

RESERVE BANK OF FIJI



PRESS RELEASE

Press Release No. : 03/2006

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Date : 22 February 2006

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RESERVE BANK OF FIJI RELEASES DECEMBER 2005 QUARTERLY REVIEW

Announcing the release of the Reserve Bank's December 2005 Quarterly Review, the Governor, Mr. Savenaca Narube, said that "Economic developments in the final quarter of 2005 suggested that domestic demand was still relatively strong. Latest data showed that rising consumption was funded by higher borrowing from financial institutions. The high level of consumption directly translated into strong imports growth, which is being exacerbated by high oil prices. On the other hand, Fiji's export performance remains depressed. We have noted a small growth in investment".

The Governor highlighted that in order to dampen domestic demand, the Bank had raised its policy indicator rate to 2.25 percent at the end of October 2005. The Bank will closely monitor economic developments in the coming months and align monetary policy accordingly.

Mr Narube pointed out that "In 2005, the domestic economy grew by an estimated 1.7 percent. On a sectoral basis, the tourism industry registered good growth, as visitor arrivals remained on track for yet another record year. Similarly, the building & construction, fishing, electricity and copra industries performed well during the period. On the downside, output was depressed in the sugar, gold, garment and timber industries. Prospects for this year are slightly better, with growth projected at 2.0 percent. Encouragingly, growth is expected to be relatively more broad-based in 2006 than it was last year".

Although there were some signs of a slowdown in employment growth, the Governor explained that overall labour market conditions remained favourable in 2005. Results of surveys conducted during the quarter indicated improved demand for workers in the near-term.

Despite higher oil prices in 2005, Fiji was able to maintain inflation at a low rate of 2.7 percent by year-end. Foreign reserves were around \$822 million at the end of 2005, adequate to cover 4.2 months of imports of goods.

Government announced an underlying fiscal deficit of 4.3 percent of GDP for 2005, which is expected to rise to 4.6 percent of GDP this year. Including the \$30 million expected from asset sales in 2006, the deficit is anticipated to reduce to 4.0 percent of GDP. Government's total debt is projected at around 53 percent of GDP for 2006.

On the global front, the International Monetary Fund (IMF) estimates that the world economy grew by around 4.3 percent in 2005, driven by strong economic performance in the United States, Japan, the Euro-zone, and non-Japan Asia. For 2006, the IMF projects world growth at 4.3 percent, but high crude oil prices and geo-political tensions pose downside risks to this outlook.

In concluding, the Governor reiterated the need to shift reliance away from consumption, to raising exports and investment. He says, "This will enable us to achieve a higher and more sustainable pattern of economic growth into the future".