WESTPAC WAVE

Fiji Quarterly Economic Update
January 2023

Confidence boost for the Fijian economy post General Election

Westpac Banking Corporation ABN 33 007 457 141, incorporated in NSW Australia. The liability of its members is limited.

EXECUTIVE SUMMARY

- The global economy's better-than-expected growth prospects early last year quickly turned into concern after Russia's invasion of Ukraine, coupled with rapid and persistent inflation, particularly for food and energy. These headwinds weighed on growth and dimmed forecasts. The main game for financial markets has been trying to gauge the extent of the inflation challenge and how far central banks would ultimately need to go. There is still more tightening to come, and even once this is done, we expect central banks to signal a strong commitment to lowering inflation permanently. This will likely see policy remain highly restrictive for longer than markets currently anticipate. As such, 2023 is already looking like another challenging year for the global economy.

- While the impact of volatile global developments can significantly influence domestic economic outcomes in Fiji, there are many positives. As we move forward, the reopening effect continues to boost tourism activity. The successful 2022 General Election and transition to a new Government will likely build confidence and encourage further domestic and foreign investments this year. Consumer spending growth is also anticipated to improve further. The Fijian economy is expected to progress through 2023 on the back of these tailwinds.

- As such, after an estimated double-digit rebound in 2022, following three consecutive years of economic contraction, we continue to forecast an increase in the growth profile for the Fijian economy with real GDP growth of 7.2 percent in 2023, led by sectors such as accommodation & food services, transport & storage, finance & insurance, construction and manufacturing. With no major policy reversals anticipated and the new Government's growth mindset, the Fijian economy is expected to continue its recovery and work towards levelling off to 2019 levels in the medium term.

- For 2024, on the back of tourism activity returning to pre-pandemic levels earlier than expected and moderation in inflationary pressures, combined with the further rebuilding of business and consumer confidence, we forecast a baseline growth of 5.0 percent for the Fijian economy.

- Fiji's financial and external sectors remain stable, consistent with the recovery in the real sector. The financial sector remained resilient during the pandemic, and the overall performance of commercial banks has continued to be stable based on asset quality and earnings levels. Capital and liquidity also continue to be assessed as satisfactory. For the external sector, despite the rise in commodity prices resulting in a higher import bill and pressure on reserves, foreign reserves are at comfortable levels and expected to remain so in the medium term with increased tourism receipts and a strong influx of personal remittances.

- Overall, while the Fijian economy is on track for another year of growth, challenges and risks remain. Longer-term prospects aside, the reality on the ground will see another challenging year for the global economy in 2023 as the full impact of last year's rapid monetary policy re-tightening comes through. Ensuring a sustained return to low inflation will remain 'item number one' on the agenda for policymakers and markets for some time yet. This will eventually filter into domestic outcomes in Fiji. Additionally, adverse weather patterns and any significant natural disasters during the cyclone season could derail growth prospects for the economy this year.

For enquiries:
Contact Westpac Fiji
Krishal Prasad, Senior Economist
Email: krishalprasad@westpac.com.au
Phone: +679 999 5184

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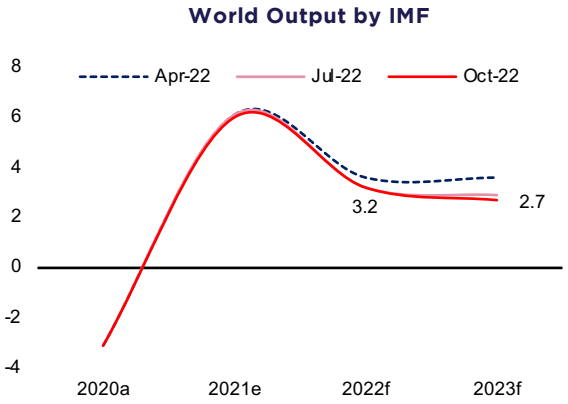
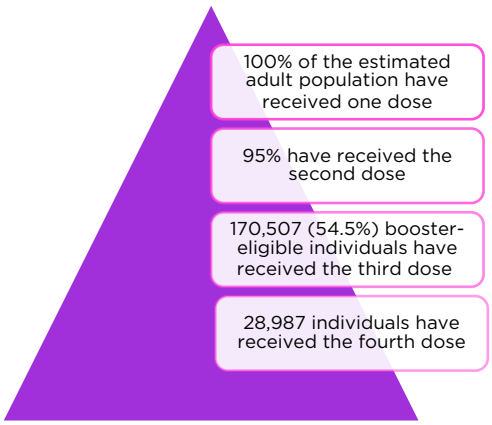
Fiji's Current Economic Conditions in a Nutshell

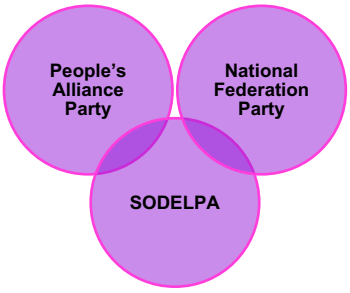
The global economy is bracing for another challenging year.



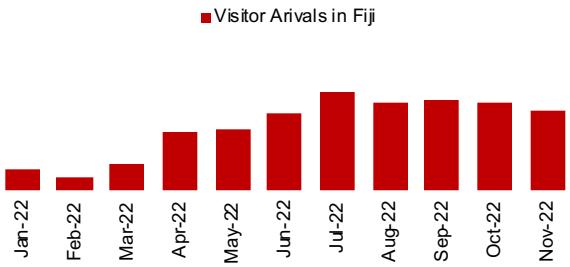
Vaccination administration continues in Fiji with increased uptake of booster doses.



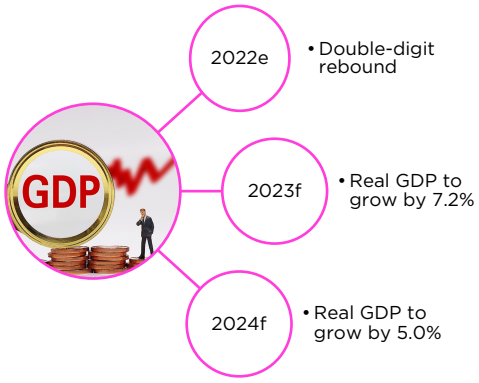
Fiji held a successful general election on 14 December 2022 and now has a new coalition Government.



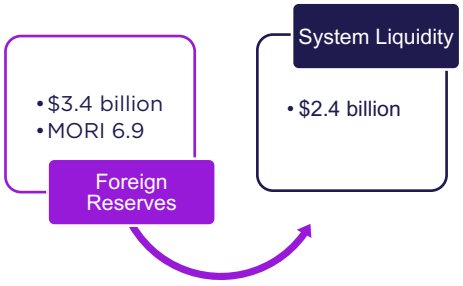
Tourism industry recovered strongly in 2022 and momentum to continue in 2023.



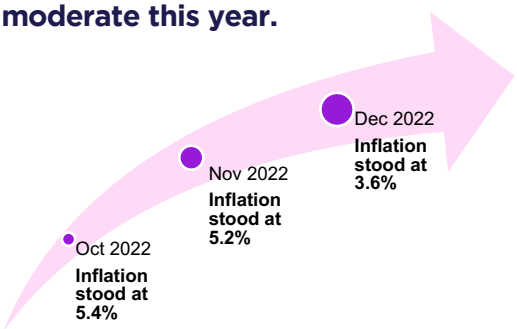
Fijian economy is expected to grow further in 2023.



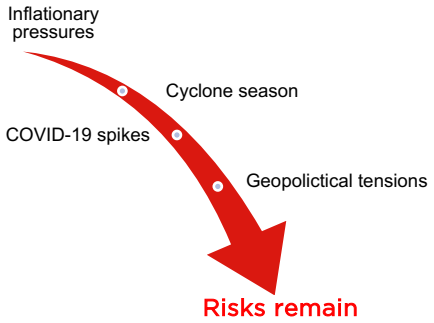
Fiji's financial and external sectors remain stable with ample liquidity and foreign reserves.



Inflationary pressures continue to weigh on the economy but expected to moderate this year.



Other risks also remain.



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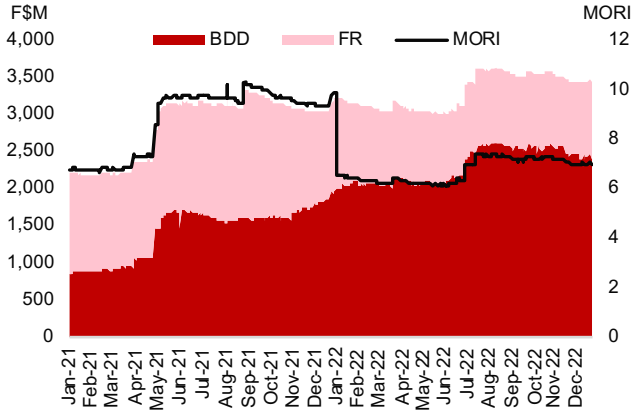
Fijian economy to grow further in 2023

2022 was a year of transition for the Fijian economy, from dealing with the worst of COVID-19 related uncertainties at the beginning of the year to the revival of the tourism industry and ending the year with a successful general election. While small outbreaks have become common, widespread vaccination has assisted in easing most COVID-19 restrictions, the most important one being the reopening of international borders. According to the Ministry of Health & Medical Services, 100% of the estimated adult population have received the first dose, and 95% have received the second dose. Furthermore, as at the end of 2022, 170,366 (54.5%) booster-eligible individuals have received the third dose, while 28,913 individuals have received the fourth dose. Given this progress on the vaccination front, Fiji was chosen as a safe travel destination by more than 600,000 visitors last year, which set the tone for the normalisation of economic activity and an upbeat recovery. Adding to this is the successful general election held in Fiji on 14 December 2022. Since no political party won an outright majority, a coalition Government was formed through an alliance between three political parties. The successful transition to a new Government has provided the country with a much-needed confidence boost, as there was uncertainty surrounding the outcome for most of the year. The above three factors will further shape the economic growth prospects for Fiji in 2023.

The Fijian economy has been performing better than expected, bolstered by the influx of tourists that has outperformed expectations in 2022. This development has led to consistent robust demand in the economy, improvement in employment and increased sectoral outcomes. Available annual data from 2022 suggest that consumption-related spending rose, which contributed to an improvement in aggregate demand. With the domestic economy recovering well, Fiji's Gross Domestic Product (GDP) in 2022 is estimated to have registered a double-digit growth (13.0%), ending three consecutive years of economic contraction. Tourism demand for 2023 looks promising, and visitor arrivals could likely match 2019 levels by the end of this year. It is also anticipated that investment-related sectors will improve further this year on the back of more certainty in the business environment. As such, we expect real GDP to grow by 7.2 percent in 2023, led by continued momentum in most sectors of the economy. Compared to our last quarterly update, the growth in real GDP has been revised marginally lower due to the impact of volatile global developments that have a significant influence on domestic economic outcomes and could slow the current growth momentum moving ahead. Nonetheless, 2023 is anticipated to be a remarkable year of growth. For 2024, we anticipate further growth of 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. Although the past two to three years have been difficult for the financial sector in Fiji, the industry has remained resilient, and the overall performance of commercial banks has continued to be stable based on marginal asset quality and earnings levels. Capital and liquidity also continue to be assessed as satisfactory. The latest data show that the out-turns in the financial sector are aligned with improvements noted in the real 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 the end of January 2023, banking system liquidity stands at above $2.4 billion, supported by foreign reserves, which stand at above $3.4 billion, sufficient to cover more than 6.9 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 on the back of borrowings (as per the last National Budget) as the gross government 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.

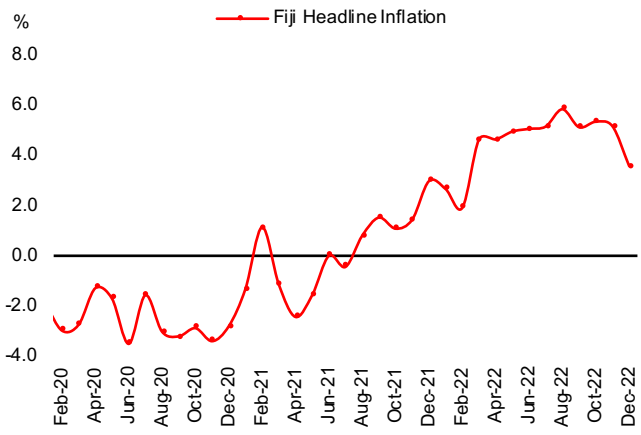
Chart 1: Liquidity and Foreign Reserves



Source: Reserve Bank of Fiji and Westpac Fiji calculations

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 December 2022, it stood at 3.6 percent, mainly driven by the increase in food and energy costs. 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. Inflation is expected to moderate this year.

Chart 2: Headline Inflation in Fiji



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. The COVID-19 outbreak in China and other countries also poses a significant risk in terms of supply chain issues. Natural disasters and adverse weather conditions pose some downside risks to the growth outlook and could derail the expected recovery of the Fijian economy.

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Real GDP - Top Sectors for the Fijian Economy in 2023

- After three consecutive years of economic contraction from 2019 to 2021, mainly due to the impact of the COVID-19 pandemic and the resulting economic slowdown, the Fijian economy made significant progress in 2022 on the back of international borders reopening which enabled the economy to propel its way towards much-anticipated recovery.

- The tourism industry in Fiji has been the key driver for the economic bounceback as a large portion of the economy is directly and indirectly linked to the performance of the industry. The reopening of international borders on 1 December 2021 has proven successful, with the revival of hotels and restaurants and the return of thousands to the workforce leading the way for a turnaround in the economy.

- Available data from the Fiji Bureau of Statistics show that cumulative to November 2022, Fiji received a total of 560,732 visitors, bringing around $1.73 billion to the visitor economy, which would spill over into various sectors of the economy. Given the strong recovery in the tourism industry and accounting for the impact of the surge in inflation in 2022 due to supply-side factors, the Fijian economy is estimated to have rebounded significantly last year with GDP growth of around 13.0 percent. The top sectors that contributed to growth in 2022 were service-related sectors such as accommodation & food services and transport & and storage, given that the inflow of tourists directly supports activities in these sectors. The wholesale & retail trade sector is estimated to have experienced a turnaround, in addition to the business services sector, mainly finance & insurance, as commercial bank lending increased due to recovering domestic demand.

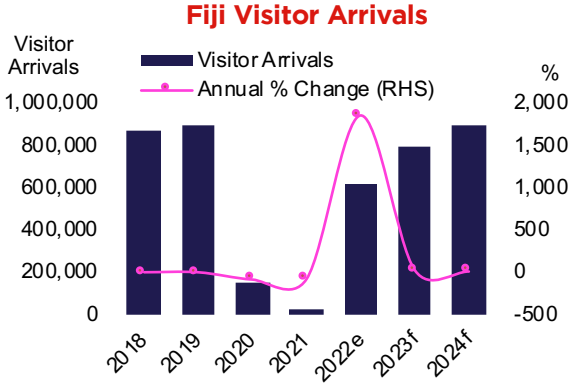
- For 2023, tourism activity is expected to continue and increase further, and visitor arrivals could likely return to 2019 levels much earlier than anticipated. Fiji's tourism industry has adapted well to COVID-19 and has proven that Fiji is a safe place to visit, evident in the turnout of visitors in 2022.

- Additionally, one of the major factors that further boosts the Fijian economy is the successful 2022 General Election and transition to the new Government. The general election was held in Fiji on 14 December 2022, and as no political party won an outright majority, a coalition Government was formed. Given the political history of Fiji, investments slowed during the election year due to uncertainties. However, with elections now over and a new Government in place, the investment environment in Fiji has once again gained much-needed confidence. This will see a turnaround in investment-related sectors and boost growth further in 2023. With no major policy reversals anticipated and the new Government's growth mindset, the Fijian economy is expected to continue its recovery and work towards levelling off to 2019 levels in the medium term.

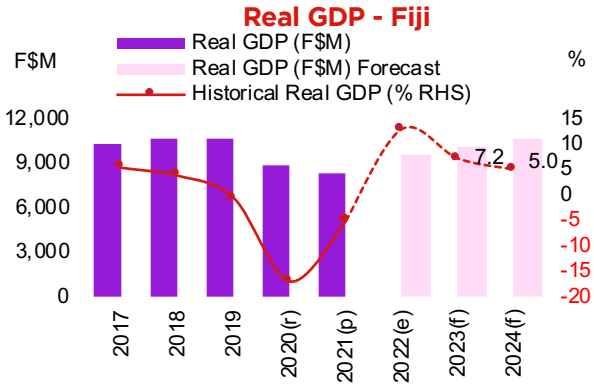
- Against this backdrop, we expect real GDP to grow by 7.2 percent in 2023, led by sectors such as accommodation & food services, transport & storage, finance & insurance, construction and manufacturing. We expect the economy to continue to grow in 2024 with a baseline growth of 5.0 percent.

- 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.

Top 5 Sectors for 2023



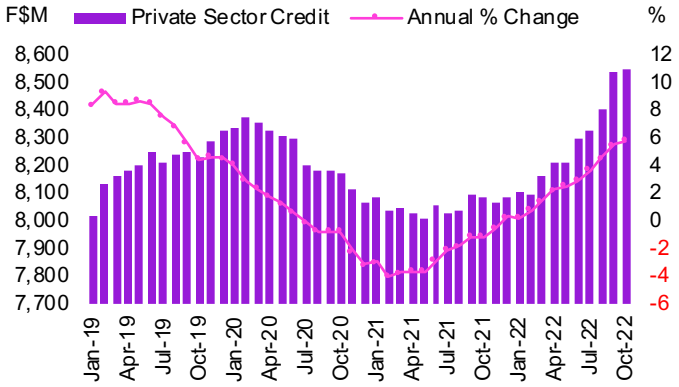
Source: Fiji Bureau of Statistics and Westpac Fiji calculations



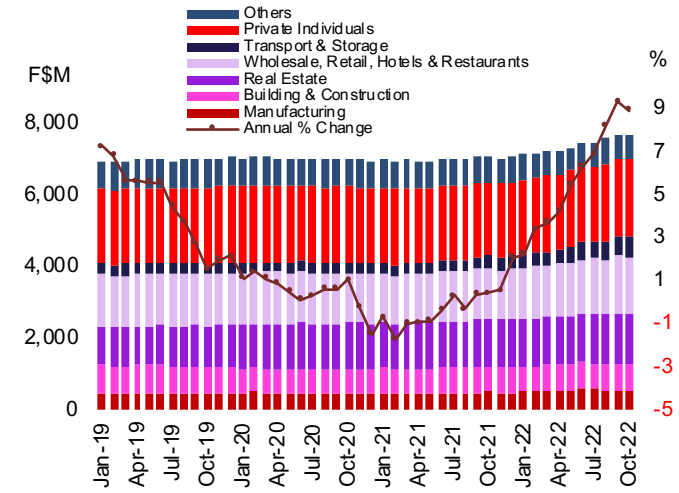
Source: Fiji Bureau of Statistics and Westpac Fiji calculations

Financial Sector Outcomes for Fiji

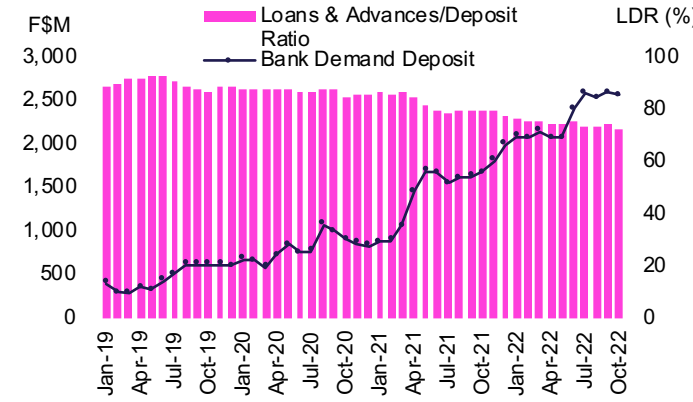
Credit Growth in Fiji



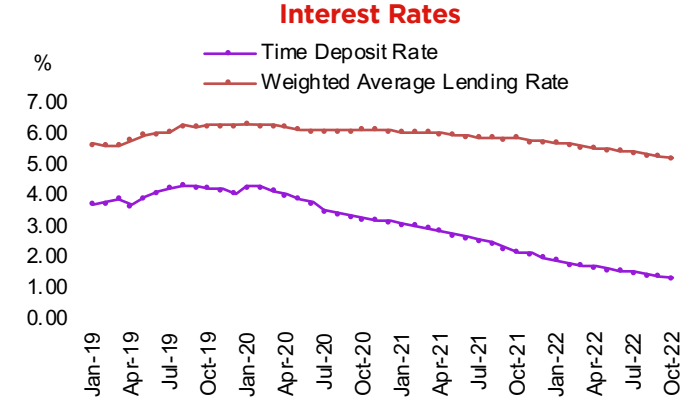
Commercial Banks' Loan Portfolio



Liquidity Position and LDR



Interest Rates



Source: Fiji Bureau of Statistics and Westpac Fiji calculations

- The reopening of international borders in December 2021 and the easing of COVID-19 related restrictions in Fiji have supported the financial sector in the second half of last year.
- Outcomes in the financial sector matched the rebound in the real sector as lending rose in an environment of ample liquidity and low interest rates.
- Private Sector Credit (PSC) growth, which was in the negative territory for 17 consecutive months from July 2020 to November 2021, noted a gradual turnaround in 2022 and continued to grow till the year's end, supported by growth in new loans by commercial banks.
- Commercial banks' total loan growth stumbled in 2020 and the first half of 2021 due to a fragile business environment and lacklustre demand. The loan growth improved in 2022 as the wholesale & retail trade and transport & storage sectors quickly recovered after international borders reopened.
- With the completion of the 2022 General Election and the successful transition to the new Government, the investment environment is conducive to growth. As such, we expect commercial banks' new lending for investment purposes, particularly for building & construction and real estate, to increase in 2023. We also expect further growth in consumption-related lending for housing and personal transport. With the manufacturing sector also slated for another year of growth, new lending for this is anticipated to pick up further.
- Although the past two to three years have been difficult for the financial sector in Fiji, the industry has remained resilient, and the overall performance of commercial banks has continued to be stable based on marginal asset quality and earnings levels. Capital and liquidity also continue to be assessed as satisfactory.
- Commercial banks' liquidity position remained satisfactory over the year, as the liquid assets ratio, which is an indicator of the liquidity available to meet expected and unexpected demand for cash, remained at satisfactory levels. The loan-to-deposit ratio slightly decreased to 72.4 percent.
- On the back of high liquidity levels, interest rates continued to trend downwards in 2022. The Reserve Bank of Fiji continues to have an accommodative monetary policy stance, and interest rates are expected to remain low in the medium term.
- Overall, improved economic conditions have reduced financial system vulnerabilities and have seen increased earnings for businesses and households alike, strengthening balance sheets and debt repayment capacities.

Notes:

1. 'Other Sectors' in commercial banks' lending categories include electricity, gas & water, agriculture, mining & quarrying, non-bank financial institutions, public enterprise, professional & business services, central & local government, and others.
2. Household sector refers to the private individuals' sector which accounts for the largest portion (30 percent) of total lending followed by wholesale, retail, hotel & restaurants and real estate sectors.
3. The loan-to-deposit ratio (LDR) is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period. The LDR is expressed as a percentage. If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements. Conversely, if the ratio is too low, the bank may not be earning as much as it could be.

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External Sector Wrap

- As with the rest of the world, the COVID-19 pandemic affected trade in Fiji over the last two years. With international borders closed in 2020 and most of 2021, the export and import of goods were affected. While the decline in exports negatively impacted foreign reserve earnings, the reduction in the import bill in the same period took some pressure off foreign reserves.

- With the reopening of international borders, trade with major trading partners has gained momentum. Total exports and imports rose in 2022, resulting in a trade deficit as growth in imports was faster than growth in exports.

- For 2023, total exports are expected to grow in line with the anticipated improvement in domestic activity and growth in Fiji's major trading partners. Moreover, the expected recovery in international travel and growth in PICs should bolster re-exports over the short term.

- Total imports are also projected to increase this year. While global commodity prices and inflationary pressures in trading partners are anticipated to moderate to some extent, the continued growth in the domestic economy and the stabilisation of prices at relatively higher levels will lead to continued expansion in imports.

- Tourism earnings contracted significantly in 2020 and 2021 as earnings across all tourism source markets fell. In 2022, tourism earnings rose substantially on the back of borders reopening and the subsequent increase in visitor arrivals coupled with higher per-diem expenditure (due to pent-up demand and higher inflation).

- For 2023 and 2024, tourism earnings are projected to grow further and hit the $2.0 billion mark, in line with the recovery in visitor arrivals and rising per-diem expenditure.

- Additionally, the inflow of personal remittances continues to support the Fijian economy and boost foreign reserves. Inward remittances totalled $842.9 million cumulative to October 2022, higher than the annual amount received in 2021, led by growth in personal transfers. The strong growth in personal transfers was largely driven by inflows via mobile money.

- While the widening trade deficit will put some pressure on foreign reserves this year, it will be financed by increasing tourism earnings and remittances. As such, foreign reserves are projected to remain at comfortable levels in the medium term.

- Overall, Fiji's external sector is expected to remain stable.

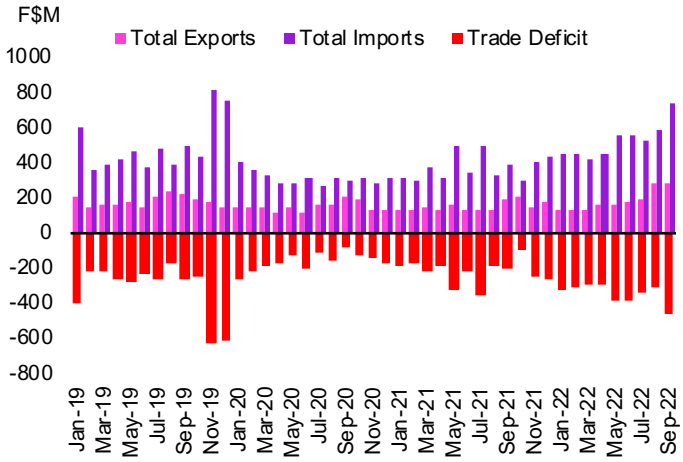
Notes:

1. The International Merchandise Trade Statistics by FBOS provides information on Fiji's exports, re-exports and imports of goods between Fiji and the rest of the world. The administrative data used to compile this release is supplied by the Fiji Revenue and Customs Service (FRCS).

2. Definition of remittances category as follows: 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 are 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.

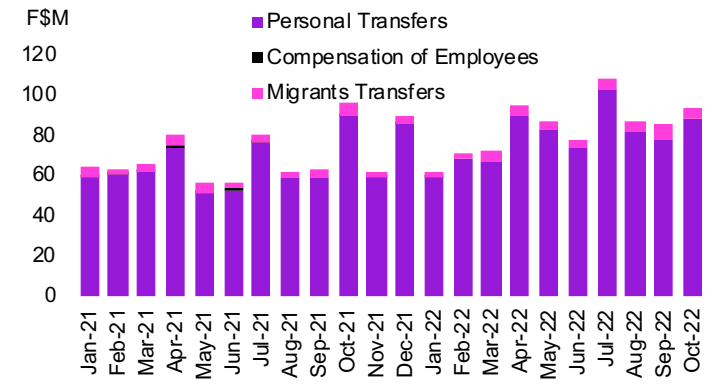
3. Fiji's official foreign reserves are those assets that are held in foreign currencies by the Reserve Bank of Fiji.

Trade Balance

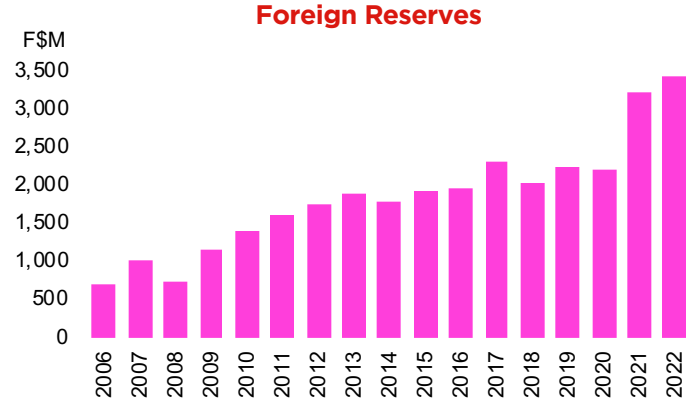


Tourism Earnings

Remittance Components



Foreign Reserves



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

Economic & Financial Statistics/Forecasts

Economic Statistics (annual unless otherwise stated)

Fiji	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Outlook for 2023
Visitor Arrivals (%)	5,237.9	5,915.7	6,376.7	6,581.7	n.a	Increase
Net VAT (%)	84.9	87.1	88.3	90.3	n.a	Increase
Personal Remittance (%)	24.4	25.5	21.7	n.a	n.a	Increase
Private Sector Credit (%)	4.6	5.5	5.6	7.0	n.a	Increase
Liquidity (F$M)	2,585.4	2,584.7	2,562.2	2,457.9	2,413.5	Remain ample
Foreign Reserves (F$M)	3,596.0	3,547.7	3,557.4	3,439.6	3,426.3	Remain adequate
MORI	7.2	7.2	7.2	7.0	6.9	-
Inflation (%)	5.9	5.1	5.4	5.2	3.6	Moderate
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
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
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

Source: Reserve Bank of Fiji and Westpac Fiji calculations

Exchange Rate Forecast

Fiji	Latest	Mar-23	Jun-23	Sept-23	Dec-23	Dec-24	Dec-25	Dec-26
FJD-USD	0.4556	0.4537	0.4575	0.4634	0.4788	0.4759	0.4759	0.4801
FJD-AUD	0.6582	0.6575	0.6535	0.6436	0.6218	0.6345	0.6345	0.6317
FJD-EUR	0.4203	0.4280	0.4275	0.4252	0.4163	0.4067	0.4067	0.4139
FJD-JPY	58.471	61.697	61.759	62.098	59.368	57.10	57.10	55.20
FJD-NZD	0.7116	0.7088	0.7038	0.7022	0.7041	0.6998	0.6998	0.6957

Source: Westpac Fiji calculations

Interest Rate Forecast

Australia	Latest	Mar-23	Jun-23	Sept-23	Dec-23	Mar-24	Jun-24	Sept-24	Dec-24
Cash	3.10	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
10 Year Bond	3.39	3.20	3.10	3.00	2.90	2.80	2.70	2.60	2.50
US									
Fed Funds	3.875	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.50	3.40	3.30	3.20	3.00	2.90	2.70	2.60	2.50
New Zealand									
Cash	4.25	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75
10 Year Bond	4.14	4.00	3.95	3.90	3.80	3.70	3.60	3.50	3.50

Source: Westpac Economics

Global & Trading Partner Growth Forecast (%)

	2018	2019	2020e	2021f	2022f	2023f
World Economy	2.8	-3.1	6.0	3.2	2.7	2.8
US	2.2	-3.4	5.7	1.6	1.0	2.2
Eurozone	1.3	-6.4	5.2	3.1	0.5	1.3
Australia*	2.0	-2.1	4.9	3.8	1.9	2.0
New Zealand*	2.9	-2.1	5.6	2.3	1.9	2.9
Japan	0.3	-4.5	1.7	1.7	1.6	0.3
China	6.0	2.2	8.1	3.1	4.4	6.0
India	4.2	-6.6	8.7	6.8	6.1	4.2

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

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