJI

FIJI: FINANCIAL STATISTICS

Vol.24 No.02 2007

KEY INDICATORS	Jan-07	Dec-06	Nov-06	Jan-06
1. Money and Credit (year-on-year % change)				
Narrow Money	n.a.	n.a.	-8.37	19.72
Currency in Circulation (monthly average)	n.a.	5.70	7.49	9.88
Quasi-Money (Time & Saving Deposits)	n.a.	n.a.	40.79	14.49
Domestic Credit	n.a.	n.a.	27.96	27.08
2. Consumer Prices ^{1/} (year-on-year % change)				
All Items	2.6	3.1	3.5	2.3
Food	2.7	3.3	4.6	3.7
3. Reserves (end of period)				
Gross Foreign Reserves (\$m)*	791.2(p)	823.2(p)	805.9	905.9
Months of Imports (goods)	3.2(p)	3.3(p)	3.3	3.7
4. Liquidity (end of period)				
Liquid Assets Margin to Deposit Ratio (%)	n.a.	6.2	4.5	9.4
Banks' Demand Deposits (\$m)	n.a.	107.3	71.2	113.8
5. Interest Rates (% p.a.) (monthly average)				
Lending Rate (Excluding Staff)	n.a.	7.89	8.10	6.62
Savings Deposit Rate	n.a.	0.84	0.81	0.46
Time Deposit Rate	n.a.	9.05	7.99	2.33
91-day RBF Note Rate (month end)	n.a.	n.i.	n.i.	n.i
Minimum Lending Rate (MLR) (month end)	n.a.	5.25	5.25	2.75
Overnight Inter-bank Rate	n.a.	5.28	5.64	n.t
5-Year Government Bond Yield	n.a.	n.i.	n.i.	n.i
10-Year Government Bond Yield	n.a.	10.75	n.i.	n.i
6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period)				
US dollar	0.592	0.6009	0.5950	0.5788
Pound sterling	0.3017	0.3062	0.3058	0.3276
Australian dollar	0.7663	0.7605	0.7593	0.7736
New Zealand dollar	0.8595	0.8521	0.8764	0.8501
Swiss francs	0.7413	0.7344	0.7196	0.7452
Euro	0.4566	0.4570	0.4524	0.4790
Japanese yen	72.00	71.45	69.23	68.09
7. Commodity Prices (US\$) (monthly average)				
UK Gold Price/fine ounce ^{2/}	630.36	630.19	626.07	547.21
New York #11 Spot Market Price ^{3/}	11.88	12.47	12.35	17.39
Crude Oil/barrel ^{4/}	54.30	62.31	58.48	63.57
<p>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</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>				