



ECONOMIC REVIEW

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Vol. 40

No. 01

Month Ended January 2023

The global economic outlook for 2023 remains gloomy, although not as weak as earlier predicted by the International Monetary Fund (IMF). In its latest release,¹ the IMF expects global growth to decelerate to 2.9 percent in 2023 before picking up to 3.1 percent in 2024. The new forecast for 2023 is 0.2 percentage points higher than the October 2022 WEO, denoting a moderation in adverse risks since then. Nonetheless, risks to the outlook remain tilted to the downside and include the possible escalation of Russia's war in Ukraine, the ongoing global fight against inflation and tighter global financial conditions.

In 2022, commodity prices remained relatively higher. Brent crude oil prices rose to US\$85.91 per barrel in December from tight global supply and China's removal of its zero-COVID policy. This in turn impacted the out turn in sugar prices (US20.04 cents per pound in December) as producers diverted more cane to ethanol production. Gold prices picked-up to US\$1,826.20 per fine ounce in December on expectations of more modest rate hikes by the US Federal Reserve. On the contrary, while on average higher than 2021, food prices² in December 2022 were the lowest for the year, driven by the fall in prices for vegetable oils.

On the domestic front, Fiji's economic recovery continues on the back of strong tourism activity. Visitor arrivals surpassed expectations in 2022 totalling 636,312, equivalent to 71.1 percent of 2019 levels, and was underpinned by visitors from Australia, New Zealand and the US.

Higher-than-expected visitor arrivals and related spending combined with higher prices, boosted tourism receipts, and as per overseas exchange transaction records, reached just over \$1.4 billion.

In line with improved domestic activity, sectoral performances in 2022 was generally positive with most performing around or above pre-pandemic levels. Electricity production (15.1%) and consumption (15.8%), a partial indicator of business activity, grew strongly and reverted close to 2019 levels. Forestry sector outputs such as sawn timber (31.6%) and mahogany (11.1%) also posted gains from favorable weather conditions, while lower pine wood (-34.4%) and woodchip (-43.4%) production reflected the deliberate move by the industry to the higher yielding sawn timber market. In addition, gold production (-28.4%) fell, hampered by flooding and lower grade ore.

Strong consumption activity in 2022 has been supported by new consumer-related loans (32.1%) and higher incomes from the recovery in the labour market as proxied by personal income tax (17.4%) collections. Inward remittances (23.1%) which surpassed the \$1.0 billion mark, had also added to consumers' disposable incomes.

Higher annual vehicle registrations (24.4%) also indicated the increased ability to spend. As a result, net Value Added Tax collections (83.6%), a broad based consumption tax, grew substantially. It is noted that higher prices have

¹ World Economic Outlook (WEO) - January 2023.

² As measured by the Food and Agriculture Organisation's food price index.

also partially contributed to this outcome.

Investment activity was hampered by high building material costs and economic policy uncertainty mostly in last few months of 2022. While the latest building statistics up to quarter 3 of 2022 reveal that construction activity picked up annually, evident by the increase in the number and value of completion certificates issued and the value of work put in place, quarterly movements were subdued. The latest data (December) on building material prices reveal that prices increased over the year (21.8%) in 2022, driven by intense global demand, supply-chain issues and labour shortages. Forward looking indicators such as new investment lending (25.0% from 33.6% in 2021) and the value of building permits issued (as at September 2022), also grew.

Labour market conditions continued to recover in 2022 with the number of jobs advertised rising (140.1%) to 13,104 vacancies with increased recruitment intentions across most major sectors.

However, the labour market is expected to tighten in line with the increased domestic employment opportunities and migration.

Accommodative financial conditions continued to support economic recovery. The low interest rate environment amid high liquidity levels and the recovery in the labour market, enabled private sector credit to rise (7.1%) to a 41-month high in December. In 2022, commercial banks' new loans totalled \$3.3 billion, higher over the year by 39.7 percent. Liquidity as at 31 January stood at \$2.4 billion.

In December, the Fijian dollar (FJD) strengthened over the month against the United States dollar (USD) (1.3%) but weakened against the Japanese Yen (JPY) (-3.0%), Euro (-2.0%), New Zealand dollar (NZD) (-1.2%) and

the Australian dollar (AUD) (-0.2%). Annually, the FJD strengthened against the JPY (10.4%), NZD (2.9%), AUD (2.3%) and the Euro (1.4%) but weakened against the USD (-4.5%).

Consequently, the nominal effective exchange rate (NEER)³ remained unchanged over the month but declined annually (-0.1%), mostly driven by the developments in the USD. The real effective exchange rate (REER)⁴ contracted over the month (-0.6%) and year (-2.7%), denoting a gain in competitiveness on account of lower domestic prices relative to NZ, Australia and Japan over the month, and by large the US annually.

On external trade, increased domestic demand and higher international prices led to imports growth (59.3%) outpacing that of exports (23.7%) resulting in a widened (by 89.0 %) trade deficit of \$3.5 billion in the year to October 2022.

Headline annual inflation cooled to 3.6 percent in December, undershooting the 5.0 percent forecast. Food and energy prices continued to dominate the inflation outcome with two-thirds of the price movement attributed to imported inflation (2.4pp)⁵ relative to domestic inflation (1.2pp).

Foreign reserves stood comfortable at \$3.4 billion as at 31 January, sufficient to cover 6.3 months of retained imports of goods and services.

Risks to the outlook remain centred around elevated inflation, with central banks signalling continued rate hikes to bring inflation within manageable levels. With the Russian-Ukrainian war still ongoing and China re-opening, major commodity price shocks are still possible. On the domestic front, severe natural disasters

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 FJD against the basket of currencies. A decline in the REER index indicates an improvement in Fiji's international competitiveness and vice versa.

⁵ Percentage points.

during the current cyclone season could pose a major setback to the Fijian economy. In assessing developments to date, and with the outlook for inflation and foreign reserves within the comfortable range, the RBF Board kept the

Overnight Policy Rate at 0.25 percent in January 2023 deeming it appropriate to support the ongoing recovery.

RESERVE BANK OF FIJI

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

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

	Dec-21	Sep-22	Oct-22	Nov-22	Dec-22
Visitor Arrivals	-78.5	5,915.7	6,376.7	6,581.7	1,912.5
Electricity Production	-3.6	16.8	16.1	15.9	15.1
Gold Production	1.2	-30.4	-29.6	-27.5	-28.4
Cane Production [^]	-18.0	2.6	6.7	15.1	15.6
Sugar Production [^]	-12.1	6.9	9.7	16.4	17.0
Pinewood logs	27.4	-35.9	-37.5	-35.1	-34.4
Woodchip	36.8	-38.9	-41.0	-40.0	-43.4
Sawn Timber	-3.5	48.1	41.0	31.8	31.6
Mahogany	103.7	29.9	17.5	16.1	11.1
Cement Production	-18.6	35.2	28.0	23.3	19.0

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

Net VAT Collections	-3.6	87.1	88.3	90.3	83.6
New Consumption Lending	17.2	55.8	44.3	37.9	32.1
New Vehicle Registrations****	19.1	52.6	40.1	34.4	29.2
Secondhand Vehicle Registrations****	71.2	35.8	26.6	19.8	14.1
Personal Remittances ^{1/}	15.1	25.5	21.7	22.7	23.1
Electricity Consumption	-3.8	17.2	16.9	16.4	15.8

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

Domestic Cement Sales	-20.1	33.2	26.5	24.3	20.3
New Investment Lending	33.6	31.3	20.4	26.2	25.0

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

RBF Job Advertisement Survey	-30.6	186.1	164.3	153.8	140.1
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5. Consumer Prices *
(year-on-year % change)^{2/}

All Items	3.0	5.1	5.4	5.2	3.6
Food and Non-Alcoholic Beverage	7.1	6.0	9.1	9.6	7.1
Alcoholic Beverages, Tobacco & Narcotics	-6.2	-2.0	-4.4	-5.3	-7.1

6. Reserves ***
(end of period)

Foreign Reserves (\$m) ^{3/}	3,201.4	3,543.6	3,557.4	3,439.6	3,430.6
Months of retained imports of goods and non-factor services (MO)	9.7	7.2	7.2	7.0	6.9

7. Exchange Rates ***
(mid rates, F\$1 equals)
(end of period)

US dollar	0.4722	0.4324	0.4317	0.4455	0.4511
Australian dollar	0.6505	0.6662	0.6747	0.6663	0.6653
New Zealand dollar	0.6907	0.7565	0.7447	0.7191	0.7105
Euro	0.4170	0.4410	0.4340	0.4315	0.4228
Japanese yen	54.34	62.49	63.81	61.82	59.98
Nominal Effective Exchange Rate	84.78	84.75	84.71	84.73	84.73
Real Effective Exchange Rate	97.20	96.93	96.11	95.08	94.55

8. Liquidity ***
(end of period)

Banks' Demand Deposits (\$m)	1,990.8	2,584.1	2,562.2	2,457.9	2,413.5
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9. Money and Credit ***
(year-on-year % change)

Broad Money	11.1	6.7	7.2	5.6	3.9
Net Foreign Assets	38.2	14.4	20.0	14.7	5.7
Domestic Credit	3.9	6.2	5.3	5.2	5.5
Private Sector Credit	-0.1	5.5	5.6	7.0	7.1
Narrow Money	22.9	14.2	13.1	10.7	8.6

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.t	n.t	n.t	n.t	n.t
Lending Rate	5.77	5.34	5.27	5.21	5.20
Savings Deposit Rate	0.42	0.40	0.39	0.40	0.39
Time Deposit Rate	1.99	1.42	1.34	1.29	1.22
3 month Government T-Bills	n.i	0.03	n.i	0.03	n.i
12 month Government T-Bills	0.13	0.14	n.i	0.14	0.13
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	3.95	n.i	n.i	n.i	3.95

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

UK Gold Price/fine ounce	1,828.6	1,672.0	1,640.7	1,759.9	1,826.2
CSCC No. 11 Sugar Spot Price/Global (US cents/pound)	18.9	17.7	18.0	19.6	20.0
Crude Oil/barrel	77.8	88.0	94.8	85.4	85.9
FAO Food prices index	133.7	136.0	135.4	135.0	132.4

^{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