



RESERVE BANK OF FIJI

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. 03

Month Ended March 2023

Globally, business activity lifted in February, boosted by consumer demand for services and the Asian economies.¹ The reopening of China has also helped ease supply constraints and freight costs. However, aggressive interest rate hikes last year are yet to fully take effect and major central banks plan to maintain a restrictive stance this year amid elevated core inflation. This is expected to eventually restrain demand and contribute to a slowdown in the world economy. Besides ongoing geopolitical tensions, the global outlook is now shadowed by the recent collapse of banks in the United States (US) and Europe,² which has led to a crisis of investor and depositor confidence and heightened global financial stability risks. Moreover, the events prompted action by authorities with the US government intervening to safeguard deposits and the Swiss authorities mediating the acquisition of Credit Suisse by UBS to restore confidence and calm markets.

Commodity prices retreated further in February from 2022 highs. In March, a few prices reacted to the recent banking upheaval in the US and Europe. Brent crude oil price declined to US\$83.89 per barrel at February-end (-0.7%) as central banks' policy tightening weighed on demand. Since mid-March, prices have fallen below US\$80 per barrel from concerns of even lower energy demand. The US Federal Reserve's rate hikes strengthened the appeal of the US dollar (USD) over gold, resulting in lower prices of the bullion in February (-5.6% to US\$1,836.70 per fine ounce). However, a reverse outcome held into March as pessimism surrounding the US financial system deteriorated confidence in the USD and bolstered gold demand. As such, it erased the decline in price from recent months and even brought prices near an all-time high (23/03: US\$2,013.30). Meanwhile, sugar prices settled at US\$20.07 cents per pound (-7.8%) at the end of February due to increased supply from Thailand and

Brasil. At the same time, overall global food prices³ marked its 11th monthly descent (-0.6%), largely on account of weaker prices of vegetable oils and dairy underpinned by lower demand.

Domestically, the economic recovery to pre-pandemic levels remains well underway, and employment, income, aggregate demand and credit activity have picked up in tandem.

Sectoral outcomes were generally positive in the year to February. As the primary catalyst of the recovery, tourism continued its upbeat performance. Visitor arrivals rose over the year (317.0% to 114,736) and were 1.9 percent above the corresponding pre-pandemic level as tourists from Australia, New Zealand and Canada surpassed their respective 2019 numbers. Electricity generation increased (11.4%), indicating higher economic activity. In the forestry sector, sawn timber manufacturing improved (0.9%) from normalisation in mill operations, while woodchip output declined (-70.4%) due to unfavourable weather conditions. Furthermore, low-quality ore continued to lead the lacklustre performance in gold extraction (-16.0%).

Labour demand has increased in line with the recovering economy, coupled with higher migration prompting businesses to re-fill previously held positions. As per the RBF's job advertisement surveys, the number of vacancies advertised in the year to February rose (31.8%). Alongside this, Pay As You Earn (PAYE) tax collection grew on an annual basis in the same period (20.9%), highlighting the spillover effect of improved employment and tight labour conditions on higher wages and income.

Aggregate demand has increased with higher activity and incomes. Notably, consumer spending has grown, supported by remittances (cumulative to February: 28.7%) and also reflecting relatively

¹ J.P. Morgan Global Purchasing Managers Index from S&P Global – February 2023.

² Includes Silicon Valley Bank, Silvergate and Signature Bank from the US and Credit Suisse from Europe.

³ Food and Agriculture Organisation's (FAO) food price index.

higher prices. Cumulative to February, an annual growth outturn was seen in net Value Added Tax (VAT) collection (42.6%), electricity consumption (11.6%) and new lending by commercial banks for consumption purposes (21.5%). With a positive economic outlook as well as continuous growth in remittances, consumption is expected to stay upbeat. On the other hand, the investment pace has been moderate as new lending by commercial banks for investment purposes fell by 12.5 percent in the year to February due to lower credit to the real estate sector (-38.3%). Despite this, forward-looking indicators suggest construction activity is poised to rise in the coming months as domestic cement sales (January: 0.9%) and new lending to the building and construction sector (cumulative to February: \$24.3m, 208.7%) have increased. Investment prospects are expected to improve in the medium term as fiscal policy becomes more certain and high prices abate.

Accommodative financial conditions continued to complement the economic recovery as the high liquidity environment (around \$2.4b as at 31/03 in the banking system) drove the weighted average outstanding lending rate to a new historical low (5.11%). Accordingly, with improved real sector activity and incomes, net domestic credit expanded by 5.7 percent over the year in February, largely due to higher credit to the private sector (6.3%). Meanwhile, due to improved debt serviceability, non-performing loans fell further on a monthly and yearly basis. Given that Fiji's financial institutions have no exposure to the collapsed banks in the US and Europe, domestic financial stability remains intact as well.

Over the month of February, the Fijian dollar (FJD) strengthened against the New Zealand dollar (NZD) (2.1%), Australian dollar (AUD) (1.9%) and the Japanese Yen (JPY) (1.6%) but weakened against the USD (-2.7%) and Euro (-0.5%). Annually, the FJD's position fell against the USD (-4.4%) but gained against the rest of the currencies (JPY: 13.1%, NZD: 3.5%, AUD: 1.6%, and the Euro: 0.5%).

Consequently, the nominal effective exchange rate (NEER)⁴ dropped slightly over the month (-0.01%) and year (-0.02%) in February. Similarly, the real effective exchange rate (REER)⁵ fell over the month

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.

(-2.5%) and year (-2.4%) in the same period, led by lower domestic inflation relative to trading partner inflation (except against Japan over the year) and indicative of an overall gain in competitiveness.

On the external front, the merchandise trade deficit (excluding aircraft) widened (83.1%) to an all-time high (\$4,264.0m) in 2022. This was due to a broad-based increase in imports (57.7%) on account of elevated global commodity prices, trading partner inflation and freight costs. These, combined with increased import volumes due to rising domestic consumption, drove imports to a record level (\$6,586.2m). The rise in the trade deficit was partly mitigated by high export growth (25.7%) as increased sugar, mineral water and fuel re-export receipts brought total exports to a new peak (\$2,322.2m). However, the impact of the trade deficit on the current account is moderated by the strong growth in tourism earnings (4,007.6% to \$1,499.3m) and remittances (23.1% to \$1,040.8m) in the same year.

The annual headline inflation rate fell for the fourth consecutive month to 1.5 percent in February, lower than the outcome in February last year (1.9%), with two-thirds (1.0 percentage point) driven by imported inflation. Foreign reserves were around \$3.3 billion at March-end (31/03), sufficient to cover 6.1 months of retained imports.

After assessing domestic and global developments and given the comfortable outlook of the twin monetary policy objectives amid the economy still in recovery, the RBF kept the Overnight Policy Rate at 0.25 percent in March.

RESERVE BANK OF FIJI

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.

KEY INDICATORS ^{1/}

1. Sectoral Performance Indicators *

(year-on-year % change)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Visitor Arrivals	1,116.4	6,581.7	1,912.5	309.1	317.0
Electricity Production	9.6	15.9	15.1	16.0	11.4
Gold Production	-43.1	-27.5	-28.4	-19.1	-16.0
Cane Production	n.a	15.1	15.6	n.a	n.a
Sugar Production	n.a	16.4	17.0	n.a	n.a
Pinewood Production	-72.9	-35.1	-34.4	-20.5	-70.3
Woodchip Production	-73.4	-40.0	-43.4	-55.0	-70.4
Sawn Timber Production	-45.7	31.8	31.6	-96.4	0.9
Mahogany Production	731.8	16.1	11.1	-69.8	n.a
Cement Production	-20.6	23.3	19.0	-13.6	n.a

2. Consumption Indicators *

(year-on-year % change)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Net VAT Collection	33.9	90.3	83.6	46.9	42.6
New Consumption Lending	121.3	37.9	32.1	18.4	21.5
New Vehicle Registrations	17.2	34.4	29.2	38.1	22.8
Secondhand Vehicle Reaistrations	4.0	19.8	14.1	-23.4	-30.2
Personal Remittances ^{2/}	4.7	22.7	23.1	42.0	28.7
Electricity Consumption	6.6	16.4	15.8	8.8	11.6

3. Investment Indicators *

(year-on-year % change)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Domestic Cement Sales	-8.1	24.3	20.3	0.9	n.a
New Investment Lending	149.0	26.2	25.0	-34.3	-12.5

4. Labour Market ***

(year-on-year % change)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Vacancies (RBF Job Advertisement Survey)	153.9	153.8	140.1	59.3	31.8

5. Consumer Prices **

(monthly, year-on-year % change)^{3/}

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
All Items	1.9	4.7	3.1	2.5	1.5
Food and Non-Alcoholic Beverages	3.3	9.6	7.1	7.0	3.2
Alcoholic Beverages, Tobacco & Narcotics	-3.3	-5.3	-7.1	-8.3	-7.2

6. Reserves ***

(end of period)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Foreign Reserves (\$m) ^{4/}	3,058.8	3,439.6	3,430.6	3,373.9	3,364.8
Months of retained imports of goods and non-factor services (MORI) ^{5/}	6.2	7.0	6.9	6.2	6.2

7. Exchange Rates ***

(end of period, F\$1 equals)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
US dollar	0.4672	0.4455	0.4511	0.4591	0.4468
Australian dollar	0.6527	0.6663	0.6653	0.6506	0.6630
New Zealand dollar	0.7004	0.7191	0.7105	0.7099	0.7246
Euro	0.4190	0.4315	0.4228	0.4232	0.4212
Japanese yen	53.83	61.82	59.98	59.90	60.86
Nominal Effective Exchange Rate	84.73	84.73	84.73	84.73	84.72
Real Effective Exchange Rate	97.00	94.32	94.38	97.06	94.65

(end of period, Index)

8. Liquidity ***

(end of period)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Banks' Demand Deposits (\$m)	2,069.6	2,457.9	2,413.5	2,438.1	2,450.8

9. Money and Credit ***

(end of period, year-on-year % change)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
Broad Money	9.1	5.7	3.6	4.3	6.0
Net Foreign Assets	30.5	14.8	5.7	5.6	7.6
Net Domestic Credit	4.7	5.2	5.2	5.1	5.7
Private Sector Credit	0.8	6.9	6.7	5.7	6.3
Narrow Money	19.2	10.8	8.3	9.8	11.9

10. Interest Rates (%) ***

(monthly weighted average)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-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	5.67	5.21	5.20	5.17	5.11
Savings Deposit Rate	0.43	0.40	0.39	0.40	0.46
Time Deposit Rate	1.79	1.29	1.22	1.27	1.11
3-month Government T-Bills	0.06	0.03	n.i	n.i	0.03
12-month Government T-Bills	0.13	0.14	0.13	n.i	0.15
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	3.95	n.i	3.95	n.i	3.90

11. Commodity Prices ****

(end of period)

	Feb-22	Nov-22	Dec-22	Jan-23	Feb-23
UK Gold Price/fine ounce (US\$)	1,900.7	1,759.9	1,826.2	1,945.3	1,836.7
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	17.7	19.6	20.0	21.8	20.1
Crude Oil/barrel (US\$)	101.0	85.4	85.9	84.5	83.9
FAO Food price index ^	141.2	134.7	131.8	130.6	129.8

^{1/} Unless otherwise indicated, cumulative to date data is used.

^{2/} Personal Remittances are inclusive of international mobile money receipts.

^{3/} 2014 rebase. Previous data had 2011 as its base.

^{4/} 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.

m - Millions

n.i - No Issue

n.a - Not Available

n.t - No Trading

Sources:

* Various Industry Sources

** Fiji Bureau of Statistics

*** Reserve Bank of Fiji

**** Bloomberg

^ Food and Agriculture Organisation (FAO)



Global Economy



- Global business activity lifted in February.
- Supply constraints and freight costs have eased from China's reopening.
- However, global growth is expected to slow amid ongoing monetary policy tightening.

Domestic Economy



- Sectoral outcomes were generally positive in the year to February.
- Visitor arrivals (114,736) were 1.9% above pre-pandemic levels.
- Net VAT collection (42.6%), electricity consumption (11.6%) and new lending for consumption purposes (21.5%) rose cumulative to February, suggesting strong consumption spending.
- However, the investment pace remains moderate.

Financial Sector



- Accommodative financial conditions continue to complement the economic recovery.
- Higher private sector credit growth (6.3%) drove net domestic credit (5.7%) in February.
- NPLs fell over the month and year.

External Trade



- Merchandise trade deficit (excluding aircraft) widened (\$4,264.0m) to an all-time high in 2022.
- Record high imports (\$6,586.2m), largely driven by high prices and freight costs, outweighed new peak for export (\$2,322.2m).

Inflation



- The annual headline inflation rate fell for the fourth consecutive month to 1.5 percent in February.
- Two-thirds of the price increase (1.0 percentage point) was from imported inflation.

Monetary Policy



- Given the comfortable outlook for inflation and foreign reserves amid the economy still in recovery, the RBF kept the Overnight Policy Rate at 0.25 percent in March.

Global Commodity Prices



- Brent crude oil (-0.7%), gold (-5.6%), sugar (-7.8%) and global food prices (-0.6%) fell over the month in February.
- The banking turmoil in the US and Europe led to a further decline in Brent crude oil prices and an increase in gold prices into March.

Labour Market



- Economic recovery and emigration increased labour demand.
- Job vacancies rose by 31.8% cumulative to February.
- Over the same period, PAYE collection increased by 20.9%.

Liquidity and Interest Rates



- Weighted average outstanding lending rate reached a new historical low (5.11%) amid a high liquidity environment.
- Excess liquidity in the banking system stood around \$2.4 billion as at 31 March.

Exchange Rate Developments



- Over the month in February, the FJD strengthened against the NZD, AUD and JPY but weakened against the USD and Euro.
- Annually, the FJD fell against the USD but gained against the rest of the currencies.

Foreign Reserves (FR)



- Foreign reserves remain comfortable at around \$3.3 billion as at 31 March, sufficient to cover 6.1 months of retained imports.

Risks



- Continuation of geopolitical tensions.
- Recent collapse of banks in the US and Europe has raised global financial stability risks, but domestic financial stability remains intact.
- Natural disasters.