



## ECONOMIC REVIEW

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The downgrade in global growth forecast for 2022 to 3.6 percent from 4.4 percent by the International Monetary Fund in April this year – is the third since October 2021. The reduced growth prospects are due to the war in Ukraine and the slowdown in the Chinese economy following the strict covid-19 lockdowns. The additional pressure on supply shortages, rising commodity prices, and high demand is expected to keep inflation elevated this year, prompting central banks to tighten monetary policies. However, the dilemma facing most central banks is between tightening monetary policy to contain inflation and remaining in expansionary mode to foster growth.

Commodity prices generally declined towards the end of April amidst China's lockdown, the Federal Reserve rate hike, and better production. Average Brent Crude oil price fell to US\$105.92 per barrel in April but has since risen to US\$121.67 per barrel on 30 May, driven by the European Union's plan to ban Russian oil and the easing of pandemic restrictions in Shanghai. Global food prices<sup>1</sup> also fell slightly over the month attributed to a notable fall in vegetable oil prices owing to dwindling demand. Likewise, gold and sugar prices dropped over the month led by aggressive tightening by the Fed and increased prospects for sugar production. Despite the dip in April, commodity prices were notably higher over the year adding to inflationary pressures.

The domestic economy continues to show signs of improvement as international travel restrictions ease. In the first four months of the year, 95,586 tourists arrived in Fiji mainly from the main source market of Australia, followed by the United States and New Zealand.<sup>2</sup> Moving forward, visitor arrivals are expected to increase further in the peak tourism season. Performance of the other sectors remained

mixed but broadly positive compared to a year ago. Cumulative to April, higher production was recorded for electricity (+10.2%) and sawn timber (+76.0%). In the same period, gold output declined (-39.8%) and pinewood supply was around 60 percent lower annually, resulting in a decline in woodchip production (-61.7%).

Domestic demand has generally increased on the back of higher consumer spending and a slight upswing in construction-led investment spending. Consumption spending has improved, evidenced by cumulative to April increases in Pay-As-You-Earn (+8.6%) and Net Value Added Tax (+29.2%) collections, as well as a pick-up in commercial banks' new consumption lending (+74.4% to \$432.9m), and overall vehicle registrations excluding government vehicles (+5.7%). With regards to investment, domestic cement sales contracted annually by 1.0 percent, cumulative to April but new lending for investment purposes by the commercial banks rose by 66.4 percent to \$216.2 million. Investment spending will likely remain soft throughout the year, given the policy uncertainties surrounding the elections, soaring construction and labour costs, and supply chain issues.

Labour market conditions are improving in tandem with the recovery in domestic activity. Recruitment intentions were better, as advertisements for new jobs<sup>3</sup> rose (149.8% to 3,984 jobs), mainly driven by the tourism-related sectors. The general increase in formal employment across major sectors, as per the Fiji National Provident Fund data, as well as growth in PAYE collections, validate the jobs survey results.

Developments in the financial sector were also supportive of the recovery in the real economy. In April, private sector lending grew annually by 2.3

<sup>1</sup>Global food prices are measured using the Food and Agriculture Organisation (FAO) Food Price Index which averaged 158.5 points in April.

<sup>2</sup>Since the opening of Fiji border in December 2021, 118,812 tourists have visited Fiji.

<sup>3</sup>RBF Job Advertisements Survey is conducted every month to measure recruitment intentions.

percent, driven primarily by commercial banks' lending to private sector business entities. New loans by commercial banks also increased, cumulative to April, to \$1,044.0 million from \$680.0 million a year ago underpinned by higher loans to businesses engaged in wholesale and retail trade activities. Commercial banks' interest rates maintained a downward trajectory in April owing to high levels of liquidity in the banking system, which as of 31 May, stood at \$2,064.3 million

In April, the Fiji dollar strengthened against the New Zealand dollar (3.4%), the Japanese Yen (3.2%), the EURO (2.1%), and the Australian dollar (1.7%) but weakened against the United States dollar (-3.8%). As a result, the nominal effective exchange rate (NEER)<sup>4</sup> rose over the month (0.6%) and year (0.4%). Similarly, the real effective exchange rate (REER)<sup>5</sup> was higher over the month (0.7%) but lower over the year (-0.4%), denoting an annual gain in competitiveness on account of lower domestic prices relative to major trading partners.

In the external sector, the trade deficit (excluding aircraft) widened by 78.6 percent, cumulative to February, compared to a 25.7 percent narrowing in the comparable period last year. The outcome was due to higher imports (49.2%) which outpaced growth in exports (7.5%). The significant increase in imports is due to higher global commodity prices and businesses restocking inventory, given the pick-up in domestic demand. In the year to April, inward personal remittances increased by 10.1 percent to \$303.1 million. Looking ahead, an increase in demand for Fijian workers under the various labour market schemes will likely keep inward remittances sustained in the medium term.

Higher imported food and energy prices continue to keep inflation rates elevated. Annual headline inflation rose to 4.7 percent in April. Food prices rose by 6.9 percent in April and contributed 2.4 percentage points (pp) to headline inflation. Likewise, prices for automotive fuel (+25.2%), kerosene (+28.5%), and gas (+27.7%) were higher on an annual basis in April, contributing 1.5pp to the inflation rate. The core inflation also stood higher at 2.8 percent from 1.8 percent over the year, denoting overall higher prices.

Despite the increase in import payments, underpinned by higher food and energy prices and ramped-up demand, foreign reserves are projected to remain adequate in the near term, supported by higher tourism-related receipts, inward remittances, and Government external loans drawdowns. Foreign reserves stood at \$3,028.2 million as of 31 May, equivalent to 8.4 months of retained imports of goods and services.

The RBF's monetary policy stance remained accommodative in May, with the Overnight Policy Rate kept unchanged at 0.25 percent, given the stable foreign reserves outlook and the ongoing need to support Fiji's economic recovery.

## **RESERVE BANK OF FIJI**

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<sup>4</sup>The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This 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.

<sup>5</sup>The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness while an increase in the index indicates a deterioration in Fiji's international competitiveness.

**KEY INDICATORS**

**1. Sectoral Performance Indicators**  
(year-on-year % change)

	Apr-21	Jan-22	Feb-22	Mar-22	Apr-22
Visitor Arrivals	-96.4	1,532.2	1,116.4	1,058.1	1,798.1
Electricity Production	-8.3	5.9	9.6	10.5	10.2
Gold Production	17.0	-53.6	-43.1	-42.7	-39.8
Cane Production <sup>A</sup>	n.a	n.a	n.a	n.a	n.a
Sugar Production <sup>A</sup>	n.a	n.a	n.a	n.a	n.a
Pinewood logs	132.8	-91.4	-72.9	-60.8	-59.7
Woodchip	96.6	-88.3	-73.4	-62.7	-61.7
Sawn Timber	70.5	61.3	35.0	70.1	76.0
Mahogany	37.9	10,025.1	731.8	150.2	75.9
Cement Production	-0.7	-29.8	-20.6	-10.4	5.5

**2. Consumption Indicators**  
(year-on-year % change)

Net VAT Collections	-21.5	19.3	33.9	25.1	29.2
New Consumption Lending	-20.6	163.9	121.3	68.4	74.4
New Vehicle Registrations****	-2.6	4.4	17.2	21.8	18.5
Secondhand Vehicle Registrations****	152.0	-10.4	4.0	5.0	5.3
Personal Remittances <sup>1/</sup>	45.0	-4.0	3.9	5.7	10.1
Electricity Consumption	-7.1	7.7	6.6	7.9	9.7

**3. Investment Indicators**  
(year-on-year % change)

Domestic Cement Sales	-6.8	-7.4	-8.1	-10.3	-1.0
New Investment Lending	-3.0	179.3	149.0	77.0	66.4

**4. Labour Market**  
(year-on-year % change)

RBF Job Advertisement Survey	-66.2	98.2	153.9	168.1	149.8
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**5. Consumer Prices \***  
(year-on-year % change)<sup>2/</sup>

All Items	-2.4	2.7	1.9	4.7	4.7
Food and Non-Alcoholic Beverage	2.4	5.2	3.3	8.0	7.1
Alcoholic Beverages, Tobacco & Narcotics	-18.8	-4.8	-3.3	1.7	5.1

**6. Reserves \*\*\***  
(end of period)

Foreign Reserves (\$m) <sup>3/</sup>	2,771.3	3,145.4	3,058.8	3,102.2	3,052.5
Months of retained imports of goods and non-factor services (MORI) <sup>4/</sup>	8.6	8.7	8.5	8.6	8.4

**7. Exchange Rates \*\*\***  
(mid rates, FS1 equals)  
(end of period)

US dollar	0.4913	0.4620	0.4672	0.4781	0.4597
Australian dollar	0.6325	0.6610	0.6527	0.6364	0.6473
New Zealand dollar	0.6784	0.7047	0.7004	0.6853	0.7084
Euro	0.4053	0.4147	0.4190	0.4284	0.4376
Japanese yen	53.51	53.25	53.83	58.25	60.13
Nominal Effective Exchange Rate	85.15	84.78	84.73	84.96	85.48
Real Effective Exchange Rate	97.41	99.59	97.00	96.38	97.05

**8. Liquidity \*\*\***  
(end of period)

Banks' Demand Deposits (\$m)	1,451.4	2,091.9	2,069.6	2,140.4	2,077.1
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**9. Money and Credit \*\*\***  
(year-on-year % change)

Broad Money	2.5	10.5	9.1	9.6	10.0
Net Foreign Assets	13.9	37.6	30.5	22.5	22.5
Domestic Credit	0.7	4.2	4.7	6.1	6.5
Private Sector Credit	-3.7	0.2	0.8	1.4	2.3
Narrow Money	10.0	21.2	19.1	20.8	21.3

**10. Interest Rates (% p.a.) \*\*\***  
(monthly weighted average)

Overnight Policy Rate	0.25	0.25	0.25	0.25	0.25
Repurchase Rate	0.50	0.50	0.50	0.50	0.50
Overnight inter-bank Rate	n.i	n.i	n.i	n.i	n.i
Lending Rate	6.03	5.72	5.67	5.62	5.57
Savings Deposit Rate	0.55	0.44	0.43	0.42	0.41
Time Deposit Rate	2.86	1.92	1.79	1.72	1.68
3 month Government T-Bills	n.i	0.06	0.06	0.05	0.05
12 month Government T-Bills	n.i	0.13	0.13	0.13	n.i
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	3.95	3.95	n.i	n.i

**11. Commodity Prices (US\$) \*\***  
(end of period)

UK Gold Price/fine ounce	1,767.7	1,796.4	1,900.7	1,954.0	1,911.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	17.0	18.2	17.7	19.5	19.2
Crude Oil/barrel	67.3	91.2	101.0	107.9	109.3
FAO Food prices index	122.1	135.6	141.1	159.7	158.5

<sup>1/</sup> Personal Remittances are inclusive of international mobile money receipts.

<sup>2/</sup> 2014 rebase. Previous data had 2011 as its base.

<sup>3/</sup> Foreign reserves includes monetary gold, Special Drawing Rights, reserve position in the Fund and foreign exchange assets consisting of currency and deposits actually held by the Reserve Bank.

<sup>4/</sup> MORI is based on the Macroeconomic Committee forecast as at November 2020.

Note:

n.i No issue  
n.a Not available  
n.f No trading

Sources: \* Fiji Bureau of Statistics  
\*\* Bloomberg  
\*\*\* Reserve Bank of Fiji  
\*\*\*\* Land Transport Authority  
^ Fiji Sugar Corporation