



WESTPAC WAVE

**Fiji Quarterly Economic Update
April 2023**

Tourism and Investments led growth in 2023



EXECUTIVE SUMMARY

- Internationally, the global economy is modestly rebounding as countries recover from the impacts of the COVID-19 pandemic and Russia's invasion of Ukraine, the two dominant risks faced in the past few years. Global price pressures are showing signs of subsiding and economic activity appears to be holding up better than expected. Consequently, the interest rate tightening cycle, which arose in response to pandemic-induced inflation, is now nearing its end. Nonetheless, there are still a multiplicity of smaller-scale risks that continue to affect the global economy, particularly geopolitical tensions.
- As is the case elsewhere, inflation in Fiji has also moderated and is expected to remain stable in the medium term, barring any major shocks. The easing of global price pressures already underway is expected to flow through to domestic prices over time. Demand in the Fijian economy grew in 2022, and economic growth has been supported by household spending, strong government spending, and a swift recovery in international tourism.
- Preliminary data for the first quarter of 2023 show the economy is on track for another year of growth. There has been some moderation as the strong recovery from the pandemic has mostly run its course, but household spending has been resilient, and businesses' perceptions of economic conditions have improved. As such, we have maintained our real GDP forecast for the Fijian economy at 7.2 percent for 2023 and a further 5.0 percent for 2024.
- Economic activity and growth prospects in Fiji also largely depend on how the Government decides to act on the fiscal deficit in the next National Budget. Fiscal consolidation will have to be the cornerstone of fiscal strategy moving forward. However, the speed and timing of consolidation must be carefully managed with a delicate balance between ensuring fiscal sustainability and supporting economic recovery to avoid any disruptions to economic recovery.
- Fiji's financial sector is supportive and in alignment with real sector outcomes. Private sector credit growth noted a gradual turnaround last year, supported by growth in new loans by commercial banks, and continues on an upward trajectory. The banking sector is well-capitalised and liquid. Externally, foreign reserves remain comfortable, bolstered by high tourism receipts, remittances, and the Government's external loan drawdowns. Subsequently, there is ample liquidity in the banking system, keeping interest rates generally trending downwards.
- Overall, the Fijian economy has largely recovered from the challenges faced over the past few years and is well-placed for another year of growth, although some risks remain. Some downside risks to growth in major global economies have abated recently, including those stemming from China's previous approach to containing COVID-19. The global outlook has plausible scenarios for both stronger and weaker growth and inflation at this stage. In Fiji, while the balance of risks around inflation and growth remains slightly skewed to the upside, the extent of this risk has moderated.

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MACROECONOMIC INDICATORS

Tourism

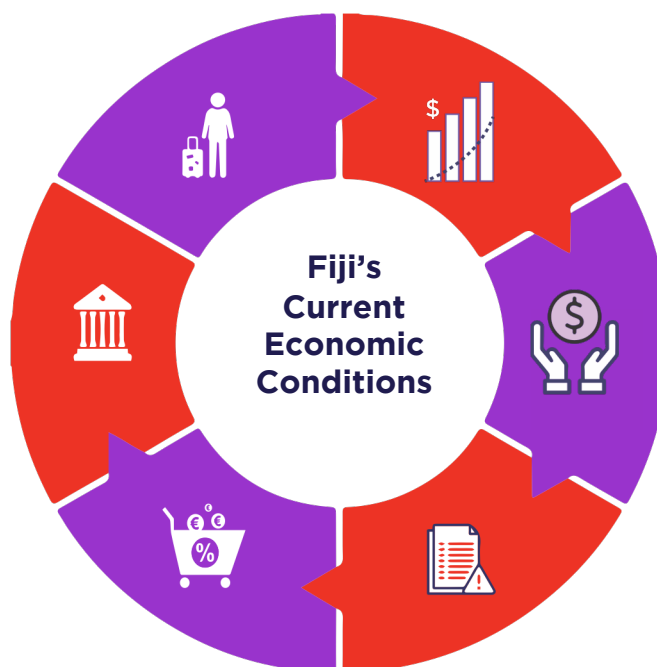
Cumulative to Feb 2023, Visitor Arrivals grew by 317 percent, totaling 114,736 visitors.

Real GDP

Following an estimated double-digit rebound in 2022, the Fijian economy is projected to grow by 7.2 percent in 2023.

Government Debt

Debt is expected to be about \$10 billion (84.6 percent of GDP) by the end of July 2023.



Liquidity & Reserves

Liquidity is above \$2.0 billion, while foreign reserves are above \$3.3 billion, sufficient to cover about 6.1 months of retained imports.

Inflation

As at Feb 2023, inflation moderated to 1.5 percent and is expected to remain stable in the medium term.

Risks

Risks remain in the form of adverse weather conditions and natural disasters, ongoing geopolitical tensions, and inflationary pressures.

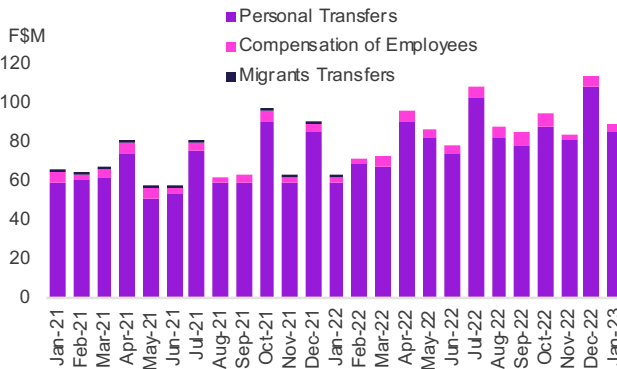
Source: Fiji Bureau of Statistics, Reserve Bank of Fiji, Ministry of Finance, Westpac Fiji

Fijian economy is stable amid some risks

Preliminary macroeconomic outcomes for the first quarter of 2023 puts the Fijian economy on track for a solid year ahead. After making a strong recovery with an estimated double-digit rebound in real GDP in 2022, the Fijian economy continues to show signs of growth, with the available data for the first few months of 2023 showing positive performance. Tourism activity remains on track, with visitor arrivals cumulative to February 2023 totalling 114,736, an increase of 317.0 percent compared to the same period last year. This is also marginally higher than the same period in 2019 (pre-pandemic), which indicates that tourism activity is on track to surpass pre-pandemic levels by the end of this year, enhancing the growth prospects for the service sector. This broad-based recovery in the service sector will eventually feed into other related sectors of the economy, such as transport, wholesale & retail, administrative & support services, manufacturing, finance, and agriculture, while raking in net taxes as well. Thus, we expect the Fijian economy to advance by 7.2 percent, unchanged from our last economic update.

Demand in the Fijian economy was strong in 2022 and is projected to be robust in 2023. Economic growth continues to be supported by household spending, investment activity, adequate government spending, and ongoing recovery in international tourism. Consumption spending is reflected in the rise in net VAT collections, increased new lending by commercial banks, and ongoing growth in inward personal remittances. In 2022, inward remittances grew by 23.1 percent, totalling \$1,040.8 million, surpassing the \$1 billion mark for the first time. The increase was mainly in the form of personal transfers, followed by compensation of employees, and most of it was received through money transfer operators and mobile network operators. Additionally, in January 2023, inflow remittance totalled \$88.8 million, an increase of 42.0 percent from January 2022. It is expected that inward personal remittances will continue to hold in the medium term and support consumption activity in Fiji. Businesses' perceptions of economic conditions have also improved as the outlook for consumer spending, exports, and building activity has enhanced. Building & construction and real estate activities are expected to gain a much-needed boost this year as the successful general election has given the economy the needed confidence.

Chart 1: Personal Remittances

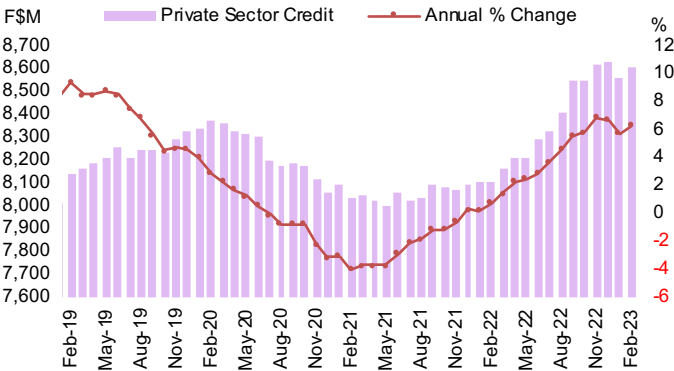


Source: Reserve Bank of Fiji and Westpac Fiji calculations

Fiji's financial sector is supportive and in alignment with real sector outcomes. Private sector credit growth noted a gradual turnaround last year, supported by growth in new loans by commercial banks and continues on an upward trajectory. Liquidity in the banking system remains high at above \$2.0 billion, while outstanding deposit and lending rates have generally trended downwards. The Reserve Bank of Fiji has continued to maintain an accommodative monetary policy stance and kept the overnight policy rate unchanged at 0.25 percent since 2020. This has been necessary to achieve a better balance of supply and demand

in the Fijian economy, while factors affecting inflation remained primarily external.

Chart 2: Private Sector Credit Growth in Fiji



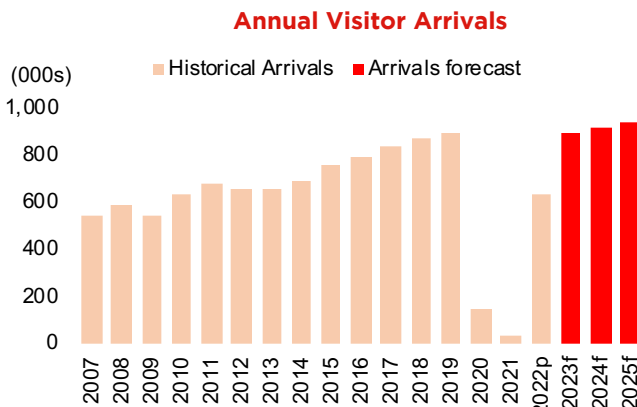
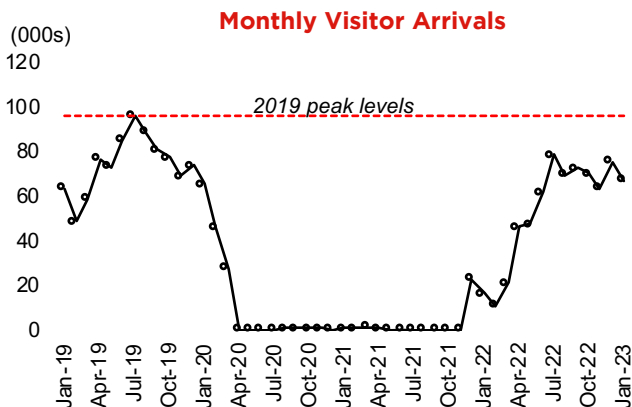
Source: Reserve Bank of Fiji and Westpac Fiji calculations

Externally, foreign reserves remain comfortable at above \$3.3 billion, equivalent to about 6.1 months of retained imports cover, bolstered by high tourism receipts, remittances, and the Government's external loan drawdowns. While foreign reserves are expected to remain adequate in the near to medium term, proactive measures are needed to address Fiji's underlying balance of payment challenges. These include sustainably increasing domestic exports, attracting new foreign direct investment, and strengthening and diversifying the tourism sector. Moreover, productivity improvements are needed across the economy to enhance competitiveness and long-term economic growth prospects.

Global inflation remains high but has peaked; global goods inflation has plateaued as supply chains improve and other upward pressures have eased; global energy prices have also stabilised. As is the case elsewhere, inflation in Fiji peaked mid-last year and since then has been moderating and is expected to be stable in the medium term, barring any major shocks. As of February 2023, annual headline inflation in Fiji stands at 1.5 percent, lower than the previous month and also lower than the same period last year. Considering the volatility and mix of external and domestic factors, CPI inflation is forecasted to average around 3.0 percent over 2023 and to fall to an average of 2.5 percent by 2024. The easing of global price pressures is expected to flow to domestic prices over time.

Overall, while the Fijian economy has largely recovered and has adapted to COVID-19, some challenges and risks remain. Global growth slowed during 2022, and some of this is reflected in the end of the economic bounce-back from the pandemic. Growth in Fiji's major trading partners is expected to remain well below the historical average in the medium term. Some downside risks to growth in major global economies have abated recently, including those stemming from China's previous approach to containing COVID-19. Overall, the global outlook remains uncertain, with plausible scenarios for both stronger and weaker growth and inflation. In Fiji, natural disasters and adverse weather conditions pose some downside risks to the growth outlook and could derail the expected recovery of the Fijian economy.

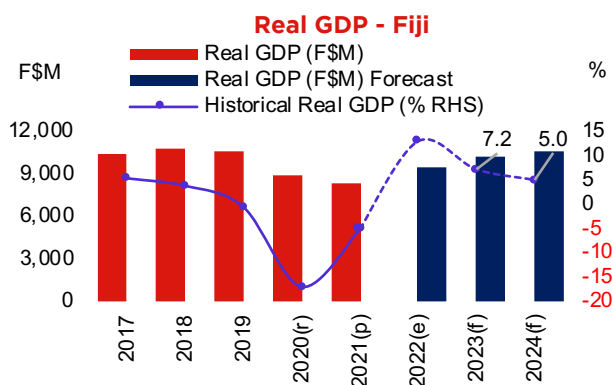
Tourism Activity and Growth Outlook



- After a strong recovery in 2022, the tourism industry is off to a great start in 2023, building momentum to surpass pre-pandemic levels of visitor arrivals. The latest visitor arrivals data show more than 67,000 visitors in January 2023, which is not only higher than the same period in the past three years but also higher than January 2019, which had 63,807 visitors.
- Preliminary data also show more than 47,000 visitors in February 2023, a high volume for an off-peak season, suggesting the country is on track to meet its visitor arrival targets for 2023. Given these numbers and considering the additional flight routes recently announced, we expect around a 40.0 percent increase in visitor arrivals in 2023 compared to last year, possibly surpassing 2019 levels.
- With the successful general election held last year and the transition to a new Government, Fiji has garnered favourable attention, increasing its perception as a safe travel destination. Moreover, the much-hyped, first-ever Fiji Tourism Investment Summit held in Fiji recently with over 50 key business investors and other industry professionals helped to promote investment opportunities and attract more inbound tourism.
- As such, the tourism industry and related sectors of the economy, mainly accommodation & food services and transport & storage, are expected to lead another year of growth for the Fijian economy in 2023. The wholesale & retail trade, finance & insurance, building & construction, and manufacturing sectors are also projected to add significantly to the economy.
- Aggregate demand continues to recover in Fiji. Consumption spending was strong in 2022, as reflected by strong PAYE and domestic and import VAT collections (with net VAT collections recovering to near-2019 levels). Personal remittances, which is the second largest source of foreign exchange and which crossed the billion-dollar mark last year, has also been a strong contributor to consumption spending. This is expected to continue in 2023 and support growth further. Investment activity, though slightly affected last year by global and domestic inflation and supply-side constraints, is expected to gain much confidence in 2023, with increases anticipated in building & construction and real estate activities.
- Taking into account the above, after three consecutive years of economic contraction from 2019 to 2021, the Fijian economy is estimated to have rebounded with double-digit growth in 2022. For 2023, we project a 7.2 percent growth in real GDP with a further 5.0 percent growth for 2024, unchanged from our last economic update.
- While the economy is well on its way to another year of solid growth, risks to the outlook remain. 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. Additionally, risks associated with COVID-19 remain, particularly with the recent surge of infections in China, which has prompted some countries to re-implement border restrictions. Domestically, the cyclone season in Fiji is underway until April, and any major natural disaster could derail the expected recovery to some extent.

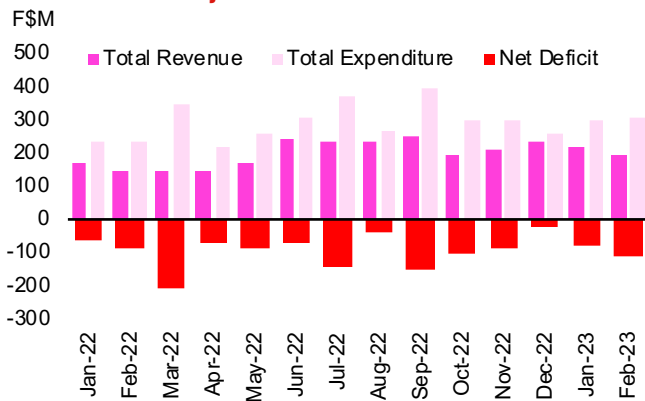


Source: Fiji Bureau of Statistics and Westpac Fiji calculations

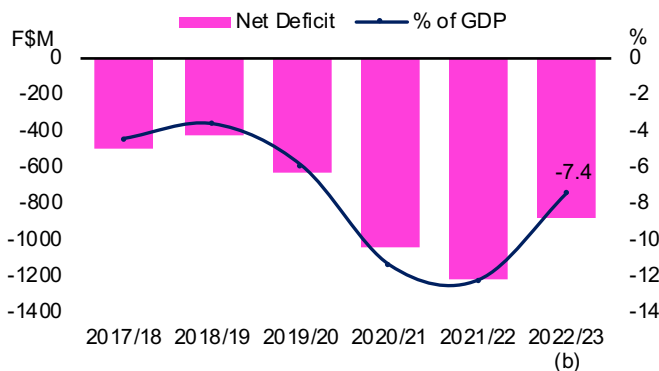


Fiji Government Finance

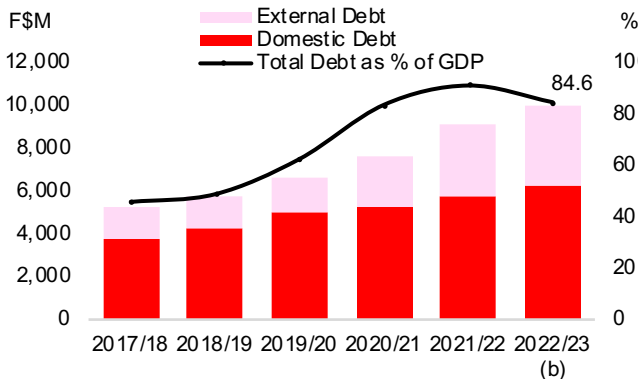
Fiji Government Cash Flow



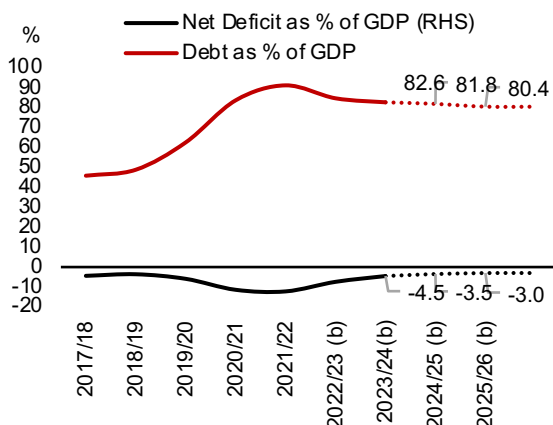
Annual Fiscal Performance



Government Debt



FY2023-2024 Fiscal Framework

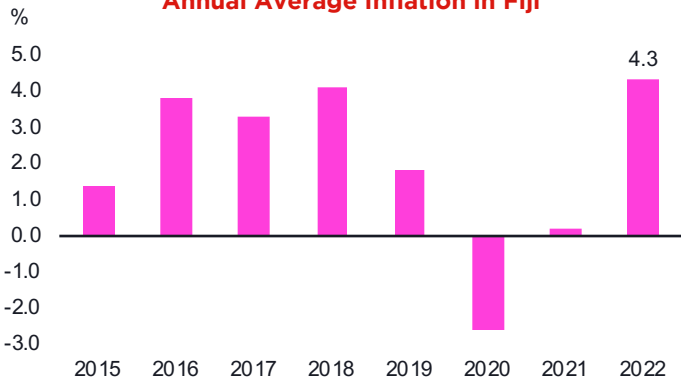


- Government cash flow has been under scrutiny over the past few years as the COVID-19 pandemic heightened fiscal vulnerabilities and led to significant growth in debt. Nonetheless, the Government has managed to maintain a stable cash flow during the period.
- Latest available data show that in the first seven months (Aug 22-Feb 23) of the current fiscal year, total revenue increased by \$275.0 million and stands at around \$1,532.2 million, while total expenditure rose to \$2,122 million, an increase of around \$215.0 million. This resulted in a net deficit of \$589.0 million, which is equivalent to around 5.0 percent of GDP, compared to a higher net deficit of \$650.3 million (7.0% of GDP) in the same period last year.
- The size of government has grown over the past decade, with fiscal deficit as a percent of GDP averaging around -7.5 percent between FY2017-2018 and FY2021-2022. Additionally, double-digit deficits were incurred during the COVID-19 pandemic, as significant declines in revenues were noted. At the same time, the Government maintained expenditures to around pre-COVID levels to deliver essential services and assist affected households.
- Given the recent rebound in economic activity driven by strong recovery in tourism and related sectors, in the last National Budget, the Government budgeted for a smaller deficit of \$872.2 million (7.4 percent of GDP) for FY2022-2023, with total revenue at \$2,939.9 million and total expenditure at \$3,812.1 million.
- Before the pandemic, the level of government debt was safe, and the debt trajectory was projected to improve in line with fiscal consolidation plans. However, this was derailed by the onset of the COVID-19 pandemic. Given the large deficits during the pandemic, the government debt to GDP ratio increased from 48.8 percent pre-pandemic (FY2018-2019) to 91.1 percent (\$9.1 billion) by the end of FY2021-2022. The debt is expected to increase further to around \$10.0 billion (84.6 percent of GDP) by the end of July 2023.
- For a small developing economy, this is an unprecedented increase in debt levels, but it was necessary to survive the pandemic. Now that we have adapted to COVID-19 and the economy has bounced back strongly, the Government needs to consolidate its fiscal position to rebuild fiscal buffers.
- With the new Fijian Government in place, fiscal consolidation must be the cornerstone of fiscal strategy moving forward. However, the speed and timing of fiscal consolidation must be carefully managed with a delicate balance between ensuring fiscal sustainability and supporting economic recovery. The Government will have to carefully evaluate any premature withdrawal of fiscal support as it could potentially derail the recovery that is anticipated for the medium term.
- The Fijian Government recently released its revised **Medium Term Fiscal Framework (MTFF)** 2024-2026, focusing on making spending more efficient, streamlining taxes and working on revenue-enhancing measures. For FY2022-2023, the net deficit as a percent of GDP is expected to be 7.4 percent. Recent data show that this is on track to be achieved, and with some re-organisation of expenditures and strengthening of tax revenue streams, the Government can sustainably reduce net deficits in the medium term.
- According to the MTFF, in FY2023-2024, a net deficit target of \$573.6 million or -4.5 percent of GDP is expected, and government debt is estimated to fall to 82.6 percent of GDP from 84.6 percent of GDP estimated for FY2022-2023. The Government has assured it will ensure the continuity of public services without any major disruptions and that deficits will be financed domestically where feasible, with some concessional external borrowing.
- For FY2024-2025 and FY2025-2026, the net deficit targets are \$479.4 million (-3.5% of GDP) and \$425.6 million (-3.0% of GDP).

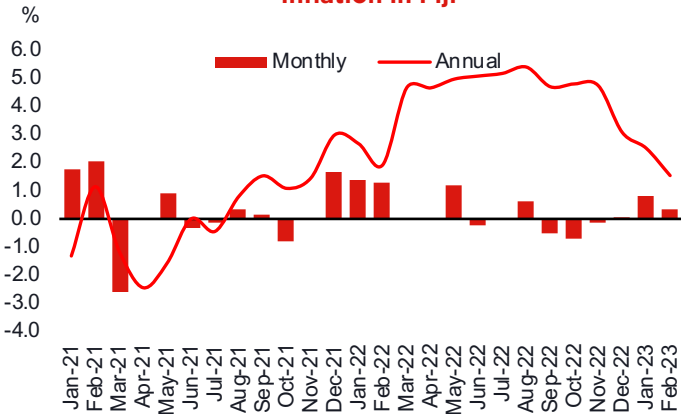
Consumer Prices in Fiji

- Globally, inflation has started to show signs of easing from the multi-digit highs reached in many countries following Russia's invasion of Ukraine.
- The latest figures for most of the world's largest economies are concerning, with price pressures remaining high as the war in Ukraine continues to keep energy and food prices elevated. Many central banks around the world have reacted to this with a series of interest rate rises, even though higher borrowing costs could exacerbate the squeeze on real incomes. The tightening of monetary policy is starting to cool demand and inflation, but the full impact is unlikely to be realised until much later. With this, pressures have eased in some countries and energy and food wholesale prices have declined, lowering headline inflation.
- According to the International Monetary Fund, global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017-19) levels of about 3.5 percent. Global headline inflation appears to have peaked in the third quarter of 2022.
- Commodity prices played a major role in the surge in inflation that began in 2021 and contributed to a pullback from peak inflation levels since mid-2022. Commodity prices are subject to significant volatility, and the outlook going forward is mixed.
- In Fiji, annual inflation averaged 4.3 percent in 2022, a high not seen in many years. This was driven by factors outside our control, i.e. rise in commodity and food prices due to COVID-19-related supply chain disruptions and the Russia-Ukraine war, given that most of the inflation in Fiji is import-driven.
- With commodity and food prices easing globally, consumer prices in Fiji have also eased over the past few months. The annual headline inflation rate fell to 1.5 percent in February 2023, lower than the previous month and also lower than the same period last year (1.9 percent in February 2022).
- Currently, inflation is driven by higher prices in sectors such as restaurants/eateries, accommodation services, transport, and health, which offset the lower prices for alcoholic beverages, tobacco and narcotics.
- While imported inflation has been the main driver (two-thirds) of inflation in Fiji, domestic inflation remained relatively stable, mainly owing to policy actions by the Government, such as zero-rated VAT on basic household consumables and stricter monitoring of prices and other price-control measures.
- Medium-term inflation expectations generally remain anchored, but some gauges are up. With no clear resolution in sight for the ongoing Russia-Ukraine war and other geopolitical tensions on the rise, the commodity market remains volatile. Natural disasters in Fiji are also a major factor that could lead to price spikes. All things considered, we project year-end inflation to be around 3.0 percent in Fiji.

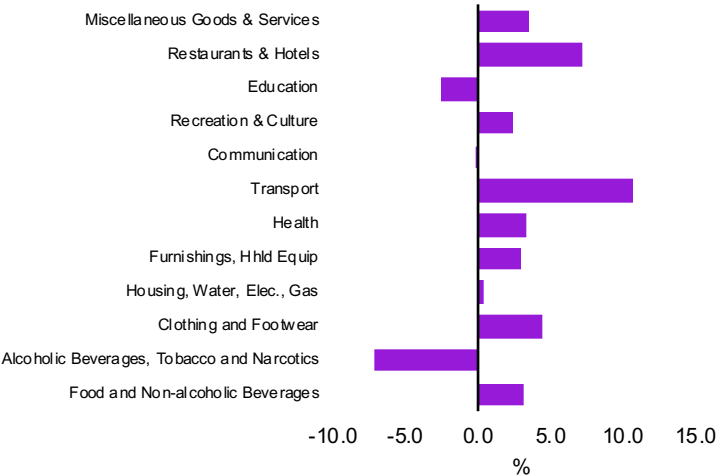
Annual Average Inflation in Fiji



Inflation in Fiji



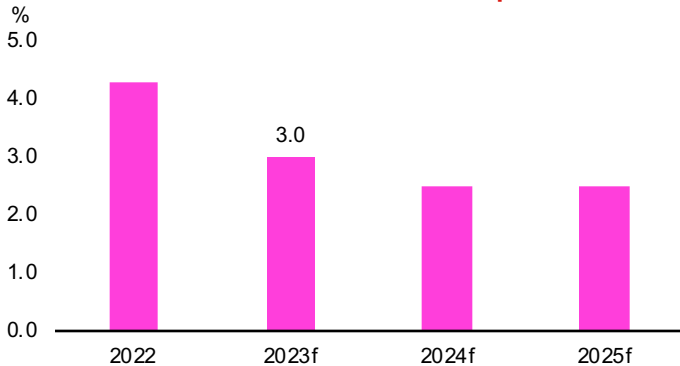
Recent Drivers of Inflation



Notes:

- The Consumer Price Index [CPI] is compiled to indicate average changes in the prices of goods and services purchased by households nationwide with monthly price collections carried out in the urban areas (Suva, Lami, Nasinu, Nausori, Lautoka, Nadi, Ba, and Labasa). The index is currently taken to represent price changes in rural areas as well. The CPI weights are derived from the Household Income and Expenditure Survey (HIES) of 2013/2014.
- 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.

Medium Term Inflation Expectations



Source: Reserve Bank of Fiji, Fiji Bureau of Statistics and Westpac Fiji calculations

Economic & Financial Statistics/Forecasts

Economic Statistics (annual unless otherwise stated)

Fiji	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Outlook for 2023
Visitor Arrivals (%)	6,581.7	1,912.5	309.1	317.0	n.a	Increase
Net VAT (%)	90.3	83.6	46.9	42.6	n.a	Increase
Personal Remittance (%)	22.7	23.1	42.0	28.7	n.a	Increase
Private Sector Credit (%)	6.9	6.7	5.7	6.3	n.a	Increase
Liquidity (F\$M)	2,457.9	2,413.5	2,438.1	2,450.8	2,413.5	Remain ample
Foreign Reserves (F\$M)	3,439.6	3,430.6	3,373.9	3,364.8	3,323.0	Remain adequate
MORI	7.0	6.9	6.2	6.2	6.1	-
Inflation (%)	4.7	3.1	2.5	1.5	n.a	stable
Overnight Policy Rate (OPR)	0.25	0.25	0.25	0.25	0.25	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 Yields	3 mths	6 mths	12 mths	10 yrs	15 yrs	20 yrs
Feb-23	0.03	0.08	0.16	3.90	4.13	4.55
Jan-23	0.03	0.08	0.14	3.95	4.13	4.56
Dec-22	0.03	0.08	0.14	3.95	4.14	4.57
Nov-22	0.03	0.08	0.14	3.95	4.15	4.58
Oct-22	0.03	0.08	0.14	3.95	4.19	4.62
Sept-22	0.03	0.08	0.14	3.95	4.20	4.64

Source: Reserve Bank of Fiji and Westpac Fiji calculations

Exchange Rate Forecast

Cross	Latest	Jun-23	Sept-23	Dec-23	Dec-24	Dec-25	Dec-26
FJD-USD	0.4485	0.4537	0.4552	0.4645	0.4702	0.4789	0.4759
FJD-AUD	0.6656	0.6575	0.6596	0.6451	0.6355	0.6220	0.6345
FJD-EUR	0.4084	0.4280	0.4138	0.4184	0.4199	0.4129	0.4067
FJD-JPY	60.11	61.70	59.17	59.91	60.19	59.39	57.10
FJD-NZD	0.7217	0.7088	0.7112	0.7037	0.7018	0.7043	0.6998

Source: Westpac Fiji calculations

Interest Rate Forecast

Australia	Latest	Mar-23	Jun-23	Sept-23	Dec-23	Mar-24	Jun-24	Sept-24
Cash	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
10 Year Bond	3.22	3.40	3.30	3.20	3.00	2.80	2.70	2.50
US								
Fed Funds	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.30	3.50	3.40	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25
10 Year Bond	4.01	4.20	4.10	4.00	3.85	3.70	3.60	3.50

Source: Westpac Economics

Global & Trading Partner Growth Forecast (%)

	2019	2020e	2021f	2022f	2023f	2024f
World Economy	2.8	-3.1	6.0	3.4	2.8	3.0
US	2.2	-3.4	5.7	2.1	1.6	1.1
Eurozone	1.3	-6.4	5.2	3.5	0.8	1.4
Australia	2.0	-2.1	4.9	3.7	1.6	1.7
New Zealand	2.9	-2.1	5.6	2.4	1.1	0.8
Japan	0.3	-4.5	1.7	1.1	1.3	1.0
China	6.0	2.2	8.1	3.0	5.2	4.5
India	4.2	-6.6	8.7	6.8	5.9	6.3

Source: International Monetary Fund, World Economic Outlook April 2023 and Westpac Economics

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