RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The global economy was fraught with uncertainty throughout 2022. Apart from coping with the lingering effects of the COVID-19 pandemic, the geopolitical catastrophe from Russia's invasion of Ukraine put the global economy at further risk. Commodity price shocks resulting from this war coupled with demand pressures and supply constraints quickly pushed inflation to several decade highs in many countries. In response, policymakers withdrew countercyclical fiscal and monetary stimulus provided during the pandemic. Despite this, inflation remained stubbornly high, instigating a series of aggressive rate hikes by most central banks and consequently tighter financial conditions across the globe. The opportunity cost of risking growth to tame inflation has resulted in a slower global growth forecast of 3.2 percent for 2022, with a growing share of countries experiencing a contraction.

In light of these developments, commodity prices remained volatile. Although oil output dropped, Brent crude oil prices plummeted to US$85.43 per barrel at the end of November on the back of the consistent rate hikes by the United States Federal Reserve (Fed), recession fears and slowing demand. Prospects that the Fed would be less aggressive in its November rate hike saw gold prices gain after seven months of consecutive declines. Sugar prices also picked up amid the tight global supply due to harvesting delays in key producing countries coupled with the announcement by India to cut its sugar export quota and better returns from diverting sugarcane to ethanol production. Overall, food prices[1] dipped to its lowest since January 2022 led by lower prices for dairy, cereal and meat products.

[1] As measured by the Food and Agriculture Organisation's food price index.

In comparison to the international economy which was in shifting sands throughout the year, the domestic economy is making strides through the marked recovery in tourism. The influx of visitors up to November totalled 560,732, reaching 68.3 percent of the comparable 2019 period. At this rate, year-end visitor arrivals are expected to surpass the Macroeconomic Committee's earlier prognosis of 581,000 visitors. The higher turnout in visitors together with increased spending has also boosted tourism receipts to $1,320.6 million, around 98 percent of the same period in 2019.

Sectoral performances, although varied, mirror the recovery in the domestic economy. Forestry sector output such as sawn timber (31.8%) and mahogany (16.1%) was upbeat in the year to November, despite the contraction in woodchips (-40.0%). The cane crushing season ended on a high note with sugar production[2] (17.0%) bouncing back after two consecutive years of decline. Electricity generation (15.9%) rose to similar levels in November 2019 as economic activity gained momentum. However, gold production has been muted since the start of the year (-27.5% cumulative to November).

Consumption activity has been robust in the year to November, evident by increases in personal income tax collections (16.6%), inward remittances (21.7%)[3] and banks' new lending for consumption purposes (37.9%). Net value added tax earnings also rose (90.3%), nearly doubling the collections from the same period in 2021 and the highest since 2015, although this is likely partially due to higher prices.

Investment activity remained subdued mostly attributed to the general elections and elevated

[2] As at 05 December.

[3] Cumulative to October.

building material prices. However, forward looking indicators point towards some optimism evident through increases in banks' new lending for investment purposes (26.2%) in the year to November and the number (38.3%) and value (101.5%) of building permits issued for the first half of the year.

Recovery in the labour market continued as jobs advertised up to November surged (153.8%) to 11,975 vacancies, around 54 percent of the comparable 2019 levels, driven by increased recruitment intentions, mostly led by tourism related sectors.

The financial sector continued to support growth. New credit to the private sector rose annually in November (7.0%) underpinned by lending to both households and private sector business entities. Above-adequate banking liquidity ($2,413.5m as at 30 December) kept interest rates hovering near historical lows.

Developments in the United States dollar (USD) has kept exchange rates quite volatile. In November, the Fijian dollar (FJD) gained against the USD (3.2%) but weakened against the New Zealand dollar (NZD) (-3.4%), the Japanese Yen (JPY) (-3.1%), Australian dollar (AUD) (-1.2%) and the Euro (-0.6%). Annually, the FJD strengthened against the JPY (15.9%), NZD (4.3%), Euro (3.7%) and the AUD (1.2%) but weakened against the USD (-5.1%). Since the beginning of the year, the surge in the USD has significantly weakened the FJD's relative position (-5.2%) but has contributed to the appreciation of the FJD against the JPY (14.1%), Euro (3.7%), NZD (3.8%) and AUD (2.0%).
Consequently, the nominal effective exchange rate (NEER)[4] rose over the month (0.02%) but fell annually (-0.3%), primarily reflecting the developments in the USD. The real effective exchange rate (REER)[5] dipped over the month (-1.5%) and year (-1.3%), denoting a gain in competitiveness on account of lower domestic prices relative to New Zealand, Australia and Japan over the month and the US annually.

On the external front, Fiji's merchandise trade balance weakened by 77.7 percent to $458.9 million in the year to September, as higher domestic demand and rising import prices led the annual growth in imports (55.8%) rising more sharply than the growth (27.0%) in exports.

Annual inflation which has persisted above 5.0 percent since May 2022 moderated to 5.2 percent in November from 5.4 percent in the previous month but still higher than the 1.5 percent a year ago. Higher food and fuel prices were the major contributors to the inflation outcome over the year, both of which constitute a significant share of imported inflation which stood at 8.0 percent relative to domestic inflation of 4.4 percent. On a monthly basis, inflation declined for the third consecutive month to -0.2 percent.

The level of foreign reserves were comfortable at $3,426.3 million, (30/12), sufficient to cover 6.9 months of retained import cover, underpinned by higher tourism receipts, inward remittances and Government loan drawdown. Foreign reserves are anticipated to remain stable in the near to medium term.

Risks to the outlook mainly emanate from the external front. Further USD tightening, cross border tensions and more frequent commodity price shocks pose acute challenges to the global growth outlook. Domestically, natural disasters particularly during Fiji's cyclone season could weigh significantly on economic outcomes.

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[4] 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.

[5] 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 and vice versa.

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FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

		Nov-21	Aug-22	Sep-22	Oct-22	Nov-22
1. Sectoral Performance Indicators (year-on-year % change)						
	Visitor Arrivals	-94.3	5,237.9	5,915.7	6,376.7	6,581.7
	Electricity Production	-5.3	16.5	16.8	16.1	15.9
	Gold Production	6.6	-30.1	-30.4	-29.6	-27.5
	Cane Production^	-18.0	-3.7	2.6	6.7	15.1
	Sugar Production^	-12.1	-2.6	6.9	9.7	17.0
	Pinewood logs	33.7	-38.0	-35.8	-37.5	-93.3
	Woodchip	34.6	-38.7	-38.9	-41.0	-40.0
	Sawn Timber	0.0	44.9	48.1	41.0	31.8
	Mahogany	97.0	33.3	29.9	17.5	16.1
	Cement Production	-22.6	41.7	35.2	28.0	n.a
2. Consumption Indicators (year-on-year % change)						
	Net VAT Collections	-7.4	84.9	87.1	88.3	90.3
	New Consumption Lending	13.1	60.2	55.8	44.3	37.9
	New Vehicle Registrations****	11.6	46.9	52.6	40.1	n.a
	Secondhand Vehicle Registrations****	77.2	42.0	35.8	26.6	n.a
	Personal Remittances[1/]	16.6	24.5	25.5	21.7	n.a
	Electricity Consumption	-5.2	17.0	17.2	16.9	16.4
3. Investment Indicators (year-on-year % change)						
	Domestic Cement Sales	-22.7	39.3	33.2	26.5	n.a
	New Investment Lending	30.4	37.1	31.3	20.4	26.2
4. Labour Market (year-on-year % change)						
	RBF Job Advertisement Survey	-37.9	212.4	186.1	164.3	153.8
5. Consumer Prices * (year-on-year % change)[2/]						
	All Items	1.5	5.9	5.1	5.4	5.2
	Food and Non-Alcoholic Beverage	4.5	6.9	6.0	9.1	9.6
	Alcoholic Beverages, Tobacco & Narcotics	-7.2	-3.1	-2.0	-4.4	-5.3
6. Reserves *** (end of period)						
	Foreign Reserves ($m)[3/]	3,061.5	3,538.5	3,543.6	3,557.4	3,439.6
	Months of retained imports of goods and non-factor services (MORI)[4/]	9.3	7.2	7.2	7.2	7.0
7. Exchange Rates *** (mid rates, F$1 equals) (end of period)						
	US dollar	0.4694	0.4473	0.4324	0.4317	0.4455
	Australian dollar	0.6583	0.6523	0.6662	0.6747	0.6663
	New Zealand dollar	0.6894	0.7295	0.7565	0.7447	0.7191
	Euro	0.4161	0.4463	0.4410	0.4340	0.4315
	Japanese yen	53.36	62.09	62.49	63.81	61.82
	Nominal Effective Exchange Rate	84.96	84.79	84.75	84.71	84.73
	Real Effective Exchange Rate	95.99	98.91	96.93	96.15	94.71
8. Liquidity *** (end of period)						
	Banks' Demand Deposits ($m)	1,813.1	2,527.0	2,584.1	2,562.2	2,457.9
9. Money and Credit *** (year-on-year % change)						
	Broad Money	9.3	4.5	6.7	7.2	5.6
	Net Foreign Assets	30.2	10.3	14.4	20.0	14.7
	Domestic Credit	3.4	5.1	6.2	5.3	5.2
	Private Sector Credit	-0.8	4.6	5.5	5.6	7.0
	Narrow Money	19.3	11.5	14.2	13.1	10.7
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.t	n.t	n.t	n.t	n.t
	Lending Rate	5.79	5.40	5.34	5.27	5.21
	Savings Deposit Rate	0.47	0.39	0.40	0.39	0.40
	Time Deposit Rate	2.14	1.46	1.42	1.34	1.29
	3 month Government T-Bills	0.08	0.03	0.03	n.i	0.03
	12 month Government T-Bills	0.28	0.15	0.14	n.i	0.14
	5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
	10-year Government Bond Yield	3.98	n.i	n.i	n.i	n.i
11. Commodity Prices (US$) ** (end of period)						
	UK Gold Price/fine ounce	1,776.5	1,726.2	1,672.0	1,640.7	1,759.9
	CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	18.6	18.1	17.7	18.0	19.6
	Crude Oil/barrel	70.6	96.5	88.0	94.8	85.4
	FAO Food prices index	135.3	137.6	136.0	135.9	135.7

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 October 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