FIJI

Continued recovery in tourism boosted economic growth in 2023. Pent-up demand led to record visitor arrivals despite high global inflation and tight monetary policies in key tourism markets. Tax reforms and increased demand supported robust government revenue despite tight labor market conditions from worker migration. The primary sector's contribution declined while industry rose moderately. The economic outlook is sluggish due to a projected slowdown in travel demand and significant capacity limits in tourism. Major government-led reforms are likely to generate new private sector investment, but their full impact may not be felt for several years.

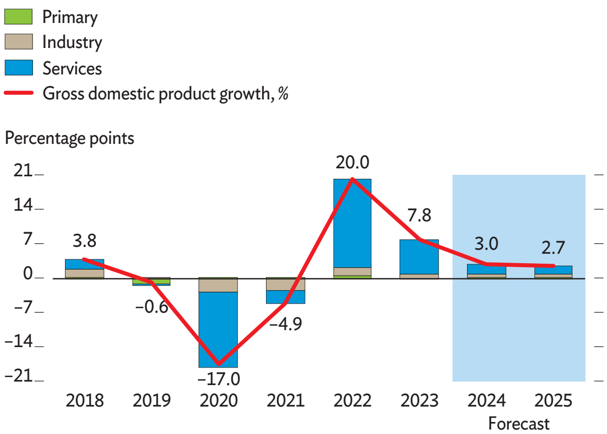
Economic Performance

GDP grew by 7.8% in 2023 on continued strong growth in tourism. Services, buoyed by a boost in tourist arrivals, continued as the main driver of economic activity, adding 6.9 percentage points. This had positive spillover effects on wholesale and retail trade, transportation, construction, and finance (Figure 2.33.1). Lower agricultural production led to its smaller contribution to GDP. Sugar and timber production fell significantly in 2023 due to adverse weather conditions and factory disruptions.

Visitor arrivals in 2023 exceeded pre-pandemic levels. Total arrivals were 4% higher than in 2019 (Figure 2.33.2). Arrivals from Australia (47% of the

Figure 2.33.1 Supply-Side Contributions to Growth

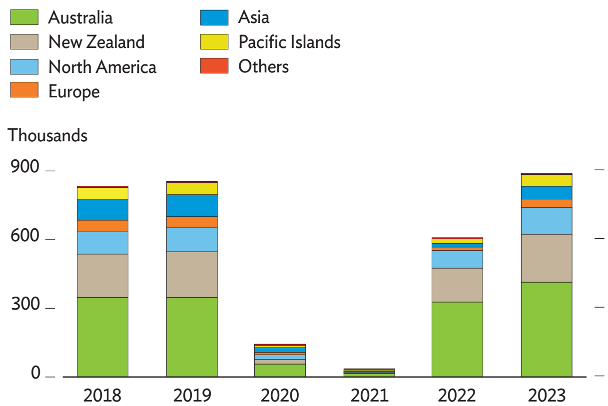
Tourism's recovery led economic growth in 2023.



Sources: Fiji Bureau of Statistics; Asian Development Bank estimates.

Figure 2.33.2 Visitor Arrivals

Arrivals reached record levels.



Source: Fiji Bureau of Statistics.

This chapter was written by Isoa Wainiqolo of the South Pacific Subregional Office, ADB, Suva, and Anna Jennifer L. Umlas, consultant, Pacific Department, ADB, Manila.

total), New Zealand (24%), the United States (11%), and Canada (2%) all exceeded 2019 levels. During the peak tourism season from June to September, major hotel occupancy rates were between 84% and 87%.

Consumption spending remained upbeat, supported by increases in personal income. Increased wages, a 15.6% surge in commercial bank lending, and record inward remittances (up 20.4%) helped finance high consumption in 2023. While new investment lending rose, actual investment was suppressed by high building material costs, as domestic cement sales fell by 5% during the year.

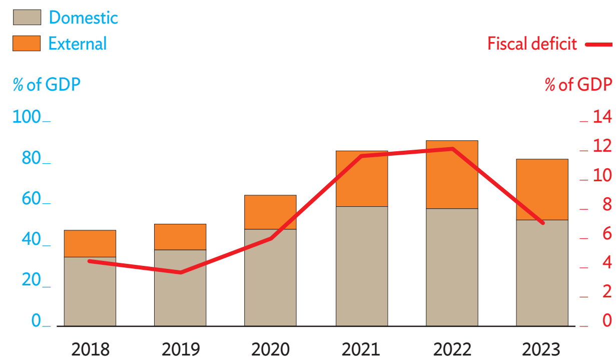
The fiscal deficit narrowed in 2023 due to high revenue collection. In line with general improvement in economic conditions, revenue rose by 22.6% in fiscal year 2023 (FY2023, ended 31 July 2023), largely due to increases in indirect tax revenues. Conversely, expenditure increased by only 0.6%, reflecting delays in capital project implementation and general government fiscal consolidation. This reduced the fiscal deficit to the equivalent of 6.9% of GDP, down from 11.9% the previous year (Figure 2.33.3).

As the deficit declined the debt-to-GDP ratio also fell. The debt-to-GDP ratio declined from 88.8% at the end of FY2022 to 80.0% at the end of FY2023. While the share of external debt to total debt has increased over time, much of it is concessional financing from multilateral and bilateral partners with low interest rates and extended maturity periods. Apart from FY2021 when Fiji repaid its global bonds, external loan repayments have stayed under 8% of government revenues (Figure 2.33.4).

Financial developments reflected the overall economic improvement in 2023. The weighted average lending rate of commercial banks fell to 4.77% in 2023 from 5.20% in 2022, indicative of stable liquidity positions. Private sector credit expanded by 7.6%, driven by increased lending for consumption and investment in real estate, housing, and tourism-related sectors.

Figure 2.33.3 Public Debt

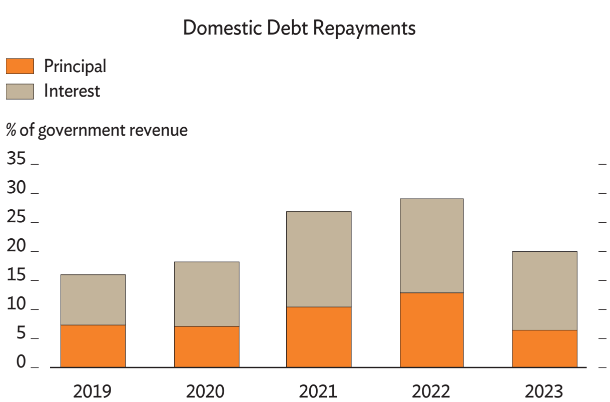
Improved revenue collection and tight control on expenditure reduced the fiscal deficit.

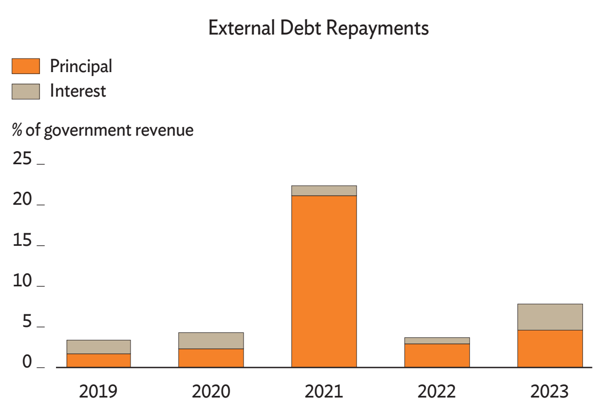


GDP = gross domestic product.
Note: Years are fiscal years ending 31 July of that year.
Sources: Fiji Ministry of Finance; Reserve Bank of Fiji.

Figure 2.33.4 Debt Service

A better lending mix helped repayments.



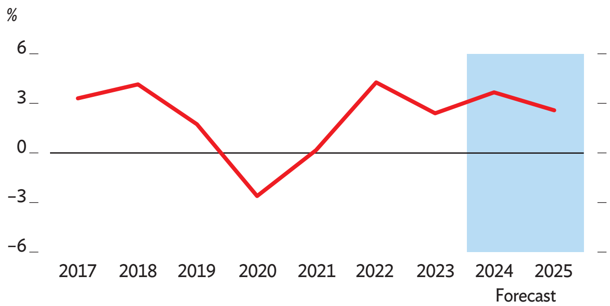


Note: Years are fiscal years ending on 31 July of that year.
Sources: Fiji Ministry of Finance; Reserve Bank of Fiji.

Annual average inflation fell to 2.4% in 2023 due to lower commodity prices and trading partner inflation (Figure 2.33.5). With the tax rate hike towards the latter half of the year, inflation rose to 5.0% in the last quarter of 2023 from just 1.5% in the first 3 quarters. Essential food items, which make up a significant share of household expenditure, were not affected by the VAT rate change.

Figure 2.33.5 Inflation

Low import prices helped reduce inflation in 2023.



Sources: Fiji Bureau of Statistics; Asian Development Bank estimates.

The current account deficit narrowed significantly to 9.5% of GDP from 17.2% in 2022. The trade deficit widened by 8.3% due to increased imports of machinery, food items and mineral fuels. However, this was substantially offset by strong inflows from tourism and remittances.

Economic Prospects

Growth is projected to slow to 3.0% in 2024 and 2.7% in 2025 (Table 2.33.1). Tourism remains the main driver of economic activity despite an expansion in other sectors, notably agriculture and business process outsourcing. However, the growth rate in visitor arrivals is projected to decelerate in 2024 and 2025 due largely to capacity constraints, such as hotel room inventory and migrating workers. High occupancy rates in key areas are pushing up hotel prices. This may make it difficult for Fiji to compete with other destinations such as Indonesia and Thailand.

Table 2.33.1 Selected Economic Indicators, %

Growth is expected to moderate as the economy stabilizes following a post-pandemic rebound.

	2022	2023	2024	2025
GDP growth	20.0	7.8	3.0	2.7
Inflation	4.3	2.4	3.7	2.6

GDP = gross domestic product.
Source: Asian Development Bank estimates.

Inflation is projected to rise to 3.7% in 2024 consistent with high inflation observed so far and the trend in commodity prices. Price increases resulting from the change in value-added tax (VAT) rate in August 2023 may persist in the first half of 2024, but inflation is expected to fall back to 2.6% in 2025.

The fiscal position is expected to improve over the forecast period. Recent tax reforms should add essential government revenues as the economy recovers. Government revenue is projected to increase to 27.9% of GDP in FY2024 from 22.1% of GDP in FY2023, mainly due to an increase in VAT rates from 9% to 15% for most goods and services. The government plans to slow expenditure growth in the medium term to reduce the debt-to-GDP ratio to pre-pandemic levels. Constraints in capacity and delays in implementing capital projects may further reduce the fiscal deficit. This trend is projected to continue into FY2025. Consequently, the debt-to-GDP ratio is projected to drop below 78% by the end of 2025.

Policy Challenge—Boosting Tourism Capacity for Sustained Recovery

Over the next few years, limited tourist accommodation might slow sustainable economic growth. Currently, there are 13,000 hotel rooms available from 421 licensed accommodation providers. There is also a growing number of unlicensed short-term accommodation providers on platforms such as Airbnb.

The government should act to sustain tourism growth and keep hotel pricing competitive. The government can help in three ways. It needs to ease impediments to domestic and foreign tourism investment; improve tourist infrastructure, particularly in outer islands; and consider alternative forms of tourism.

Fiji should act quickly to attract more investment in tourism. Potential investors, particularly foreign investors, likely see the government's complex foreign investment procedures as a barrier to investment in tourism. The government should accelerate efforts to streamline and expedite investment processes while simultaneously prioritizing environmental protection and promoting sustainable tourism. Stakeholders see delays in finalizing and obtaining approval for an Environmental Impact Assessment as a critical obstacle to realizing investments. To address this, the government has established an interministerial body to help streamline investment-related processes.

Fiji can also work on spreading tourism activity and benefits to more areas. Currently, 75% of hotel rooms are concentrated in the Coral Coast-Nadi corridor on the country's largest island, Viti Levu. Fiji could spread tourism benefits by improving transportation connections to outer islands like Vanua Levu, Fiji's second-largest island. The government, with support from development partners, is upgrading airports in Savusavu and Labasa, the two primary tourism hubs on Vanua Levu. In addition, there is an ongoing feasibility study for constructing a new airport capable of accommodating larger aircraft. While sea transportation remains viable, the initial focus should be on enhancing key connecting jetties to Vanua Levu. Other potential areas such as Taveuni and Sun Coast could also benefit from increased marketing, contributing to a more widespread distribution of tourism benefits. Spreading tourists out to more areas may help relieve the strain on hotel room availability and hotel prices around Viti Levu.

The government can further explore alternative forms of tourism such as sports, retirement and medical tourism. In 2022, a Fiji rugby team joined the Super Rugby Pacific competition, which includes teams from Australia and New Zealand. It is estimated that the six games Fiji hosted during the following season resulted in 40,328 nights of overseas visitor stays that would not have happened otherwise. The positive effects of these events can be effectively utilized during Fiji's tourism offseason. Fiji also has the potential to attract medical tourists from neighboring Pacific countries who travel as far as Asia for medical treatment. For this to happen, Fiji requires additional privately operated hospitals to enhance its healthcare infrastructure. A study by the International Finance Corporation indicates opportunities for private sector investment in advanced diagnostic facilities and specialist care hospitals. Fiji can build on its two recent public-private partnerships for its Lautoka and Ba hospitals.