



# RBF JULY 2024 ECONOMIC REVIEW

## at a glance



### Global Economy

- Global growth in 2024 is forecast to remain unchanged at **3.2%** (July IMF WEO report).
- While global risks remain broadly balanced, challenges to disinflation in advanced economies and economic policy uncertainty continue to weigh on the near-term growth momentum.

- Lower crude inventories and OPEC output cuts led to a rebound (**5.9%**) in crude oil prices at June-end.
- The FAO food price index remained unchanged at an average of **120.6 points** in June.
- In June, sugar prices rose (**10.9%**) while gold prices fell slightly (**-0.3%**) as a hawkish Federal Reserve stance faded interest rate cut expectations.

### Commodity Prices

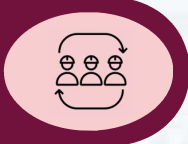


### Domestic Economy

- The tourism industry sustained its positive momentum as arrivals expanded by **7.0%** in the first half of the year.
- Cane (**16.6%**) and sugar (**33.1%**) output noted positive outcomes in the first six weeks of the crushing season.
- Gold (**33.5%**) and electricity (**10.7%**) production increased while output in the timber industry remain muted in the year to June.

- Cumulative to June, advertised jobs contracted (**-1.1%**).
- Resident departures (for a year or more) declined over the same period (**-32.9%** to **6,954** citizens) but still higher compared to pre-pandemic level.
- PAYE collections grew (**28.6%**) implying improved wages in the year to June.

### Labour Market



### Consumption & Investment

- Consumption activity remained positive supported by higher tourist demand, personal remittances (cumulative to May: **5.2%**) and improved disposable incomes.
- Investment activity is gradually improving albeit at a slow pace.

- Ample liquidity in the banking system continue to support low interest rates (30/07 **\$2.1b**).
- Private sector credit expanded by **11.3%** in June, the highest since July 2017.

### Financial Conditions



### Inflation

- Annual headline inflation rate was **6.7%** in June.
- Higher prices were noted in the food & non-alcoholic beverages, alcoholic beverages, tobacco & narcotics, transport, housing utilities and restaurants categories.

- Foreign reserves remain stable at **\$3.6 billion** (31/07), sufficient to cover **5.8** months of retained imports of goods and services.

### Foreign Reserves



### Risks

- **Globally**, continued geopolitical tensions, strong labour demand and soft output growth in Fiji's trading partners and volatile commodity price movements could weigh on the current outlook.
- **Domestically**, adverse weather conditions, climate change, skilled labour migration, aging infrastructure and capacity constraints remain as downside risks to the outlook.

- Stable medium-term outlook for inflation and foreign reserves.
- The RBF Board maintained the Overnight Policy Rate at **0.25%** in its July 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.

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While global risks remain broadly balanced challenges to disinflation in advanced economies and economic policy uncertainty are key concerns weighing on the near-term growth momentum. In its July 2024 World Economic Outlook (WEO), the International Monetary Fund kept the global growth forecast for 2024 unchanged at 3.2 percent (from April WEO).

The steady outlook is supported by offsetting growth revisions. Increased private consumption and strong exports growth in China combined with improved consumption prospects in India and stabilising activity in the Euro Area have prompted forecast upgrades in these economies. On the other hand, slowing consumption in the United States (US) and temporary supply chain disruptions in Japan led to a downgrade in their growth forecasts. For 2025, growth has been revised marginally upward to 3.3 percent on account of improved prospects in emerging market and developing economies.

Commodity prices noted mixed outcomes in June. Lower US crude inventories and OPEC<sup>1</sup> output cuts led to a rebound in Brent Crude oil prices (5.9%), settling at \$86.41 per barrel at June-end despite Russia's higher production. Food prices monitored via the FAO<sup>2</sup> Food Price Index were unchanged at an average of 120.6 points in June, as increases in vegetable oils, sugar and dairy prices offset the decline in cereal

and meat indices. Moreover, the spread of a fungus crop disease in India's key sugar producing region dampened supply prospects and drove sugar prices higher (10.9%) to US20.30 cents per pound at June-end. Conversely, gold prices weakened (-0.3%) closing at US\$2,339.60 per fine ounce at June-end as a hawkish Federal Reserve stance faded interest rate cut expectations.

On the domestic front, recent economic data showed varied outcomes in the review period. The tourism industry sustained its positive momentum into its peak season. In the first half of the year, visitor arrivals grew by 7.0 percent to 447,155 visitors led by higher arrivals mostly from New Zealand (1.5pp), the US (1.4pp), China (1.3pp), Australia (1.1pp), and the Pacific Island Countries (0.7pp). Also, arrivals from our traditional source market, Australia, have improved as opposed to the weak turnout noted in the first quarter of the year. Moreover, the anticipated new direct flight route linking Fiji to the greater US territory is expected to further stimulate tourism in Fiji.

Sectoral outputs noted mixed outcomes. In the first six weeks of the crushing season (ending 15 July), the sugar industry revealed positive results for both cane (16.6%) and sugar (33.1%) production. Cumulative to June gold production expanded annually (33.5%) attributed to improved drilling works by Tuvatu and Vatukoula gold mines that resulted in high-grade ore. Electricity generation also rose (10.7%)

<sup>1</sup> Organisation of the Petroleum Exporting Countries.

<sup>2</sup> Food and Agriculture Organisation.

over the same period with improved energy supply via renewable sources. Turning to the timber industry, cumulative outcomes to June remain muted across related production categories. However, positive results were noted over the month in June for pinewood supply (81.7%), woodchips (66.3%) and sawn timber (19.6%) production, emanating from conducive weather conditions and increased efforts amid an upswing in export demand. In the same vein, mineral water production (-16.8%) remained weak in the review period owing to ongoing calibration works in the newly expanded facility which limited production recovery.

Labour market pressures have eased slightly but remain tight. In the first half of the year, the number of job vacancies fell by 1.1 percent (to 7,762 vacancies), with lower recruitment intentions noted in the community, social & personal services (-4.0pp), electricity & water (-2.5%), wholesale & retail trade (-1.3pp) and finance & real estate (-1.0pp) sectors. This downward trend may suggest that businesses are adjusting hiring strategies amidst higher input costs. However, job openings for the agriculture, forestry & fishing (4.5pp), construction (3.4pp), and transport, storage & communication (+0.6pp) sectors remain high.

Moreover, disposable incomes have increased as reflected by higher Pay As You Earn (28.6%) collections in the year to June, indicating retention efforts by businesses given the ongoing skilled labour migration and high cost of living environment. Resident departures (for a year or more) for employment, education, emigration and other purposes noted an annual contraction (-32.9% to 6,954 citizens) cumulative to June but were still higher compared to pre-pandemic levels.

Consumption activity stayed positive in the review period despite higher prices, supported by higher tourist demand, personal remittances and improved incomes. Cumulative to June, net

Value Added Tax (VAT) collections was higher (38.3%) relative to a year ago driven largely by the higher VAT rate. Over the same period, new consumption credit by commercial banks also increased (24.1% excluding refinancing) mirroring increased appetite for fresh loans. Similarly, inflow of remittances rose (5.2%) in the year to May, implying a steady complement to incomes of domestic beneficiaries for consumption. Additionally, the wholesale & retail trade (WRT) survey also noted annual growth (3.7%) over the March 2024 quarter although lower compared to the same period in 2023. Nonetheless, the real growth in WRT only increased by 0.3 percent in the same quarter due to higher prices.

Investment spending is gradually improving albeit at a slow pace. Commercial banks' new loans for investment purposes expanded (20.3% excluding refinancing) in the year to June, while reflecting higher prices, it also infers somewhat of a recovery in investor confidence. In tandem, domestic cement sales – a proxy indicator for construction activity also increased annually (9.7%) over the same period. However in the first quarter of 2024, the value of work put-in-place noted a contraction (16.9%). In the quarter, the number (195.5%) and value (63.9%) of building permits issued noted yearly increases, suggestive of increased construction activity ahead.

On the upside, the initiatives announced in the fiscal year 2024-25 National Budget is expected to support consumption and investment activity and in turn economic growth.

The financial sector remains conducive to growth. Ample liquidity in the banking system (\$2.1 billion as of 30/07) contributed to maintaining low interest rates with the commercial banks' weighted average outstanding lending rate at 4.68 percent in June. In tandem, private sector credit rose by 11.3 percent mostly mirrored by uptakes from private sector business entities and households.

In the year to April, the merchandise trade deficit<sup>3</sup> widened slightly by an annual 0.6 percent to \$1,391.3 million. This outturn is attributed to a 2.5 percent rebound in imports (\$50.3m) which more than offset a 6.3 percent growth in exports (\$42.0m).

The annual headline inflation rate increased to 6.7 percent in June from 5.8 percent in May. Higher prices were noted in the food & non-alcoholic beverages, alcoholic beverages, tobacco, and narcotics, transport, housing utilities and restaurants categories. While inflation is expected to moderate from August 2024 after the impact of VAT increase drops-out from the base effect, it is forecast to remain around 4-5 percent by end 2024.

As of 31 July, foreign reserves stand at around \$3.6 billion, which is sufficient to cover 5.8 months of retained imports of goods and services and are projected to remain adequate over the medium term.

Risks associated with global geopolitical tensions, strong labour demand and soft growth in Fiji's trading partner economies, and volatile commodity price movements is likely to weigh on the current outlook. Domestic risks such as adverse weather conditions, climate change, skilled labour migration, aging infrastructure and capacity constraints remain downside risks to the outlook.

Given the stable medium-term outlook for inflation and foreign reserves, the RBF Board decided in its July meeting to maintain the Overnight Policy Rate at 0.25 percent to support economic growth.

## **RESERVE BANK OF FIJI**

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<sup>3</sup> Excluding aircraft.

	Jun-23	Mar-24	Apr-24	May-24	Jun-24
<b>1. Sectoral Performance Indicators *</b> (year-on-year % change)					
Visitor Arrivals	103.3	10.9	7.7	8.3	7.0
Electricity Production	7.2	8.9	9.4	10.3	10.7
Gold Production	-14.7	40.4	50.2	41.7	33.5
Cane Production	-24.6	n/a	n/a	n/a	35.4
Sugar Production	-42.0	n/a	n/a	n/a	75.8
Pinewood Production	-57.3	-41.6	-43.1	-36.5	-32.3
Woodchip Production	-41.7	-19.8	-23.1	-31.9	-10.6
Sawn Timber Production	-21.0	25.5	-12.1	-15.0	-3.7
Mahogany Production	-42.7	-22.9	-16.7	-3.8	-4.7
Cement Production	-2.6	39.3	7.5	15.1	8.6
<b>2. Consumption Indicators *</b> (year-on-year % change)					
Net VAT Collections	30.4	30.8	36.0	38.4	38.3
New Consumption Lending <sup>1/</sup>	20.9	13.4	10.8	9.6	24.1
New Vehicle Registrations	24.5	13.3	17.6	15.2	8.2
Secondhand Vehicle Registrations	-32.6	26.1	31.8	31.5	30.6
Personal Remittances	26.6	14.3	6.2	5.2	n/a
Electricity Consumption	8.3	10.1	8.7	9.2	n/a
<b>3. Investment Indicators *</b> (year-on-year % change)					
Domestic Cement Sales	0.7	12.3	11.7	10.4	9.7
New Investment Lending <sup>1/</sup>	35.2	-18.7	5.1	10.2	20.3
<b>Building &amp; Construction</b>					
Completion Certificates Issued					
Number	-28.0	175.0	n/a	n/a	n/a
Value	-3.2	168.6	n/a	n/a	n/a
Building Permits Issued					
Number	-12.4	195.5	n/a	n/a	n/a
Value	-23.8	63.9	n/a	n/a	n/a
Value of work put in place	16.3	-16.9	n/a	n/a	n/a
<b>4. Labour Market</b> (year-on-year % change)					
RBF Job Advertisement Survey	35.1	16.5	9.3	-2.5	-1.1
Resident Departure <sup>2/</sup>	-8.9	-4.8	-8.8	-24.9	-32.9
<b>5. Consumer Prices **</b> (year-on-year % change) <sup>3/</sup>					
All Items	0.9	4.6	7.1	5.8	6.7
Food and Non-Alcoholic Beverage	9.0	7.3	12.2	7.7	10.1
Alcoholic Beverages, Tobacco & Narcotics	-7.5	4.5	8.2	7.7	8.5
<b>6. Reserves ***</b> (end of period)					
Foreign Reserves (\$m) <sup>4/</sup>	3,482.4	3,146.8	3,144.6	3,194.1	3,304.5
Months of retained imports of goods and non-factor services (MORI) <sup>5/</sup>	5.6	5.1	5.1	5.2	5.4
<b>7. Exchange Rates ***</b> (End of period, FS1 equals) (Index)					
US dollar	0.4424	0.4388	0.4384	0.4414	0.4411
Australian dollar	0.6684	0.6716	0.6675	0.6674	0.6634
New Zealand dollar	0.7285	0.7308	0.7331	0.7216	0.7249
Euro	0.4072	0.4052	0.4088	0.4087	0.4121
Japanese Yen	64.07	66.40	68.45	69.60	70.92
Nominal Effective Exchange Rate	84.73	85.56	85.55	85.63	83.10
Real Effective Exchange Rate	93.44	93.45	95.48	94.55	93.47
<b>8. Liquidity ***</b> (end of period)					
Banks' Demand Deposits (\$m)	2,476.8	1,896.1	1,853.9	1,918.9	1,919.3
<b>9. Money and Credit ***</b> (year-on-year % change)					
Broad Money	8.5	9.2	7.7	7.3	7.5
Net Foreign Assets	4.8	-3.2	-5.8	-8.0	-9.2
Domestic Credit	8.6	10.1	9.6	10.2	11.1
Private Sector Credit	6.1	8.9	9.1	10.2	11.3
Narrow Money	11.2	9.8	7.7	6.9	8.8
<b>10. Interest Rates (%) ***</b> (monthly weighted average)					
Overnight Policy Rate <sup>6/</sup>	0.25	0.25	0.25	0.25	0.25
Repurchase Rate <sup>6/</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	4.99	4.72	4.70	4.67	4.68
Savings Deposit Rate	0.42	0.42	0.43	0.31	0.31
Time Deposit Rate	1.15	1.55	1.60	1.62	1.52
3 month Government T-Bills	0.03	0.10	n.i	n.i	n.i
12 month Government T-Bills	0.13	0.25	0.30	0.93	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
<b>11. Commodity Prices ****</b> (end of period)					
UK Gold Price/fine ounce (US\$)	1,929.4	2,238.4	2,302.9	2,345.8	2,339.6
CSCE No. 11 Sugar Spot Price/Global (US cents/pound)	22.9	22.5	19.4	18.3	20.3
Crude Oil/barrel (US\$)	74.9	87.5	87.9	81.6	86.4
FAO Food price index <sup>^</sup>	123.1	119.0	119.3	120.6	120.6

Note:  
<sup>1/</sup> Excludes refinancing  
<sup>2/</sup> Includes resident departures for a year or more.  
<sup>3/</sup> 2014 rebased. Previous data had 2011 as its base.  
<sup>4/</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> MORI cover is based on the Macroeconomic Committee forecast as of June 2024.  
<sup>6/</sup> Not weighted average.  
m - Millions  
n.t - No Issue  
n.a - Not Available  
n/a - Not Applicable  
n.i - No Trading  
Sources:  
\* Various Industry Sources  
\*\* Fiji Bureau of Statistics  
\*\*\* Reserve Bank of Fiji  
\*\*\*\* Bloomberg  
^ Food and Agriculture Organisation (FAO)