



RESERVE BANK OF FIJI

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OVERVIEW

World growth prospects continue to be positive, underpinned by the US expansion, the strengthening Japanese recovery and China's unrelenting growth. The outlook for our other major trading partners remains encouraging.

However, oil prices continue to soar¹ with no indication of abating, while geopolitical concerns have also intensified, threatening the growth momentum.

Domestically, economic activity is expected to slow down this year. Exports continue to decline with evidence of decelerating consumption. The problems of the traditional sectors appear to be manifesting in weaker labour market conditions, while income from remittances have grown marginally, affecting personal consumption. Growth in monetary and credit aggregates appear to be stabilising. The inflation outlook remains moderate, although there is risk of higher oil prices. Nevertheless, foreign reserves are projected to be adequate, mainly buffered by tourism receipts. Investment prospects remain optimistic, driven in most part by tourism-related projects.

In June, inflation was 2.1 percent, compared with 2.5 percent in May. However, with increasing oil prices, the year-end inflation forecast remains unchanged at 4.5 percent.

Partial indicators suggest some weakness in labour market conditions, as new taxpayer registrations with Fiji Islands Revenue & Customs Authority (FIRCA) fell in the review period.

During the month of May, broad money rose at a

slower rate of 15 percent (21 percent in April), as the growth in narrow and quasi money slowed. Although the growth in total commercial bank lending remains high at 19 percent, lending appears to have peaked. Moreover, new loans by commercial banks fell over the month. However, credit extended by Licensed Credit Institutions (LCIs) is still strong, rising by 16 percent over the year, coupled with higher new lending over the month underpinned by loans to private individuals, building and construction and real estate sectors.

The weighted average lending rate of commercial banks declined by 5 basis points to 6.82 percent, while the savings deposit rate rose marginally to 0.38 percent. The time deposit rate remained unchanged at 1.80 percent. During the same period, the new lending and deposit rates increased by 44 basis points and 6 basis points, to 7.86 percent and 1.51 percent, respectively.

On external trade, current Overseas Exchange Trade (OET) data showed that cumulative to May, merchandise exports fell by around 22 percent. This 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. On the other hand, services receipts continue to expand, led by tourism receipts while growth on personal remittances was marginal.

As at the end of June, foreign reserves stood at around \$991.3m, equivalent to 4.2 months of imports of goods and non-factor services or 5.6 months of imports of goods only.

¹ Recent data shows the oil prices reaching a historical high of US\$58.8 per barrel, in early July.

SECTORAL DEVELOPMENTS

Developments in the real sector remained mixed during the review period. On an annual basis, positive contributions were noted for cane, sugar, copra and electricity production, in addition to the robust performance in the building and construction sector. However, gold output remained weak.

Consumption

Consumer spending remained buoyant, evident by the firm performance of net Value Added Tax (VAT) collections, a partial indicator of spending. Net VAT collections, amounted to \$193 million during the first 6 months of the year, representing a 4 percent increase over the previous comparable period².

This growth was underpinned by higher VAT receipts from Government Departments³, cash collections and Customs Services. Moreover, cash collections, which are one of the largest indicators of domestic consumption activities, amounted to around \$101 million, indicating a 13 percent rise during the review period on annual basis.

Income

In line with somewhat subdued labour market conditions, PAYE collections, a partial indicator of individual incomes, rose by only 3 percent over the year. PAYE collections amounted to around \$87 million during the first half of the year.

Cane and Sugar

The cane & sugar industries performed exceptionally well. Around 321,000 tonnes of cane was crushed during June, representing a substantial increase over the previous year. In line with the good cane harvest, sugar production amounted to slightly over 26,000 tonnes. The good outturn in cane and sugar output reflects the early start to the crushing season in 2005, relative to the previous year. The tonnes cane to tonnes sugar (TCTS) ratio was around 12:1, lower than the ratio of 14:1, recorded in the comparable period in 2004.

² Net VAT collections have been increasing at a lower pace since January this year. In May, net VAT collections grew by around 3 percent, recording for the first time in 10 months, a single digit growth.

³ VAT from the Customs Services, Government Departments and Domestic collections are 3 separate categories of net VAT collections.

Copra

Production in the copra industry remained positive. Latest statistics show that cumulative to May, copra production amounted to around 4,300 tonnes, representing an increase of almost 11 percent over the corresponding period in 2004.

In May, the minimum mill gate price of copra remained unchanged at \$500 per tonne. Government subsidy towards the mill gate price was \$34.11 per tonne.

Electricity

Electricity production remains positive. Cumulative to June, total electricity generated was around 353 million kilowatt hours (kWh), an increase of around 5 percent over the same period last year.

Building & Construction

The construction sector continues to perform robustly, evident by the value of work put-in-place. According to the March Quarter Building and Construction Survey⁴ report released by Fiji Islands Bureau of Statistics, around \$59 million was spent on capital works during the first three months of this year, a strong increase of 74 percent on an annual basis.

Looking at the categories, cumulative to March this year, the total value of work put-in-place by the private sector rose significantly by around 92 percent (\$45m), followed by the public sector recording an increase of 34 percent (\$14m) during the review period.

Gold

Total gold output, cumulative to May this year, amounted to almost 41,000 ounces, 21 percent lower than the corresponding level in 2004. According to the industry sources, the low gold production is attributable to a high rate of staff absenteeism, equipment failures and low quality ore extracted. Similarly, earnings declined by 19 percent over the year to \$28.5 million.

Inflation

In June, inflation stood at 2.1 percent, compared with 2.5 percent in May. Over the month, consumer prices fell by 0.2 percent, resulting from lower prices of miscellaneous items, food and clothing & footwear.

⁴ The survey covers all private sector enterprises operating in the private and public sectors of the construction sector.

The underlying measure of inflation, the trimmed mean, was 1.1 percent in June, down from 1.7 percent in the previous month.

The year-end inflation forecast is still maintained at 4.5 percent, in view of rising crude oil prices.

Building Material Price Index

BMPI rose by 8.6 percent compared with 8.1 percent in the March quarter. Over the quarter, prices increased by 1.4 percent. Higher prices were recorded in paint & glass, floor and wall tiles, wood & related materials, cement & related materials and plumbing ware. On the other hand, the prices of iron & steel and electrical products fell, while the prices of door & window frames remained unchanged. The increase in the prices of building materials can be attributed to the increasing number of projects for building and construction.

Labour Market

Partial indicators of employment and survey data reveal that conditions in the labour market remained firm during June, despite some signs of a slowdown. Cumulative to June, 6,100 new taxpayers were registered with FIRCA, a fall of around 20 percent over the year. The most number of taxpayers were registered under the community, social and personal services sector followed by wholesale, retail trade, restaurants & hotels sector, agriculture, forestry and fishing, and mining & quarrying sectors.

According to the Reserve Bank's June Survey of Job Advertisements, the number of job advertised improved by around 22 percent over the year, reflecting a possible improvement in labour market conditions in the approaching months. Furthermore, the Reserve Bank's June Fiji Employers Federation Expectations Survey suggest employment prospect over the next twelve months to be positive. A net of around 65 and 55 percent of respondents expect permanent and temporary employment to increase, respectively. On the wages front, the survey revealed that the majority of respondents expect wages to rise between 0 to 5 percent over the next twelve months.

Monetary Aggregates

During the month of May, broad money rose at an annual rate of 14.5 percent (20.8 percent in April) to \$2.3 billion. This was largely attributed to increases in narrow (22.8 percent) and quasi money (7.8

percent), which was driven by higher demand and savings deposits respectively.

Domestic credit grew by 15.2 percent in the year to May to around \$2 billion, underpinned by higher credit to the private sector, which rose by 18.9 percent. In the year to May 2005, the total value of outstanding loans in the banking system increased by 19.3 percent (\$276m) to \$1.7 billion. This was largely due to increased lending to wholesale & retail, hotels & restaurant, private individuals, and real estate sectors. However, lending to the mining & quarrying and agricultural sectors fell during the review period.

New loans by commercial banks stood at around \$64.7 million in May 2005, a decline of 10.9 percent over the month and an increase of 59.4 percent over the year. In addition, total loans and advances of LCIs grew at an annual rate of 16.4 percent during the review period to \$247 million.

On the supply side, total deposits with commercial banks totalled \$2.1 billion, an annual increase of 15.5 percent. This was largely due to higher demand deposits placed by private business enterprises and individuals. The weighted average lending rate of commercial banks declined by 5 basis points to 6.8 percent while the savings deposit rate rose marginally to 0.38 percent. The time deposit rate remained unchanged at 1.8 percent. During the same period, interest rates on new lending and the new deposit rates offered by commercial banks, increased by 44 basis points and 6 basis points, to 7.9 percent and 1.5 percent respectively over the month. The weighted average lending rate of LCIs was 11.5 percent at the end of May, a decline of 8 basis points over the month. In addition, the interest rates offered by LCIs on new loans and advances fell increased from 11.7 percent to 12.3 percent over the month and the new time deposit rates increased by 66 basis points to 3.7 percent at the end of May 2005.

Exchange Rates

In June 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 (2.5 percent), the Yen (1.5 percent) and the New Zealand dollar (0.9 percent) but weakened against the Australian (1.0 percent) and US dollars (0.9 percent).

The Nominal Effective Exchange Rate (NEER) index⁵ of the Fiji dollar rose by 0.5 percent in the year to June, indicating an appreciation of the Fiji dollar against the basket of currencies.

The Real Effective Exchange Rate (REER) Index⁶ of

the Fiji dollar, a gauge of our international competitiveness, rose by 0.3 percent during the review period. The increase in the REER Index over the year reflects a marginal weakening of our international competitiveness arising out of the appreciation of the Fiji dollar

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⁵ 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.

⁶ 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

| KEY INDICATORS | Jun-05 | May-05 | Apr-05 | Jun-04 |
|---|---------------|---------------|---------------|---------------|
| 1. Money and Credit (year-on-year % change) | | | | |
| Narrow Money | n.a. | 22.77 | 33.64 | 23.78 |
| Currency in Circulation (monthly average) | -0.36 | 8.33 | 8.49 | 12.44 |
| Quasi-Money (Time & Saving Deposits) | n.a. | 7.84 | 11.25 | 18.59 |
| Domestic Credit | n.a. | 15.19 | 13.23 | 13.70 |
| 2. Consumer Prices ^{1/} (year-on-year % change) | | | | |
| All Items | 2.1 | 2.5 | 1.3 | 2.7 |
| Food | 1.5 | 1.4 | -1.3 | 5.4 |
| 3. Reserves (end of period) | | | | |
| Gross Foreign Reserves (\$m)* | 991.6 | 990.8 | 989.5 | 990.9 |
| Months of Imports (goods & non factor services) | 4.2 | 4.2 | 4.2 | 4.4 |
| Months of Imports (goods) | 5.6 | 5.6 | 5.6 | 6.7 |
| 4. Liquidity (end of period) | | | | |
| Liquid Assets Margin to Deposit Ratio (%) | n.a. | 11.5 | 9.9 | 13.2 |
| Banks' Demand Deposits (\$m) | n.a. | 127.6 | 101.4 | 77.6 |
| 5. Interest Rates (% p.a.) (monthly average) | | | | |
| Lending Rate (Excluding Staff) | n.a. | 6.82 | 6.87 | 7.17 |
| Savings Deposit Rate | n.a. | 0.38 | 0.36 | 0.35 |
| Time Deposit Rate | n.a. | 1.80 | 1.80 | 1.71 |
| 91-day RBF Note Rate (month end) | 1.75 | 1.75 | 1.75 | 1.75 |
| Minimum Lending Rate (MLR) (month end) | 2.25 | 2.25 | 2.25 | 2.25 |
| Overnight Inter-bank Rate | 1.16 | n.t. | 1.10 | n.t. |
| 5-Year Government Bond Yield | 2.74 | 2.71 | n.i. | 2.51 |
| 10-Year Government Bond Yield | 5.27 | 5.23 | n.i. | 4.61 |
| 6. Exchange Rates ^{2/} (mid rates, F\$1 equals) (end of period) | | | | |
| US dollar | 0.5876 | 0.5927 | 0.6042 | 0.5562 |
| Pound sterling | 0.3255 | 0.3250 | 0.3170 | 0.3078 |
| Australian dollar | 0.7715 | 0.7793 | 0.7753 | 0.8053 |
| New Zealand dollar | 0.8401 | 0.8326 | 0.8290 | 0.8802 |
| Swiss francs | 0.7541 | 0.7341 | 0.7210 | 0.7041 |
| Euro | 0.4871 | 0.4752 | 0.4687 | 0.4602 |
| Japanese yen | 64.94 | 64.00 | 64.12 | 60.19 |
| 7. Commodity Prices (US\$) (monthly average) | | | | |
| UK Gold Price/fine ounce ^{2/} | 429.96 | 422.61 | 428.56 | 392.61 |
| London Daily Sugar Price/tonne ^{3/} | 258.84 | 252.99 | 253.35 | 205.87 |
| Crude Oil/barrel ^{4/} | 54.34 | 48.55 | 51.81 | 35.20 |
| <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> | | | | |