

Fiji Islands

Modest growth in 2008 was achieved in the face of rising inflation and continued political uncertainty, which eroded business confidence and aid from donors. The economy is expected to contract in 2009, owing to severe flood damage early this year and the impact on tourism and remittances of the global downturn. A significant improvement in prospects depends on a return to elected government and on reforms to encourage investment.

Economic performance

Rebounding from a 6.6% contraction in 2007, the economy grew by 1.2% in 2008 (Figure 3.32.1). An 8.7% increase in visitor arrivals in the 12 months to November contributed to the turnaround, although price discounting to attract tourists suppressed income (Figure 3.32.2). Wholesale and retail trade grew by an estimated 3.0% in 2008, hotels and restaurants by 6.0%, and transport and communications by 3.2%.

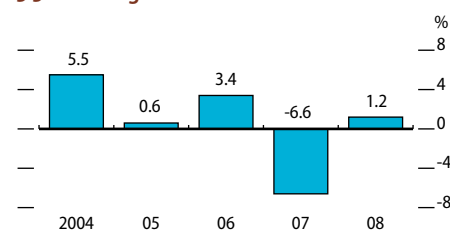
Gold (rebuilding from almost no output in 2007) and mineral-water production also rose last year. However, bad weather reduced sugar output by 7.0%, to the lowest level since 1962. Manufacturing recorded growth of just 0.9%, weighed down by the contraction in recent years of the clothing and footwear industry, which has faced an erosion of its concessional access to the Australian, New Zealand, and United States (US) markets.

This low rate of economic growth partly reflects the impact of the December 2006 military coup, which installed an interim government. In particular, lack of progress toward elections has led to a reduction in assistance from traditional donors and multilateral agencies. The European Union, for example, has approved the disbursement of only €4 million of €64 million it planned to provide as assistance for the sugar industry in 2006–2010. Moreover, business confidence slumped after the coup. Low economic growth also reflects structural problems that have constrained economic performance for two decades, hampering investment, exports, and employment creation.

The interim Government acted to moderate the inflation impact on end-users of higher world oil prices by reducing duties on fuel. Nevertheless, inflation accelerated to a 20-year high of 9.8% in September 2008 year on year, driven by rising food and fuel prices coupled with second-round effects of higher oil prices, such as on transport. Inflation decelerated to 6.6% by year-end as global oil and commodity prices declined (Figure 3.32.3), averaging 7.7% for the year.

The Reserve Bank of Fiji maintained a generally firm monetary policy stance since late 2006 to protect shrinking foreign reserves and to curb inflation. Some credit restrictions were eased in 2007 and 2008. Growth of private sector credit picked up, but remained low at 4.8%.

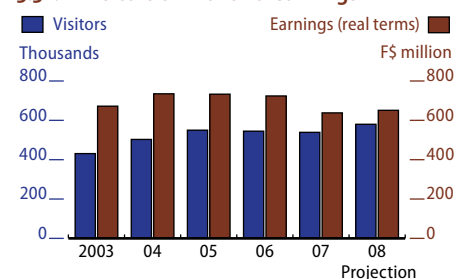
3.32.1 GDP growth



Sources: Fiji Islands Bureau of Statistics, available: http://www.spc.int/prism/country/fj/stats/Economic/gdp_summary.htm, downloaded 4 February 2009; Ministry of Finance and Planning, *Economic and Fiscal Update: Supplement to the 2009 Budget Address*, November 2008.

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3.32.2 Visitors arrival and earnings



Source: Ministry of Finance and Planning, *Economic and Fiscal Update: Supplement to the 2009 Budget Address*, November 2008.

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Global economic conditions—primarily high oil prices—added to balance-of-payments pressure in 2008 (oil accounts for about one third of the import bill). Imports rose by 26.2%, outpacing export growth of 23.1% and pushing the trade deficit out to an estimated F\$2.1 billion. The current account deficit widened to about 21.0% of GDP, from 17.3% in 2007. Official reserves fell to the equivalent of 2.7 months of imports by end-February 2009 (Figure 3.32.4).

Remittances from Fijians abroad, the biggest source of foreign exchange after tourism, fell to 3.3% of GDP in 2008 (Figure 3.32.5), continuing a downtrend from a peak in 2005. A slackening in offshore employment opportunities owing to the global economic slowdown and an appreciation of the local currency against the Australian and New Zealand dollars contributed to the decline in remittances.

An expanded capital investment program that the interim Government had planned for 2008 faced delays, reflecting a lack of project implementation capacity in some ministries. Government staffing costs, which constitute nearly half all public operating expenditure, rose by 0.9% in 2008, when pay cuts made in 2007 were partly restored. Receipts from direct taxes rose by 0.9% and from indirect taxes by 1.7%. The overall fiscal deficit for 2008 is estimated at 1.5% of GDP. General government debt as a ratio to GDP was 48% at year-end, down from 50.3% in 2007. About 85% of it is domestic debt.

The real effective exchange rate index appreciated by 1.8%, indicating a worsening in international competitiveness against major trading partners.

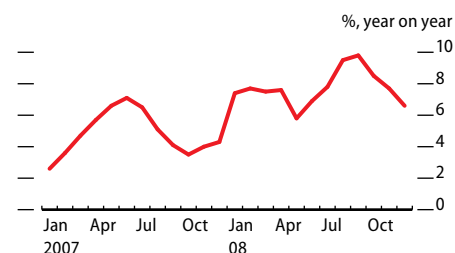
Economic prospects

The economic slowdown in the country's main trading partners, especially Australia, Japan, New Zealand, and the United States, will put downward pressure on tourism earnings and remittances this year. Additionally, severe flooding in January this year caused about US\$60 million of damage (equivalent to 2.2% of GDP) to sugar, other crops, and livestock as well as to physical infrastructure such as roads and electricity facilities, according to preliminary official figures. Private sector losses in Nadi were estimated at over US\$160 million. Tourism facilities were generally spared, but overseas reports about the floods will have some negative impact on tourism in the early part of this year.

While reconstruction efforts will generate activity and jobs in flood-affected areas, to some extent this will be at the expense of activity elsewhere. The outcome is expected to be a GDP contraction of 0.5% this year.

A potential positive element for the economy is an expansionary 2009 budget designed to favor growth and the poor. Planned extra spending is expected to contribute to a widening of the budget deficit to 3.0% of GDP, despite some offsetting revenue-raising measures. The focus is on development of agriculture and rural infrastructure. Government debt is projected to stay at the 2008 level, 48% of GDP. The expanded capital investment program pursued in 2008 has continued into 2009, though implementation hurdles make it unlikely that all capital spending targets will be met.

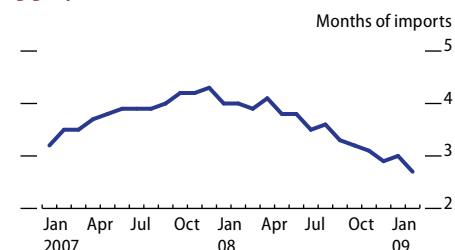
3.32.3 Inflation



Source: Fiji Islands Bureau of Statistics, available: <http://www.spc.int/prism/country/fj/stats/>, downloaded 4 February 2009.

[Click here for figure data](#)

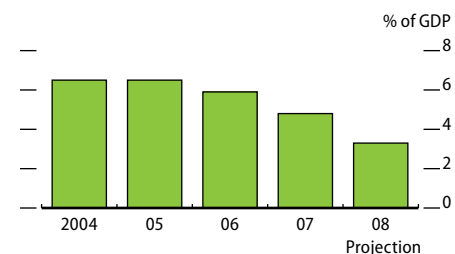
3.32.4 Reserves



Source: Reserve Bank of Fiji, *Monthly Economic Review*, various issues.

[Click here for figure data](#)

3.32.5 Remittances



Note: The 2008 projection is based on data to July.

Sources: Reserve Bank of Fiji, *Monthly Economic Review*, various issues; staff estimates.

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Indeed, investment overall is expected to remain slack, reflecting weak business confidence, reduced access to funding from abroad, and the chronic problem of high levels of government operating expenditures (mainly the result of a large public payroll) that compress capital expenditures. Investment as a ratio to GDP has been relatively low at about 15%, and is expected to decline this year.

The trade gap is expected to widen as external demand weakens. This will exert further pressure on foreign reserves, which are already low. The current account deficit is projected at about 25% of GDP in 2009 and 2010, reflecting the deterioration in merchandise trade and reduced transfer payments. Inflation is forecast to fall to 4.5% in 2009, given weaker global prices of oil and other commodities.

GDP growth is expected to resume at a low level of 0.2% in 2010, if trading-partner economies start to recover as assumed. The economic outlook also heavily depends on the interim administration holding national elections. Not only does this have a bearing on business confidence, it is integral to accessing European Union funds for much-needed sugar reforms, as well as grant funds from Australia and New Zealand. In late 2008, the interim prime minister stated that there would be no elections in 2009. Responding to this, leaders of Pacific Islands Forum member countries meeting in late January this year announced that Fiji Islands' representatives would be excluded from Forum activities, and that other sanctions might be imposed unless a 2009 election date were announced by 1 May.

Development challenges

There are indications that the incidence of poverty is rising, a result of long-term declines in the sugar and clothing industries, the impact of several coups, and, more recently, external shocks that raised food and fuel prices and further undermined growth. Over 25% of the population has an income below a basic needs poverty line. Pockets of deep poverty are found in town squatter settlements and more widespread poverty is apparent in rural areas. Much of the poverty reflects poor housing and lack of access to health and education services. The country has, in fact, a very low incidence of hunger and malnutrition.

Economic performance has been lackluster for some time: GDP growth averaged 1.7% in the 10 years to 2007 (1.2% on a per capita basis). Investment is discouraged by political instability (with four coups since May 1987), a cumbersome regulatory and tax environment, and weaknesses in property rights.

Sustainable growth is likely to require a better climate for private-sector development so as to generate jobs and exports. The interim Government is offering tax incentives in an effort to attract investment in export industries. But this move does not address the fundamental constraints and it risks weakening the fiscal position, particularly if it leads to demands for tax breaks by other industries, and if other countries undercut the incentives by offering similar or more generous concessions.

3.32.1 Selected economic indicators (%)

	2009	2010
GDP growth	-0.5	0.2
Inflation	4.5	4.5
Current account balance (share of GDP)	-25.0	-25.0

Source: Staff estimates.