



WESTPAC **WAVE**

**Fiji Quarterly Economic Update
October 2022**

A record double-digit growth forecast for 2022

EXECUTIVE SUMMARY

- Globally, the last few months have continued to be volatile for markets which have taken their cues from aggressive monetary tightening and inflation-fighting rhetoric from major central banks. Fading fears of supply disruptions from the Ukrainian crisis and rising fears that central banks will raise interest rates more aggressively to squeeze out inflation have increased the risk of a recession in 2023, driving a correction in commodity prices. Additionally, a rising cost base and increasing uncertainty about energy demand, given strengthening global efforts to meet net zero emissions targets, have seen investment lag behind prices.
- In Fiji, reopening momentum after emerging from the Covid lockdowns of last year is strongly evident in 2022. Consumer spending is showing strong gains this year, despite some Covid disruptions early in the year. The economy's underlying strength remains the recovery of the tourism industry, where conditions continue to be robust. While this dynamic has further to run and will likely drive strong growth this year, a significant inflation challenge is now affecting households, pointing to a marginal loss of economic momentum from mid-2022 to 2023.
- As such, while we continue to expect the Fijian economy to make a double-digit rebound in 2022, following three consecutive years of economic contraction, we have slightly marked down the growth outcomes. Real GDP is now forecast to expand by 12.7 percent in 2022, 0.2 percentage points lower than the 12.9 percent anticipated earlier. This solid outcome is driven by strong consumer spending, a reopening effect, and is supported by an earlier stimulus which is now somewhat affected by the adverse effects of ongoing high inflation.
- For 2023, on the back of tourism activity returning to pre-pandemic levels earlier than expected, spillover effects from the 2022/23 National Budget, moderation in inflationary pressures, and with the assumption of a successful general election in Fiji, thereby boosting business and consumer confidence, we forecast a 9.5 percent growth for the Fijian economy. For 2024, output growth of 5.0 percent is anticipated.
- Fiji's external and financial sectors remain stable, consistent with the recovery in the domestic economy. Despite the rise in commodity prices resulting in an increased import bill and pressure on reserves, foreign reserves are at comfortable levels and is expected to remain so in the medium term with increased tourism receipts and a strong influx of personal remittances. System liquidity is at high levels with historic low interest rates.
- Overall, while Fiji is making good strides in its recovery process and has implemented strategies to normalise economic activity, challenges and risks remain. The main challenge right now is to continue to grow the economy while keeping inflation contained as the impact of the Russia-Ukraine war continues to weigh on broadening price pressures that threaten real income and consumer demand. Natural disasters and the upcoming general election also pose some downside risks to the growth outlook and could derail the expected recovery of the Fijian economy. Nonetheless, for now, Fiji is well placed for a double-digit growth outcome in 2022.

For enquiries:

Contact Westpac Fiji

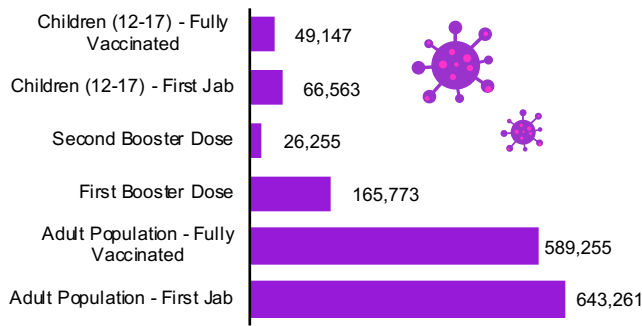
Krishal Prasad, Senior Economist

Email: krishalprasad@westpac.com.au

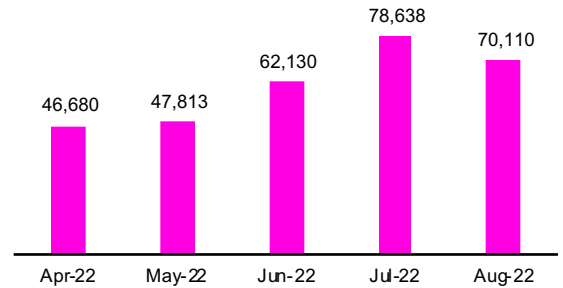
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Fiji's Current Economic Conditions in a Nutshell

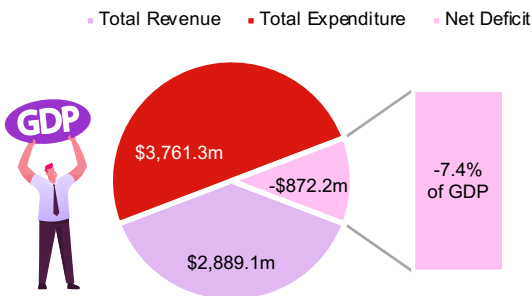
The COVID-19 situation in Fiji is improving and vaccine administration continues...



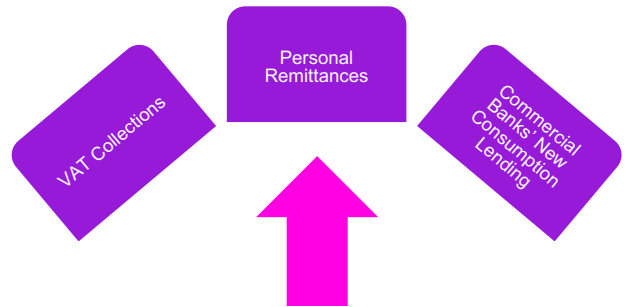
...on the back of which the tourism industry is thriving with a record number of arrivals over the past few months...



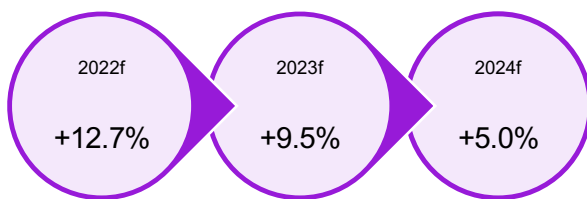
...closely supported by fiscal stimulus by the Government...



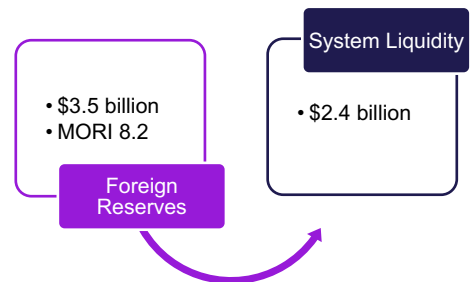
...leading to a boost in consumption activity...



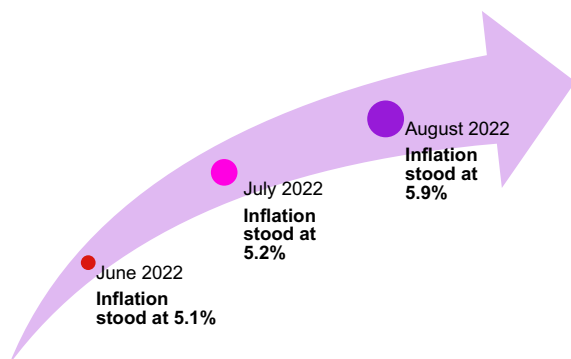
...as such, a solid economic recovery is now projected for the medium term...



...with stable financial and external sector outcomes...



...however, inflationary pressures continue to weigh on the economy...



...while other risks also remain.

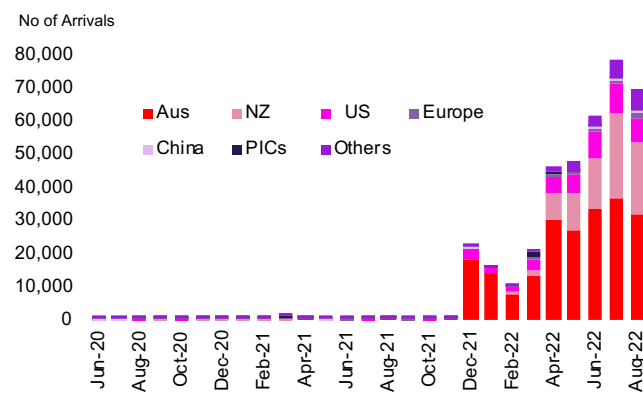


Fijian economy will end the year on a high note

The COVID-19 situation, both globally and domestically, has improved since it was first declared a pandemic in February 2020. While the pandemic is not over, as a lot is still being done to co-exist with it, countries across the world are adjusting to life in the new normal. Globally, as at September 2022, there have been more than 611 million confirmed cases of COVID-19, including more than 6.5 million deaths, reported to the World Health Organization. While small outbreaks have become common, widespread vaccination has assisted in easing most, if not all, COVID-19 restrictions, the most important one being the reopening of international borders by many countries. In Fiji, the number of active COVID-19 cases has greatly subsided, with a significant portion of the eligible population now fully vaccinated. The first and second booster dose administration has also gained pace. Thus, the country seems to be adapting well to the reality of COVID-19, making good progress on returning social and economic life to the pre-pandemic normal.

Since Fiji's international borders reopened in December 2021, the tourism industry has shown tremendous improvement, paving the way for an economic recovery. There have been many positive developments in the last three months in the tourism industry, such as visitors no longer required to book a pre-paid COVID-19 Rapid Antigen Test before travelling; the introduction of direct flights to Canada; the reopening of Hong Kong borders, traditionally a key market for Fiji Airways; and the arrival of the first big leisure group of overseas Chinese-speaking travellers to Fiji¹ since the beginning of the pandemic. Fiji also became the first country to join 'BeReal'², catering to a growing demand for more realistic social content by launching its account on the hugely popular social media app. All these developments boost the demand for Fiji as a unique travel destination in the post-pandemic world. According to Tourism Fiji, demand from Australia and the United States has been strong despite ticket prices being above pre-pandemic levels to cover higher fuel costs. Fiji Airways expects to reach nearly 100 percent of its pre-pandemic capacity by the end of the year, as travel demand has rebounded strongly.

Chart 1: Visitor Arrivals by major source markets to Fiji



Source: Fiji Bureau of Statistics

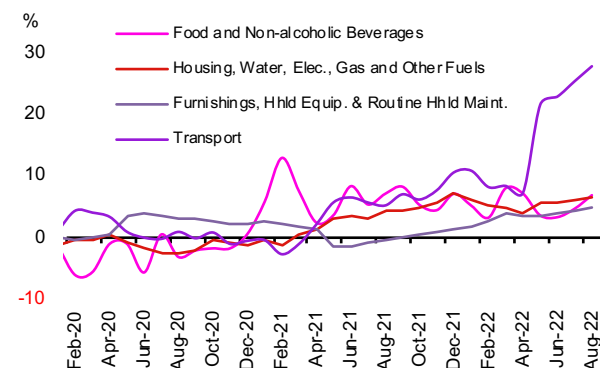
Consistent with robust demand in the economy, improvement in employment, ongoing fiscal and monetary support, and year-to-date sectoral outcomes, the **Fijian economy is well on track to rebound in 2022**. We expect real GDP to grow by 12.7 percent this year, led by a turnaround in most sectors of the economy, particularly those linked to the tourism sector. Compared to our last quarterly update, the growth in real GDP has been revised marginally lower due to the impact of higher consumer prices. While the 2022/23 Fiji National Budget, through its inflation mitigation package, helps the vulnerable Fijian, given that the rise in prices is

supply-driven, inflation continues to affect people's lives and puts a slight dent in growth prospects. Nonetheless, for 2023, we anticipate further growth of 9.5 percent with spillover effects from the National Budget, expected positive outcomes of the general election, combined with ongoing recovery in the tourism sector. The Fijian economy is forecasted to moderate slightly in 2024 and grow by around 5.0 percent.

Fiji's financial and external sectors remain stable on the back of record levels of system liquidity and foreign reserves, and it is expected to remain so in the medium term. The latest data show that the out-turns in the financial sector are aligned with improvements noted in the domestic economy. Credit growth in the system has rebounded and continues to grow gradually, led by higher lending by commercial banks and other financial institutions. Liquidity in the banking system remains high, which has kept interest rates at historic lows. As at 17 October 2022, banking system liquidity stood at above \$2.5 billion, supported by foreign reserves, which stand at above \$3.5 billion, sufficient to cover more than 8.3 months of retained imports. Foreign reserves are projected to remain comfortable in the medium term, supported by increased tourism receipts and ongoing strong inflow of personal remittances and once again on the back of borrowings as the government gross deficit will be financed through multilateral and bilateral development partners. Subsequently, liquidity in the banking system is also expected to remain at comfortable levels in the medium term.

On the price front, the global economic impact of the Russia-Ukraine war continues and has resulted in higher commodity prices, leading to broadening inflationary pressures across the globe, including in Fiji. In August, annual headline inflation stood at 5.9 percent, led by higher prices for food, transport & fuel and utility bills. Going forward, prices for consumer durables are expected to increase further with the ongoing impact of the war combined with ongoing supply chain disruptions, sustained global and domestic demand, and elevated shipping costs. Inflation is expected to moderate next year.

Chart 2: Major drivers of Inflation



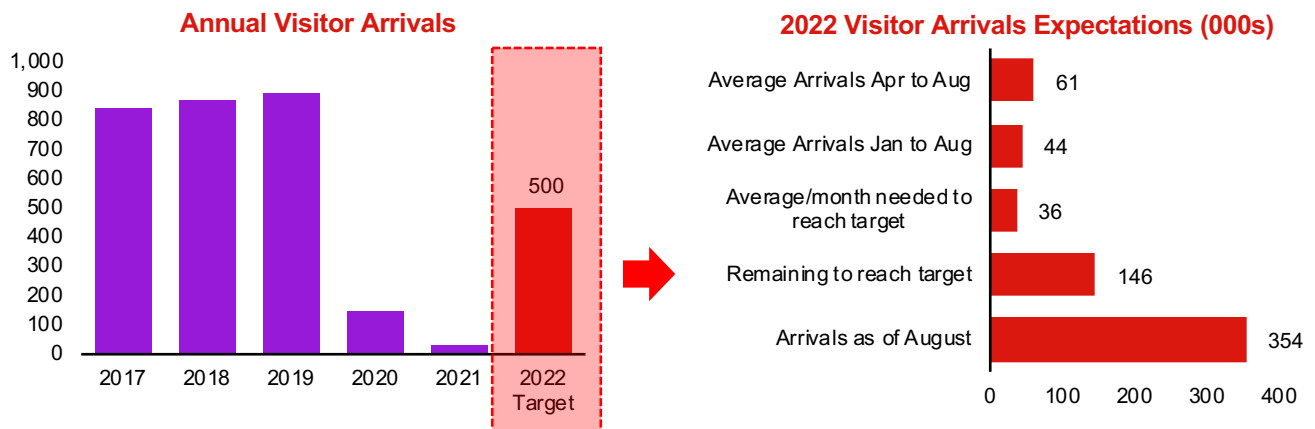
Source: Fiji Bureau of Statistics

Overall, while Fiji is adapting to a world with COVID-19 and has implemented strategies to normalise economic activity, challenges and risks remain. The Russia-Ukraine war has resulted in ongoing supply-side issues that could weigh heavily on business confidence and investment, and broadening price pressures could threaten real income and consumer demand. Natural disasters and the upcoming general election also pose some downside risks to the growth outlook and could derail the expected recovery of the Fijian economy.

¹The group consists of high-end Chinese retirees among the Chinese community from New Zealand, and it is part of the 'Find Your Bula in Fiji' campaign introduced by Tourism Fiji, with key global Chinese agents around the world. The campaign aims to maintain Fiji's position as a premier leisure destination in the global Chinese market and attract Chinese-speaking travellers.

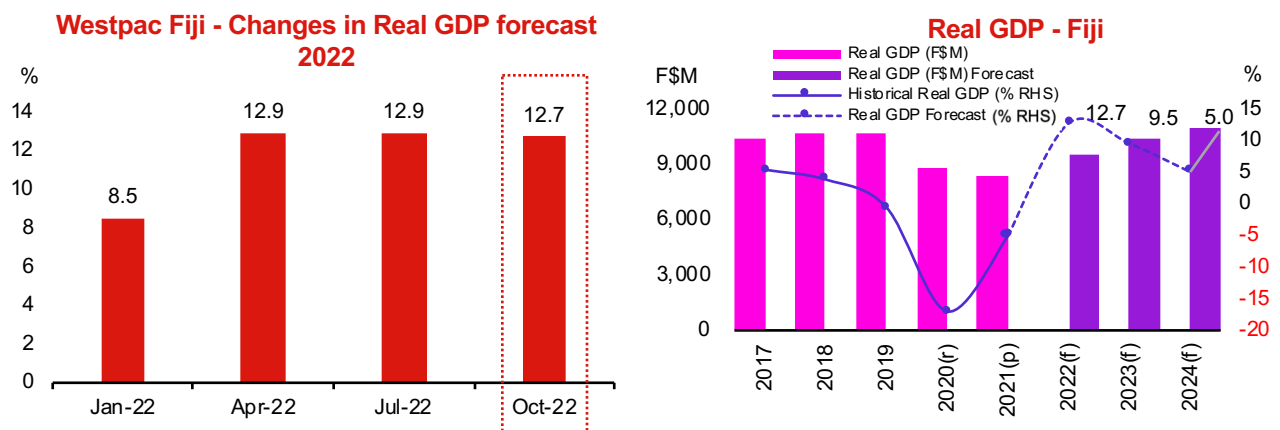
²BeReal is the latest social media platform gaining rapid popularity around the globe.

Revised Economic Outlook for Fiji



Source: Fiji Bureau of Statistics and Westpac Fiji calculations

- Tourism continues to recover at a strong pace. Since reopening international borders in December 2021, Fiji has welcomed more than 370,000 tourists to our shores, despite the COVID-19 third wave-related disruptions in the first quarter of 2022. This has been made possible through the widespread vaccination of the Fijian population and the removal of most pandemic-related restrictions, including the required Rapid Antigen Test on arrival, which was removed recently.
- Available statistics for visitor arrivals for the first eight months of 2022 show a strong recovery, particularly after the first quarter of the year. Cumulative to August 2022, visitor arrivals totalled 354,277 compared to the 6,637 visitors in the same period in 2021, an increase of 5,237.9 percent. This is around 40.0 percent of all the visitors that arrived in 2019.
- With four months of data remaining, Fiji will likely cross the 500,000-visitor arrival mark by the end of the year, with only around 145,723 visitors remaining to reach the forecast, i.e. about 36,000 visitors per month for the remaining months. Visitor arrivals from major source markets such as Australia, New Zealand and the United States have also gained momentum. This development in the industry augurs well for the double-digit growth expected for the Fijian economy this year.



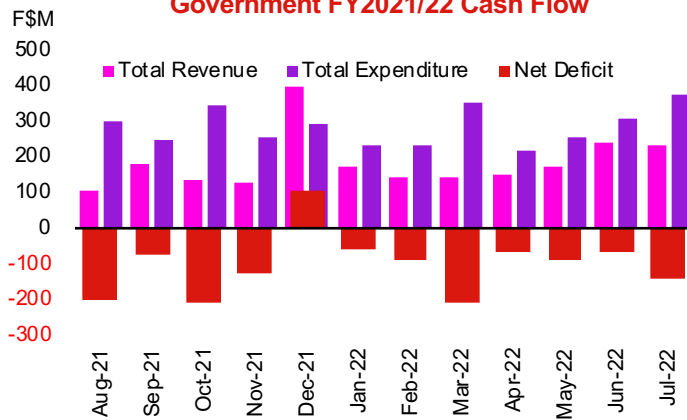
Source: Westpac Fiji calculations

Source: Fiji Bureau of Statistics and Westpac Fiji calculations

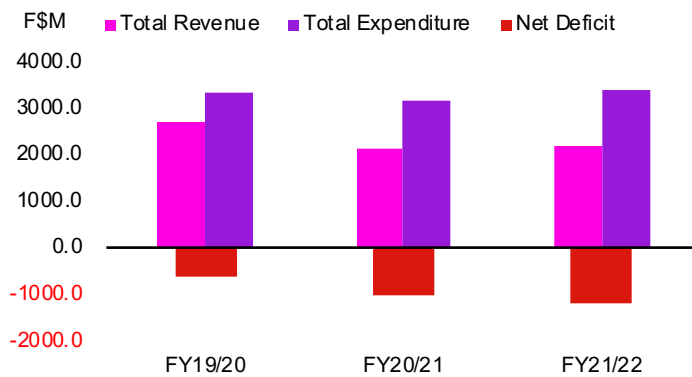
- While the tourism industry has shown strong momentum, the ongoing Russia-Ukraine war and other related factors continue to fuel inflationary pressures globally and in Fiji. The prolonged war and failure to reach a resolution have darkened the outlook for the global economy as food and fuel prices continue to increase.
- While there is increased demand in the economy post-pandemic, the rise in inflationary pressures has made consumers behave more prudently. To cushion the impact of increasing prices, the Fijian Government announced the inflation mitigation package in its 2022/23 National Budget.
- Additionally, the date for the general elections in Fiji has still not been confirmed, which continues to put some drag on investment activity.
- As such, Westpac Fiji now expects the Fijian economy to grow by 12.7 percent in 2022, 0.2 percentage points lower than the 12.9 percent growth anticipated earlier. This is nonetheless a record double-digit growth projection for the Fijian economy. We expect the economy to continue to grow by 9.5 percent in 2023 and forecast a baseline growth of 5.0 percent in 2024.
- The outlook is vulnerable to risks around the recovery - both the initial bounce and the durability of any upswing with various factors at play. These include COVID-19 outbreaks in the community, effects of natural disasters, political instability, geopolitical tensions and ongoing inflationary pressures.

Fiji Government Fiscal Performance

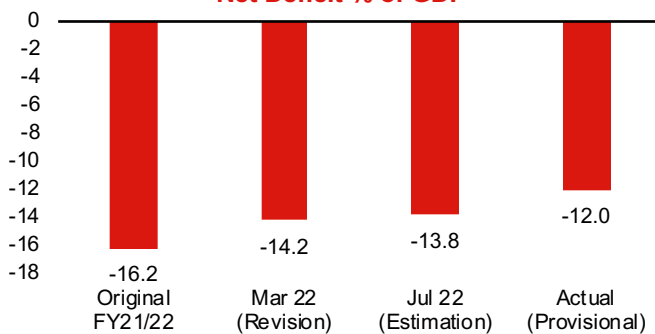
Government FY2021/22 Cash Flow



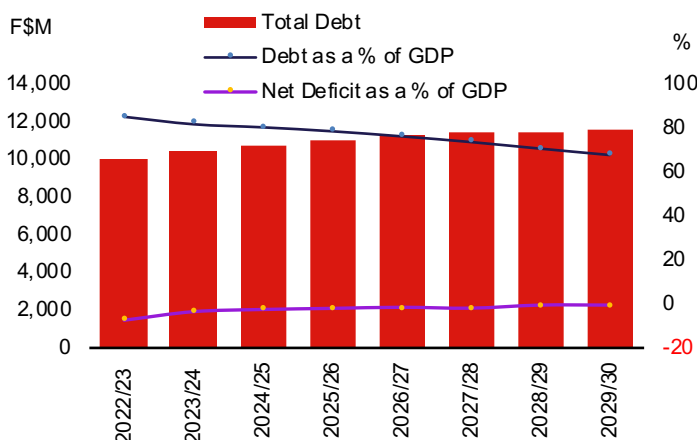
Government Cash Flow



Net Deficit % of GDP



Medium Term Fiscal Framework



Source: Ministry of Economy and Westpac Fiji calculations

- The reopening of international borders in December 2021 and the easing of all COVID-19 related restrictions have supported the Government's cash flow in the second half of the last fiscal year.
- This has supported the improved tax collections in FY2021-2022, while budget support grants from major development partners have also helped sustain overall revenues and fiscal position.
- Tax revenues for FY2021-2022 are estimated to be higher than anticipated in the original budget (July 2021). Tax collections have been resilient in the second half of the year relative to the downturn experienced during the lockdown period over the first four months of FY2021-2022.
- Total government spending was slightly lower than budgeted due to tighter controls on operational expenditure and the underutilisation of other budgetary allocations due to circumstances that prevailed during the financial year.
- Provisionally, total government revenue for FY2021-2022 stood at \$2,190.8 million, while total government expenditure stood at \$3,414.2 million. Both government revenue and expenditure were higher than in FY2020-2021.
- Government net deficit for the last fiscal year stood at \$1,223.3 million, which is equivalent to a provisional 12.0 percent of GDP, lower than originally anticipated (16.2%) and also lower than the recently estimated 13.8 percent of GDP.
- Going forward, while revenue prospects have improved as the Fijian economy recovers, expenditure growth has also been controlled. As such, the Government has embarked on fiscal consolidation to lower the deficit and debt-to-GDP ratio.
- However, the magnitude of the reduction in the deficit has to be carefully considered, keeping in mind the delicate balance required to ensure fiscal sustainability and, at the same time, the need for expenditure support in light of global inflationary pressures.
- The fiscal deficit, in double-digit levels for the last two consecutive fiscal years, has been halved to around 7.4 percent of GDP in FY2022-2023.
- Government debt is estimated to be around \$9,104.5 million or 89.4 percent of GDP at the end of July 2022. For FY2022-2023, public debt is projected to increase to \$9,976.7 million, equivalent to 85.2 percent of GDP.
- To move towards fiscal consolidation, the Government's first-ever Medium-Term Debt Management Strategy (MTDS) is now in place, which articulates the Government's debt objectives and outlines the framework for formulating and implementing a prudent borrowing program. The medium-term fiscal strategy will complement this to ensure debt sustainability and fiscal discipline.
- The Medium-Term Fiscal Framework provides the broad revenue, expenditure, deficit and debt targets for the medium term. It is geared towards reducing the fiscal deficit to below 3.5 percent of GDP from FY2023-2024 and bringing down government debt to below 70 percent of GDP in the next seven years.

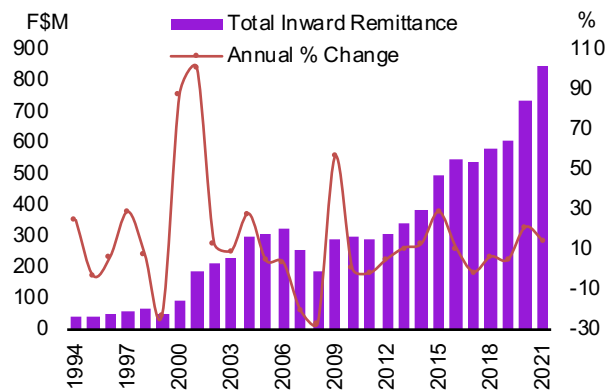
Personal Remittances on the rise

- Workers' remittances, according to the International Monetary Fund, is defined as the value of monetary transfers sent by workers residing abroad for more than one year to their home countries; it is recorded in different sections of the balance of payments.
- Nowadays, remittances have become an important and reliable source of external funding and capital accumulation in the developing economy.
- In Fiji, remittances is the second largest source of foreign exchange, following tourism, which is the largest source. Remittances earn more for the Fijian economy than traditional export products, such as sugar, garments, gold and timber.
- During the pandemic, personal remittances became Fiji's largest foreign exchange earner, as the closure of international borders brought tourism to a standstill.
- Since 2017, inward personal remittances has been increasing each year. In 2021, personal remittances grew by 14.6 percent to reach a new record of \$842.2 million. This was about 26.2 percent of foreign reserves at the end of 2021.
- Following record growth over the past few years, personal remittances continue to grow at a fast pace in 2022. In the year to August 2022, inward remittances increased by 24.4 percent to \$661.5 million.
- The bulk of personal remittances is received through personal transfers (94.5%; \$625.0m), followed by migrant transfers (5.5%; \$36.4m) and compensation of employees (0.01%; \$0.1m).
- Receiving remittances is becoming easier as mobile money platforms gain momentum. In 2021, of the total cash transfers received, \$498.5 million was remitted via money transfer operators, \$187.2 million through mobile money platforms and \$156.5 million through commercial banks.
- In the year to August 2022, of the total cash transfers received, \$343.6 million (51.9%) was remitted via money transfer operators, \$198.9 million (30.1%) through mobile money platforms and \$119.0 million (18.0%) through commercial banks.
- In Fiji, inward personal remittances has played a vital role in keeping consumption activity ongoing during the pandemic. It continues to contribute significantly towards overall aggregate demand as the country moves ahead with the slated economic recovery this year.
- With the increasing demand for Fijian workers abroad and the removal/reduction of service fees by mobile operators, personal remittances is on track to have another record year in 2022, which augurs well for Fiji's external position and the overall economy.

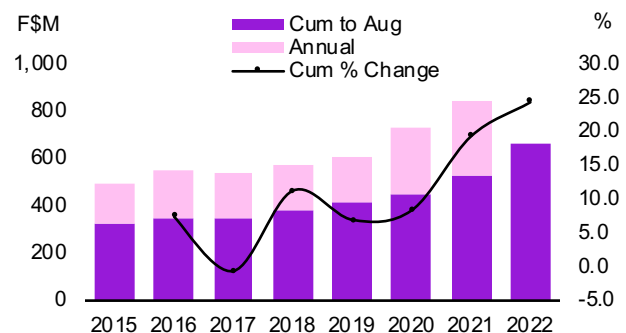
Notes:

- Personal transfers component consists of all current transfers in cash received by resident households.
- Compensation of employees refers to the income of border, seasonal, and other short-term workers who work in an economy where they are not residents, and to the income of resident workers who are employed by a non-resident entity.
- Migrant transfers is capital transfers related to all the financial assets that migrants bring with them when they move to the host country, or when they finally return to their home country. Source: Balance of Payments Manual.

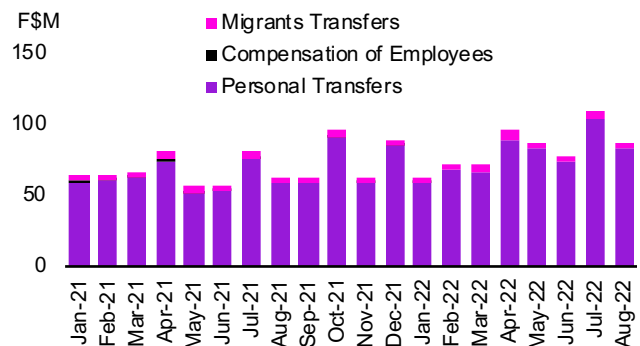
Historical Personal Remittances



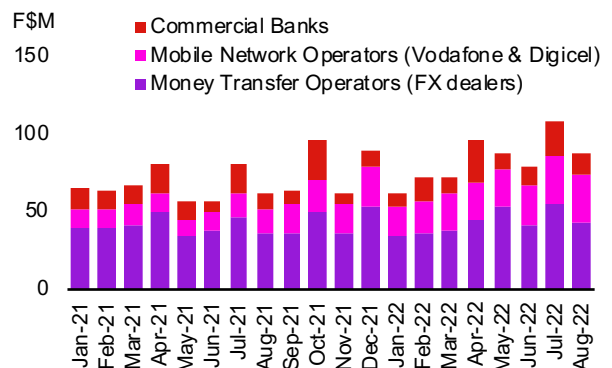
Personal Remittances August 2022



Remittance Components



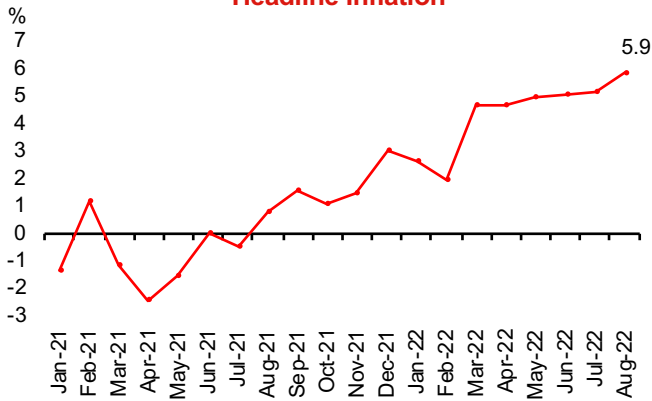
Transfer Channel



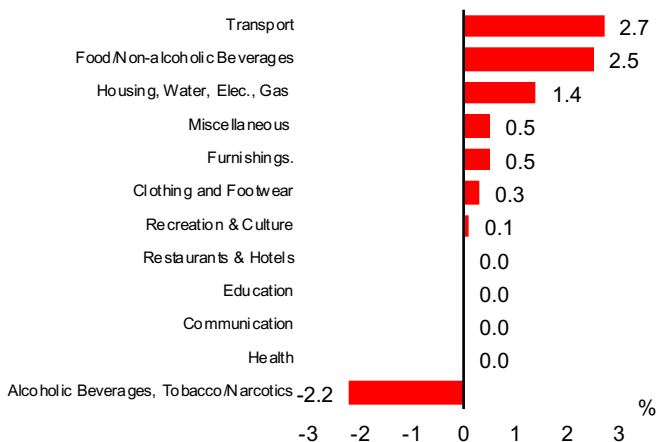
Source: Reserve Bank of Fiji

Consumer Prices, Liquidity and Foreign Reserves

Headline Inflation



Contribution to August 2022 Inflation



Source: Fiji Bureau of Statistics

- Inflation remains one of the biggest challenges facing the global economy because of the ongoing Russia-Ukraine war. The war has exacerbated the shortage of some crucial food supplies, resulting in price hikes. Additionally, fuel prices continue to rise.
- With increasing prices continuing to squeeze living standards worldwide, Fiji is no exception since it is an import-dependent economy. Consumer prices have been on the rise since February 2022, and as at August it stands at 5.9 percent, mainly driven by the increase in food and energy costs.
- At this stage, it is likely that the annual average inflation outlook of 5.0 percent can be surpassed, and inflation will likely continue to increase for the coming few months before moderating next year.
- While central banks across the globe are responding by tightening monetary policy by raising interest rates, Fiji has maintained a low interest rate environment. The challenge has been addressed through fiscal policy measures instead, given that inflation in Fiji is supply-driven.

Notes:

1. The Consumer Price Index is compiled by the Fiji Bureau of Statistics. It indicates the average changes in the prices of goods and services purchased by households nationwide.
2. The divisions of inflation of Fiji are as follows: Food and non-alcoholic beverages, Alcoholic beverages, tobacco and narcotics, Clothing and footwear, Housing, water, electricity, gas and other fuels, Furnishings, household equipment and routine household maintenance, Health, Transport, Communication, Recreation and culture, Education, Restaurants and hotels.

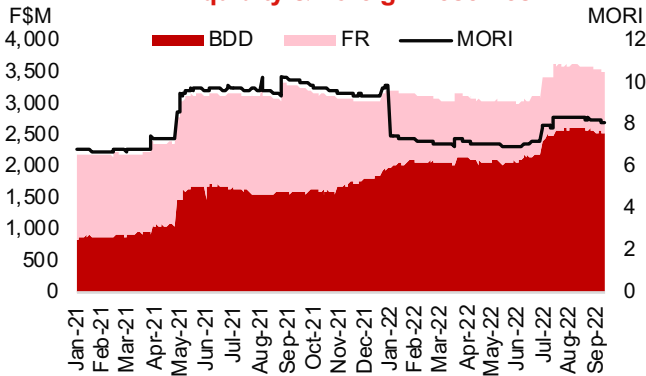
Foreign reserves in Fiji were above adequate levels throughout the pandemic, and it remains high. The return of tourism receipts and the influx of personal remittances in the year so far are supporting the high levels of reserves.

Nonetheless, the reopening of the economy and the subsequent resumption of activity has brought about growth in imports, which adds some pressure on reserves. Additionally, commodity prices, particularly oil, are rising due to the Russia-Ukraine war, which adds to the import bill.

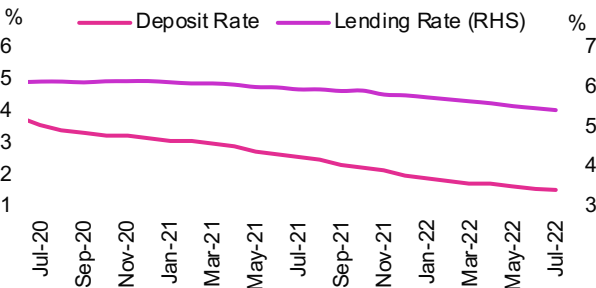
Therefore, the rising imported inflation remains a sizeable risk that could lead to faster erosion of foreign reserves. Nonetheless, foreign reserves are forecast to remain adequate in the medium term, upheld by the rebounding tourism industry, higher inward remittances and government loan drawdowns.

Currently (06/10), foreign reserves remain comfortable at \$3,548.6 million (8.2 months of retained imports). Subsequently, liquidity in the system continues to remain ample, paving the way for a low interest rate environment.

Liquidity & Foreign Reserves



Commercial Banks' Interest Rates



Source: Reserve Bank of Fiji and Westpac Fiji

Notes:

1. Fiji's official foreign reserves are those assets that are held in foreign currencies by the Reserve Bank of Fiji.
2. Under the Exchange Control Act, companies and people of Fiji that receive these foreign currencies are required to bring these monies to Fiji and exchange them for Fijian dollars at licensed money exchange dealers like commercial banks. In turn, commercial banks are required to sell these foreign currencies to the Reserve Bank of Fiji (RBF) at the end of each working day. The RBF invests these foreign reserves in major financial markets around the world.

Economic & Financial Statistics and Forecasts

Economic Statistics (annual unless otherwise stated)

Fiji	May-22	Jun-22	Jul-22	Aug-22	Sept-22	Outlook for 2023
Visitor Arrivals (%)	2,538.0	3,464.5	4,470.1	5,237.9	n.a	Increase
Net VAT (%)	50.6	61.0	69.1	84.9	n.a	Increase
Personal Remittance (%)	16.7	19.7	22.3	24.4	n.a	Increase
Private Sector Credit (%)	2.5	3.0	3.9	4.6	n.a	Increase
Liquidity (F\$M)	2,064.3	2,402.5	2,601.6	2,585.4	2,584.7	Remain ample
Foreign Reserves (F\$M)	3,028.2	3,409.6	3,606.3	3,596.0	3,547.7	Remain adequate
MORI	7.0	7.9	8.3	8.3	8.3	-
Inflation (%)	5.0	5.1	5.2	5.9	n.a	Moderate
Overnight Policy Rate (OPR)	0.25	0.25	0.25	0.25	n.a	0.25

Source: Reserve Bank of Fiji, Fiji Bureau of Statistics and Ministry of Economy n.a – data not available

Round-up on Fiji Financial Markets

Fiji Government Bond Yields (%)	3 mths	6 mths	12 mths	10 yrs	15 yrs	20 yrs
Sept-22	0.03	0.08	0.14	3.95	4.20	4.64
Aug-22	0.03	0.09	0.15	3.95	4.20	4.64
Jul-22	0.04	0.09	0.15	3.95	4.25	4.68
Jun-22	0.04	0.09	0.15	3.95	4.25	4.68
May-22	0.04	0.07	0.14	3.95	4.25	4.68
Apr-22	0.04	0.07	0.13	3.95	4.25	4.68

Source: Reserve Bank of Fiji and Westpac Fiji calculations

Exchange Rate Forecast

Cross	Latest	Dec-22	Mar-23	Jun-23	Dec-23	Dec-24	Dec-25
FJD-USD	0.4267	0.4726	0.4733	0.4776	0.4856	0.4854	0.4801
FJD-AUD	0.6783	0.6302	0.7064	0.7023	0.6839	0.6559	0.6401
FJD-EUR	0.4336	0.4336	0.4781	0.4729	0.4625	0.4412	0.4286
FJD-JPY	63.60	62.39	66.26	65.91	64.82	59.94	56.89
FJD-NZD	0.7575	0.6951	0.7888	0.7829	0.7708	0.7244	0.7165

Source: Reserve Bank of Fiji and Westpac Fiji calculations

Interest Rate Forecast

Australia	Latest	Dec-22	Mar-23	Jun-23	Sept-23	Dec-23	Mar-24	Jun-24
Cash	2.60	3.35	3.60	3.60	3.60	3.60	3.35	3.10
10 Year Bond	3.95	3.75	3.50	3.40	3.20	3.00	2.80	2.70
US								
Fed Funds	3.125	4.375	4.625	4.625	4.625	4.625	4.375	3.875
US 10 Year Bond	3.79	3.60	3.40	3.30	3.10	2.90	2.70	2.60
New Zealand								
Cash	3.00	4.00	4.50	4.50	4.50	4.50	4.50	4.50
10 Year Bond	4.27	4.30	4.20	4.00	3.80	3.60	3.40	3.25

Source: Westpac Economics

Global & Trading Partner Growth Forecast

(%)	2019	2020e	2021f	2022f	2023f
World Economy	2.8	-3.1	6.0	3.2	2.7
US	2.2	-3.4	5.7	1.6	1.0
Eurozone	1.3	-6.4	5.2	3.1	0.5
Australia*	2.0	-2.1	4.9	3.8	1.9
New Zealand*	2.9	-2.1	5.6	2.3	1.9
Japan	0.3	-4.5	1.7	1.7	1.6
China	6.0	2.2	8.1	3.1	4.4
India	4.2	-6.6	8.7	6.8	6.1

Source: International Monetary Fund, World Economic Outlook, and Westpac Economics*

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