

# RBF MAY 2024 ECONOMIC REVIEW

## at a glance



### Global Economy

- Growth in Fiji's major trading partner economies slowed amid high inflation, restrictive interest rates, elevated government indebtedness, and geopolitical risks.

- Global crude oil and food prices continued to trend upward in April, while gold price hit a record high.
- Brent crude oil (**0.4%**), food (FAO food price index **0.3%**) and gold (**2.9%**) prices increased while sugar prices fell (**-13.8%**).

### Commodity Prices

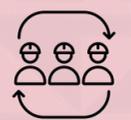


### Domestic Economy

- Visitor arrivals were higher by **7.7%** up to April 2024, driven by higher arrivals from Asia, USA, UK/Europe and NZ while the number of Australian visitors declined marginally.
- Sectoral outcomes were weak except for gold and electricity production.

- Labour market conditions remain tight from the continued outflow of skilled and experienced labour due to high emigration.

### Labour Market



### Consumption & Investment

- Consumption activity remains positive but has decelerated evidenced by slower growth in Net VAT collections and commercial banks' new lending for consumption purposes cumulative to April.
- While pipeline investments look encouraging, current private sector investments remain below potential due to some challenges, including labour shortages.

- Financial conditions remained conducive for growth, with liquidity ample at **\$1.9 billion (30/05)** keeping lending rates low despite the recent increase in term deposit rates.
- Private sector credit rose by **9.1** percent in April.

### Financial Conditions



### Inflation

- Annual headline inflation reached a decade high of **7.1%** in April (from **4.6%** in March).
- Higher prices were noted for food, alcoholic beverages, tobacco & narcotics, and transport.

- Foreign reserves are comfortable and estimated at around **\$3.1 billion (30/05)**, sufficient to cover **5.1** months of retained imports of goods and services.

### Foreign Reserves



### Risks

- **Global risks:** geopolitical tensions, rising commodity prices and uneven growth in major trading partners.
- **Domestic risks:** Labour loss due to higher emigration; proposed increase in minimum wage rate, if not supported by productivity could potentially raise the cost of doing business ; and adverse weather conditions.

- The current monetary policy stance is considered appropriate and the RBF Board maintained the Overnight Policy Rate at **0.25%** in its May meeting.

### Monetary Policy





## 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. 42

No. 05

Month Ended May 2024

In the first quarter of 2024, most of Fiji's key trading partner economies demonstrated resilient growth, while others diverged and showed signs of softening. However, growth may slow further if sticky inflation, high interest rates, elevated Government indebtedness, and geopolitical risks persist. Despite expectations, major central banks have maintained restrictive policy rates as their respective inflation rates remain above targets.

Global commodity prices noted mixed outcomes in April, with gold prices hitting a record high. Brent crude oil prices rose (0.4%) to US\$87.86 per barrel as the ongoing conflict in the Middle-East posed supply-side concerns. Global food prices also increased in April as the FAO<sup>1</sup> Food Price Index averaged higher (0.3%), owing to a consecutive rise in meat and vegetable oil prices. Gold prices surged to another month-end high (2.9%), settling at US\$2,302.90 per fine ounce, mainly attributed to central banks, particularly China and India, buying gold to diversify their foreign exchange reserves. In contrast, sugar prices fell (-13.8%) to an 18-month low at US19.41 cents per pound, underpinned by better supply prospects from major sugar-producing countries such as India, Thailand, and Brazil.

Domestically, the tourism sector continues to perform above expectations. Cumulative to April, Fiji received 271,683 visitors, 7.7 percent higher than the same period in 2023. Higher arrivals from Asia (60.4%), the United States of America (14.0%), the UK/Europe (13.5%), and New Zealand (12.2%) underpinned this growth outcome. However, arrivals from Australia, Fiji's largest source market, declined marginally by 0.4 percent to 123,491 visitors as Australian travel preference shifted to other destinations such as Indonesia and Japan.

In contrast, other sectoral performances have been weak due to industry-specific issues negatively affecting output. In the year to April, pinewood

supply (-43.1%), woodchips (-23.1%), sawn timber (-12.1%), mahogany (-16.7%) and mineral water (-16.2%) production fell. On a positive note, total gold (50.2%) increased, attributed to improvements in production by both Vatukoula Gold Mine Limited and Tuvatu Gold Mine. Moreover, electricity production (9.4%) grew in line with demand in the review period.

Labour market conditions remain tight from the continued outflow of skilled and experienced labour due to high emigration. In the year to April, the total number of jobs advertised grew by 8.7 percent to 5,351 vacancies from the 23.6 percent increase noted in the same period last year. Wage levels have increased based on monitored indicators and as per the Reserve Bank of Fiji's (RBF) recent Business Expectations Survey.

Higher recruitment intentions have also translated to an increase in income levels, as seen by higher Pay as You Earn (PAYE) tax collections (19.4% cumulative to April). Furthermore, remittances noted a strong but slower growth (from the same period last year) cumulative to March (14.3%), supplementing income.

In terms of labour supply, Fiji resident departures for the first four months of the year noted a slight decline (-8.8% to 5,194 people) but remains higher than pre-pandemic levels. In particular, the number of Fijians who left for employment (-4.8%), education/training (-5.5%), migration (-3.6%) and other (-31.6%) purposes fell in the review period.<sup>2</sup> The slight slowdown in Fiji's emigration numbers may be attributed to the recent tightening of student and work visa rules in Australia and New Zealand. Nonetheless, the continuous outflow of Fijians will have an incremental impact on aggregate demand.

Consumption activity remains positive, yet the cost of living pressures and continued high emigration are

<sup>1</sup> Food and Agriculture Organisation.

<sup>2</sup> Resident departure for the duration of 1 year and above.

stalling its momentum. The RBF Retail Sales Survey findings indicate a deceleration in consumption spending this year. Latest partial indicators suggest that domestic demand slowed, evidenced by a lower 36.0 percent growth in Net VAT collections in the year to April, compared to a 44.5 percent growth in the comparable period in 2023. On the other hand, low interest rates supported increased credit demand as lending for consumption purposes<sup>3</sup> rose cumulative to April (10.8%), primarily driven by the households (36.4%) and wholesale, retail, hotels, & restaurants (6.9%) sectors.

While pipeline investments look encouraging, current private sector investments remain below potential due to some challenges, including labour shortages. Commercial banks' new lending for investment purposes<sup>4</sup> grew by 5.1 percent in April compared to the 42.0 percent growth in the same period last year. Lending to the real estate sector (-4.0%) fell while the building & construction (34.3%) and private individuals (0.7%) categories grew. The rebound in new lending to the building & construction sector in April is in line with construction activity as domestic cement sales increased (11.7%) compared to the same period last year.

Financial conditions remained conducive for growth, with liquidity ample, at \$1.9 billion (30/05), keeping lending rates low despite the recent increase in term deposit rates. Credit to the private sector grew 9.1 percent in April compared to 5.7 percent a year ago, underpinned by increased lending to households (9.6%) and business entities (8.7%).

Annual headline inflation reached a decade-high of 7.1 percent in April, much higher than the 4.6 percent from the previous month and 1.4 percent in the same period a year ago. Prices over the year were higher in the food<sup>5</sup> (4.5pp), alcoholic beverages, tobacco & narcotics<sup>6</sup> (1.1pp) and transport<sup>7</sup> (0.7pp) categories,

reflecting a surge in the prices of agricultural produce impacted by weather conditions and the pass-through of tax increases. While inflation is expected to moderate once the full impact of the VAT increase tapers off in August, the RBF will closely monitor the effect of wage demand on inflation.

Foreign reserves are adequate at around \$3.1 billion (30/05), sufficient to cover 5.1 months of retained imports of goods and services and are forecast to remain adequate over the near to medium term.

While the growth outlook remains positive, weak primary sector outcomes and soft consumption and investment activity are likely to weigh on Fiji's growth projection for this year amid risks emerging from both global and domestic factors. On the global front, economic uncertainties persist with several downside risks including heightened geopolitical tensions, rising commodity prices and uneven growth amongst trading partners.

Domestically, the proposed increase in the minimum wage rate, if not supported by increased productivity, will potentially raise input costs for businesses and soften economic activity while impeding on hiring intentions, work hours, and the adoption of unethical labour practices. Furthermore, a decline in the working-age population due to higher emigration will have negative implications for domestic demand in the economy. The inherent risk of natural disasters and climate change remains.

Considering the outlook and the risks on RBF's twin objectives, it was deemed necessary to maintain the current monetary policy stance, to support the slowing economy. As such, the RBF Board maintained the Overnight Policy Rate at 0.25 percent in its May meeting.

## **RESERVE BANK OF FIJI**

---

<sup>3</sup> Excluding re-financing.

<sup>4</sup> Excluding re-financing.

<sup>5</sup> The major items that drove higher prices were vegetables (cassava, dalo), fruits (coconuts, pawpaw), bread & cereals (long grain rice) and meat (whole chicken and lamb sausages).

<sup>6</sup> Higher prices were noted for pounded kava, cigarettes, spirits, and local beer.

<sup>7</sup> The price pressure for this category is from higher bus fares. In August 2023, the bus fare subsidy was removed, resulting in consumers facing a 10 per cent increase in bus fares across the board. Petrol and diesel prices also increased in the review period.

## KEY INDICATORS

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Visitor Arrivals	163.9	4.2	9.0	10.9	7.7
Electricity Production	10.2	3.9	9.7	8.9	9.4
Gold Production	-24.2	68.1	41.4	40.4	50.2
Cane Production	n/a	n/a	n/a	n/a	n/a
Sugar Production	n/a	n/a	n/a	n/a	n/a
Pinewood Production	-55.8	-48.5	-1.2	-41.6	-43.1
Woodchip Production	-46.4	-100.0	-45.5	-19.8	-23.1
Sawn Timber Production	-34.1	-100.0	-24.3	25.5	-12.1
Mahogany Production	-35.2	133.4	24.5	-22.9	-16.7
Cement Production	-0.5	42.2	3.3	39.3	7.5

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Net VAT Collections	44.5	34.6	37.7	30.8	36.0
New Consumption Lending	22.7	-7.2	-4.1	13.4	10.8
New Vehicle Registrations	20.2	30.9	23.9	13.3	17.6
Secondhand Vehicle Registrations	-32.1	28.1	27.7	26.1	31.8
Personal Remittances <sup>1/</sup>	26.3	2.7	11.1	14.3	n.a
Electricity Consumption	9.5	9.0	10.1	6.9	n.a

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Domestic Cement Sales	-1.0	11.3	12.8	12.3	11.7
New Investment Lending	42.0	-24.3	0.7	-18.7	5.1

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
RBF Job Advertisement Survey	23.6	29.7	15.3	15.6	8.7

**5. Consumer Prices \*\***  
(year-on-year % change)<sup>2/</sup>

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
All Items	1.4	3.6	4.6	4.6	7.1
Food and Non-Alcoholic Beverage	4.8	3.4	6.8	7.3	12.2
Alcoholic Beverages, Tobacco & Narcotics	-9.5	5.4	4.3	4.5	8.2

**6. Reserves \*\*\***  
(end of period)

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Foreign Reserves (\$m) <sup>3/</sup>	3,310.2	3,297.9	3,183.4	3,146.8	3,144.6
Months of retained imports of goods and non-factor services (MOI)	5.6	5.3	5.1	5.1	5.1

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
US dollar	0.4453	0.4427	0.4397	0.4388	0.4384
Australian dollar	0.6717	0.6705	0.6768	0.6716	0.6675
New Zealand dollar	0.7251	0.7218	0.7209	0.7308	0.7331
Euro	0.4038	0.4082	0.4056	0.4052	0.4088
Japanese Yen	59.64	65.36	66.25	66.40	68.45
Nominal Effective Exchange Rate	84.64	85.59	85.58	85.6	85.6
Real Effective Exchange Rate	92.27	95.99	93.81	93.4	95.5

**8. Liquidity \*\*\***  
(end of period)

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Banks' Demand Deposits (\$m)	2,342.1	1,991.6	1,929.2	1,896.1	1,853.9

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Broad Money	5.7	7.1	7.3	9.0	7.7
Net Foreign Assets	8.8	-1.5	-1.0	-3.3	-5.9
Domestic Credit	5.2	8.0	7.8	10.2	9.6
Private Sector Credit	5.7	8.0	7.8	8.9	9.1
Narrow Money	9.5	7.1	7.9	9.5	7.6

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

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
Overnight Policy Rate <sup>5/</sup>	0.25	0.25	0.25	0.25	0.25
Repurchase Rate <sup>5/</sup>	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	5.05	4.75	4.75	4.72	4.70
Savings Deposit Rate	0.41	0.42	0.44	0.42	0.43
Time Deposit Rate	1.14	1.42	1.48	1.55	1.60
3 month Government T-Bills	n.i	0.03	0.05	0.10	n.i
12 month Government T-Bills	n.i	0.17	0.20	0.25	0.30
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)

	Apr-23	Jan-24	Feb-24	Mar-24	Apr-24
UK Gold Price/fine ounce (US\$)	1,999.1	2,067.4	2,054.7	2,238.4	2,302.9
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	26.4	24.1	21.7	22.5	19.4
Crude Oil/barrel (US\$)	79.5	81.7	83.6	87.5	87.9
FAO Food price index <sup>^</sup>	128.7	117.7	117.4	118.8	119.1

**Note:**<sup>1/</sup> Personal Remittances are inclusive of international mobile money receipts.<sup>2/</sup> 2014 rebase. Previous data had 2011 as its base.<sup>3/</sup> 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.<sup>5/</sup> Not weighted average.

m - Millions

n.i - No Issue

n.a - Not Available

n/a - Not Applicable

n.t - No Trading

**Sources:**

\* Various Industry Sources

\*\* Fiji Bureau of Statistics

\*\*\* Reserve Bank of Fiji

\*\*\*\* Bloomberg

<sup>^</sup> Food and Agriculture Organisation (FAO)