

Global Economy



- Global growth prospects remain fragile amid escalated geopolitical tensions, tighter monetary policy and a slowdown in China.
- Global inflation continues to trend above target for most major economies.

Domestic Economy



- Strong performance in the tourism industry continued with visitor arrivals, hotel occupancy rates and revenue earned from rooms sold trending above 2022 and 2019 levels.
- Consumption activity was upbeat cumulative to July as indicated by the annual growth in net VAT (+29.3%) and loans for consumption purposes (+7.7%).
- Investment activity shows signs of recovery as investment loans (+31.0%) and domestic cement sales (+1.9%) grew annually in the year to July.

Global Commodity Prices



- Commodity prices rose over the month in July.
- Continued supply cuts by Saudi Arabia and Russia drove Brent crude oil price to US\$85.56 per barrel (+14.2%) while breakdown of the Black Sea Grain deal and protectionist policies by India increased global food prices (+1.3%).

Labour Market



- Labour demand remains strong corroborated by the high growth in recruitment intentions (+31.2%) in the year to July.
- Income levels also rose over the same period as indicated by an increase in Pay As You Earn tax collections (+20.7%).

Financial Sector



- The financial sector remained supportive of economic recovery.
- Banking system liquidity remains high, close to \$2.4 billion as of 31 August.
- Commercial banks' lending rates continue to trend near historical lows.
- Private sector credit increased by 5.4 percent in the year to July.

External Trade



- Cumulative to May 2023, Fiji's trade deficit (excluding aircraft) widened by 4.0 percent to \$1,690.3 million as imports (+9.2% to \$2,554.1m) outpaced exports (+21.1% to \$863.8m).
- In the year to July, personal remittances grew by 22.8 percent.

Exchange Rate Developments



- The Fijian dollar strengthened against the United States dollar (0.7%), weakened against the Euro (-0.7%), New Zealand dollar (-0.8%) and the Japanese Yen (-1.9%) and was broadly unchanged against the Australian dollar.

Inflation



- Average annual inflation rate in the first seven months of 2023 stands at 1.3 percent.
- Inflation is expected to pick up from August as tax changes announced in the national budget take effect coupled with the recent upturn in global food and fuel prices.

Foreign Reserves



- Foreign reserves are adequate at \$3,587.0 million as of 31 August, enough to cover 6.3 months of retained imports.
- Foreign reserves are projected to remain adequate in the medium-term.

Risks to the Outlook



- **Domestic Risks:** Labour migration, ageing infrastructure, concerns around hotel room inventory shortages and climate change.
- **Global Risks:** Evolving geopolitical fragmentation, persistent inflationary pressures, continued monetary policy tightening, rising commodity prices and deeper slowdown in China.

Monetary Policy



- Given the stable outlook for RBF's twin monetary policy objectives, the accommodative stance was maintained and the Overnight Policy Rate kept at 0.25 percent.



ECONOMIC REVIEW

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Vol. 41

No. 08

Month Ended August 2023

Latest data reveal a continued slowdown in global economic activity owing to the lingering effects of the Russia-Ukraine war, tight monetary policy and China's lacklustre economic performance, triggered by its property sector slump and sluggish domestic demand. While global inflation has slowed, it still remains above historical trends and the target range for most central banks, potentially keeping monetary policy tight for longer than initially anticipated.

Commodity prices soared over the month in July with Brent crude oil edging up to US\$85.56 (+14.2%) per barrel following the announcement of continued production cuts by Saudi Arabia and Russia. Global food prices¹ also increased (averaging 123.9 points, +1.3%) and is expected to rise further following the breakdown of the Black Sea Grain deal and protectionist policies by India.² Gold prices rose to US\$1,981.90 per fine ounce (+2.7%) amid lower US Treasury yields which bolstered demand for the precious metal while an anticipated decline in India's sugar exports for the coming financial year drove higher sugar prices (US24.4 cents per pound, +6.6%).

On the domestic front, buoyant performance in the tourism industry stimulated overall economic activity with visitor arrivals cumulative to July reaching 511,335, 79.9 percent and 1.5 percent higher than the corresponding period in 2022 and 2019, respectively. Over the same period, the average hotel occupancy rate and revenue earned from

rooms sold were also higher than the comparable period in 2022 and 2019.

In contrast to the strong tourism activity, sectoral production remained broadly weak due to industry-specific challenges. Adverse weather conditions, poor harvesting efforts and mechanical disruptions resulted in annual contractions in both cane harvested (-15.4 %) and sugar produced (-24.0 %).³ Other natural resource sectors also performed poorly in the year to July with pine (-49.5 %), woodchip (-36.3%), sawn timber (-22.7%), mahogany (-43.0 %) and gold (-20.5 %) production noting annual declines. On the upside, in line with increased economic activity, electricity production (+5.4%) grew annually.

Demand for labour remains strong amid the economic recovery and migration of workers abroad which is corroborated by the significant increase (+31.2 %) in recruitment intentions in the year to July. Over the same period, Pay As You Earn tax collections rose by 20.7 percent, implying growing income levels.

Positive flow-on effects from increased tourism activity, rising incomes and higher remittances continued to support consumption spending. Partial indicators for consumption such as net Value Added Tax collections (+29.3%) and commercial banks' new lending for consumption purposes (+7.7%) noted annual gains in the year to July. Strong remittances growth (22.8%, cumulative to July) is expected to sustain consumption activity going forward.

¹ Measured by the United Nations Food and Agriculture Organisation food price index.

² India has placed restrictions on its rice, onion and sugar exports which will likely contribute to higher global food prices.

³ Following 10 weeks of crushing (7 August). The Tonnes Cane to Tonnes Sugar (TCTS) ratio also worsened to 11.8 from 10.6 noted in the comparable period a year ago.

Investment activity shows signs of stable recovery with commercial banks' new lending for investment purposes (+31.0%) and domestic cement sales (+1.9%) noting annual growth in the year to July. With much needed clarity on Government's tax policies and spending plans at hand, investment activity is anticipated to pick up going forward.

Financial conditions continue to be supportive of economic recovery. Banking system liquidity remains high, close to \$2.4 billion (as of 31/08) which maintained downward pressure on interest rates. In July, commercial banks' outstanding lending rate fell to a new low of 4.96 percent, while the new lending rate declined over the year to 5.10 percent.⁴ High liquidity and low interest rates supported growth in private sector credit (5.4% in July).

In July, the Fijian dollar (FJD) strengthened against the United States dollar (USD) (0.7%) but weakened against the Euro (-0.7%), New Zealand dollar (NZD) (-0.8%) and the Japanese Yen (JPY) (-1.9%) while it remained broadly unchanged against the Australian dollar (AUD). On an annual basis, the FJD strengthened against the Yen (3.3%), AUD (3.0%) and NZD (0.3%) but weakened against the Euro (-9.1%) and the USD (-1.8%).

Subsequently, the nominal effective exchange rate (NEER) increased slightly over the year in July (0.01%) led by the strengthening of the FJD against the AUD and the Yen. However, the real effective exchange rate (REER) was lower over the year (-3.8%) denoting a gain in trade competitiveness on account of higher trading partner inflation.

In the year to May, the trade deficit widened by 4.0 percent to \$1,690.3 million as imports (\$2,554.1m) outpaced exports (\$863.8m).⁵ Imports growth (+9.2%) was driven mainly by mineral fuels, miscellaneous manufactured goods, machinery & transport equipment (excluding aircraft) and food & live animals while the rise in exports (+21.1%) was underpinned by sugar, preserved fish, and re-exports of mineral fuel.

The average annual inflation rate in the first seven months of 2023 stands at 1.3 percent and was mostly driven by higher food prices which more-than-offset the lower kava and fuel prices. Inflation is expected to increase from August onwards as tax changes announced in the national budget take effect coupled with the recent upturn in global food and fuel prices.

Foreign reserves are at comfortable levels (\$3,587.0m as of 31/08), enough to cover 6.3 months of retained imports of goods and services, and is expected to remain adequate in the medium term.

Given the continued economic recovery and stable outlook for RBF's twin monetary policy objectives, the RBF Board maintained the accommodative stance and kept the Overnight Policy Rate at 0.25 percent.

RESERVE BANK OF FIJI

⁴ All rates are weighted averages.

⁵ Imports & exports are excluding aircraft.

FIJI: ECONOMIC & FINANCIAL STATISTICS

KEY INDICATORS

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

	Jul-22	Apr-23	May-23	Jun-23	Jul-23
Visitor Arrivals	4,470.1	163.9	128.3	103.3	79.9
Electricity Production	14.6	10.2	8.8	7.2	5.4
Gold Production	-32.3	-24.2	-19.5	-14.7	-20.5
Cane Production	0.2	n.a	n.a	-24.6	-14.9
Sugar Production	3.0	n.a	n.a	-42.0	-25.7
Pinewood Production	-42.9	-55.8	-61.8	-57.3	-49.5
Woodchip Production	-42.4	-46.4	-36.0	-41.7	-36.3
Sawn Timber Production	44.8	-34.1	-18.1	-21.0	-22.7
Mahogany Production	46.8	-35.2	-39.4	-42.7	-43.0
Cement Production	55.8	-0.5	0.1	-2.6	-1.9

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

Net VAT Collections	69.1	44.5	34.9	30.4	29.3
New Consumption Lending	58.8	6.8	16.0	10.4	7.7
New Vehicle Registrations	50.7	20.2	18.0	24.5	32.1
Secondhand Vehicle Registrations	44.3	-32.1	-33.7	-32.6	-30.5
Personal Remittances ^{1/}	22.6	26.3	23.9	26.6	22.8
Electricity Consumption	15.0	9.5	9.2	8.3	6.4

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

Domestic Cement Sales	45.1	-1.0	1.7	0.7	1.9
New Investment Lending	38.5	31.4	28.5	27.4	31.0

4. Labour Market

(year-on-year % change)

RBF Job Advertisement Survey	226.1	23.6	33.5	35.1	31.2
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5. Consumer Prices **

 (year-on-year % change)^{2/}

All Items	5.2	1.4	0.8	0.9	0.3
Food and Non-Alcoholic Beverage	4.7	4.8	8.1	9.0	8.0
Alcoholic Beverages, Tobacco & Narcotics	-0.6	-9.5	-7.7	-7.5	-4.9

6. Reserves ***

(end of period)

Foreign Reserves (\$m) ^{3/}	3,596.0	3,310.2	3,319.6	3,482.2	3,555.7
Months of retained imports of goods and non-factor services (MOR) ^{4/}	6.5	5.8	5.8	6.1	6.3

7. Exchange Rates ***

 (End of period, F\$1 equals)
 (Index)

US dollar	0.4534	0.4453	0.4402	0.4424	0.4454
Australian dollar	0.6487	0.6717	0.6755	0.6684	0.6684
New Zealand dollar	0.7204	0.7251	0.7284	0.7285	0.7228
Euro	0.4449	0.4038	0.4102	0.4072	0.4043
Japanese Yen	60.87	59.64	61.54	64.07	62.88
Nominal Effective Exchange Rate	84.75	84.64	84.68	84.73	84.76
Real Effective Exchange Rate	97.34	92.27	92.51	93.44	93.61

8. Liquidity ***

(end of period)

Banks' Demand Deposits (\$m)	2,585.4	2,342.1	2,326.5	2,476.8	2,508.7
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9. Money and Credit ***

(year-on-year % change)

Broad Money	6.4	5.3	6.7	8.0	6.7
Net Foreign Assets	8.8	8.8	11.1	4.8	1.4
Domestic Credit	6.3	5.2	6.1	8.7	9.3
Private Sector Credit	3.7	5.7	6.5	6.1	5.4
Narrow Money	15.1	9.0	11.6	10.7	9.3

10. Interest Rates (%) ***

(monthly weighted average)

Overnight Policy Rate ^{5/}	0.25	0.25	0.25	0.25	0.25
Repurchase Rate ^{5/}	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	5.40	5.05	5.03	4.99	4.96
Savings Deposit Rate	0.39	0.41	0.41	0.42	0.38
Time Deposit Rate	1.52	1.14	1.11	1.15	1.17
3 month Government T-Bills	n.i	n.i	0.03	0.03	n.i
12 month Government T-Bills	n.i	n.i	0.13	0.13	n.i
5-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i
10-year Government Bond Yield	n.i	n.i	n.i	n.i	n.i

11. Commodity Prices ****

(end of period)

UK Gold Price/fine ounce (US\$)	1,781.8	1,999.1	1,982.1	1,929.4	1,981.9
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	17.5	26.4	25.1	22.9	24.4
Crude Oil/barrel (US\$)	110.0	79.5	72.7	74.9	85.6
FAO Food price index ^	140.6	127.7	124.2	122.4	123.9

Note:

^{1/} Personal Remittances are inclusive of international mobile money

^{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.

^{5/} Not weighted average.

m - Millions

n.i - No Issue

n.a - Not Available

Sources:

* Various Industry Sources

** Fiji Bureau of Statistics

*** Reserve Bank of Fiji

**** Bloomberg

^ Food and Agriculture Organisation (FAO)