



ECONOMIC REVIEW

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The world economy is currently facing headwinds from various directions. Persistently high inflation have prompted many central banks to continue to tighten monetary policy in an effort to stabilise prices. Due to weakening sentiments in the world's major economies, downside risks to the global economic outlook are firmly in place. There are risks of a likely recession in Europe as its energy crisis intensifies while economic prospects in the United States (US) are being hampered by high inflation, tight labour market conditions and aggressive interest rates hike by the Federal Reserve. China's growth has also slowed due to a property crisis and strict measures imposed to control new waves of COVID-19 infections.

International commodity prices have started to gradually recede over the recent months, but prices are still high and above pre-pandemic levels. Brent crude oil prices dropped below the US\$100 per barrel mark to US\$96.49 per barrel at the end of August on expectations that China's economic slowdown would dampen global energy demand. However, the still elevated crude oil prices are prompting mills to divert more cane into making ethanol fuel, resulting in lower sugar production and higher world market sugar prices. Gold prices fell for the fifth consecutive month in August as a stronger US dollar dented the appeal for the precious metal. Global food prices¹ also declined for the fifth month in a row in August, largely owed to the fall in vegetable oil and cereal prices.

The Fijian economy continues to strengthen, aided by the rebound in tourism and key economic sectors with positive flow on effects onto the labour market. Cumulative to August, 354,277 visitors arrived in Fiji, representing 59.8 percent of arrivals in the same period of 2019, with August alone bringing in 70,110 visitors (78.9% of August 2019). Moreover, sectoral performances of cane (0.04%), sugar (3.8%),² sawn timber (44.9%), mineral water (21.5%), electricity (16.5%) and mahogany production (33.3%) noted annual gains in the year to August, while gold (-30.1%) and woodchip (-38.7%) production fell.

In terms of aggregate demand, consumption and investment activities remain positive, mirroring tourism recovery, strengthening of the labour market, and the expansionary fiscal and monetary policies. Partial indicators of consumer spending such as net Value Added Tax collections (84.9%), new consumption lending (60.2%) and vehicle registrations (43.5%) also registered annual gains in the year to August.

On investment activity, new lending to the real estate sector rose in the year to August (97.9%). However, lending to the building & construction sectors (-27.7%) was lower in the same period, due to base effect and a combination of higher building material prices and supply constraints that might be weighing on construction activity.

Labour market continues to improve as economic activity moves closer to pre pandemic

¹ As per the UN Food and Agriculture Organisation's (FAO) Food Price Index.

² Cane and sugar production updates from Fiji Sugar Corporation till September 19, 2022.

level. In the year to August, the number of jobs advertised rose by an annual 212.4 percent compared to a dip of 57.1 percent in the same period last year. Pay As You Earn tax collection also grew by 15.7 percent up to August, portraying an improvement in formal employment.

Financial conditions remain accommodative, supporting economic recovery. Net domestic credit grew by 5.1 percent in August, underpinned by growth in private sector credit (4.6%). Commercial banks' new lending grew significantly in the year to August (63.0%), led by higher lending to tourism-related sectors. Liquidity in the banking system stood at \$2,580.4 million as at 29 September, having risen by \$76.1 million over the month of August, mostly on account of an increase in foreign reserves. Sufficient liquidity continued to moderate interest rates offered by banks and licenced credit institutions over the month in August, which hovers near all-time lows.

On exchange rate developments, over the month of August, the Fijian dollar (FJD) strengthened against the Japanese Yen (+2.0%), New Zealand dollar (NZD) (+1.3%), Australian dollar (AUD) (+0.6%) and the Euro (+0.3%) but weakened against the United States dollar (USD) (-1.3%). Similarly, on an annual basis, the FJD gained against the Yen (+18.4%), Euro (+10.3%) and the NZD (+7.0%) but weakened against the USD (-6.3%) and the AUD (-0.3%).

Consequently, the nominal effective exchange rate (NEER)³ was higher over the month in August (0.04%), however, lower over the year (-0.1%). Similarly, the real effective exchange rate (REER)⁴ was higher over the month (+1.8%) but remained lower over the year (-0.02%), with the latter denoting a gain in competitiveness on account of lower domestic

prices relative to major trading partners, particularly the US.

On the external front, Fiji's trade deficit (excluding aircraft) widened substantially in the year to June, led by a higher expansion in imports (49.3%) against a slower growth in exports (8.8%). Cumulative to August inward remittances increased by 24.4 percent to \$661.5 million, with a larger growth in funds received via mobile network operators due to it being a relatively cheaper and convenient mode of money transfer.

The annual headline inflation rate for August rose to 5.9 percent, contributed by higher imported inflation (4.6 percentage points (pp)) relative to domestic inflation (1.3pp). Global factors, mainly Russia's invasion of Ukraine and its impact on international energy and commodity markets, has placed upward pressure on fuel and food prices in the economy. However, in line with the recent decline in global crude oil and food prices, and anticipated stabilisation of demand-supply mismatches, the RBF's end-of-year inflation forecast is unchanged at 5.0 percent for 2022, and at 3.0 percent for 2023.

Foreign reserves remained comfortable at \$3,548.4 million (8.3 months of retained imports) on 30 September, sustained by high tourism receipts, inward personal remittances and external government loan proceeds. Foreign reserves are expected to remain adequate in the near to medium term.

In light of the stable outlook for inflation and foreign reserves, the RBF kept the Overnight Policy Rate at 0.25 percent in September in order to maintain financial conditions conducive to bolstering Fiji's post-pandemic recovery.

RESERVE BANK OF FIJI

³ 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 currencies. An increase in this index indicates a slight appreciation of the FJD against the basket of currencies and vice versa.

⁴ 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.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

	Aug-21	May-22	Jun-22	Jul-22	Aug-22
1. Sectoral Performance Indicators (year-on-year % change)					
Visitor Arrivals	-95.4	2,538.0	3,464.5	4,470.1	5,237.9
Electricity Production	-6.8	12.7	13.6	14.6	16.5
Gold Production	11.9	-37.1	-33.9	-32.3	-30.1
Cane Production [^]	-7.2	n.a	n.a	0.2	-3.7
Sugar Production [^]	0.7	n.a	n.a	3.0	-2.6
Pinewood logs	88.7	-48.7	-43.9	-42.7	-38.0
Woodchip	75.1	-50.4	-44.4	-42.4	-38.7
Sawn Timber	-11.1	-11.5	18.7	44.8	44.9
Mahogany	91.8	77.8	61.3	46.8	33.3
Cement Production	-32.7	32.7	52.0	55.8	41.7
2. Consumption Indicators (year-on-year % change)					
Net VAT Collections	-15.8	50.6	61.0	69.1	84.9
New Consumption Lending	-0.7	64.5	58.4	58.8	60.2
New Vehicle Registrations****	-4.4	45.7	47.8	50.7	46.9
Secondhand Vehicle Registrations****	109.0	34.0	42.3	44.3	42.0
Personal Remittances ^{1/}	19.3	16.7	19.7	22.3	24.4
Electricity Consumption	-6.4	12.0	13.2	15.0	17.0
3. Investment Indicators (year-on-year % change)					
Domestic Cement Sales	-36.1	25.3	43.5	45.1	39.3
New Investment Lending	9.2	89.4	85.4	33.8	37.1
4. Labour Market (year-on-year % change)					
RBF Job Advertisement Survey	-57.1	168.3	194.1	226.1	212.4
5. Consumer Prices* (year-on-year % change) ^{2/}					
All Items	0.8	5.0	5.1	5.2	5.9
Food and Non-Alcoholic Beverage	7.1	3.6	3.3	4.7	6.9
Alcoholic Beverages, Tobacco & Narcotics	-12.1	3.9	3.4	-0.6	-3.1
6. Reserves*** (end of period)					
Foreign Reserves (\$m) ^{3/}	2,372.0	3,023.9	3,412.6	3,596.0	3,537.8
Months of retained imports of goods and non-factor services (MO)	7.8	7.0	7.9	8.4	8.2
7. Exchange Rates*** (mid rates, F\$1 equals) (end of period)					
US dollar	0.4774	0.4637	0.4503	0.4534	0.4473
Australian dollar	0.6543	0.6487	0.6487	0.6487	0.6523
New Zealand dollar	0.6818	0.7069	0.7234	0.7204	0.7295
Euro	0.4046	0.4301	0.4312	0.4449	0.4463
Japanese yen	52.45	59.14	61.52	60.87	62.09
Nominal Effective Exchange Rate	84.89	84.76	84.80	84.75	84.79
Real Effective Exchange Rate	99.10	96.32	96.78	97.34	99.08
8. Liquidity*** (end of period)					
Banks' Demand Deposits (\$m)	1,617.6	2,064.3	2,402.5	2,585.4	2,527.0
9. Money and Credit*** (year-on-year % change)					
Broad Money	9.7	8.8	4.4	6.4	4.5
Net Foreign Assets	32.2	5.7	2.6	8.8	10.3
Domestic Credit	3.1	9.2	6.5	6.3	5.1
Private Sector Credit	-1.8	2.5	2.9	3.7	4.6
Narrow Money	20.8	18.4	12.2	15.1	11.5
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	5.91	5.50	5.45	5.40	5.34
Savings Deposit Rate	0.55	0.42	0.39	0.39	0.39
Time Deposit Rate	2.48	1.62	1.58	1.52	1.46
3 month Government T-Bills	0.45	n.i	0.04	n.i	0.03
12 month Government T-Bills	1.01	0.14	0.15	n.i	0.15
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	4.00	n.i	n.i	n.i	n.i
11. Commodity Prices (US\$)** (end of period)					
UK Gold Price/fine ounce	1,818.1	1,848.4	1,807.3	1,781.8	1,726.2
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	19.8	19.4	18.5	17.5	18.1
Crude Oil/barrel	73.0	122.8	114.8	110.0	96.5
FAO Food prices index	128.0	158.1	154.7	140.7	138.0

^{1/} Personal Remittances are inclusive of international mobile money receipts.^{2/} 2014 rebase. Previous data had 2011 as its base.^{3/} 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.^{4/} MORI is based on the Macroeconomic Committee forecast as at June 2022.

Note:

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

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