



Fiji

Fiji's rather uneven economic performance over recent years was evident again in 1995. Although output of some sectors of the economy improved, overall economic growth was well below that recorded in 1994. Although the fiscal deficit increased, the external accounts showed some improvement, with foreign reserves strengthening following two years of decline. Little substantive progress was made, however, in reducing the extent of government involvement in, and regulation of, the economy or in reforming public enterprise. The process of tariff reduction was suspended. Private investment remained at low levels and is unlikely to improve in the near future, especially while political uncertainties about constitutional reform and agricultural leasehold arrangements continue to sap investor confidence. Government policy objectives in a number of areas of concern to the business community also need to be clarified.

Recent Trends and Prospects

A decline in sugar production of some 10 percent from the high level achieved in 1994 when cane quality was exceptionally good was the main factor leading to a contraction in GDP growth in 1995 to 2.2 percent from 4.5 percent in the previous year (Figure 2.25). As regards other sectors, fisheries output increased by 10 percent and forestry by 6 percent. In the industry sector, construction activity continued to improve, while manufacturing output (excluding sugar production) rose by over 6 percent, with important gains being made in food production, fish processing, and garment manufacture. In the services

sector, although the contribution of community and personal services declined, transport activity rose by some 5 percent and output of the distributive trades, hotels, and activities associated with tourism services increased by more than 8 percent.

Gross domestic investment is estimated to have remained at the relatively low level of around 13 percent of GDP, in line with the average rate during the first half of the 1990s but well below the average of over 20 percent a decade earlier. Private fixed investment, which had averaged about 12 percent of GDP at that time, averaged less than 5 percent annually during 1993–1995.

The Government's fiscal position in 1995 was less satisfactory than in the previous year. The net overall deficit was estimated at 2.6 percent of GDP compared with 1.7 percent in 1994. Higher debt-servicing cost was the main factor in the 4.2 percent rise in current expenditure. Current revenue was slightly below its 1994 levels because of a drop in non-tax receipts. The net deficit was to be financed almost wholly from domestic sources, with net overseas borrowing restricted to less than Fiji dollar (F\$) 4 million, about half that in 1994.

Monetary policy in 1995 continued to emphasize the objectives of strengthening external reserves and keeping inflation at a low level. Domestic credit growth was only 1.5 percent compared with over 4 percent in 1994. Private sector credit, the main component, expanded by 4.2 percent, less than half the rate of increase recorded in 1994, a principal factor being a contraction in net agricultural lending. Credit to other sectors of the economy, such as manufacturing and service industries,

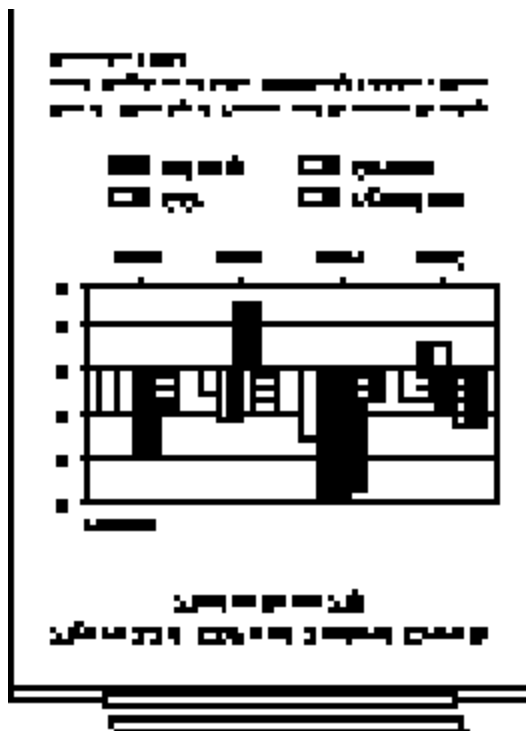
increased during the year. Money supply (M2) growth, though higher than in 1994, was modest at 5.3 percent. The rate of inflation, which was only 0.6 percent in 1994, began to rise early in 1995 but was held in check at 2 percent for the year as a whole. Higher import prices and increases in various government charges and public enterprise prices were largely responsible.

Fiji's balance-of-payments position improved in 1995. With improved export earnings and inputs at much the same level as in 1994, the trade deficit declined. Higher net services earnings, partly because of increased tourism, helped to yield a small current account surplus equivalent to 0.2 percent of GDP, a significant improvement from the deficit of 3.7 percent of GDP recorded in 1994. Allowing for capital transactions, an overall surplus equal to 3 percent of GDP was achieved in 1995. External reserves thus received a useful boost, reaching the equivalent of five-and-a-half months of imports by the end of 1995.

Overall economic growth is expected to improve to about 2.9 percent in 1996. Sugar production is projected to be somewhat higher than in 1995; tourist arrivals should increase; and growth in the output of mining, fisheries, forestry, construction, and industry is forecast.

The government budget for 1996 provides for an increase in total expenditure of 6 percent in real terms as against a rise in revenue of about 4 percent. The net fiscal deficit is estimated to rise to 3.6 percent of GDP and is planned to be covered by higher external as well as domestic borrowing. Money supply (M2) growth is expected to be kept to 5.6 percent, little changed from 1995. Domestic credit expansion will be around 8 percent, with private sector credit increasing more rapidly than in 1995 at 5.6 percent. Credit to government and official entities is projected to rise by around 25 percent. Monetary policy will continue to be used to hold inflation in check at about the 2 percent level, much the same as in 1995.

The external account position is expected to continue improving in 1996. Though exports are likely to rise only marginally, imports will be about the same as in 1995 so that the trade deficit will decline further. With a rise in net services income, especially because of increased tourism, the current account surplus is projected to improve further to about 2 percent of GDP in 1996.



Policy and Development Issues

Achievement of sustainable economic growth over the longer term at a rate sufficient to generate increased per capita incomes and provide employment for the growing labor force requires urgent attention to several issues. The rate of investment needs to be restored at least to the levels enjoyed in the first half of the 1980s. A resurgence of investor confidence is needed, which requires the early and satisfactory resolution of the questions of constitutional rights for the Indo-Fijian population and security of tenure in agricultural land leasehold arrangements, due for renewal in 1997. Also required is government articulation of a credible and transparent strategy for growth, which minimizes the obstacles in the way of the private sector playing a major role in the development process. There needs to be a stronger and more resolute commitment to economic deregulation, substantial corporatization and privatization of public enterprise, and greater emphasis in public expenditure on improving physical infrastructure and human capital development. Finally, restructuring of the productive base of the economy is required to reduce reliance on sugar production. The expansion and diversification of agricultural exports will help to achieve that objective.