



ECONOMIC REVIEW

The inclusion of news items in this review does not imply endorsement of the accuracy of the information nor agreement with views expressed.

Vol. 40

No. 02

Month Ended February 2023

The global economy is projected¹ to expand by 2.9 percent this year, slightly higher than the October 2022 forecast (2.7%), as many economies showed resilience and adverse risks have moderated. Nonetheless, the IMF notes that India and China are expected to contribute to around half of the global growth in 2023. In comparison to 2022 (3.4%), this year's growth is projected to be slower, mainly due to central bank monetary tightening and supply-chain disruptions from Russia's war in Ukraine. On the upside, global headline inflation in 2023, although above the pre-pandemic level (3.5%), has been slowing after its peak in late 2022. China's reopening in December 2022, following the end of its zero-COVID-19 policy, is anticipated to boost global growth through a resumption of international business activity in China and pent-up demand for travel and consumption. The Russia-Ukraine conflict remains the dominant factor of global uncertainty, negatively affecting forward expectations.

Commodity price movements were mixed in January. The Brent crude oil price moderated (-1.7%) to US\$84.49 per barrel over the month led by reduced global demand as rate hikes by major central banks continued. Conversely, the price of sugar increased (8.6% to US\$21.76 cents per pound at the end of January), spurred by Brazil's state-owned petroleum company raising fuel prices for all distributors, causing more cane diversion toward ethanol production and reducing the global supply of sugar. Similarly, gold prices gained (6.5%) over the month to US\$1,945.30 per fine ounce, aided by an overall weaker US dollar (USD) as the US Federal Reserve moderated its interest rate increases. Overall, food prices² continued to decline (-0.8%) in January driven by a drop in the prices of vegetable oils, dairy, sugar and meat. The index noted its tenth consecutive monthly fall in January, and international prices of food commodities were lower by 17.9 percent relative to its peak in March 2022.

Domestically, the economy continues to recover to pre-pandemic levels fuelled by the faster-than-expected rebound in tourism activity and positive spill-over effects on related sectors. Sectoral performances were generally mixed while latest consumption activity denoted a promising outcome relative to a moderate pickup in investment activity.

Sectoral performance outcomes were mixed in January but overall mirrored the improved domestic activity. Visitor arrivals in January grew (309.1%) to 67,502 visitors (the highest January arrivals on record), exceeding January 2019 levels by 5.8 percent (or 3,695 visitors), supported by higher arrivals from Australia, New Zealand, and North America. Electricity generation, an indicator of general business activity, rose annually by 16.0 percent. On the other hand, the supply of pine wood fell (-20.5%), resulting in a drop in woodchip production (-55.0%) while sawn timber (-96.4%), and mahogany production (-69.8%) also dipped. The low outturn in the timber industry was mostly due to routine mill closures except for mahogany which was hindered by bad weather conditions. Likewise, gold production noted a contraction (-19.1%) owing to lower-quality ore extraction.

Consumption activity is showing a firm recovery and are around pre-pandemic levels. In January, Net Value Added Tax (VAT) collections increased (46.9%) annually and was similar to 2019 levels, although higher prices may have partially been a contributing factor. Electricity consumption (8.8%) grew from higher consumption by commercial and industrial businesses. Activity has been supported by higher new loans for consumption purposes (18.4%), increased inflow of personal remittances, and the growth in formal employment. The RBF's December 2022 Retail Sales Survey estimates that retail trade grew by 15.4 percent last year and is projected to grow by 6.4 percent in 2023.

¹ International Monetary Fund (IMF) World Economic Outlook (WEO) Report – January 2023.

² Food and Agriculture Organisation's (FAO) food price index.

Investment activity has picked up but at a more moderate pace. Domestic cement sales, an indicator of domestic construction, expanded by 0.9 percent. Similarly, new lending to the building and construction sector, a forward looking indicator, rose annually (381.9%) in January, however, the lower credit to the real estate sector underpinned the overall negative outcome in total investment lending. Concurrently, sentiments relayed in the December 2022 Business Expectations Survey (BES) were generally positive, with respondents anticipating an improvement in overall business conditions in the short to medium term. Looking ahead, respondents to the December 2022 BES had also expressed higher intentions to invest in plant & machinery and buildings over the next 12 months.

The labour market's continued improvement was reflected in the growth of Pay As You Earn tax collections (17.2%), an indication of higher formal employment, and the number of vacancies advertised as per January's Job Advertisement Survey (59.3%) with increased recruitment intentions across majority of job categories. However, the job market remains tight with increased employment opportunities and migration. BES respondents also gave improved intentions to employ more workers, on both a part-time and full-time basis.

The financial sector remained supportive, highlighted by the ample liquidity (around \$2.5 billion as at 28/02) in the banking system, which helped in maintaining interest rates at historic lows. Improved economic activity and low interest rates resulted in higher net domestic credit in January (5.1%), mostly on account of increased lending to the private sector (5.7%), particularly by commercial banks.

In January, the Fijian dollar (FJD) strengthened against the USD (1.8%) and the Euro (0.1%) but weakened against the Australian dollar (AUD) (-2.2%), Japanese Yen (JPY) (-0.1%) and the New Zealand dollar (NZD) (-0.1%). Annually, the FJD's position fell against the AUD (-1.6%) and the USD (-0.6%) but gained against the JPY (12.5%), Euro (2.0%) and the NZD (0.7%).

The nominal effective exchange rate (NEER)³ fell annually by 0.1 percent in January mainly on account of developments against the USD. On a monthly basis, the NEER remained unchanged from the previous month. However, the real effective exchange rate (REER)⁴ weakened over the year in January (-1.3%) but strengthened over the month (4.1%). Annually, the dip in the REER reflected lower prices and a gain in competitiveness relative to the US, Australia and New Zealand while the monthly gain reflected higher prices relative to all the trading partner economies.

On the external sector, elevated commodity costs and rebounding domestic demand led to a higher growth in imports (60.5%) relative to exports (29.7%), widening Fiji's trade deficit (85.3%) to \$3.8 billion in the year to November, 2022. However, the current account balance continues to be supported by higher tourism receipts and inflow of personal remittances (42.0% to \$88.8m in January).

Annual headline inflation moderated to 2.5 percent in January from 3.1 percent from the previous month and was the lowest level since February 2022. Imported inflation, which accounts for most of the price increases, has consistently moderated from its highest level in August 2022 and contributed 2.1 percentage points to the overall headline inflation in January. Nevertheless, prices of food and energy remain elevated since the onset of the Russian war and rebounding of economic activity post pandemic.

Foreign reserves stood comfortably at around \$3.4 billion, sufficient to cover 6.2 months of retained imports of goods and services.

Considering the economic developments on the domestic and external front, and the safe outlook of inflation and foreign reserves, the RBF kept the Overnight Policy Rate at 0.25 percent in February.

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

KEY INDICATORS

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

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Visitor Arrivals	1,532.2	6,376.7	6,581.7	1,912.5	309.1
Electricity Production	5.9	16.1	15.9	15.1	16.0
Gold Production	-53.6	-29.6	-27.5	-28.4	-19.1
Cane Production	n.a	6.7	15.1	15.6	n.a
Sugar Production	n.a	9.7	16.4	17.0	n.a
Pinewood Production	-91.4	-37.5	-35.1	-34.4	-20.5
Woodchip Production	-88.3	-41.0	-40.0	-43.4	-55.0
Sawn Timber Production	-42.5	41.0	31.8	31.6	-96.4
Mahogany Production	10,025.1	17.5	16.1	11.1	-69.8
Cement Production	-29.8	28.0	23.3	19.0	-13.6

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

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Net VAT Collections	19.3	88.3	90.3	83.6	46.9
New Consumption Lending	163.9	44.3	37.9	32.1	18.4
New Vehicle Registrations	4.4	40.1	34.4	29.2	38.1
Secondhand Vehicle Registrations	-10.4	26.6	19.8	14.1	-23.4
Personal Remittances ^{1/}	-3.3	21.7	22.7	23.1	42.0
Electricity Consumption	7.7	16.9	16.4	15.8	8.8

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

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Domestic Cement Sales	-7.4	26.5	24.3	20.3	0.9
New Investment Lending	179.3	20.4	26.2	25.0	-33.4

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

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
RBF Job Advertisement Survey	98.2	164.3	153.8	140.1	59.3

5. Consumer Prices **
(year-on-year % change)^{2/}

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
All Items	2.7	4.8	4.7	3.1	2.5
Food and Non-Alcoholic Beverage	5.2	9.1	9.6	7.1	7.0
Alcoholic Beverages, Tobacco & Narcotics	-4.8	-4.4	-5.3	-7.1	-8.3

6. Reserves ***
(end of period)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Foreign Reserves (\$m) ^{3/}	3,145.4	3,560.6	3,439.6	3,430.6	3,373.9
Months of retained imports of goods and non-factor services (MORI) ^{4/}	6.4	7.2	7.0	6.9	6.2

7. Exchange Rates ***
(End of period, F\$1 equals)
(Index)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
US dollar	0.4620	0.4317	0.4455	0.4511	0.4591
Australian dollar	0.6610	0.6747	0.6663	0.6653	0.6506
New Zealand dollar	0.7047	0.7447	0.7191	0.7105	0.7099
Euro	0.4147	0.4340	0.4315	0.4228	0.4232
Japanese yen	53.25	63.81	61.82	59.98	59.90
Nominal Effective Exchange Rate	84.78	84.71	84.73	84.73	84.73
Real Effective Exchange Rate	99.59	95.20	94.32	94.38	98.26

8. Liquidity ***
(end of period)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Banks' Demand Deposits (\$m)	2,091.9	2,562.2	2,457.9	2,413.5	2,438.1

9. Money and Credit ***
(year-on-year % change)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
Broad Money	10.5	7.2	5.7	3.6	4.3
Net Foreign Assets	37.6	20.0	14.8	5.7	5.6
Domestic Credit	4.2	5.3	5.2	5.2	5.1
Private Sector Credit	0.2	5.6	6.9	6.7	5.7
Narrow Money	21.2	13.0	10.8	8.3	9.8

10. Interest Rates (%) ***
(monthly weighted average)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
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	5.72	5.27	5.21	5.20	5.17
Savings Deposit Rate	0.44	0.39	0.40	0.39	0.40
Time Deposit Rate	1.92	1.34	1.29	1.22	1.27
3 month Government T-Bills	0.06	n.i	0.03	n.i	n.i
12 month Government T-Bills	0.13	n.i	0.14	0.13	n.i
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	3.95	n.i

11. Commodity Prices ****
(end of period)

	Jan-22	Oct-22	Nov-22	Dec-22	Jan-23
UK Gold Price/fine ounce (US\$)	1,796.4	1,640.7	1,759.9	1,826.2	1,945.3
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	18.2	18.0	19.6	20.0	21.8
Crude Oil/barrel (US\$)	91.2	94.8	85.4	85.9	84.5
FAO Food price index ^	135.6	135.4	134.7	132.2	131.2

Note:

^{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 November 2022.

m - Millions

n.i - No Issue

n.a - Not Applicable

n.t - No Trading

Sources:

* Various Industry Sources

** Fiji Bureau of Statistics

*** Reserve Bank of Fiji

**** Bloomberg

^ Food and Agriculture Organisation (FAO)



RBF February Economic Review: at a glance



Global Economy



- The global economy is projected to expand by 2.9% in 2023 following an estimated growth of 3.4% in 2022.
- India and China are expected to contribute to around half of the global growth in 2023.

Global Commodity Prices



- Global sugar (8.6%) and gold prices (6.5%), noted gains in January 2023.
- Brent crude oil and global food prices fell moderately in the same period (-1.7% and -0.8%, respectively).

Domestic Economy



- In January 2023, Fiji received 67,502 visitors (the highest January arrivals on record), surpassing January 2019 levels by 5.8% (or 3,695 visitors).
- Consumption activity is showing a firm recovery, corroborated by the RBF's December 2022 Retail Sales Survey which projects that retail trade will grow by 6.4% in 2023.
- Investment activity has picked up but at a more moderate pace. Sentiments relayed in the December 2022 Business Expectations Survey (BES) were generally positive, with respondents anticipating an improvement in overall business conditions in the short to medium term.

Labour Market



- Labour market conditions continued to improve in January.
- Pay As You Earn tax collections (17.2%) increased, indicating higher formal employment.
- Vacancies advertised also rose (59.3%), noting higher recruitment intentions across a majority of job categories.
- BES respondents indicated improved intentions to employ more workers on both a part-time and full-time basis.

Financial Sector



- Financial conditions remained supportive to the economic recovery.

Liquidity and Interest Rates



- Ample liquidity in the banking system (around \$2.5b as at 28/02) has kept interest rates at historic lows and continues to stimulate private sector credit growth (5.7% in January).

External Trade



- Trade deficit widened by 85.3% in the year to November, 2022.
- Growth in imports (60.5%) outpaced that of exports (29.7%).

Exchange Rate Developments



- Over the month of January, the FJD strengthened against the USD and the Euro but weakened against the AUD, Japanese Yen and the NZD.

Inflation



- Annual inflation moderated to 2.5% in January 2023.
- Food and energy prices continue to be the major drivers of inflation.
- Imported inflation predominantly affected price movements (2.1pp) relative to domestic inflation (0.4pp).

Foreign Reserves (FR)



- Foreign reserves was comfortable at around \$3.4 billion with 6.2 MORI cover as at 28 February.
- Projected to remain comfortable in the near to medium term.

Monetary Policy



- The RBF Overnight Policy Rate maintained at 0.25% in February.

Risks



- The Russia-Ukraine conflict remains the dominant factor of global uncertainty, negatively affecting forward expectations.