



# RESERVE BANK OF FIJI

## ECONOMIC REVIEW

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Global growth prospects have been severely disrupted largely by the war in Ukraine and the lockdowns in China that have aggravated the damage from the COVID-19 pandemic. In June, the World Bank downgraded the global growth forecast to 2.9 percent for this year, from 4.1 percent in January, as the world economy now enters what is more likely an extended period of weak growth and high inflation. The surge in food and energy prices, supply chain imbalances and increased trade protectionism are the underlying forces fragmenting growth and keeping inflation elevated such that even if a global recession is averted, the danger of stagflation remains considerable. To curb inflationary pressures, many central banks have tightened monetary policy, with hikes expected to get more aggressive over the coming months, further dampening the global economic recovery.

In this context, commodity prices have remained volatile. Brent crude oil price shot up to US\$122.84 per barrel at the end of May, pending the partial ban on Russian oil by the European Union but has since dipped to US\$114.88 (30/06) amid concerns that the suppression of the global economy could weigh on oil demand. Food prices continue to soften, although at a moderate pace from the all-time high in March, driven mainly by lower prices for vegetable oil.

Growth in the Fijian economy is now expected to rebound by 12.4 percent in 2022 from the earlier forecast of 11.3 percent. Recovery in the tourism industry has been better than anticipated as visitor arrivals totalled 143,399 visitors up to May. Major markets such as Australia, New Zealand and the US continue to dominate the tourism market, with prospects of better

performance by other markets in the upcoming peak season. Output in the primary and industrial sectors remained mixed but improved overall relative to last year. Electricity (+12.7%), mineral water (+17.4%) and mahogany (+77.8%) production were upbeat cumulative to May, while gold (-37.1%), woodchip (-50.4%) and sawn timber (-11.5%) output contracted.

The improvement in incomes evident by the increased Pay As You Earn (+9.7%) collections up to May and the increments in the minimum wage rate have boosted consumption activity. Net Value Added Tax (VAT) (+50.6%) rose relative to last year aided by higher import (+44.5%) and domestic (+21.6%) VAT collections. Total vehicle registrations (+37.6%) were also stronger in the review period in sync with the overall improvement in banks' new consumption lending (+64.5%).

On the other hand, proxy indicators for investment activity, which has remained relatively subdued, noted some improvement. Domestic cement sales (+25.3%) rose in the year to May, its first annual growth since December 2017. Similarly, new lending for investment purposes rose (+89.2%) in the review period with increased credit to both the real estate (+106.9%) and building & construction (+48.6%) sectors. Despite these improvements, the wait-and-see approach of investors in the lead-up to the General Elections, along with high construction (due to supply chain and freight issues) and rising labour costs, continue to cloud the investment outlook for 2022.

In tune with the improvement in the domestic economy, labour market demand (+168.3% to

4,891) rose cumulative to May with increased vacancies advertised across most sectors but more strongly in the tourism-related sectors.

The financial sector remains conducive to economic recovery. Credit to the private sector rose (+2.6%) over the year on the back of increased lending by commercial banks' (+5.5%) to business entities and households. The injection of additional liquidity through the RBF special facilities and higher foreign reserves inflows have propped up liquidity in the banking system (\$2,402.5 million as of 30 June) and kept interest rates low.

On exchange rate developments, over the month in May, the Fijian dollar (FJD) weakened against all trading partner currencies except the USD (0.9%). Over the year, the FJD strengthened against all the trading partner currencies except the USD (-5.4%).

This led to the lower nominal effective exchange rate (NEER)<sup>1</sup> over the month (-0.3%) and year (-0.6%). Similarly, the real effective exchange rate (REER) was lower over the month (-0.1%) and year (-1.4%), denoting an annual gain in competitiveness on account of lower domestic prices relative to major trading partners.

On the external front, Fiji's trade deficit (excluding aircraft) widened by 59.6 percent in the first quarter compared to the 12.0 percent narrowing in quarter one last year. The worsening of the trade balance resulted from an expansion in imports (+35.2%) and subdued export performance. The surge in commodity prices, high inflation and pent-up demand, weighed significantly on the value of import payments.

Inward remittances rose by 16.7 percent to \$387.6 million cumulative to May, supported by higher inflows via money transfer operators (\$204.8m) and mobile network operators (\$112.3m). Since the pandemic, mobile network

operators have gained increased popularity and transfer via this channel is growing steadily.

Annual inflation was 5.0 percent in May, fuelled by higher food and energy prices. The second-round effects of these hikes are much more apparent now as, excluding food and fuel, underlying consumer prices rose by 4.7 percent. The war in Ukraine continues to subvert major commodity markets, supply chains and trading partner economies, causing imported inflation to surge to 10.0 percent while domestic inflation stood at 3.4 percent. Food inflation dipped in May due to the removal of VAT on the 21 food items but is still relatively high, with an average of 5.3 percent in the first five months. Contingent on these developments, the year-end inflation at this juncture is still forecast to reach 5.0 percent, with some upside risks to be considered in the upcoming review post the National Budget in July

Rising imported inflation remains a sizeable risk to the faster erosion of foreign reserves. Nonetheless, foreign reserves are forecast to remain adequate in the medium term, upheld by the rebounding tourism industry, higher inward remittances and Government loan drawdowns. Foreign reserves are currently around \$3,409.6 million (30/06), equivalent to 7.9 months of retained imports of goods and services.

The RBF continued with its accommodative monetary policy stance in June, keeping the Overnight Policy Rate unchanged at 0.25 percent, as the outlook for foreign reserves remained stable while the inflation dynamics continue to be influenced by volatile global developments. The accommodative monetary policy setting will also provide the necessary pulse to sustain the current tourism-led economic recovery.

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currencies. An increase in this index indicates a slight appreciation of the FJD against the basket of currencies and vice versa.

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<sup>1</sup> The NEER is the sum of the indices of each trading partner country's currency against the FJD, adjusted by their respective weights in the basket. This index measures the overall movement of the FJD against the basket of

**KEY INDICATORS**

**1. Sectoral Performance Indicators**

(year-on-year % change)

	May-21	Feb-22	Mar-22	Apr-22	May-22
Visitor Arrivals	-96.1	1,116.4	1,058.1	1,798.1	2,538.0
Electricity Production	-7.8	9.6	10.5	10.2	12.7
Gold Production	8.2	-43.1	-42.7	-39.8	-37.1
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	117.9	-72.9	-60.8	-59.7	-48.7
Woodchip	87.7	-73.4	-62.7	-61.7	-50.4
Sawn Timber	80.2	-45.7	-29.6	-27.0	-11.5
Mahogany	51.3	731.8	150.2	75.9	77.8
Cement Production	-23.0	-20.6	-10.4	5.5	32.7

**2. Consumption Indicators**

(year-on-year % change)

Net VAT Collections	-20.9	33.9	25.1	29.2	50.6
New Consumption Lending	-13.4	121.3	68.4	73.4	64.5
New Vehicle Registrations****	-9.5	17.2	21.8	18.5	45.7
Secondhand Vehicle Registrations****	119.9	4.0	5.0	5.3	34.0
Personal Remittances <sup>1/</sup>	27.7	3.9	5.7	9.3	16.7
Electricity Consumption	-6.3	6.6	7.9	9.7	12.0

**3. Investment Indicators**

(year-on-year % change)

Domestic Cement Sales	-29.0	-8.1	-10.3	-1.0	25.3
New Investment Lending	-18.1	149.0	77.0	66.4	89.2

**4. Labour Market**

(year-on-year % change)

RBF Job Advertisement Survey	-63.7	153.9	168.1	149.8	168.3
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**5. Consumer Prices \***

(year-on-year % change)<sup>2/</sup>

All Items	-1.6	1.9	4.7	4.7	5.0
Food and Non-Alcoholic Beverage	3.7	3.3	8.0	7.1	3.6
Alcoholic Beverages, Tobacco & Narcotics	-17.9	-3.3	1.7	5.1	3.9

**6. Reserves \*\*\***

(end of period)

Foreign Reserves (\$m) <sup>3/</sup>	3,131.1	3,058.8	3,102.2	3,052.5	3,024.0
Months of retained imports of goods and non-factor services (MORI) <sup>4/</sup>	8.8	7.1	7.2	7.1	7.0

**7. Exchange Rates \*\*\***

(mid rates, FS1 equals)

(end of period)

US dollar	0.4903	0.4672	0.4781	0.4597	0.4637
Australian dollar	0.6358	0.6527	0.6364	0.6473	0.6441
New Zealand dollar	0.6757	0.7004	0.6853	0.7084	0.7069
Euro	0.4020	0.4190	0.4284	0.4376	0.4301
Japanese yen	53.84	53.83	58.25	60.13	59.14
Nominal Effective Exchange Rate	85.23	84.73	84.96	85.01	84.76
Real Effective Exchange Rate	97.72	97.00	96.38	96.47	96.39

**8. Liquidity \*\*\***

(end of period)

Banks' Demand Deposits (\$m)	1,690.1	2,069.6	2,140.4	2,077.1	2,064.3
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**9. Money and Credit \*\*\***

(year-on-year % change)

Broad Money	4.7	9.1	9.6	10.0	8.9
Net Foreign Assets	28.1	30.5	22.5	22.5	5.7
Domestic Credit	-0.1	4.7	6.1	6.5	9.3
Private Sector Credit	-3.7	0.8	1.4	2.3	2.6
Narrow Money	13.0	19.1	20.8	21.3	18.6

**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	5.97	5.67	5.62	5.57	5.50
Savings Deposit Rate	0.55	0.43	0.42	0.41	0.42
Time Deposit Rate	2.74	1.79	1.72	1.68	1.62
3 month Government T-Bills	0.74	0.06	0.05	0.05	n.i
12 month Government T-Bills	1.45	0.13	0.13	n.i	0.14
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	3.95	n.i	n.i	n.i

**11. Commodity Prices (US\$) \*\***

(end of period)

UK Gold Price/fine ounce	1,905.3	1,900.7	1,954.0	1,911.7	1,848.4
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	17.4	17.7	19.5	19.2	19.4
Crude Oil/barrel	69.3	101.0	107.9	109.3	122.8
FAO Food prices index	128.1	141.1	159.7	158.3	157.4

<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