

Global Economy



- The global economy lost momentum in August due to weak demand, slower growth in major economies, and higher inflation.

Global Commodity Prices



- In August, the price of oil rose due to production curbs by Saudi Arabia and Russia, while sugar prices increased following El Nino concerns. Gold and global food prices fell.

Domestic Economy



- The Fijian economy grew by 20.0% in 2022 surpassing the earlier estimate of 18.6%, driven by the strong services sector and net indirect taxes.
- The economy is on track for an 8.0 percent growth this year.

Labour Market



- Fiji's labour market is improving, with wages paid surpassing 2019 levels.
- The strong growth in Job advertisements in the year to August suggests strong demand for labour.

Consumption and Investment Indicators



- Consumption activity grew, evidenced by the pick-up in net value added tax collections and commercial banks' new consumption loans.
- Investment activity continues to note stable recovery, driven by higher domestic cement sales and strong demand for credit in the real estate and second-home buyer categories.

Financial Sector



- Financial conditions remain favourable for economic activity, with growth in private-sector credit and new lending in August;
- Liquidity levels remain adequate at \$2,381.2 million (28/09), keeping interest rates low.

External Trade



- Cumulative to June 2023, the trade deficit worsened by 3.4% led by higher import payments relative to export receipts.

Tourism Earnings



- Tourism earnings cumulative to June, recorded an annual growth (125.0%) and was higher (12.3%) than pre-pandemic levels.

Inflation



- The inflation outlook for the year-end is around 6.0 percent from the 2.8 percent expected before the national budget.
- The upward revision stems from higher duties and taxes announced in the national budget and the recent rebound in global crude oil prices.

Foreign Reserves



- Foreign reserves remain comfortable at \$3.5 billion with 6.3 MORI as of 29 September and are projected to remain adequate in the near to medium term.

Risks to the Outlook



- Global risks include core inflation, rising fuel costs, export restrictions, geopolitical tensions, high interest rates, and El Nino.
- Domestic risks include the impact of introduced taxes on aggregate demand, skilled worker migration, climate change impact, and tourism industry capacity constraints.

Monetary Policy



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



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.

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The latest economic data show that the global economy lost further momentum in August due to weak demand conditions, slower growth in major economies, and higher-than-anticipated inflation. Geopolitical tensions and sharp tightening in financial market conditions are likely to erode confidence and dent investment prospects. For Fiji's major trading partner economies (TPEs), growth has been positive albeit slow in the year to August. Manufacturing activity contracted for almost all TPEs (except China and India) while services activity registered mixed performances across the economies.

Commodity prices recorded mixed outcomes in August. The Brent crude oil price increased to US\$86.86 per barrel (MoM: +1.5%) due to oil production curbs by Saudi Arabia and Russia while the rise in sugar prices to US25.06 cents per pound (MoM: +2.7%) was owed to the imminent threat of El Nino on the production of sugar. On the other hand, gold prices fell to US\$1,965.90 per fine ounce (MoM: -0.8%) following the strengthening of the US dollar. Global food prices also declined (MoM: -2.0%), averaging 121.4 points as a result of ample supply of wheat, coarse grain, and maize due to greater harvest.

Fiji's economy grew by 20.0 percent in 2022,¹ surpassing the earlier estimate of 18.6 percent by the Macroeconomic Committee.² The outcome was largely driven by strong growth recorded in the services sector followed by net indirect taxes. In 2023, the economy is well on track to achieve

the 8.0 percent growth forecast, on the back of the robust recovery in the tourism industry.

On the sectoral front, performances remain weak due to industry-specific issues. Cumulative to August, sugar, gold, pinewood, and woodchip production fell while electricity production continued to remain positive.

Consumption activity was solid in the review period, evidenced partially by growth in net value added tax (VAT) collections (YoY: +22.4%) and commercial banks' new loans for consumption purposes (YoY: +8.4%). Investment activity shows a stable recovery, shown in higher domestic cement sales (YoY: +3.4%) and Commercial banks' new loans for investment purposes (YoY: +31.5%) to the real estate sector and second home buyer categories. However, the increase in VAT and corporate income tax rates could dampen aggregate demand.

Fiji's labour market conditions have improved, with wages paid surpassing 2019 levels, possibly due to wage bargaining amid labour migration. In addition, the strong growth in Job advertisements in the year to August suggests strong demand for labour.

Financial conditions remained supportive of economic activity, evident by the growth in private-sector credit (YoY: +5.5%) and new lending in August. Cumulative to August, new lending increased for both commercial banks' (YoY: +5.4%) and licensed credit institutions'

¹ The Fiji Bureau of Statistics released the provisional numbers for 2022 GDP on 31 August 2023.

² The Macroeconomic Committee is an inter-agency group responsible for forecasting GDP, Trade and Balance of Payments, which assists with monetary and fiscal policy formulation, implementation and monitoring.

(YoY: +54.0%), and this was primarily to the household sector.

Liquidity levels in the banking system remained adequate at \$2,381.2 million (28/09) keeping interest rates relatively low. The sufficient banking system liquidity and the persistently low-interest-rate environment are expected to support growth in private-sector credit and drive economic activity in the months ahead.

Fiji's trade deficit³ increased by 3.4 percent to \$2,067.8 million in June as imports outpaced exports. Imports grew by 8.4 percent to \$3,137.4 million led by the mineral fuels, machinery & transport equipment, and miscellaneous manufactured goods categories while exports expanded by 19.5 percent to \$1,069.6 million owing to the sugar, mineral water, and re-exports of mineral fuels categories.

Tourism earnings cumulative to June surpassed the billion dollar mark which was an increase of 125.0 percent from the previous year and 12.3 percent higher than pre-pandemic earnings, largely due to the growth in visitor arrivals and higher spending levels.

The inflation outlook for year-end is now around 6.0 percent from the 2.8 percent expected before the national budget. This upward revision stems from higher duties and taxes announced in the national budget and the recent rebound in global crude oil prices.

Foreign reserves remain comfortable at \$3,566.1 million, sufficient to cover 6.3 months of retained imports as of 29 September, and is

anticipated to remain adequate in the medium term.

In terms of macroeconomic risks and outlook, the downside risks to the global economy include elevated core inflation, growing costs of international travel, rising commodity prices, export restrictions, geopolitical tensions, and high-interest rates. The El Nino phenomenon is a risk that may exacerbate some of these factors further, thus impacting Fiji's export performance, raising import bills, and lowering tourism revenue.

On the domestic front, risks to the outlook are in the form of introduced changes to the corporate tax and VAT rates, the continued migration of skilled workers, and the impact of climate change. Additionally, addressing the tourism industry's current capacity constraints, and prioritising private sector investment is crucial for sustainable growth.

Nonetheless, given Fiji's stable economic recovery, assessment of risks, and the comfortable outlook for the RBF's twin objectives, the Board maintained an accommodative monetary policy stance and kept the Overnight Policy Rate at 0.25 percent in September. The RBF will continuously monitor global and domestic developments closely and align monetary policy accordingly.

RESERVE BANK OF FIJI

³ All analysis on imports and exports is excluding aircraft.

KEY INDICATORS

	Aug-22	May-23	Jun-23	Jul-23	Aug-23
1. Sectoral Performance Indicators * (year-on-year % change)					
Visitor Arrivals	5,237.9	128.3	103.3	79.9	69.0
Electricity Production	16.5	8.8	7.2	5.4	4.5
Gold Production	-30.1	-19.5	-14.7	-20.5	-13.5
Cane Production	-3.7	n.a	-24.6	-14.9	n.a
Sugar Production	-2.6	n.a	-42.0	-25.7	n.a
Pinewood Production	-38.1	-61.8	-57.3	-49.5	-46.0
Woodchip Production	-38.7	-36.0	-41.7	-36.3	-36.1
Sawn Timber Production	44.9	-18.1	-21.0	-22.7	-20.9
Mahogany Production	33.3	-39.4	-42.7	-43.0	-44.3
Cement Production	41.7	0.1	-2.6	-1.9	5.3
2. Consumption Indicators * (year-on-year % change)					
Net VAT Collections	84.9	34.9	30.4	29.3	22.4
New Consumption Lending	60.2	16.0	10.4	7.7	8.4
New Vehicle Registrations	46.9	18.0	24.5	32.1	n.a
Secondhand Vehicle Registrations	42.0	-33.7	-32.6	-30.5	n.a
Personal Remittances ^{1/}	24.5	23.9	26.6	22.8	n.a
Electricity Consumption	17.0	9.2	8.3	6.4	n.a
3. Investment Indicators * (year-on-year % change)					
Domestic Cement Sales	39.3	1.7	0.7	1.9	3.4
New Investment Lending	41.2	28.5	27.4	31.0	31.5
4. Labour Market (year-on-year % change)					
RBF Job Advertisement Survey	212.4	33.5	35.1	31.2	27.8
5. Consumer Prices ** (year-on-year % change) ^{2/}					
All Items	5.4	0.8	0.9	0.3	1.3
Food and Non-Alcoholic Beverage	6.9	8.1	9.0	8.0	7.0
Alcoholic Beverages, Tobacco & Narcotics	-3.1	-7.7	-7.5	-4.9	-4.8
6. Reserves *** (end of period)					
Foreign Reserves (\$m) ^{3/}	3,538.5	3,319.6	3,482.2	3,555.7	3,594.3
Months of retained imports of goods and non-factor services (MOR) ^{4/}	6.4	5.8	6.1	6.3	6.3
7. Exchange Rates *** (End of period, F\$1 equals) (Index)					
US dollar	0.4473	0.4402	0.4424	0.4454	0.4378
Australian dollar	0.6523	0.6755	0.6684	0.6684	0.6758
New Zealand dollar	0.7295	0.7284	0.7285	0.7228	0.7338
Euro	0.4463	0.4102	0.4072	0.4043	0.4008
Japanese Yen	62.09	61.54	64.07	62.88	64.02
Nominal Effective Exchange Rate	84.79	84.68	84.73	84.76	84.71
Real Effective Exchange Rate	98.44	92.51	92.41	92.59	94.13
8. Liquidity *** (end of period)					
Banks' Demand Deposits (\$m)	2,527.0	2,326.5	2,476.8	2,508.7	2,374.0
9. Money and Credit *** (year-on-year % change)					
Broad Money	4.5	6.7	8.0	6.7	9.1
Net Foreign Assets	10.3	11.1	4.8	1.4	7.1
Domestic Credit	5.1	6.1	8.7	9.3	8.6
Private Sector Credit	4.6	6.5	6.1	5.4	5.5
Narrow Money	11.5	11.6	10.7	9.3	12.7
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.t	n.t	n.t	n.t	n.t
Lending Rate	5.34	5.03	4.99	4.96	4.95
Savings Deposit Rate	0.39	0.41	0.42	0.38	0.41
Time Deposit Rate	1.46	1.11	1.15	1.17	1.18
3 month Government T-Bills	0.03	0.03	0.03	n.i	0.03
12 month Government T-Bills	0.15	0.13	0.13	n.i	0.13
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\$)	1,726.2	1,982.1	1,929.4	1,981.9	1,965.9
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	18.1	25.1	22.9	24.4	25.1
Crude Oil/barrel (US\$)	96.5	72.7	74.9	85.6	86.9
FAO Food price index ^	137.6	124.1	122.7	124.0	121.4

NOTE:

^{1/} Personal Remittances are inclusive of international mobile money receipts.^{2/} 2014 rebase. Previous data had 2011 as its base.^{5/} Not weighted average.

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)