

Global Economy



- World growth decelerated from 3.5 percent in 2022 to 3.1 percent in 2023.
- Growth in the second half of 2023 was stronger than expected while supply constraints and inflation eased faster than anticipated.
- The IMF now forecasts global growth to remain steady at **3.1 percent** in 2024.

Commodity Prices



- Weak global demand and adequate supply underpinned the general decline in food and fuel prices in December.
- Brent crude oil fell to **US\$77.04 per barrel**, sugar prices dropped to **US\$20.58 cents per pound** but gold prices rose to **US\$2,071.80 per fine ounce**.

Domestic Economy



- Fiji returned to pre-pandemic levels in 2023 due to the impressive tourism industry revival, and its positive impact on related sectors and national income and consumption.
- However, other sectoral performances have been weak, particularly, in the primary and natural resource sectors.

Labour Market



- Labour demand has risen, as indicated by higher job vacancies advertised and more formal employment.
- However, due to emigration, the labour market remains tight.
- Higher employment and wages have translated to improved incomes.

Consumption & Investment



- Consumption spending has been propelled by higher incomes and remittances.
- However, the momentum in investment activity was slow in 2023, partly due to higher prices of construction materials.

Financial Conditions



- With abundant liquidity and an accommodative monetary policy, lending rates remain at historical lows.
- The favourable interest rate environment, along with greater economic activity, supported lending to the private sector, which grew by **7.6 percent** in 2023.

Inflation



- Annual headline inflation rate was **5.1 percent** in December.
- Prices rose over the year for most categories, reflecting the higher import commodity prices as well as greater VAT and tariff rates.

Foreign Reserves



- Foreign reserves are comfortable at around **\$3.3 billion** (31/01), sufficient to cover **5.3 months** of retained imports of goods and services.

Risks



- **Global risks:** commodity and supply disruptions, persistent core inflation, property sector challenges in China.
- **Domestic risks:** negative impact of loss of labour on productivity, hotel capacity constraints and high prices, weak primary sector performance, slow materialisation of investments, natural disasters.

Monetary Policy



- Given that the outlook for inflation and foreign reserves remains within comfortable range, the RBF Board maintained the Overnight Policy Rate at **0.25 percent** in its first meeting of the year.



ECONOMIC REVIEW

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The global economy decelerated in 2023 amid restrictive financial conditions, dampened demand and heightened geopolitical tensions. According to the International Monetary Fund (IMF), growth fell from 3.5 percent in 2022 to 3.1 percent last year. However, expansion in the second half was stronger than expected in several economies while supply-side constraints and inflation eased faster than anticipated.

Given these positive developments, the IMF forecasts global growth to remain steady at 3.1 percent in 2024, a 0.2 percentage point upgrade to its October projection. Risks to the global outlook are now balanced. Upside risks to growth include a quicker disinflation that prompts an easing of monetary policy and financial conditions, and more favourable fiscal policy where higher public spending is used to prop up economic activity. In contrast, commodity supply disruptions, persistent core inflation and an escalation of property sector challenges in China could dampen growth or spur inflation.

Weak global demand and adequate commodity supply underpinned the general decline in food and fuel prices in December. The Brent crude oil price dropped to US\$77.04 per barrel at the end of the year as anaemic global manufacturing conditions constrained demand. World food prices measured by the FAO¹ Food Price Index also declined, led by lower prices of cereals, dairy, vegetable oils and meat, mainly due to abundant supply in global markets. Similarly, the world market sugar price fell to US\$20.58 cents per pound at the end of December alongside India's curb on ethanol production to boost sugar reserves and higher Brazilian output.

On the other hand, gold prices settled at a year-end high of US\$2,071.80 per fine ounce as investors expected the United States (US) Federal Reserve to cut rates in 2024 given the slowdown in inflation and activity.

Domestically, the economy returned to pre-pandemic levels in 2023 due to the impressive revival in the tourism industry, which positively catalysed activity in related sectors and supported the rise in national income and consumption. However, other sectoral performances have been weak, and investment is recovering at a slower pace.

Visitor arrivals totalled 929,740 in 2023, 46.1 percent higher than the year before and 4.0 percent above the 2019 level. Coupled with higher room rates, tourism earnings reached \$1.7 billion cumulative to September 2023, surpassing the corresponding 2019 level by 9.5 percent. On the other hand, industry-specific issues have negatively affected output in the primary and natural resource sectors. Adverse weather and operational challenges contributed to an annual decline of cane (-4.5%) and sugar (-10.4%) produced for the crushing season last year. Sawm timber (-23.7%), woodchips (-22.9%), mahogany (-16.4%), gold (-12.7%) and mineral water (-8.8%) production also fell in 2023 when compared to the year prior. However, electricity generated increased (3.6%) in the same period, in line with the economic rebound.

Furthermore, the tourism-led boost to overall economic activity, combined with the high emigration rate, has contributed to increased labour demand. The number of job vacancies

¹ Food and Agriculture Organisation

advertised in 2023 (22.8%) and formal employment numbers (cumulative to November 2023) have risen relative to their corresponding periods in 2022, mainly from more jobs in tourism-related and community, social & personal services sectors. However, due to emigration, the labour market remains tight, pushing wages paid upward cumulative to November last year. Subsequently, incomes have improved, with Pay As You Earn (PAYE) tax collections growing by 20.4 percent in 2023.

Complemented by inward remittances, which rose (20.4%) to \$1.25 billion in 2023, a new high and double the inflows in 2019, higher incomes have propelled aggregate demand, mainly consumption. This is evidenced by the annual growth in net Value Added Tax (VAT) collections (28.5%), which is partly due to the higher VAT rate, and commercial banks' new lending for consumption purposes (15.6%).

On the flip side, the momentum in investment activity last year was slow. While investment related lending by commercial banks noted a broad growth of 33.6 percent, the increase also reflects higher prices of construction materials, as seen in the growth of the building material price index by 7.6 percent in 2023.

Fiji's financial conditions are supportive of economic activity. With an accommodative monetary policy stance and abundant liquidity (30/01: \$2.0b), the weighted average outstanding lending rate reached another all-time low in December (4.77%). The favourable interest rate environment, along with greater activity in the economy, supported lending to the private sector, which grew by 7.6 percent in 2023 and upheld the expansion in domestic credit (9.3%) and broad money (10.7%). Improved activity and incomes also continue to increase the serviceability of loans, leading to a decline in commercial banks' non-performing loans in December.

On the twin monetary policy objectives, the annual headline inflation noted a 10-year-end peak of 5.1 percent in 2023, driven by higher prices for most categories, with the top three contributors being food & non-alcoholic beverages, transport and alcoholic beverages, tobacco & narcotics. The elevated inflation rate reflects higher import commodity prices as well as the increase in VAT and tariff rates from the current budget. The year-end annual inflation for 2024 is projected to moderate to around 3.0 percent as the impact of the Government's tax changes subsides and the positive impact from retreating global food and energy prices are realised.

Foreign reserves are comfortable at around \$3.3 billion (31/01), sufficient to cover 5.3 months of retained imports of goods and services. Foreign reserves are forecast to remain within adequate range over the medium term.

At the same time, risks to the domestic outlook are tilted to the downside. The loss of skilled and semi-skilled labour could negatively impact productivity while constraints in hotel capacity and high prices could weigh on the growth of tourism this year. Furthermore, below-potential primary sector performance, slow materialisation of private sector and Government's investment plans could be a drag on activity in 2024. The inherent risk of natural disasters and climate change also remains.

Nonetheless, given that the outlook for inflation and foreign reserves remains within comfortable range, the RBF Board maintained the Overnight Policy Rate at 0.25 percent in its first meeting of the year.

RESERVE BANK OF FIJI

KEY INDICATORS

	Dec-22	Sep-23	Oct-23	Nov-23	Dec-23
1. Sectoral Performance Indicators * (year-on-year % change)					
Visitor Arrivals	1,912.5	61.4	55.3	51.0	46.1
Electricity Production	15.1	4.4	3.8	3.6	3.6
Gold Production	-28.4	-13.0	-13.0	-13.4	-12.7
Cane Production	15.6	-16.0	-8.1	-4.5	n.a
Sugar Production	17.0	-23.7	-13.6	-10.4	n.a
Pinewood Production	-34.4	-43.1	-35.0	-33.1	-29.9
Woodchip Production	-43.4	-35.0	-27.8	-26.7	-22.9
Sawn Timber Production	31.6	-22.9	-25.0	-24.0	-23.7
Mahogany Production	11.1	-46.1	-29.4	-25.7	-16.4
Cement Production	19.0	4.4	0.2	-2.3	n.a
2. Consumption Indicators * (year-on-year % change)					
Net VAT Collections	83.6	25.1	27.6	28.1	28.5
New Consumption Lending	32.1	9.7	11.2	14.4	15.6
New Vehicle Registrations	29.2	29.4	32.6	37.1	n.a
Secondhand Vehicle Registrations	14.1	-28.3	-25.6	-24.9	n.a
Personal Remittances ^{1/}	23.1	22.2	21.8	21.7	20.4
Electricity Consumption	15.8	4.6	4.4	4.0	4.0
3. Investment Indicators * (year-on-year % change)					
Domestic Cement Sales	20.3	-2.6	-4.4	-4.9	n.a
New Investment Lending	28.7	27.5	33.7	29.5	33.6
4. Labour Market (year-on-year % change)					
RBF Job Advertisement Survey	140.1	32.3	30.3	24.5	22.8
5. Consumer Prices ** (year-on-year % change) ^{2/}					
All Items	3.1	2.5	4.0	5.8	5.1
Food and Non-Alcoholic Beverage	7.1	8.4	8.6	12.0	9.0
Alcoholic Beverages, Tobacco & Narcotics	-7.1	-5.6	-1.7	1.1	2.8
6. Reserves *** (end of period)					
Foreign Reserves (\$m) ^{3/}	3,430.6	3,564.6	3,487.2	3,401.5	3,361.3
Months of retained imports of goods and non-factor services (MOI)	6.2	6.0	5.9	5.8	5.7
7. Exchange Rates *** (End of period, F\$1 equals) (Index)					
US dollar	0.4228	0.4358	0.4329	0.4434	0.4517
Australian dollar	0.6653	0.6782	0.6792	0.6706	0.6608
New Zealand dollar	0.7105	0.7311	0.7413	0.7209	0.7132
Euro	0.4228	0.4125	0.4078	0.4041	0.4081
Japanese Yen	59.98	65.06	64.55	65.36	63.85
Nominal Effective Exchange Rate	84.73	84.73	84.75	85.52	85.59
Real Effective Exchange Rate	94.38	94.68	94.91	94.96	94.02
8. Liquidity *** (end of period)					
Banks' Demand Deposits (\$m)	2,413.5	2,377.7	2,287.2	2,173.9	2,128.4
9. Money and Credit *** (year-on-year % change)					
Broad Money	3.6	7.8	7.9	8.5	10.7
Net Foreign Assets	5.5	2.1	-0.6	0.8	1.8
Domestic Credit	5.2	6.7	7.2	7.0	9.3
Private Sector Credit	6.7	4.9	5.9	6.0	7.6
Narrow Money	8.3	10.5	10.1	10.9	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	5.20	4.90	4.84	4.78	4.77
Savings Deposit Rate	0.39	0.42	0.42	0.42	0.42
Time Deposit Rate	1.22	1.23	1.26	1.36	1.40
3 month Government T-Bills	n.i	n.i	0.03	0.03	n.i
12 month Government T-Bills	0.13	0.14	0.15	0.15	0.16
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	3.90	n.i
11. Commodity Prices **** (end of period)					
UK Gold Price/fine ounce (US\$)	1,826.2	1,866.1	1,994.3	2,057.2	2,071.8
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	20.0	26.5	27.1	26.0	20.6
Crude Oil/barrel (US\$)	85.9	95.3	87.4	82.8	77.0
FAO Food price index ^	131.8	121.5	120.6	120.3	118.5

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

^{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)