# Fiji

Economic growth picked up in 2013, stimulated by an expansion of government expenditure to rehabilitate and upgrade the country's road network, and by increased domestic investment and consumption. Business confidence continues to strengthen as clear progress is made toward elections scheduled for September 2014. Sustaining recent increases in domestic demand and private sector investment is vital to maintaining growth and achieving fiscal sustainability in the long run.

## Economic performance

The latest official estimate is that Fiji posted 3.6% GDP growth in 2013 as the economy rebounded from poor performances in agriculture and mining, and from severe flooding at the start of 2012 (Figure 3.32.1). Recovery in agricultural output and stronger performances in wholesale and retail trade, transport and storage, communication, and financial intermediation contributed to broad-based economic growth. As preparations for elections in September 2014 have achieved their milestones, domestic investor confidence has improved and private sector activity has rebounded after a weak 2012.

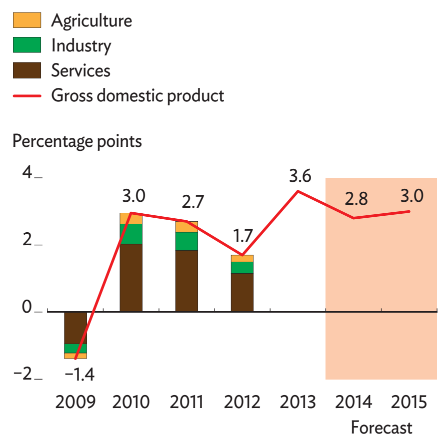
The government's expansionary fiscal policy increased expenditure by 12% in 2013, boosting both public and private investment. Projects to rehabilitate and upgrade the country's road network drove an increase of more than 30% in capital expenditure during the year. Buoyant construction drove domestic cement sales up by 20% in 2013 and imports of investment goods up by 27% from January to November 2013.

Consumption indicators also showed consumer spending strengthening over the course of the year, supported by higher disposable incomes. Tax cuts and higher tax thresholds, combined with strong remittance inflows—which rose by 6.9% over the year to October—fueled consumption growth. Higher consumption spending was reflected in higher value-added tax revenues, which increased by 11.1%.

The performance of Fiji's leading production sectors—sugar, tourism, and gold—was mixed in 2013. Total production of sugar, Fiji's primary agricultural commodity, increased by 16.2%, reversing a contraction of 7.1% in 2012. Better-quality cane and recent investments that improved the operational efficiency of mills contributed to growth. Latest data from the Fiji Bureau of Statistics indicate that the value of sugar exports in 2013 was only 3.6% higher than in the previous year because international prices for the commodity fell (Figure 3.32.2).

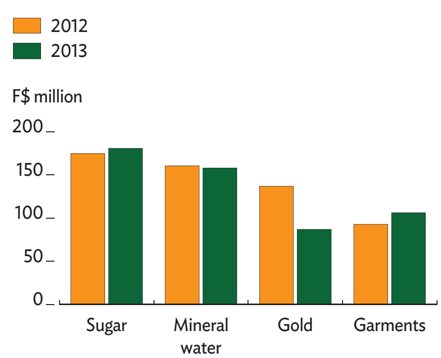
Gold production, which declined by 8.0% in 2012, fell even further by 15.6% in 2013 as production performed below expectations.

**3.32.1 Supply-side contributions to growth**




*Sources:* Fiji Bureau of Statistics; ADB estimates.
Click here for figure data

**3.32.2 Principal exports**




*Sources:* Fiji Bureau of Statistics; ADB estimates.
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Lower gold prices meant that the value of gold exports fell by 36.4% during the year. Vatakoula Gold Mines, the operator of the country's single gold mine, is investing in capital works and exploration aimed at improving production from the mine.

Tourist arrivals stabilized over the first 3 quarters of 2013 with a small increase of 0.4%, following a 2.5% fall in 2012. Arrivals from Australia, by far the largest source of foreign tourists, mirrored this trend, growing by 0.4% in 2013. The number of arrivals from New Zealand, Fiji's second-largest overseas tourist market, posted 7.2% growth over the year (Figure 3.32.3). Tourism receipts registered a 1.7% increase over the first 3 quarters of the year, suggesting rising expenditure per tourist.

Inflation moderated to an average annual rate of 2.9% from 3.4% in 2012 (Figure 3.32.4). Early inflationary pressures from supply disruptions caused by Cyclone Evan dissipated quickly, then lower international commodity prices kept inflation low until late in the year, when rising fuel prices began to push it up again.

The current account deficit spiked last year, rising from 1.5% in 2012 to 18.5% in 2013 (Figure 3.32.5). Fiji Airways' purchase of three new aircraft at a total cost of about $600 million was the main factor behind the large deficit. Also, export revenues contracted by 5.0% during the year as revenues from gold and other commodity exports such as mineral water declined. The value of the country's imports of manufactured goods increased by 5.8% from January to October 2013. At the end of January 2014, foreign reserves stood at almost F$1.8 billion, equivalent to 4.7 months of import cover.

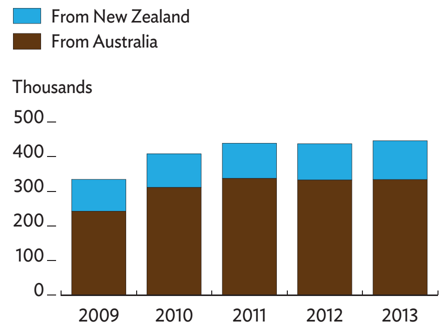
## Economic prospects

Growth is projected to moderate to 2.8% in 2014, as record investment growth levels off and the stimulatory effects of one-off tax cuts and higher tax thresholds in 2013 dissipate. The economic outlook continues to improve on previous projections, though, and early growth indicators are positive for 2014. In the near term, recently completed, ongoing, and planned projects—including the Damodar City project in Suva, a couple of large hotel and resort developments, and the upgrading of Nadi International Airport—are expected to boost employment and economic activity. In the longer term, these projects are seen to benefit tourism and related sectors such as transport and wholesale and retail trade.

Growth is projected to accelerate to 3.0% in 2015 with development partner financing in the post-election period, continued improvement in investor confidence, and rising private sector activity stemming from greater policy certainty. The current dependence on consumption-driven growth is unsustainable in the medium term, however, and some rebalancing toward broader-based growth is essential. One downside risk to growth is the large public debt, which was equal to 48% of GDP in 2013. A related risk is high contingent liabilities, which equaled 30% of GDP in the same year.

Fiji's inflation rate has moderated in recent years and is expected to remain at 3.0% in 2014 as projected declines in international food and fuel prices are offset by continued fiscal expansion. Inflation is seen

**3.32.3 Tourist arrivals from Australia and New Zealand**

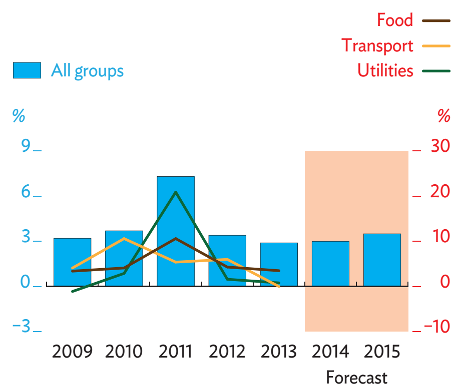



*Note:* Data for 2013 are estimates based on year-to-November 2013.

*Sources:* Australian Bureau of Statistics; Statistics New Zealand.

*Click here for figure data*

**3.32.4 Inflation**




*Sources:* Fiji Bureau of Statistics; ADB estimates.

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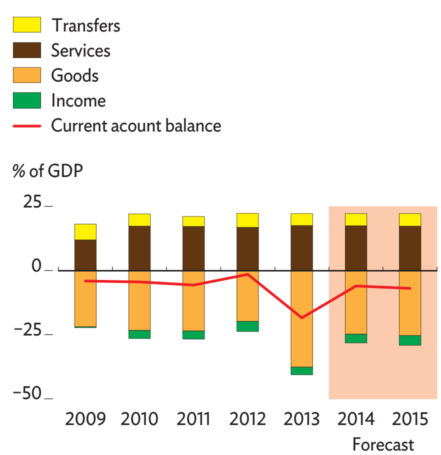
**3.32.5 Current account components**




*Source:* International Monetary Fund. 2013. *Republic of Fiji: Staff report for the 2013 Article IV Consultation*. December.

*Click here for figure data*

to accelerate to 3.5% in 2015 in line with the projected acceleration in growth.

The current account deficit is expected to show an improvement over 2013, narrowing to 6.1% of GDP in 2014 as tourism earnings and personal remittances rise. Exports are forecast to grow by 5.3% in 2014, while imports are expected to decline by 16.4% toward a more typical level following last year's aircraft purchases. The 2015 current account deficit is projected to widen to 7.1% of GDP, reflecting stronger investment and consumer demand in the economy.

Government expenditures are set to increase further by 28% in the 2014 budget as both recurrent and capital expenditure increase (Figure 3.32.6). Free primary and secondary education is a significant addition to recurrent expenditure. The budget forecasts a deficit equivalent to 1.9% of GDP, which would improve on the deficit of 2.8% recorded in 2013. The government's revenue forecast anticipates that continuing high domestic investment and consumption spending will bring an 11% increase in tax revenues, led by a projected 14% rise in value-added tax collections. If actual economic performance falls short of projections, the deficit will be wider. The target deficit counts revenue from the one-time sale of strategic assets, including overseas embassies and some of the better-performing state-owned enterprises, which will boost revenue only temporarily.

## Policy challenge—balancing fiscal sustainability and inclusive growth

The government is stepping up to the challenge of promoting inclusive growth to reduce poverty and achieve the Millennium Development Goals. A poverty benefit scheme budgeted at F$22 million will more than double coverage of the poor, from 3.0% to 6.4%. A F$3 million social pension fund will support those aged 70 and over who have no other pension, and a separate F$4.5 million fund will protect children. The introduction of free education, while untargeted, is a pillar of the government's strategy to alleviate poverty.

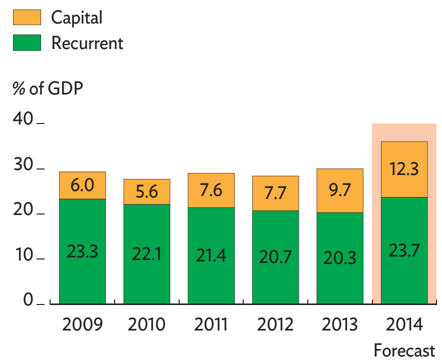
However, financing the increased public expenditure on social programs could require the government to take on substantial new debt or sell off public assets unless growth accelerates sharply. Balancing the goals of inclusive growth and fiscal sustainability will require the reinvigoration of private sector investment, which depends on improvements in the business environment. The main issues investors report relate to barriers faced in starting a business, trading across borders, and paying taxes. A return to elected government should be an important step toward restoring investor confidence. Greater public participation in policy development and progress in regional cooperation and integration initiatives should catalyze external demand and foreign investment.

**3.32.1 Selected economic indicators (%)**

| | 2014 | 2015 |
|---|---|---|
| GDP growth | 2.8 | 3.0 |
| Inflation | 3.0 | 3.5 |
| Current account balance (share of GDP) | −6.1 | −7.1 |

*Source:* ADB estimates.

**3.32.6 Components of government expenditure**




*Source:* Fiji Ministry of Finance. *Economic and Fiscal Update: Supplement to the 2014 Budget Address.*

*Click here for figure data*