



RESERVE BANK OF FIJI

ECONOMIC REVIEW

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Global growth for this year, as per the latest International Monetary Fund forecast, remains unchanged at 3.2 percent, although a slowdown is expected in 2023 - attributable to a synchronised deceleration around the globe. Amongst our trading partner economies, except for China, all other countries are expected to slow down in 2023. Higher prices, particularly for food and energy, have created a cost-of-living crisis that has fallen more heavily on the poor. The escalation of geopolitical tensions and the climate crisis continues cloud global growth prospects and fuel inflation uncertainty.

Commodity prices retreated at the end of September but remained higher than the pre-pandemic levels. Further policy tightening by the United States Federal Reserve and the dent in global demand resulted in the Brent Crude oil prices falling to US\$87.96 per barrel. However, following announcements of production cuts by the Organisation for Petroleum Exporting Countries on 05 October, oil prices increased above US\$90.00 and have remained there since. The Fed's continued tightening further steered demand away from gold as its price fell to US\$1,672.00 at the end of September. Sugar prices settled at US\$17.68 cents per pound on account of fluctuations in the crude oil price, while the FAO¹ food price index declined (-1.2%) for the sixth straight month on the back of lower vegetable oil prices.

Domestically, the economy continues to benefit from the marked recovery in tourism, which recovered to almost 64.0 percent of 2019 levels as at September. Key sectoral indicators reflect

the ongoing recovery. Output in the timber industry remained robust, with annual increases in mahogany and sawn timber in the year to September. Similarly, electricity production (16.8%) posted positive annual outcomes while both cane (4.5%) and sugar (8.7%) production up to 17 October remained higher as well over the year. Gold production (-30.4%), however, continued to be affected by low-quality ore.

Consumption spending increased, evident in higher net VAT collections (87.1%), which was supported by increased disposable incomes reflected in higher PAYE collection (16.8%) and inward remittances (24.4%) along with higher tourism-related spending. The recovery in investment and construction activity also continued, although at a slower pace, potentially reflecting the high building material prices. This was corroborated by the lower issuance of completion certificates and the value of work put in place in the second quarter. Forward-looking indicators such as new lending for investment purposes (31.3%), the value of expected works tied to building permits issued, and the increase in cement sales (33.2%) point to a rise in the value of investments going forward. Given the outcomes so far, the domestic economy is projected to grow by 15.6 percent this year.

The labour market continues to progress towards pre-pandemic levels. The number of jobs advertised up to September increased substantially (186.1%) to 9,435 as recruitment intentions increased across most sectors, led by tourism-related ones.

¹ Food and Agriculture Organisation

Financial sector outcomes mirrored the recovery in the real sector. Private sector credit continued its annual ascent for the ninth straight month in September (5.5%). Furthermore, new loans by both commercial banks (CBs) (57.1%) and licensed credit institutions (LCIs) (81.2%) increased. Ample liquidity levels pushed both outstanding deposit and lending rates to historical lows. Currently (31/10), excess banking system liquidity, measured by Banks' Demand Deposits, stands at \$2,562.2 million. Moreover, non-performing loans fell further over the month in September.

On exchange rate developments, over the month of September, the Fijian dollar (FJD) strengthened against the New Zealand dollar (NZD) (+3.7%), Australian dollar (AUD) (+2.1%) and the Japanese Yen (JPY) (+0.6%) but weakened against the United States dollar (USD) (-3.3%) and the Euro (-1.2%). On an annual basis, the FJD gained against the JPY (+18.2%), NZD (+10.0%), Euro (+8.3%) and the AUD (+1.3%) but weakened against the USD (-8.4%). Since the beginning of this year, the FJD has weakened against the USD by 8.0 percent and strengthened against AUD and NZD by 1.9 percent and 9.2 percent, respectively.

Consequently, the nominal effective exchange rate (NEER)² fell over the month (-0.04%) and year (-0.2%), largely reflective of the strengthening USD. The real effective exchange rate (REER)³ also fell over the month (-1.5%) and year (-0.9%), denoting a gain in competitiveness on account of lower domestic prices relative to major trading partners, particularly the US and Australia.

Fiji's trade deficit (excluding aircraft) widened as the growth in imports outpaced that of exports in the first eight months of 2022. The increase in total exports (24.6%) was a result of increased re-exports of mineral fuel and the domestic

exports of sugar, mineral water, fresh fish and mahogany. The relatively higher import growth (51.1%) reflected increased domestic demand as all import categories contributed to the growth with the major contributors being mineral fuel, machinery and transport, food and manufactured goods. As a result, the trade deficit widened by 70.4 percent to total \$2,615.3 million compared to a 8.6 percent widening in the comparable period last year.

Domestic price pressures moderated over the month of September, influenced mostly by food and fuel prices. In September, the annual headline inflation rate stood at 5.1 percent compared to the 5.9 percent reported in August, and still higher than the 1.5 percent a year earlier. Major contributors to annual inflation movements were staple food and energy prices.

Foreign reserves remained comfortable at \$3,557.3 million (8.3 months of retained imports) on 31 October, bolstered by high tourism receipts, remittances and external government loan proceeds. Foreign reserves are expected to remain adequate in the near to medium term.

Risks to the outlook stem mainly from external factors, including the elevated inflation risks, strengthening USD, and the projected global slowdown in 2023. Domestically, natural disasters and election-induced uncertainty will continue to weigh on economic outcomes.

For now, the outlook for inflation and foreign reserves remains stable with price pressures remaining largely cost-push related. As such, the RBF kept the Overnight Policy Rate at 0.25 percent in October to support the ongoing economic recovery.

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² 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.

³ 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 FJD 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

	Sep-21	Jun-22	Jul-22	Aug-22	Sep-22
1. Sectoral Performance Indicators (year-on-year % change)					
Visitor Arrivals	-95.1	3,464.5	4,470.1	5,237.9	5,915.7
Electricity Production	-6.6	13.6	14.6	16.5	16.8
Gold Production	14.5	-33.9	-32.3	-30.1	-30.4
Cane Production ^A	-4.1	n.a	0.2	-3.7	2.6
Sugar Production ^A	1.9	n.a	3.0	-2.6	6.9
Pinewood logs	62.1	-43.9	-42.7	-38.0	-35.8
Woodchip	59.2	-44.4	-42.4	-38.7	-38.9
Sawn Timber	-5.9	18.7	44.8	44.9	48.1
Mahogany	108.9	61.3	46.8	33.3	29.9
Cement Production	-32.9	52.0	55.8	41.7	35.2
2. Consumption Indicators (year-on-year % change)					
Net VAT Collections	-11.0	61.0	69.1	84.9	87.1
New Consumption Lending	1.9	58.4	58.8	60.2	55.8
New Vehicle Registrations****	-2.7	47.8	50.7	46.9	52.6
Secondhand Vehicle Registrations****	99.9	42.3	44.3	42.0	35.8
Personal Remittances ^{1/}	17.2	19.7	22.3	24.4	n.a
Electricity Consumption	-6.8	13.2	15.0	17.0	17.2
3. Investment Indicators (year-on-year % change)					
Domestic Cement Sales	-31.3	43.5	45.1	39.3	33.2
New Investment Lending	21.9	85.4	33.8	37.1	31.3
4. Labour Market (year-on-year % change)					
RBF Job Advertisement Survey	-52.5	194.1	226.1	212.4	186.1
5. Consumer Prices * (year-on-year % change) ^{2/}					
All Items	1.5	5.1	5.2	5.9	5.1
Food and Non-Alcoholic Beverage	8.3	3.3	4.7	6.9	6.0
Alcoholic Beverages, Tobacco & Narcotics	-11.1	3.4	-0.6	-3.1	-2.0
6. Reserves *** (end of period)					
Foreign Reserves (\$m) ^{3/}	3,180.3	3,412.6	3,596.0	3,538.5	3,543.6
Months of retained imports of goods and non-factor services (MORI) ^{4/}	9.0	7.9	8.4	8.2	8.2
7. Exchange Rates *** (mid rates, FS1 equals) (end of period)					
US dollar	0.4720	0.4503	0.4534	0.4473	0.4324
Australian dollar	0.6579	0.6542	0.6487	0.6523	0.6662
New Zealand dollar	0.6878	0.7234	0.7204	0.7295	0.7565
Euro	0.4072	0.4312	0.4449	0.4463	0.4410
Japanese yen	52.85	61.52	60.87	62.09	62.49
Nominal Effective Exchange Rate	84.95	84.80	84.75	84.79	84.75
Real Effective Exchange Rate	98.26	96.78	97.34	98.91	97.42
8. Liquidity *** (end of period)					
Banks' Demand Deposits (\$m)	1,620.8	2,402.5	2,585.4	2,527.0	2,584.1
9. Money and Credit *** (year-on-year % change)					
Broad Money	8.7	4.4	6.4	4.5	6.7
Net Foreign Assets	27.4	2.6	8.8	10.3	14.4
Domestic Credit	3.4	6.5	6.3	5.1	6.2
Private Sector Credit	-1.1	2.9	3.7	4.6	5.5
Narrow Money	19.5	12.2	15.1	11.5	14.4
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	5.87	5.45	5.40	5.34	5.27
Savings Deposit Rate	0.55	0.39	0.39	0.39	0.40
Time Deposit Rate	2.30	1.58	1.52	1.46	1.42
3 month Government T-Bills	0.33	0.04	n.i	0.03	0.03
12 month Government T-Bills	0.79	0.15	n.i	0.15	0.14
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	1,757.0	1,807.3	1,781.8	1,726.2	1,672.0
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	20.3	18.5	17.5	18.1	17.7
Crude Oil/barrel	78.5	114.8	110.0	96.5	88.0
FAO Food prices index	129.2	154.7	140.7	137.9	136.3

^{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.f No trading

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