RESERVE BANK OF FIJI

QUARTERLY REVIEW

March 2004

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QUARTERLY REVIEW OF THE ECONOMY & FINANCIAL CONDITIONS

OVERVIEW

The global economic recovery continued steadily into the March quarter, led by strong performances by the United States (US), Japan and China. The improvement in world economic and financial conditions was further supported by accommodative fiscal and monetary policies in most industrial countries during the review period.

Following an estimated growth of 3.9 percent last year, the International Monetary Fund expects the world economy to grow by 4.6 percent in 2004. This is against the backdrop of the strengthening US economic expansion, robust Japanese economic recovery and improved prospects for some developing Asian economies.

Nevertheless, some downside risks to the outlook still remain. These include concerns for terrorism threats, following the Madrid bombing, as well as continuing tensions in the Middle East. In addition, there is uncertainty regarding the sustainability of the economic expansion in the US, given the fragile labour market recovery as well as the widening budget and current account deficits.

During the quarter, the performance of global financial markets was generally mixed. In the foreign exchange market, the US dollar generally strengthened against all our major trading partner currencies. Stock markets witnessed mixed developments, while bond prices generally rose.

The economic outlook for our trading partner economies remains upbeat for this year. Prospects for Australia and New Zealand (NZ) are firmly positive, underpinned by strong domestic demand. The US and Euro-zone are both projected to grow significantly faster than last year. It is anticipated that, in 2004, the Japanese economy will also improve slightly on its growth from last year.

The domestic economy is estimated to have performed robustly in 2003, expanding by around 5 percent. This year, the economy is expected to perform favorably, underpinned by buoyant activity in the building and construction; wholesale & retail trade and restaurants & hotels; and manufacturing sectors.

Inflation at the end of March was 2.2 percent, down from 4.2 percent in December 2003. The trimmed mean, which measures underlying inflation, was 0.9 percent. As expected, inflation has fallen to lower levels, as the effect of the higher Value Added Tax (VAT) rate abated from the beginning of the year. The year-end inflation is projected at around 3 percent, supported by favourable domestic and international factors.

Conditions in the labour market remained optimistic into the quarter, as suggested by partial indicators and survey results. Employment is expected to pick up further during the course of the year, both in the temporary and permanent categories. Wage growth is expected to remain moderate, and bodes well for inflationary outcomes.

There are increasing signs that investment is picking up, led by robust activity in the construction sector. This is further supported by higher level of imports of investment goods, and expectations for employment growth in the construction industry. Several major private and public sector capital projects, some of which are continuing from last year, and others, which have just begun or are soon to begin, will feature prominently in the construction sector's strong growth anticipated for this year.

On public finance, following 5 years of expansionary fiscal policy, the Government intends to adopt a contractionary stance in 2004. This is consistent with Government's intention to consolidate its financial position and reduce the underlying deficit to 3.9 percent of GDP, from an estimated 6.3 percent last year.

On an accrual basis, merchandise exports rose by around 7 percent last year, while merchandise imports grew at a slower pace of 5 percent, over 2002 levels.

Foreign reserves at the end of March were around $725 million, sufficient to cover 3.1 months of import payments of goods and non-factor services or 4.5 months of imports of goods only.

The Reserve Bank maintained an accommodative monetary policy stance into the first quarter of the year, thus providing a supportive environment for further growth. The Bank's policy indicator rate was 1.25 percent, unchanged from the previous quarter.

THE INTERNATIONAL ECONOMY

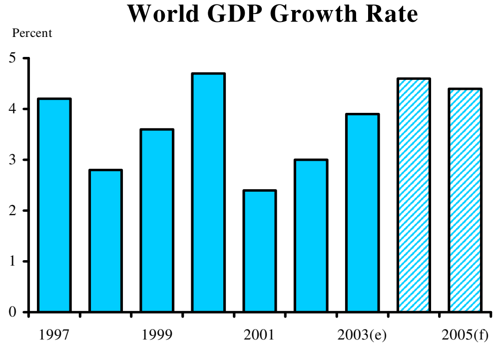
International Economic Conditions

Global economic and financial conditions improved during the March quarter, underpinned by strong performances from the US, Japan and China. The recovery of the global economy continues to be supported by accommodative fiscal and monetary policies in most industrial economies.

The International Monetary Fund (IMF) estimated that the global economy expanded by 3.9 percent last year, up from the previous projection of 3.2 percent, mainly attributed to the broad based global economic recovery in the second half of 2003. For 2004, world growth is forecast at 4.6 percent, higher than the previous projection of 4.1 percent (Graph 1).

Graph 1

World GDP Growth Rate



Source: IMF World Economic Outlook

This improvement in world growth is underpinned by the strong US economic expansion and robust Japanese economic recovery. Moreover, growth prospects for developing Asian economies have improved, despite the outbreak of the bird flu virus in some countries. Inflationary pressures are expected to remain modest, reflecting continued excess capacity.

However, downside risks to this outlook remain, with ongoing concerns on terrorism following the Madrid bombing. Geopolitical risks could also derail the global economic expansion, with escalating tensions in the Middle East. In addition, even though the US economy is projected to perform strongly, there are concerns regarding the sustainability of its growth, given the fragile labour market recovery and widening budget and current account deficits.

During the March quarter, the performance of global financial markets was generally mixed. On exchange rates, having depreciated for most part of last year, the US dollar generally strengthened against all our major trading partner currencies in the March quarter. Stock markets showed mixed results, while bond prices generally rose.

For this year, growth prospects for our major trading partners are optimistic (Graph 2). The outlook for Australia and New Zealand remains favourable, led by robust domestic demand. The US and Euro-zone are expected to expand significantly this year, with Japan anticipated to mirror its good growth performance from last year.

Graph 2

The **Australian** economy grew by 3.0 percent last year, driven by robust consumer demand and strong growth in the property market. In fact, the economy grew at the fastest pace in 4 years in the final quarter of last year, led by higher consumer expenditure and a recovery in farm production.

During the March quarter, economic indicators were generally positive. In January, retail sales rose, led by higher wages, while consumer confidence remained close to a 10-year high in February. On the external front, the trade deficit narrowed, consistent with the recovery in rural exports. Furthermore, the index of leading economic indicators, which projects economic performance over the next 3 to 6 months, rose for the second consecutive month in January.

However, on a negative note, the unemployment rate rose to a 5-month high in February, while business confidence fell to its lowest in 9 months.

The Reserves Bank of Australia (RBA) left its key interest rate unchanged at 5.25 percent in the March quarter, as inflationary pressures remained subdued.

Looking ahead, growth is projected at a robust 3.5 percent in 2004, largely attributed to strong domestic demand. Inflation is expected to be around 2.6 percent, within the RBA's 2-3 percent target band.

Last year, the **New Zealand** economy expanded by 3.5 percent, underpinned by strong consumer spending and a housing boom. However, in the December quarter, the economy grew slower-than-expected (0.6 percent), as a stronger NZ dollar reduced export earnings.

Nevertheless, going into 2004, the economy's performance remained strong. In January, visitor arrivals and immigrants rose significantly, while retail sales, particularly spending on household items, increased. Manufacturing rose to a 4-month high in February, while the annual trade gap narrowed in the same period.

The Reserve Bank of New Zealand raised its benchmark interest rate by a quarter of a percentage point to 5.25 percent, to ensure inflation remains comfortably within the target range (0-3 percent) in the medium term.

The economy is expected to grow by 3.0 percent this year, with inflation projected at 2.3 percent.

The **US economy** grew by 3.1 percent in 2003, led by increased consumer spending and business investment. In the fourth quarter last year, the economy expanded by 4.1 percent, driven by a surge in corporate investment.

Recent indicators generally point towards a robust economic expansion in the economy this year. Personal spending rose for the third consecutive month in January and business inventories fell to a record low, signalling strong domestic demand. Moreover, in February, industrial production and retail sales rose, while jobless claims fell close to a 3-year low in March, indicating a slight recovery in the labour market.

In line with the depressed outlook for domestic consumer prices, the Federal Reserve left its key interest rate unchanged at 1.0 percent, a 45-year low.

This year, the economy is expected to expand by 4.6 percent, largely due to projected expansion in business investment expenditure. In spite of the strong growth expected this year, inflation is anticipated at 2.3 percent.

The **Euro-zone** economy managed a marginal growth of 0.4 percent in 2003, as consumer spending remained subdued. With the stronger Euro lowering export receipts during the review period, the economy recorded a sluggish growth of 0.3 percent in the final quarter of last year.

Nevertheless, the global economic recovery this year is expected to improve prospects for the Euro-zone. In January, the trade surplus increased - while imports fell, exports for the Euro-zone rose, as rapid growth abroad offset the effects of the appreciating Euro.

However, Germany and France, the Euro-zone's two largest economies, generally performed relatively weakly in the first quarter. In March, German investor confidence fell to a 16-month low, while French consumer confidence fell and unemployment was close to a 3½-year high in February.

The European Central Bank kept its key interest rate unchanged at 2.0 percent, prompted by the fall in the inflation rate to a 4-year low in February, as well as to foster economic recovery in the region.

In 2004, the Euro-zone economy is forecast to grow by 1.7 percent, as domestic demand conditions are expected to improve. Inflationary pressures are projected to be moderate, with year-end inflation forecast at 1.7 percent, compared with 2.1 percent in 2003.

The **Japanese economy** expanded by 2.7 percent last year, largely due to higher private consumption and business investment. The economy recorded a 3.4 percent growth in the fourth quarter last year, as investment and consumer spending improved.

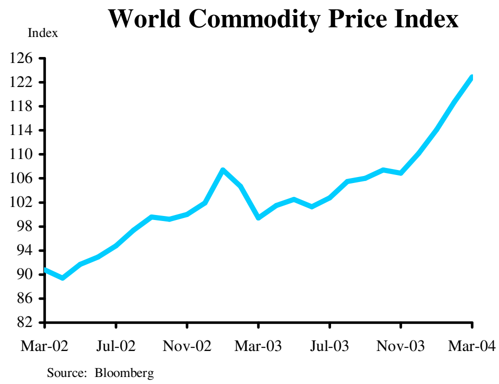
Economic activity over the March quarter was also positive. In January, retail sales were close to a 7-year high and output in the manufacturing sector reached a 4-month high. In addition, the trade surplus neared a 4-year high, as exports rose for the third consecutive month in January.

However, the unemployment rate rose in January, as job seekers outpaced the number of new jobs created.

In line with the positive economic performance by the domestic and external sector, the economy is expected to grow by 3.4 percent this year. Inflation is forecast at -0.4 percent for this year, compared with -0.2 percent last year.

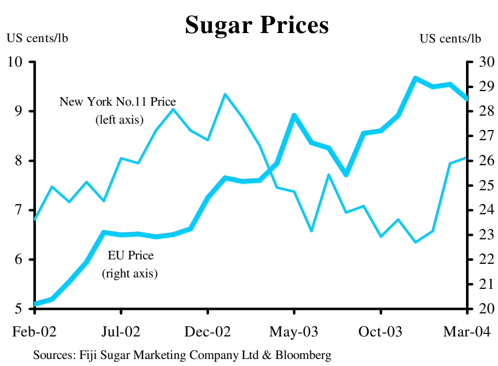
World commodity prices rose by around 12 percent during the March quarter, reaching a historical high, largely underpinned by higher sugar, gold and crude oil prices (Graph 3).

Graph 3



Over the March quarter, **world market sugar prices** increased by around 27 percent to a 1-year high (Graph 4), on speculation that China and Indonesia will increase sugar imports due to lower domestic production.

Graph 4

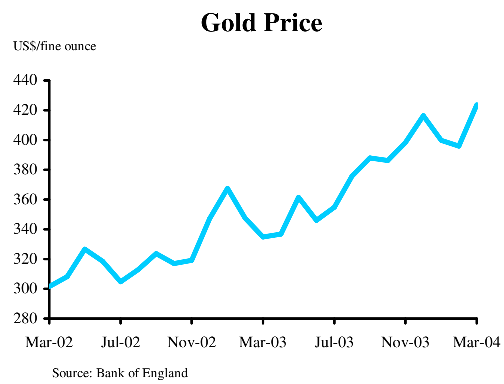


However, in the months ahead, sugar prices are anticipated to decline, as projection of higher supplies from Brazil and Australia is expected to more than offset higher demand anticipated from China and Indonesia.

At the end of March, the European Union (EU) sugar price was around US29 cents per pound. Over the quarter, the EU sugar price fell by around 3 percent, reflecting the weakening of the Euro against the US dollar.

Gold prices rose by around 2 percent over the quarter, reaching a 15½-year high in March (Graph 5). During the first 2 months of the quarter, gold prices declined, as the strengthening US dollar vis-à-vis the Euro reduced demand for the US-dollar-indexed metal from European buyers. However, prices rose in March, after the Madrid bombing heightened concerns of further terrorist attacks, increasing demand for the metal as a safe haven investment.

Graph 5

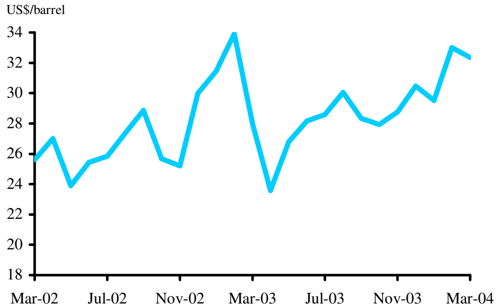


In the approaching months, gold prices are expected to remain high due to anticipated increase in demand, on expectations of a relatively stronger Euro against the US dollar and due to ongoing terrorism-related concerns.

At the end of March, the **Brent crude oil price** was around US$32 per barrel, 6 percent higher than at the end of last year (Graph 6).

Graph 6

Crude Oil Price



Source: Bloomberg

In January, crude oil prices fell, after US crude oil inventories rose from a 28-year low. However, prices reached a 1-year high in February, on speculation that US crude oil supplies will not be sufficient to cater for the higher demand anticipated during the upcoming summer season. Prices also rose on concerns that political instability in Venezuela will limit oil supplies[1]. However, crude oil prices fell in March, after reports showed that US oil inventories for the period were higher-than-expected.

In the approaching months, crude oil prices are likely to remain high, based on higher demand from the US and China. Moreover, renewed concerns on terrorism and the OPEC's decision to cut production[2] should maintain upward pressure on prices.

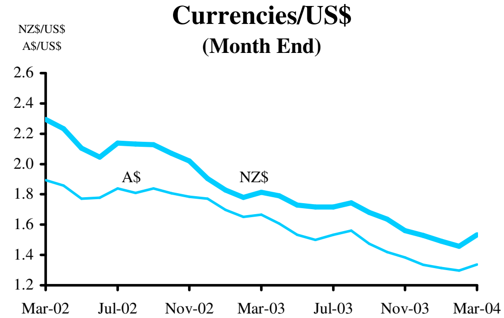
International Financial Markets

Over the March quarter, the US dollar generally strengthened against all of Fiji's other major trading partner currencies.

During the first two months of the quarter, the Australian and New Zealand dollars strengthened, moving close to a 6½-year high against the US dollar (Graph 7). This was a result of the favourable widening interest rate differential with the US, which increased demand for Australian and New Zealand dollar-denominated assets. However, in March, the US dollar recovered against the Australian and NZ dollars, on speculation that accelerating economic and job growth in the US might prompt the Federal Reserve to raise interest rates, thus, attracting investors to US-dollar-denominated assets.

Graph 7

Exchange Rate - Selected Currencies/US$
(Month End)



Source: Bank of England

The Euro also weakened during the quarter (Graph 8), as speculation of accelerating US economic growth prompted investors to switch their demand from Euro to US-dollar-denominated assets.

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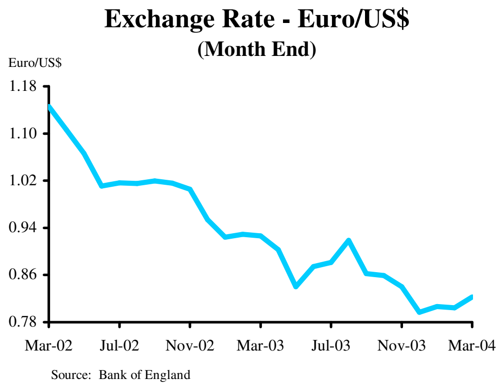
[1] Venezuela is the worlds' fourth largest oil exporter and the Organisation of Petroleum Exporting Countries' (OPEC) third largest oil producing nation. Thus, reduced supplies from Venezuela could contribute to higher crude oil prices.

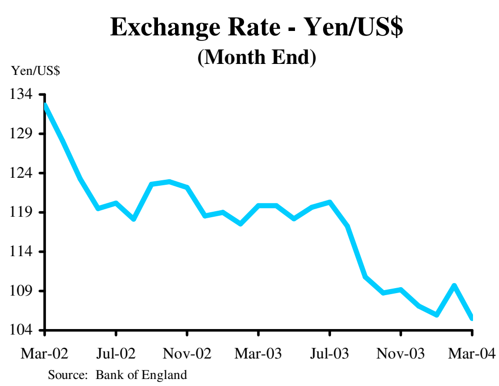
[2] In its meeting in Vienna, Austria, on 31 March, OPEC re-confirmed that a production cut of 1 million barrels per day would be effective from 1 April 2004.

Graph 8



During the quarter, the Yen generally appreciated against the US dollar (Graph 9). In January, the Yen rose as rising confidence in the Japanese economy stimulated demand for Yen-denominated assets. However, the Yen weakened in February after the Bank of Japan sold Japanese Yen, in order to support exports. Nevertheless, the Yen strengthened in March yet again, nearing a 4-year high, as the strengthening Japanese economic recovery increased demand for Yen-denominated assets.

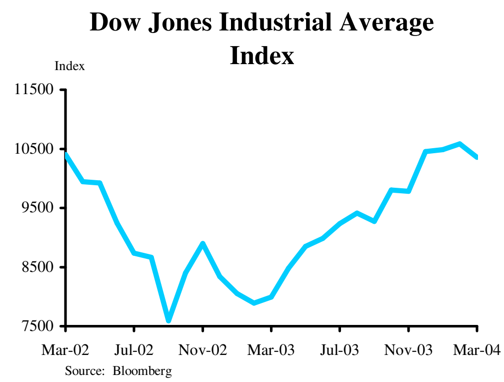
Graph 9



Equity prices showed mixed results during the three months to March.

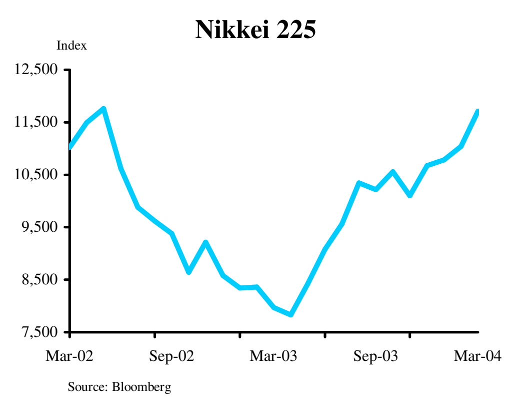
Over the March quarter, the Dow Jones Industrial Average Index declined by around 1 percent (Graph 10). During the first two months of the quarter, the Dow Jones rose, reaching close to a 3-year high in February, on expectation of higher corporate profits following the US recovery. However, the Dow fell in March, following concerns over company profits as consumer confidence remained below expectations.

Graph 10



Over the three months to March, the Nikkei 225 Stock Average Index rose by around 10 percent (Graph 11).

Graph 11

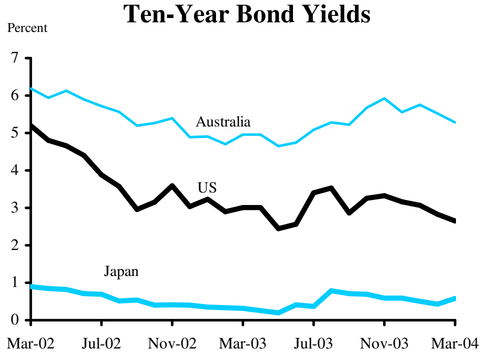


The Nikkei rose to a 2-year high during the March quarter, on optimism that US economic growth will be sustained, thus, boosting Japanese exporting companies' profit outlook[3].

Over the three months to March, bond yields generally fell (Graph 12).

Graph 12

Ten-Year Bond Yields



Source: Bloomberg

During the March quarter, US 10-year bond yields fell, after renewed concerns on terrorism increased demand for US bonds as a safe haven investment.

During January, the Australian 10-bond prices declined, increasing yields, as stronger domestic growth prompted investors to switch from bonds to other assets. However, bond yields fell in the last two months of the March quarter, as higher interest rates and concerns of terrorism, attracted investors to Australian bonds.

In March, Japanese 10-year bond yields fell over the previous quarter on prospects that continued gains in the Yen may negatively impact on, and slow, the country's export-led economic recovery.

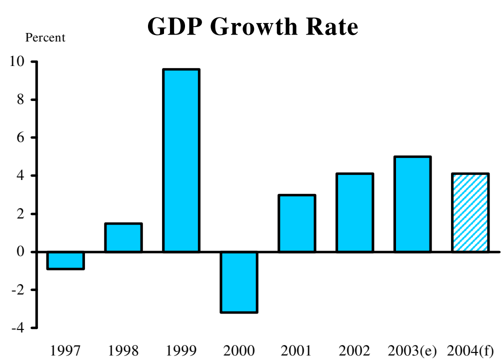
[3] The US is a major trading partner of Japan, and a sustained economic growth would mean that Japanese exporters would increase or maintain their current level of exports to the US, thus boosting exporting companies' profit outlook.

THE DOMESTIC ECONOMY

Domestic Economic Conditions

The domestic economy is estimated to have performed well last year, expanding by around 5 percent (Graph 13). The good economic performance is estimated to have been primarily led by the finance, insurance and real estate & business services sector; followed by the wholesale & retail trade and restaurants & hotels sector. As expected, the building and construction; and manufacturing sectors also contributed strongly towards last year's growth.

Graph 13



Sources: Fiji Islands Bureau of Statistics & Macroeconomic Policy Committee

This year, the economy is forecast to record good growth again, on the back of robust activity in the building & construction; and wholesale & retail trade and restaurants & hotels sectors. In addition to these, favourable performances by the community, social and personal services; manufacturing; and transport and communications sectors are anticipated to contribute reasonably to this year's economic expansion.

Consumer Spending

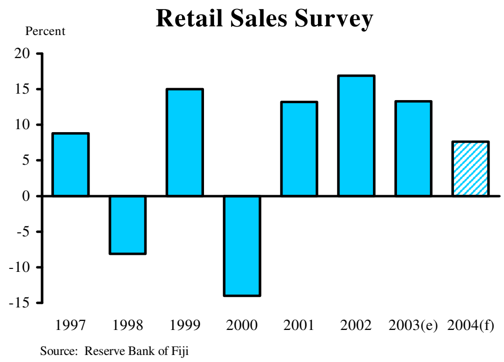
Consumption remained buoyant into the first two months of the year as indicated by the robust growth in partial indicators of **consumer spending.**

On an annual basis, net VAT collections increased by around 13 percent during the review period. Consumption was further supported by strong growth in currency in circulation and lending for consumption purposes in the year to February. Moreover, the low commercial bank lending rates continued to encourage borrowing for consumption purposes. Improving labour market conditions and higher remittances from abroad also contributed towards robust consumption activity during the quarter.

Looking ahead, the results of the Reserve Bank's December 2003 Retail Sales Survey indicate that gross retail sales this year is expected to increase by around 8 percent, following a healthy growth of 13 percent last year (Graph 14).

The expansion in retail sales this year is anticipated to be driven mainly by better sales prospects of household goods & appliances, food, drinks & tobacco, duty free items and motorcars & other transport equipment. This will likely be further supported by the overall expansion in domestic demand, partially attributed to the declines, in corporate and top bracket income rate (from 32 percent to 31 percent), as well as, higher visitor arrivals anticipated this year.

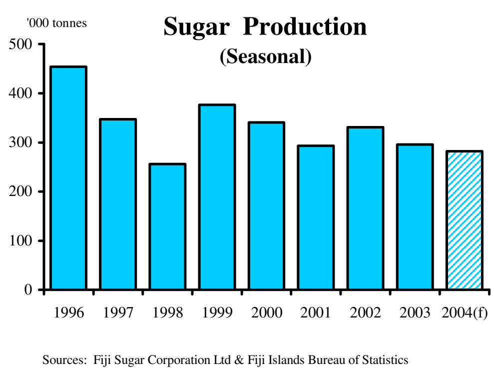
Graph 14



Production

The **cane** and **sugar** industries performed weakly last year due to a combination of factors, such as adverse weather conditions, milling inefficiencies, transportation problems and cane burning incidents. In the 2003 season, cane output fell by 19 percent over the previous season, while a 7 percent decline was recorded in sugar output during the same period (Graph 15).

Graph 15



Although production in the industry is projected to be lower this year, an improvement in cane quality is anticipated due to the possible Sugar Industry Restructure program. In this regard, Government is considering the recommendations of the Indian Government-sponsored technical mission.

If the restructure commences this year, production is forecast to improve significantly next year.

Output in the **clothing and footwear** industry declined last year. Compared to the previous year, the value of production in the industry fell by around 10 percent, due to a decline in orders from overseas markets. Despite the lower production, total garment export earnings in 2003 amounted to around $284 million, an increase of around 1 percent over the 2002 level.

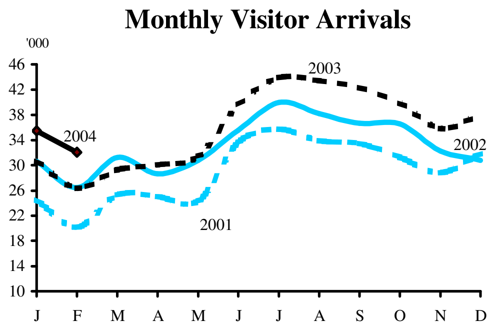
A small growth is forecast for this year in the industry. However, the medium term outlook is uncertain at this stage with the expiry of the South Pacific Regional Trade and Economic Cooperation Agreement (Textile, Clothing and Footwear Provisions) Scheme at the end of this year and the Bilateral Trade Agreement on 1 January 2005.

In order to assist local Textile, Clothing and Footwear (TCF) exporters to explore business opportunities in New Zealand, the Fiji Islands Trade and Investment Bureau conducted a trade mission to New Zealand in late March.

Apart from this, a study conducted by the Australian Government on the future direction of the garment industry is yet to be finalised. The study will likely suggest ways through which the local garment industry can sustain its performance into the future.

The **tourism industry** performed well last year (Graph 16). Total visitor arrivals in 2003 amounted to around 430,800, representing an 8 percent increase over the 2002 level[1]. Following last year's remarkable performance, there are strong indications that this year will be a new record year for the industry, with arrivals forecast at 445,000.

Graph 16



Source: Fiji Islands Bureau of Statistics

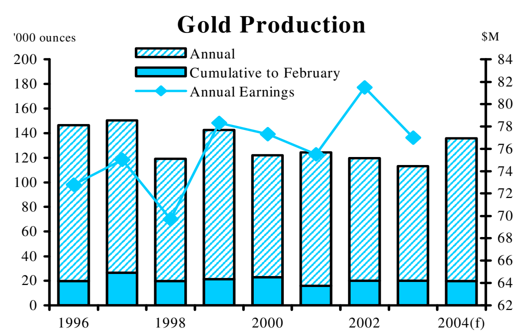
In line with this year's optimistic projection, visitor arrivals for the year to February totalled around 68,000, representing an 18 percent increase over the corresponding period in 2003. Notably, this is the first time ever that visitor arrivals have aggregated to around 68,000 during the January-February period[2].

Cumulative to February, the annual growth in visitor arrivals was primarily led by an increase in visitors out of Australia, the US, New Zealand and Canada. Moreover, higher arrivals out of United Kingdom, Others[3], Japan and Continental Europe also contributed, albeit to a lesser extent, towards the healthy growth in arrivals during the review period.

The tourism industry is expected to benefit significantly from the commencement of flights out of New Zealand and Australia by Freedom Air, Flight Center and Virgin Blue Airlines this year. The first of the two airlines have been granted operating licences to service the Fiji-New Zealand routes and will likely commence operations later this year. Virgin Blue Airlines, on the other hand, is awaiting approval for an operating licence.

In the **mining and quarrying** sector, gold production amounted to around 20,000 ounces in the first two months of the year. This was 2 percent lower than output in the comparable period of 2003 (Graph 17). The Emperor Gold Mining Company Limited (EGM) has attributed the annual decline in gold production to lower quality ore extracted at the mines.

Graph 17



Source: Emperor Gold Mining Company Limited

In the review period, earnings from gold

[1] Visitor numbers grew by around 7 percent after adjusting for arrivals due to the South Pacific Games.

[2] Although official statistics is unavailable, anecdotal evidence and industry liaison suggest that visitor arrivals, cumulative to March, also grew substantially on an annual basis.

[3] 'Others' includes Pacific Islands, South Korea, Malaysia, Taiwan, Non-Japan Asia and other smaller markets.

exports were also lower over the year by 2 percent, in line with lower production levels.

EGM continued with its 3-year $90 million investment project, with the medium-term plan of increasing its annual production capacity to 180,000 ounces. On related developments within the sector, Durban Roodepoort Deep Limited (DRD), a South African mining company, intends to merge with Emperor Mines Limited, the parent company of EGM. As part of this bid, the DRD will be making a takeover offer at a premium for the shares the company does not currently own at Emperor Mines Ltd.

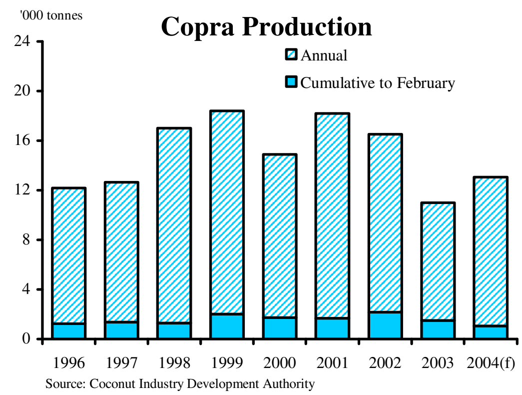
Presently, DRD holds close to 20 percent of shares at Emperor. If the bid is successful, DRD will share with Emperor, group technical skills, and promote knowledge sharing in underground and epithermal activities.

Production in the **other crops** industry witnessed a marginal decline last year. This was largely a result of the effects of Cyclone Ami, which struck the Northern and Eastern divisions of Fiji in mid-January last year. For 2004, however, production is anticipated to increase, underpinned by projected rise in the production of yaqona, fruits, and copra.

Total **copra** production in 2003 amounted to around 9,500 tonnes, a decline of 34 percent over the previous year.

Although the Coconut Industry Development Authority expects production in the industry to improve this year, copra output in the first two months of the year remained low. By February this year, a total of around 1,052 tonnes of copra was produced, representing a decline of 29 percent over the corresponding period in 2003 (Graph 18).

Graph 18



The minimum mill gate price of copra was $500 per tonne in January. Government's subsidy towards the mill gate price was $102.06 per tonne.

Output in the **fishing industry** is estimated to have declined by around 2 percent last year. This largely resulted from lower catch rates of in-shore non-fin fish and by-catch[4], which the industry stakeholders attribute to over-fishing within Fiji's Exclusive Economic Zone and adverse climatic conditions. In line with the lower catch, total export earnings in 2003 amounted to around $85 million, representing a 6 percent decline over the previous comparable period.

On a positive note, production in the industry is anticipated to improve this year with the possible enactment of the Fisheries Management Bill together with the issuance of a stable level of fishing licences.

It is estimated that the **timber** industry

[4] 'Inshore non finfish' refers to all non-fish marine resources, such as shellfish, prawns and crabs. The 'by-catch' category pertains to long line catches apart from Big Eye, Yellow fin and Albacore Tuna species, and includes Marlin and Sailfish.

recorded a turnaround in performance last year, after contracting significantly in 2002. Better pine and mahogany production underpinned this improved performance. However, receipts from timber exports for 2003, totalled $33 million, around 20 percent lower than earnings in the previous year. This is likely due to increased domestic consumption of timber products, as a result of the increased construction activity.

Regarding the mahogany sub-sector of the industry, the Fiji Hardwood Corporation Limited (FHCL) intends to pursue two immediate strategies in order to promote the full-fledged development of the industry.

Firstly, FHCL is likely to focus efforts on the selection of three or four strategic partners, with whom the company could form a long-term commercial relationship. The second strategy is to promote Fiji mahogany as a high quality, environment friendly and socially accepted timber. This is to ensure the successful establishment of Fiji mahogany in the international market for the product.

In line with the overall increase in economic activity, total **electricity** production (628 million-kilowatt hours) increased by around 4 percent last year. Additionally, data from Fiji Electricity Authority (FEA) for the first month of the year indicates that total electricity generated by FEA amounted to around 58 million-kilowatt hours, an annual increase of 6 percent.

The **building and construction** sector performed well last year. The value of work put-in-place in 2003 by the private and public sectors increased by around 39 percent and 10 percent respectively, over the year.

This year, the construction sector is anticipated to continue its good performance as various major projects gradually begin. During the first quarter of this year, initial works commenced on the $30 million European Union-funded Rewa Bridge. Other major projects anticipated to come online this year include the construction of the MH Shopping complex and the Great Council of Chiefs complex.

This is in addition to work in progress on the Suva Central project, Colonial Centre, Fiji School of Medicine campus, Fiji Public Servants Association Shopping Complex, Fiji Government Pharmaceutical Warehouse and construction of residential properties at Denarau.

In line with the buoyant activity in the building and construction sector, Fiji's **investment** levels are picking up. It is estimated that total investment in the economy represented around 16 percent of GDP in 2003, up from around 15 percent in the previous year[5]. Investment is anticipated to exceed 16 percent of GDP this year.

On other developments, a Bill to amend the Foreign Investments Act would be tabled in the House of Representatives. The legal amendment would help ensure that the investment approvals process is transparent and provides a clear guideline to investors. Furthermore, the amendments are expected to better protect reserved and restricted activities for locals, clarify certificate application and

[5] Based on RBF estimates.

processing, allow for certificates for multiple economic activities and fairer certificate cancellation. It will also aim to shorten the approval of Foreign Investment Registration certificates from 5 working days to 1 or 2 days.

Emigration rose last year. According to the Fiji Islands Bureau of Statistics, around 5,800 left Fiji in 2003, representing a 5 percent increase over the previous year. On a positive note though, a decline was noted in emigration in the first month of this year. In January, around 603 people migrated from Fiji denoting a significant decline of around 22 percent over the same period last year.

By occupational categories, emigration of agricultural & production workers rose in January over the corresponding period last year. On the other hand migration of professional & technical, clerical, sales & services and administrative workers declined during the review period on an annual basis. The professional & technical workers category still represents the highest number of emigrants.

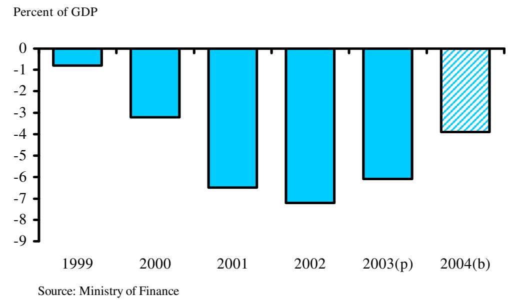
Public Finance

Provisional data indicate that for 2003, the underlying deficit is estimated at 6.3 percent of GDP ($278.0 million), as Government maintained an expansionary fiscal stance last year (Graph 19). This compares with a deficit of $286.2 million (7.2% of GDP) in the previous year. The higher fiscal deficit was the result of a rise in net expenditure (excluding debt repayments), which outweighed the growth in net revenues (excluding asset sales).

The growth in total expenditure was attributed to increases in both operating and capital expenditure, while net revenue collections rose due to higher fiscal and excise duty collections.

Graph 19

Government Fiscal Underlying Balance



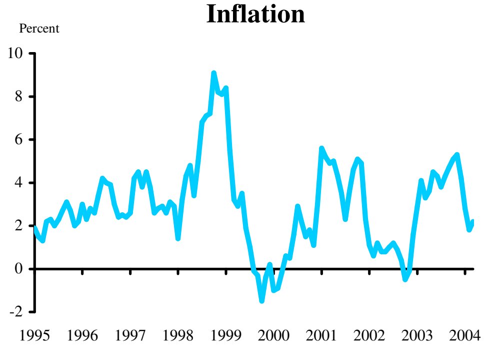
In consolidating its financial position this year, the Government is targeting to reduce its underlying deficit to 3.9 percent of GDP in 2004. The lower deficit is anticipated to be realised through a small reduction in expenditure, coupled with strong revenue collections. This also reflects a change in the Government's fiscal stance, as it embarks on a contractionary policy this year, following 5 consecutive years of expansionary stance.

Inflation

In the year to March, inflation stood at 2.2 percent, compared with 1.8 percent in February (Graph 20). Over the month, consumer prices remained unchanged. In particular, prices of food, clothing & footwear, miscellaneous items and heating & lighting increased. These rises were offset by falls in prices of housing and transport. Prices of alcoholic drinks & tobacco, durable household goods and services were unchanged.

Graph 20

Inflation



Source: Fiji Islands Bureau of Statistics

The underlying measure of inflation, the trimmed mean, was 0.9 percent in March, down from 1.3 percent recorded in February.

As anticipated, the inflation rate has fallen in the first quarter from last year's levels, mainly due to the erosion of base-related effects induced by the higher VAT rate last year.

In the approaching months, inflationary pressures from domestic factors are expected to remain modest. Externally, with average trading partner inflation for 2004 forecast at 1.7 percent, imported inflation is expected to remain contained. In view of this, the 2004 year-end inflation is forecast at around 3 percent.

Labour Market

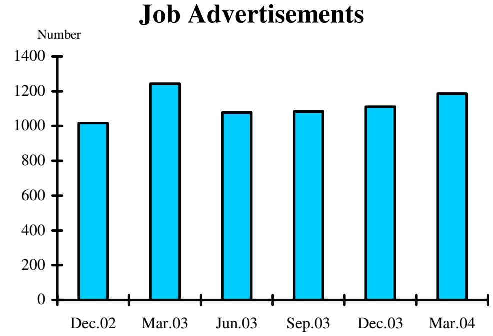
Conditions in the labour market remained positive during the March quarter, as indicated by partial indicators of employment and survey data.

The number of newly registered taxpayers with the Inland Revenue Department, a partial indicator for employment, recorded 5,270 new taxpayers during the first quarter of this year. The community, social and personal services sector represented the highest number of new taxpayers, followed by manufacturing, others and the wholesale, retail trade, restaurants and hotel sectors.

Furthermore, the Reserve Bank's March Survey of Job Advertisements reported a rise in firms' recruitment intentions over the quarter. The number of job advertisements increased by around 7 percent over the 2003 December survey (Graph 21). Demand for workers were high in the manufacturing; transport, storage & communication; construction, electricity & water sector; and to some extent, in the agriculture, forestry and fishing sectors.

Graph 21

Job Advertisements

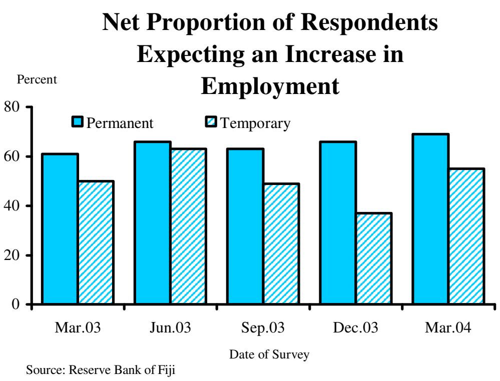


Source: The Fiji Times

Looking ahead, the results of the Reserve Bank's Fiji Employers Federation (FEF) Expectations Survey, conducted in March, revealed a general optimism for employment over the next twelve months.

According to the survey results, overall employment is expected to increase over the next month. A net of around 69 percent of respondents expect permanent employment to increase, while a net of around 55 percent of respondents expect a rise in temporary employment (Graph 22).

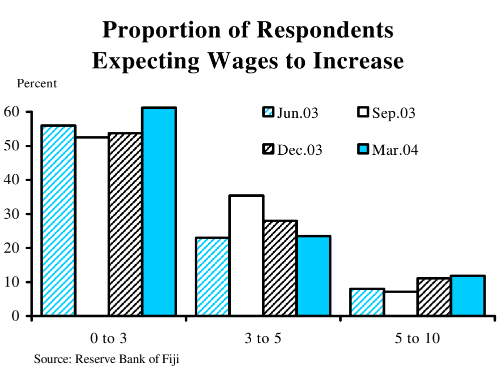
Graph 22



On the wages front, workers in the transport industry received a 5 percent increase in their minimum wage rates in March. In the public sector, civil servants received a 1 percent merit-based increment in February.

Expectations for wage growth in the medium term are modest (Graph 23). The FEF Expectations Survey revealed that around 61 percent of the respondents expect wage increases in the 0 to 3 percent range, while around 24 percent expect increases of between 3 to 5 percent range. Around 15 percent of respondents expect wage increases to be between 5 to 10 percent.

Graph 23



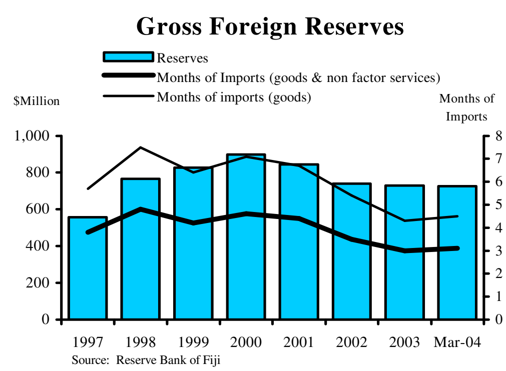
The External Sector

On the external front, accrual trade data shows that in 2003, merchandise exports rose by around 7 percent over the year. The increase in exports was largely attributed to positive contributions from mineral water, garments and other goods, which more than offset the lower receipts from lumber, fish, sugar, coconut oil, and gold.

In line with robust domestic demand, merchandise imports rose by around 13 percent over 2002 levels. The increase was largely underpinned by higher import payments for investment, consumption and intermediate goods. The growth in investment goods was led by higher payments for machinery & transport equipments and chemicals, while the increase in import of consumption goods was led by higher payments for manufactured goods. Positive contributions from crude materials and oil & fats largely underpinned the increase in payments for intermediate goods.

Foreign reserves at the end of March were around $725 million, sufficient to cover 3.1 months of import payments of goods and non-factor services or 4.5 months of imports of goods only (Graph 24).

Graph 24



Domestic Financial Conditions

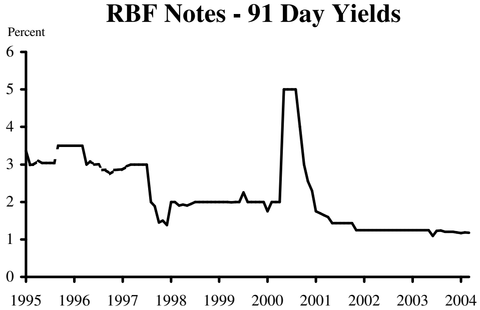
Money Markets

There was a pick up in inter-bank activity during the March quarter, as turnover in the market rose to $78.1 million from $6.9 million in the previous quarter. This acceleration in inter-bank trading reflected a short supply of liquidity held by commercial banks, as a result of an increase in the value of outstanding RBF Notes. The average inter-bank lending rate remained relatively unchanged at 0.80 percent.

The monetary policy stance remained unchanged during the March quarter with the Bank's policy indicator rate maintained at 1.25 percent (Graph 25).

Graph 25

RBF Notes - 91 Day Yields



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Source: Reserve Bank of Fiji

As part of open market operations, around $307.7 million worth of RBF Notes were allotted in the March 2004 quarter, compared with $119.5 million issued in the previous quarter. The yield on the 91-day RBF Notes averaged 1.18 percent, 7 basis points below the policy indicator rate.

During the same period, Government made 5 issues of Treasury Bills worth $48.0 million, compared with 10 issues in the previous quarter totalling $155.0 million. The weighted average yields for almost all maturities of Treasury Bills declined marginally.

Amongst the statutory corporations, the Fiji Development Bank and Public Rental Board also raised funds in the market through the issue of promissory notes during the quarter.

Capital Markets

Government's issues of its long-term debt instruments also fell in the March 2004 quarter, as it raised $55.0 million in bonds, with maturities ranging between 3 and 15 years. Oversubscriptions of the Government bond tenders continued to underpin the fall in yields across the whole maturity spectrum.

The Fiji Development Bank also raised around $7 million in bonds during the quarter. Yields on the different bond maturities were similar to those on Government bonds.

The secondary market for bonds recorded a decline in activity over the quarter. During the March quarter, 11 trades amounting to $4.4 million were completed, compared with 33 trades worth $25.9 million in the previous quarter. The lower activity partly reflects limited reinvestment opportunities for investors, which generally restricts them from selling their bonds in the secondary market.

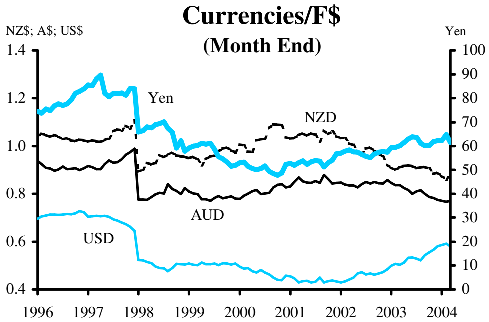
Trading at the South Pacific Stock Exchange (SPSE) rose significantly over the quarter with 2.4 million shares traded amounting to $5 million. This was a marked increase from the 352,000 shares traded in the December 2003 quarter valued at around $838,000. In fact, the value and number of shares traded in the first quarter of 2004 is almost double the total shares traded throughout last year.

Foreign Exchange Markets

Movements in the foreign exchange markets were generally mixed over the quarter. Compared with December 2003, the Fiji dollar weakened against the Australian (0.6 percent) and New Zealand (0.5 percent) dollars, as well as the Japanese Yen (1.3 percent) in March. Against the Euro, the local currency appreciated (3.1 percent), and remained unchanged against the US dollar over the quarter (Graph 26).

Graph 26

Exchange Rates - Selected Currencies/F$
(Month End)



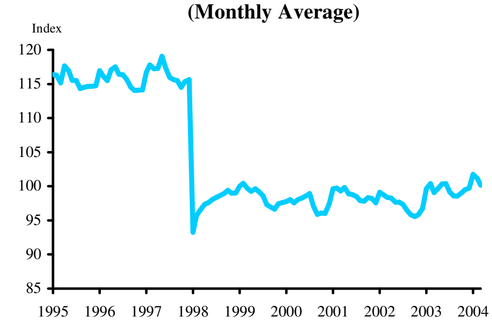
Source: Reserve Bank of Fiji

The Nominal Effective Exchange Rate (NEER) Index, which reflects aggregate exchange rate movements between the Fiji dollar and currencies of major trading partners, rose marginally in the year to March, indicating an appreciation of the Fiji dollar against the basket of currencies.

During the same period the Real Effective Exchange Rate Index of the Fiji dollar, which adjusts the NEER for inflation differentials across Fiji's major trading partners, rose by 1.1 percent indicating deterioration in Fiji's international competitiveness (Graph 27).

Graph 27

Real Effective Exchange Rate
(Monthly Average)



Source: Reserve Bank of Fiji

Financial Intermediaries

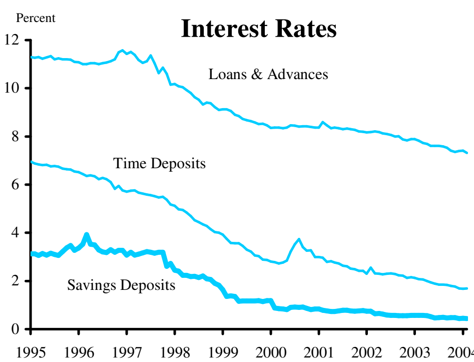
Commercial bank interest rates recorded downward movements over the quarter.

The weighted average lending rate on commercial bank outstanding loans and advances fell by 7 basis points to 7.32 percent in February, compared with the end of the December quarter (Graph 28).

In the same period, the interest rate on outstanding time and savings deposit fell by a basis point each to 1.69 percent and 0.44 percent, respectively.

Graph 28

Interest Rates

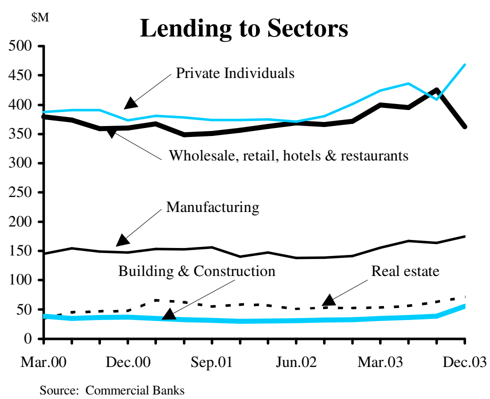


Source: Commercial Banks

Broad money recorded a decline of 5.6 percent from December 2003 to February. The reduction was underpinned by a fall in cash held by the public and local bills payable as well as a decline of demand deposits of private individuals and business.

During the review period, private sector credit rose by 1.7 percent, driven by higher commercial bank lending to the building & construction, manufacturing, real estate, transport & storage sectors as well as to private individuals (Graph 29).

Graph 29



Commercial bank lending also recorded a general broad-based decline during the review period. Specific sectors to which lending fell included agriculture, electricity, gas & water, wholesale & retail trade, hotels & restaurants, non-bank financial institutions and central, local government & statutory body sectors.

Total outstanding loans and advances by Licensed Credit Institutions (LCIs)[4], rose by 2.6 percent in February over the December quarter, driven largely by higher lending to private individuals, as well as to the mining & quarrying, transport & storage, agriculture, professional & business services and manufacturing sectors. The weighted average lending rate on LCIs' outstanding loans rose by 8 basis points to 13.97 percent during the same period.

[4] LCI's include Merchant Finance Investment Company Limited, Credit Corporation (Fiji) Limited and Home Finance Company Limited.

Banking Industry Quarterly Condition Report - December 2003

The banking industry indicators show satisfactory performance of banks and credit institutions for the quarter ended 31 December 2003. The overall condition of the industry has improved with growth in balance sheet, better asset quality and a high liquidity position.

BANKS

Overview

Commercial bank assets rose over the quarter driven largely by growth in loans and advances. However, pre-tax profit declined slightly due to a fall in non-interest income. The outturn was also influenced by an increase in operating expenses.

The asset quality of the banks improved further during the quarter and capital adequacy ratio remained notably above the minimum requirement of 8 percent.

The liquidity position of the banking system remained adequate during the review period. Loans to deposit ratio was lower when compared with at the end of the preceding quarter and at the end of December 2002.

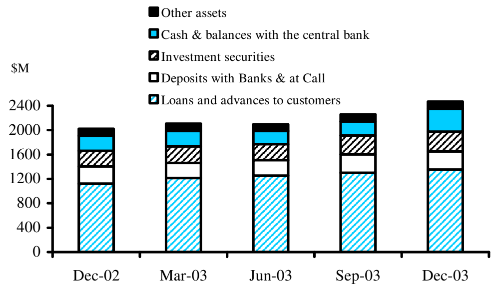
Compliance with RBF prudential regulation by banks was satisfactory.

Assets and Liabilities

For the quarter ended December 2003, the banking industry recorded total resources of $2,467.0 million, a growth of $206.1 million over the quarter. The growth in bank assets was almost twice the $104.6 million registered in the same period last year (Graph 30).

Graph 30

Structural Change and Growth of Bank Assets



The growth in assets over the quarter was mainly due to a large increase in cash and settlement account by $138.0 million and $51.3 million growth in net loans and advances.

Increment was also noted in the liquid assets of $149.7 million, significantly higher than the growth of $69.3 million in the same period last year. The outturn largely reflected increases in cash and settlement account. Investment also increased by $16.4 million, a turnaround from a marginal decline in the same period last year.

On the liabilities side, total deposits for all banks grew by $181.0 million over the quarter, an improvement compared to a growth of $84.1 million for the same period last year. However, there was a decrease in balances due to banks and at call by $23.2 million, compared to an increase in the same period last year.

Loans and Advances By Sector

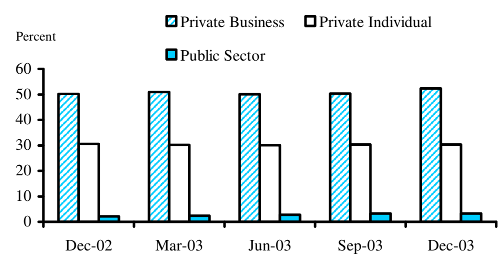
The private business sector accounted for 52.3 percent of the $1,402 million in outstanding commercial bank loans. The share of loans to the private business was basically unchanged over the quarter; it was however, higher than the 50.2 percent of total loans recorded in the same period last year.

The bulk of the loans to private sector business entities were for wholesale/retail purposes (58.2 percent) followed by manufacturing which accounted for 24.4 percent (Graph 31).

Outstanding loans to private individuals at the end of the review period was $412.9 million, a slight reduction when compared to that in December 2002. Majority of loans to private individuals (76.8 percent) is given for housing purposes while 5.1 percent is for personal transport purposes and 18.2 percent for other purposes.

Graph 31

Loans and Advances by Sector as Percentage of Total Loans



A slight increase was noted in loans to public sector when compared to the last quarter, which increased from $43.1 million to $44.6 million. It is a substantial increment compared to $25.4 million in December 2002.

There was a rise of $3.7 million in loans to the building and construction sector and $12.9 million in the real estate sector, whereas a decline was noted in the loans to the agricultural sector by $2.9 million over the quarter.

Profitability

Over the fourth quarter in 2003, the banking industry recorded profit (before tax) of $19.4 million. It declined by $3.7 million when compared to the previous quarter. However, it improved by $0.5 million compared to the same period last year.

The net interest income of banks increased by $0.7 million over the quarter to $25.3 million. The increase in net interest income was a result of higher increase in interest income by $1.0 million while interest expenses increased by $0.3 million.

A combination of a decrease in the non-interest income and increase in the operating expenses resulted in the banking industry recording reduced profits. The non-interest income reduced by $5.5 million from the previous quarter due to a decline in the fees income by 26.4 percent and income from overseas transactions by 22.1 percent.

Operating expenses increased by $1.2 million over the quarter, further deteriorating the profitability position of banks. This was mainly due to increases in personnel expenses by $0.6 million, management expenses by $0.8 million and other expenses by $1.0 million while the depreciation and amortisation expenses declined by $1.2 million.

The decline in non-interest income and increase in the operating expenses led to deterioration in the efficiency ratio (operating expenses as percentage of operating income) to 51.3 percent in December 2003 from 43.7 percent in September 2003 and 48.3 percent in December 2002.

The banking industry's bad debts and provision expenses decreased by $2.3 million over the quarter to $1.7 million. It was also lower when compared to December 2002.

Bank Profitability

	Dec-02	Sep-03	Dec-03	% Change	
		($'000)		Over qtr	Over Dec-02
Net interest income	23,094	24,632	25,321	2.8	9.6
Add: **Non interest income**	18,242	23,506	18,047	-23.2	-1.1
Income from overseas exchange transactions	8,590	8,843	6,889	-22.1	-19.8
Commission	1,847	2,188	2,159	-1.3	16.9
Fee Charges	7,620	11,519	8,484	-26.4	11.3
Other income	184	956	515	-46.1	179.9
Equals **Total operating income**	41,336	48,138	43,368	-9.9	4.9
Less: Operating expenses	19,969	21,057	22,246	5.6	11.4
Less: Bad Debts & provisions	2,385	3,985	1,693	-57.5	-29.0
Equals: **Profit before tax**	18,982	23,096	19,429	-15.9	2.4
Less: Tax	5,012	6,149	5,407	-12.1	7.9
Equals: **Net profit after tax**	13,970	16,945	14,022	-17.3	0.4

In average asset terms, the banking

system's profitability deteriorated over the quarter and over the year as return on assets (annualised) decreased to 3.4 percent from 4.2 percent in the previous quarter and 3.8 percent in December 2002.

Profitability as a Percentage of Average Total Assets

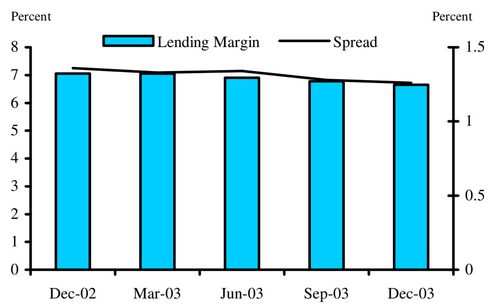
	Dec-02	Sep-03	Dec-03	% Change Over the previous year	% Change Over the same Qtr last year
Net Interest Income	1.17	1.13	1.07	-0.1	-0.1
Charges for Bad & Doubtful Debts	0.12	0.18	0.07	-0.1	-0.1
Non-Interest Income	0.93	1.08	0.76	-0.3	-0.2
Operating Expenses	1.01	0.97	0.94	-0.0	-0.1
Profit Before Tax (annualised)	3.84	4.24	3.36	-0.9	-0.5
Net Profit After Tax (annualised)	2.84	3.12	2.44	-0.7	-0.4

Net Interest Margin (Overall Spread)

The interest rate spread[6] for banks reduced in the December quarter to 1.26 percent compared with 1.28 percent for the September quarter and 1.37 percent in December 2002 (Graph 32).

Graph 32

Margins and Spreads



The lending margin[7] for banks decreased in December 2003 to 6.65 percent compared to 6.78 percent for September quarter and 7.06 percent in December 2002.

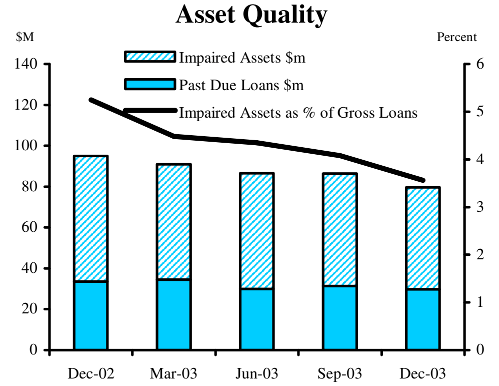
Asset Quality

With a decreasing trend in the impaired exposures, the overall asset quality position of the banking industry improved in 2003 when compared to the same period last year (Graph 33).

Impaired assets of the banking industry decreased by $11.5 million to $49.9 million in December 2003. As a percentage of gross loans and advances, total impaired assets are now 3.6 percent compared to 5.3 percent in the same period last year. It also improved over the previous quarter.

Graph 33

Asset Quality



In the December 2003 quarter, total past due loans (excluding 1-3 months category) declined to $29.7 million from $31.3 million in the September quarter and $33.6 million in December 2002.

[6] Interest spread: difference between the return on average interest earning assets and the return on average interest bearing liabilities.

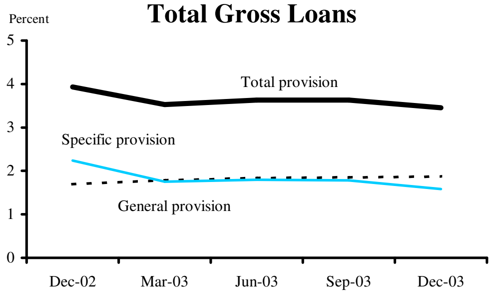
[7] Lending margin: difference between the weighted average lending rate and the weighted average deposit rate.

Past due loans is lower than the level of impaired loans due to the conservative approach adopted by the banks in downgrading non-past due loans. Of the total past due loans, bulk of loans (40.3 percent) are concentrated in the over 2 years category.

Corresponding to the decline in classified accounts, specific provisions decreased by 8.1 percent over the quarter and 15.6 percent from December 2002. The specific provisions represents 33.3 percent of classified exposures and 1.6 percent of gross loans (Graph 34).

Graph 34

Provisioning as a Percentage of Total Gross Loans



In addition to specific provisions held by banks to cover for classified loans, the level of general provisions has been increasing over the quarters. It increased by $1.3 million over the quarter to $26.3 million and by $6.5 million compared to December 2002. General provisions now represents 1.9 percent of gross loans and advances.

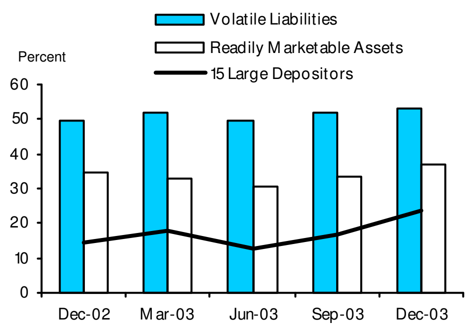
As a result, total provisions decreased by $0.7 million (1.4 percent) over the quarter but increased marginally from December 2002.

Capital Adequacy

All banks capital adequacy ratio was 12.7 percent as at December 2003, a slight reduction from 13.1 percent in the previous quarter. However, it improved compared to the 12.2 percent in December 2002. There was also an improvement in the tier 1 capital ratio (core capital as a percentage of total risk weighted assets) to 9.9 percent from 8.8 percent in December 2002 (Graph 35).

Graph 35

Volatile Liability Coverage



The decline in the capital adequacy ratio over the quarter was a result of a higher rate of increment in the risk-weighted assets by 8.3 percent compared to a 5.5 percent increase in the total capital of banks. The improvement over the year was a result of a higher increase in the total capital of banks (27.9 percent) while the total risk weighted assets increased by a lower rate of 22.2 percent.

Total capital of banks increased by $9.9 million over the quarter to $188.6 million. A higher increase was noted when compared to the December 2002 total of $147.5 million.

Total risk weighted assets of banks increased by $113.7 million over the quarter and $269.4 million over the year. This was mainly due to the increasing level of gross loans and advances leading to an increase in the 100 percent risk weight category.

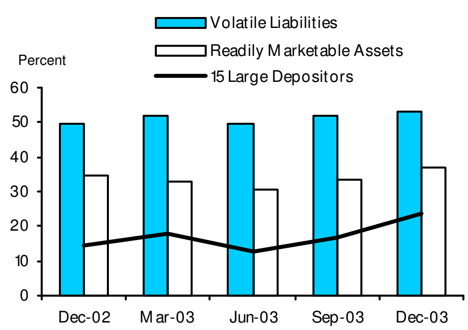
Liquidity

Liquid assets of the banking industry totalled $906.4 million, an increase of $149.7 million over the quarter and $201.9 million from December 2002. Liquid assets represent 42.4 percent of total deposits and 36.7 percent of total liabilities.

Total volatile liabilities of banks increased by $304.5 million over the year to $1,316.2 million in December 2003. Increase was also noted from total volatile liabilities of $1,175.2 million recorded in the previous quarter. Volatile liabilities represented 53.4 percent of total liabilities, up from 52.0 percent in the previous quarter and 49.4 percent in December 2002 (Graph 36).

Graph 36

Volatile Liability Coverage



The maturity mismatch analysis of banks (outstanding loans minus deposits) shows negative mismatch of $250.5 million in the next 1-24 months. The cash outflows required in the next 24 months will be easily met due to the high level of liquid assets of banks.

The 15 largest depositors of the banking industry held $581.8 million in deposits as at December 2003. This represented 27.2 percent of total deposits. It also made up 23.6 percent of total liabilities up from 21.5 percent from the previous quarter and 20.2 percent in December 2002. The 15 largest depositors are mostly institutional depositors and are considered highly volatile.

Overall liquidity position of banks has deteriorated slightly from December 2002 due to a larger increase in volatile liabilities (30.1 percent) compared with the liquid assets, which increased by 28.7 percent. However, it improved over the quarter as volatile liabilities increased by 12.0 percent compared to a 19.8 percent increment in liquid assets.

CREDIT INSTITUTIONS

Overview

Credit institutions' assets also grew over the quarter driven by increased lending, particularly to private individuals. Increases in both interest and non-interest income resulted in credit institutions recording a higher profit during the quarter.

Similar to commercial banks, the asset quality of credit institutions rose during the review period. Their capital adequacy ratio was also markedly higher than the minimum requirement of 10 percent.

An overall improvement was also registered in the liquidity position for the credit institutions.

Assets and Liabilities

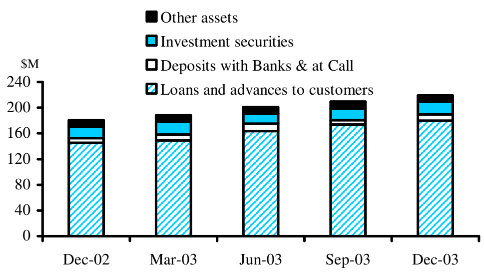
For the quarter ended December 2003, the total assets of credit institutions increased by $9.4 million (4.5 percent) to $218.9

million. Over the year credit institutions' assets increased by $38.4 million (Graph 37).

The increase in assets was mainly attributed to a rise in gross loans and advances, deposits with banks and investment. Gross loans and advances increased by $3.8 million and deposits with banks by $3.5 million over the December quarter. Growth was also noted in the level of investment over the quarter by $2.1 million. Decreases in the asset side over the quarter were in fixed assets by $1.7 million (29.1 percent).

Graph 37

Structural Change and Growth of Credit Institution Assets



On the liabilities side, total deposits increased substantially by $10.4 million over the quarter and $21.7 million over the year.

On the other hand, bank overdraft and loans of credit institutions decreased by $2.8 million over the quarter and $6.4 million over the year.

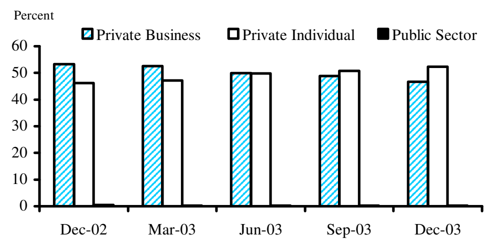
Other liabilities slightly declined over the quarter compared to an increase over the year.

Loans and Advances by Sector

Loans to private individuals represents 52.3 percent of total loans of credit institutions. Over the quarter, loans to this sector rose by $4.8 million to $104.6 million. Of the total loans to private individuals, 67.4 percent were for housing purposes while 17.1 percent was for transport purposes and the balance for other purposes (Graph 38).

Graph 38

Loans and Advances by Sector as Percentage of Total Loans



While the percentage of loans to the private individuals is growing, loans to the private sector business entities declined over the quarters. Loans to this sector were 46.7 percent of total loans compared to 48.9 percent in the previous quarter and 56.2 percent a year ago.

Profitability

Profitability of credit institutions improved over the quarter as the profit before taxes grew by $0.7 million. Compared with December 2002 profit before tax increased by $1.1 million.

Improvement in profits over the quarter was due to a higher increase in net interest income and non-interest income of credit institutions than the increase in operating expenses. However, improvement from December 2002 was caused mainly by reduction in the operating expense of credit institutions.

Net interest income rose by $0.2 million over the quarter due to a reduction in interest expenses by $0.2 million.

Positive contribution was made by the rise in the non-interest income by $0.1 million over the quarter and $0.7 million when compared to December 2002.

Operating expenses increased by $0.2 million over the quarter due to increase in personnel expenses, depreciation and amortisation and other expenses.

Credit Institution Profitability

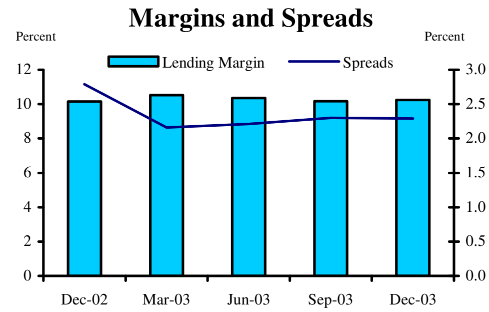
	Dec-02	Sep-03	Dec-03	% Change Over Qtr	% Change Over Dec-02
		($'000)			
Net interest income	4,682	4,470	4,676	4.6	-0.1
Add: **Non interest income**	521	472	592	25.4	13.6
Equals **Total operating income**	5,203	4,942	5,268	6.6	1.3
Less: Operating expenses	2,257	1,738	1,886	8.5	-16.4
Less: Bad debts & provisions	887	752	238	-68.4	-73.2
Profit before tax & extraordinary items	2,060	2,451	3,144	28.3	52.6
Less: Tax	351	318	603	89.6	71.8
Net profit after tax	1,709	2,133	2,541	19.1	48.6

Credit institutions' cost to income ratio improved to 35.8 percent from 43.4 percent in the same period last year. However, it deteriorated slightly from 35.2 percent in the last quarter. Return on Assets (annualised) improved from 4.8 percent in the previous quarter and 4.6 percent in December 2002 to 5.9 percent.

Net Interest Margin (Overall Spread)

The interest rate spread for credit institutions reduced in December 2003 quarter to 2.29 percent compared with 2.30 percent for the September quarter and 2.79 percent in December 2002 (Graph 39).

Graph 39

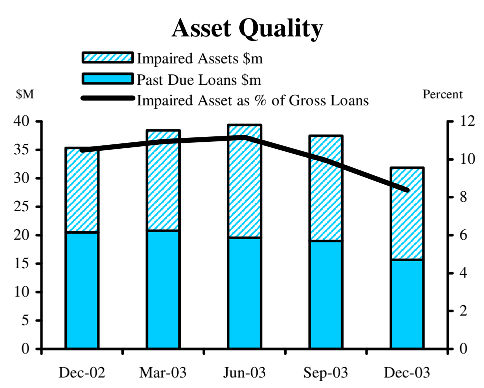


The lending margin for credit institutions increased in December 2003 to 10.24 percent compared to 10.17 percent for the September quarter and 10.16 percent in December 2002.

Asset Quality

Similar to banks, overall asset quality for credit institutions improved over the quarter as well as over the year. This is reflected by decreases in the level of both the impaired assets and past due loans (Graph 40).

Graph 40



Gross impaired loans of the credit institutions at the end of December 2003 was $16.1 million, a fall of $2.4 million over the quarter and $1.3 million over the year. This represents 8.4 percent of gross loans and advances.

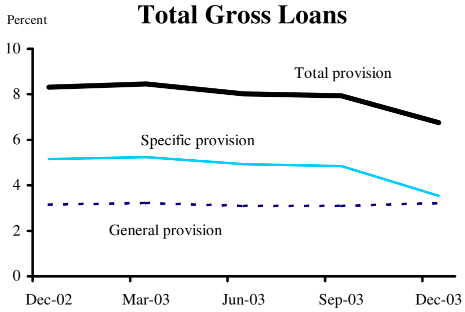
Total past due loans (excluding 1-3 months category) decreased by 17.3 percent over the quarter to $15.7 million. This compares to a decline of $4.8 million from $20.5 million in December 2002. Total past due loans represents 8.2 percent of gross loans and advances, a substantial improvement compared to 12.9 percent in the same period last year.

Corresponding to the decline in the level of impaired loans, there was a reduction in specific provisions over the quarter by $2.3 million to $6.8 million in December 2003. It is a reduction of $1.3 million when compared to $8.2 million of December 2002. This reflects 36.4 percent of total impaired loans of credit institutions.

The level of general provisions increased slightly by 6.3 percent over the quarter and 24.3 percent over the year to $6.2 million. General Provisions represents 3.2 percent of gross loans (Graph 41).

Graph 41

Provisioning as a Percentage of Total Gross Loans

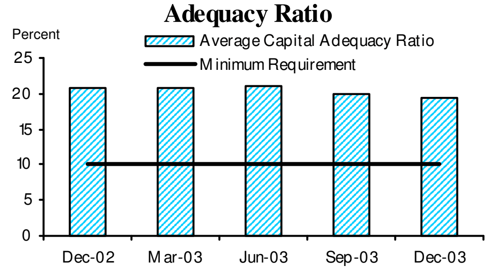


Capital Adequacy

Credit institutions recorded a capital adequacy ratio of 19.3 percent as at December 2003. It has slightly reduced when compared to 19.9 percent in the previous quarter and 20.9 percent in the same period last year. However, it remains well above the minimum requirement of 10 percent for credit institutions (Graph 42).

Graph 42

Credit Institutions' Capital Adequacy Ratio

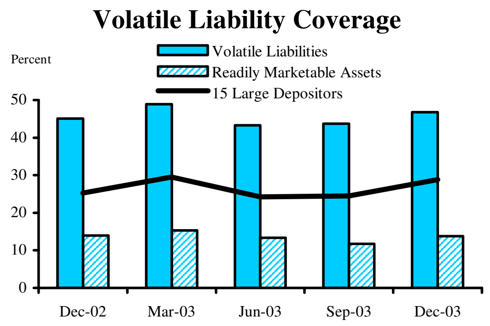


The reduction in capital adequacy ratio was a result of a higher rate of increase in the total risk weighted assets than the total capital. Total capital increased by $0.2 million (0.6 percent) over the quarter while total risk weighted assets recorded a higher increase by $5.53 million. Similarly, total risk weighted assets increased at a faster rate by $28.5 million (22.4 percent) than the increase in total capital by $3.5 million (13.1 percent) from December 2002.

Liquidity

Volatile liabilities of credit institutions increased by $8.6 million over the quarter to $100.1 million and by $18.7 million from December 2002. It represents 46.8 percent of total liabilities, an increment compared to 43.7 percent in the previous quarter and 45.1 percent in December 2002 (Graph 43).

Graph 43



Credit institutions' holdings of readily marketable assets (liquid assets) expanded by $5.5 million to $30.2 million in December 2003. It also increased by $5.0 million compared to December 2002. Liquid assets represent 13.8 percent of total liabilities, an improvement from 11.8 percent in the previous quarter. However, it reduced compared to a coverage of 13.9 percent in December 2002.

The 15 largest depositors of the credit institutions increased to $218.9 million from $209.5 million in the previous quarter and $180.5 million in December 2002. It represents 28.8 percent of total liabilities compared to 24.5 percent in the previous quarter and 25.2 percent in December 2002.

The overall liquidity position of credit institutions has improved over the quarter as a result of higher rate of increment in liquid assets (22.5 percent) than the volatile liabilities (9.4 percent).

Insurance Industry Quarterly Condition Report - September 2003

Overall Industry Performance

The insurance industry recorded a combined solvency surplus of $27.5 million for the quarter ended September 2003, compared with $19.3 million in the corresponding quarter of 2002. The life insurers contributed 60.4 percent of this surplus. Apart from just one, all insurers met the solvency requirement of the Insurance Act. The particular company has been instructed to correct the deficiency.

The combined assets of all insurers recorded a growth of 10.2 percent to reach $612.5 million. This compares with $555.8 million as at September 2002. Growth was driven by life and general sectors, with life insurers accounting for 72.4 percent of total industry assets. Overall the industry recorded an after tax profit of $5.2 million for quarter ended September 2003, unchanged from the comparable quarter of the previous year.

Solvency Position ($m)

Quarter Ended 30 September		Admissable Assets	MRSM*	Solvency Surplus
2003	General	25.6	14.7	10.9
	Life	30.2	13.6	16.6
	Total	**55.8**	**28.3**	**27.5**
2002	General	20.7	11.4	9.2
	Life	23.2	13.1	10.1
	Total	**43.9**	**24.5**	**19.3**

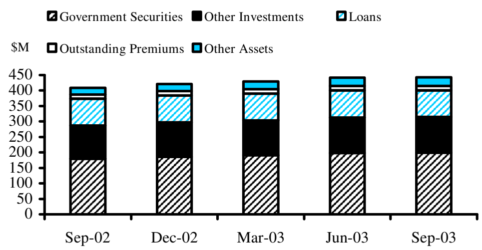
* MRSM - Minimum Required Solvency Margin

Life Insurers

The life insurance industry recorded a solvency surplus of $16.6 million, an increase of 64.4 percent over the year. Increase in net assets of both the life companies contributed to the increase in solvency surplus. Combined life insurers assets amounted to $443.6 million, an annual increase of 8.0 percent over the year. The asset distribution for life insurers remained unchanged, as government securities, properties and loans dominated investments. The net after tax surplus was $2.6 million, a decrease of $0.8 million from the same period in 2002 (Graph 44).

Graph 44

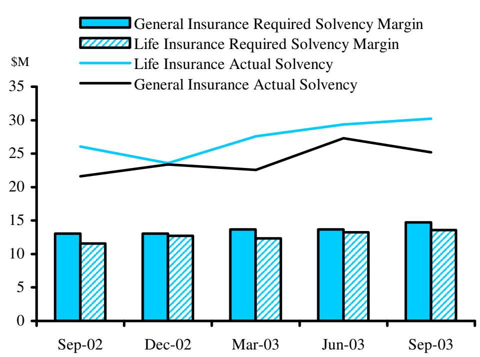
Distribution of Assets for Life Insurance Companies



An increase in net policy payment during the quarter resulted in the decrease in after tax surplus for the life insurance sector. For the 9 months ended 30 September 2003, after tax profit was $16.4 million compared to $18.3 million in the corresponding period of 2002 (Graph 45).

Graph 45

Actual Solvency & Required Solvency Margin



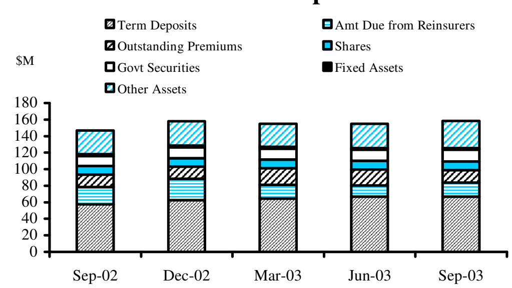
General Insurers

General insurers recorded a 23.7 percent increase in net admissible assets to $25.6 million as at 30 September 2003. This contributed to the increase in solvency surplus of general insurers to $10.9 million over the required solvency margin of $14.7 million. This was higher than the surplus of $9.2 million attained in 2002 over the required solvency margin of $11.4 million (Graph 46).

Total assets of general insurers are concentrated mainly in term deposits, government securities and outstanding premiums. The underwriting result of general insurers for the quarter increased due to improvements in the net loss ratio, or lower incurred claims during the quarter. This, together with the increase in investment income raised the total income and resulted in the positive after tax result for the quarter.

Graph 46

Distribution of Assets for General Insurance Companies



Insurance Brokers

The insurance brokers recorded an after tax profit of $1.4 million during the quarter ended September 2003, an increase of 49 percent from the same period in the preceding year. Both the brokers recorded a net after tax profit, which contributed to the profitability position. For the 9 months ended September 2003, after tax profit was recorded at $3.1 million compared to $1.3 million in the nine months ending September 2002. The continuous generation of operating losses by Heath Lambert during the first nine months of 2002 prior to its closure, saw a lower net profit when compared to the nine months ended 30 September 2003.

Over the past nine months, an inconsistent trend had been noted for amounts held in the consolidated insurance broking account. Currently, it is at $3.2 million compared to $5.9 million as at 30 September 2002. The age analysis of the broking account revealed that the brokers were in compliance to section 7(2) and 7(4) of the Insurance Act 1998 for the quarter ended 30 September 2003.

In the third quarter, a total of 84 applications for the purchase of insurance from offshore were approved with premiums remitted amounting to approximately $6.1 million, compared with 81 applications in the same quarter of 2002, valued at $7.4 million. For the 9 months up to September 2003, 213 applications were approved with premium remittance of $14.2 million compared with 218 applications and premium remittance of $15.8 million in the nine months up to September 2002.

ECONOMICS ASSOCIATION OF FIJI FORUM 3RD DECEMBER 2003

"FINDING THE MODEL OF RECONCILIATION FOR FIJI"

The second Economics Association Forum for 2003 was held on 3rd December at the Reserve Bank of Fiji building. The guest speaker was Dr. Russell Daye who is a lecturer at the Pacific Theological College in Suva. Mr. Sitiveni Rabuka (former Prime Minister of Fiji) was the Chairman of the meeting. An excerpted version of Dr. Daye's speech is provided below.

The title of my talk is 'Finding a Model of Reconciliation for Fiji.' That, of course, is a task not for ex-pats like me but for citizens of the Fiji Islands; a task which seems to have increasing importance, even urgency, as the months go by. So what *can* visitors like me offer then? How can we be of assistance? Before I answer that question, let me say something about the relationship between reconciliation in Fiji and reconciliation in other places. After two years of examining the issue, I feel it is safe to say that the challenges and possibilities of reconciliation in this country are both unique, and *not* unique. They are unique because no other country has Fiji's history, its collection of peoples and cultures, its land, or its configuration of institutions. As such, Fiji needs to pursue social healing and reconstruction in a way that can only be envisioned by people intimately familiar with its land and institutions and steeped in its history and culture. On the other hand, Fiji citizens of all stripes are human beings, and together they comprise a society; there are problems and tasks common to any human society trying to repair itself after a period of political conflict and injustice.

I will outline four broad tasks that must be faced, I believe, by any society that would repair itself in the wake of extreme political disruption. These four tasks can also be seen as four steps toward reconciliation. While I argue that all post-conflict countries need to take them, I also realize that the way each country takes them will be, indeed must be, unique. Fiji will have to find its own way down this path.

Let us turn to the first of the four tasks. This is ***truth-telling***. I will speak about two different kinds of truth-telling, the first being what I call *'investigative truth-telling'*. In the wake of civil strife in a country, one of the great needs of its people is a sense of security. They need to be reassured that it will not happen again. In fact, real reconciliation is almost impossible until this need is met to a significant extent. Rival ethnic groups or communities will remain suspicious and hostile toward each other. Of course, a sense of security cannot develop so long as there is no public accounting for the causes and nature of the conflict:

- Who started it?
- Who was operating behind the scenes?
- Who gave orders?
- Who financed it?
- Who benefited from it?

Uncovering and making public this kind of information is a difficult and risky task, but a necessary one for the fostering of reconciliation.

As long as people feel that there are unknown instigators or power brokers 'lurking in the shadows', able to strike again, they will carry too much fear to enter into a real process of forgiveness and social healing. As I said, this kind of truth-telling can be called 'investigative'. It is often a part of truth commissions or commissions of enquiry.

A different kind of truth-telling is also needed, one that I call *'narrative truth-telling.'* This involves giving victims – those who were hurt or lost property during the time of conflict – a public forum in which to share their stories. What is the value of this? It is often impossible to return to victims what they have lost, and it is always impossible to erase their painful memories. How can society come to their aid? Public acknowledgment of their suffering can be like balm on their mental wounds, especially if it is accompanied by apologies from those who hurt them or statements of sympathy by important officials. This 'balm' along with the empowerment and release of emotion that can come with sharing one's story in a public forum can help victims surrender the resentment they feel toward those who hurt them or toward groups with whom they have been in conflict. Psychologists tell us that such a release of resentment is key to forgiveness.

Let us move on to the second of the four key tasks, about which I will offer only a brief word. This has to do with ***apology*** and ***the claiming of responsibility***. When a community or society has suffered great wounds because of violence and wrongdoing, it cannot find reconciliation and put these ghosts behind itself until the responsible people identify themselves, admit to their misdeeds, and apologise. When the apology does come, it can have positive effects for all concerned. The persons who apologise are released not only from guilt, but also from the burden of having to defend and justify themselves while knowing deep down that they have done wrong. They are released from bonds they themselves have created. Their victims, and others who suffer from the disruption they caused, are also comforted. They are comforted to know that the offenders see that they have done wrong; they are comforted to know that the offenders also suffer from their actions; they are comforted to know that the offenders have abandoned attempts to justify these actions. Under these circumstances victims are more likely to be liberated from the resentment they carry.

The third task facing post-conflict societies is ***justice-building***. While truth-telling and apologies can go a long way toward making a society feel more secure and preparing it for reconciliation, they are usually not enough. We have a human instinct for justice, and we feel betrayed when those who have done wrong go unpunished – especially if their victims are not compensated. Truth-telling can be seen as the foundation of a reconciliation process, but that foundation must be built upon. A good place to begin is with measures oriented toward both *retributive* (punitive) and *restorative* justice. Let us look at each in turn.

Retributive justice basically means punishment. It can come in 'hard' forms like criminal prosecutions and jail sentences or in softer forms such as lustration (removal from one's position in government or the security forces). Retributive justice has two great values: one, it deters further violations; two, it makes the public feel that the 'scales of justice' are being balanced. Both go a long way toward creating the atmosphere of security and the perception of fairness that are needed before true reconciliation can happen.

While retributive justice is oriented toward punishing the guilty, *restorative justice* seeks to compensate victims and rebuild communities. This compensation can come in the form of material reimbursement, psychological aid (e.g. treatment for trauma victims), or symbolic recompense (e.g. providing memorials for those who died). Such measures are often called 'reparations' and can be granted to individuals, families, or whole communities. Reparations to communities usually do not come in the form of cash, but through such initiatives as the improvement of community services or facilities. Restorative justice is especially important where retributive justice cannot be fully achieved. It helps people feel that, even if the scales of justice cannot be fully balanced, sincere attempts were made to address the wrongs committed. Perhaps the most important aspect of restorative justice is its ability to revive the dignity of victims.

Some possible examples of reparations for Fiji would be: the rebuilding of homes that were destroyed in 2000; providing money to people whose businesses suffered or went under; or the upgrading of social infrastructures in communities that were split during the conflict. The National Council for Reconciliation and the Ministry have been doing some of this. They need to be careful here. If such measures are not administered in a fair and systematic way, they will seem to show bias to certain parts of the citizenry.

A word about another kind of justice that is particularly relevant to the group gathered today. This is *distributive justice.* As I understand it, distributive justice means a sharing of a country's resources *and life chances* in a way that is balanced and fair. We are certainly talking about money here, but we are also talking about life chances – the opportunity to live well and "make something of oneself." Access to quality education, sound health care, capital for entrepreneurship, and mentoring by successful elders all have a great influence on who does and does not have a chance to do something substantial and creative in life.

The fourth step on the path to reconciliation is ***healing***. Social upheaval wounds people as both individuals and communities. As a result, it is common to see crime rates, family break-ups and violence, and other social ills increase in its wake. Both the wounds and the ills they produce have a strong negative effect on social stability, hampering the prospects for reconciliation. When a society has undergone these kinds of experiences, the need for healing is great, and must be perceived at two levels.

First, there is *individual* healing. People who have experienced violence, people who have lost loved ones, people who have had their homes destroyed or have been forced to flee them, people who have experienced great fear; all these individuals are very susceptible to traumatic stress disorders. Those who suffer from such disorders are more likely to engage in violent or criminal action, to turn to drugs or alcohol, to experience family crisis or break-up, to lose their jobs, or to get into other kinds of trouble. For their sake, as well as for the sake of their communities, it is important that they find some kind of healing. Unfortunately, very few of the people we turn to for such help – ministers, social workers, etc. – are trained to identify or treat traumatic disorders. In a country that has experienced strong conflict, providing such training and organizing treatment programs is extremely important.

Second, there is the healing of *communities.* Dialogue between people in conflict is crucial for communal healing, but such dialogue must be carefully managed. It is important that it happens in such a way that opposing parties come to better understand and sympathise with each other instead of using the dialogue to further bash each other. Traditional healing rituals can be very helpful here, but they can also cause problems. For example, reconciliation rituals performed when members of the community are still feeling strong resentment and victims have not been acknowledged or compensated can be premature and can actually cause an increase in resentment. This makes further conflict more not less likely. Another challenge is to find ceremonies or rituals that honour the culture of people from different ethnic groups.

Many, many more things could be said on these four steps toward reconciliation. Let me finish by a final word about the development of a model of reconciliation for this country. It is the same advice that I would offer to leaders of any country: be careful about rushing too quickly to a model for your process of reconciliation. The adoption of a foreign model, the South African Truth Commission for example, without testing it and modifying it to fit the needs of this country could cause as many problems as it solves. Whatever model is arrived at, if it is truly to meet the needs of your diverse population will have to be worked on and refined over a period of months with plenty of opportunities for individual citizens, academics, religious organizations, political organizations, NGOs, community and business leaders and others to give their input. If it is to truly work for the people, it will have to rise from the people.