

# Fiji

After contracting in 2009 the economy achieved slight growth in 2010, based largely on a recovery in tourism and some goods exports, though the sugar industry weakened for a fourth consecutive year. Low levels of growth are forecast for 2011–2012, accompanied by moderate inflation. Reforms to improve the investment environment are key to generating stronger growth and reducing poverty.

## Economic performance

Minimal GDP growth of 0.1% in 2010 continued the pattern of recent years—a period of contraction followed by slight growth—leaving GDP virtually unchanged since 2005. (Official revisions to GDP estimates for 2006–2009, due to rebasing, resulted in growth of 0.2% in 2008 and a contraction of 3.0% in 2009—Figure 3.32.1.)

In 2010, the impact of growth in tourism, mineral water exports, fisheries, and gold mining slightly outweighed downturns in agriculture; transport, storage, and communication; real estate and business services; health and social work; and other community services (these latter two on the back of reduced government expenditure).

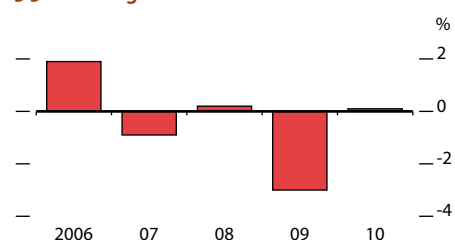
Visitor arrivals rose by 16.5% to a record 633,000 in 2010 (Figure 3.32.2). Increases were notable from Australia (helped by its buoyant economy) and from the People's Republic of China and India (reflecting marketing efforts). Despite a 20% devaluation of the Fiji dollar in April 2009, price discounting meant that growth in tourism earnings only kept pace with tourist arrivals.

Gold production from the Vatukoula mine rose by nearly 80% to 59,000 grams in the 12 months to August 2010, and is expected to reach an annual rate of 100,000 grams in 2011. Mineral water exports recovered from a downturn during the global recession, and fisheries benefited from favorable weather.

On the negative side, agriculture suffered from a cyclone in March 2010, then a drought. The sugar industry, which supports about a quarter of the population, has declined in recent years as the European Union phased out preferential prices it paid to certain nations, including Fiji. The European Union was to provide assistance to the country's sugar industry, but postponed the plan after a military coup in 2006.

Last year, the government initiated a sugar industry reform program that included funding for new cane planting, but farmers continued to leave the industry and cane production fell by 19%. Breakdowns at sugar mills caused production of raw sugar to slide by 20.8% (Figure 3.32.3). Fiji Sugar Corporation, after accumulating losses of more than F\$200 million in 2009–2010, is being taken over by the government, and the firm's operations are now funded through the national budget.

3.32.1 GDP growth



Source: Fiji Islands Bureau of Statistics; Ministry of Finance. Budget Supplement 2010 and Budget Supplement 2011. <http://www.mfnp.gov.fj>

[Click here for figure data](#)

3.32.2 Tourism growth



Sources: Fiji Islands Bureau of Statistics; Ministry of Finance. Budget Supplement 2011. <http://www.mfnp.gov.fj>

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Private consumption was supported by the increase in tourism and a rise in remittances. Remittances in US dollar terms rose by about 14% in the 7 months to July 2010. But investment remained low, reflected in a 0.5% fall in imports of investment goods and a 1.1% decline in new lending for investment.

Inflation accelerated early in 2010, propelled by the impact of the devaluation and then shortages caused by the cyclone, as well as by higher global oil prices. After peaking at 10.5% year on year in April, it slowed as the devaluation effect waned, but then picked up again to 5.0% in December, after some price controls on food were removed and electricity tariffs were put up. For the year, inflation averaged 7.8%.

The Reserve Bank of Fiji absorbed excess liquidity in the banking system by twice raising the statutory reserve deposit requirement for commercial banks in 2010, to 10.0%. It also implemented an overnight policy interest rate to signal the monetary policy stance. Late in the year it lowered that rate to 2.5% from 3.0% and relaxed exchange controls. The Fiji dollar firmed against the US dollar (by 4.5%) in 2010 and against the euro, but eased versus the yen and the Australian and New Zealand dollars.

Government data indicate that the budget deficit widened from the equivalent of 3% of GDP in 2009 to 3.6% in 2010 (Figure 3.32.4). Both revenue and expenditure targets were met, although it seems likely that some planned capital expenditure was used for operating expenses. Public debt rose to the equivalent of 58.0% of GDP, or 91.5% of GDP if government-guaranteed debt is included (Figure 3.32.5). The government took onto its books the debt of Fiji Sugar Corporation, a reminder of the risks posed by contingent liabilities.

Preliminary official figures indicate that merchandise exports rose by about 25% in 2010, assisted by higher output and prices of gold. Imports were subdued by slack domestic demand. On this basis, the trade and current account deficits likely narrowed. Foreign exchange reserves rose to US\$672 million (about 4 months of imports).

## Economic prospects

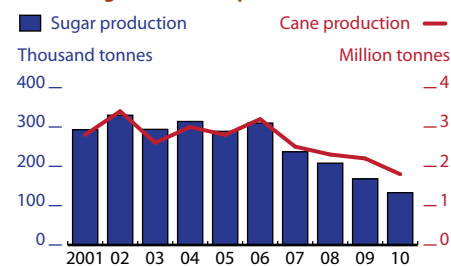
The outlook in the forecast period depends heavily on prospects for the sugar and tourism industries. Reforms in the sugar industry that started in 2010 are assumed to make slow progress, in view of capacity constraints in the government and the need to consult many stakeholders.

Visitor arrivals are influenced by marketing, and while it is assumed the government will continue to fund the Fiji Visitors Bureau, several other Pacific island economies have stepped up their marketing programs. The outlook also assumes no severe cyclones or other natural disasters.

Expected modest economic growth for many of the country's trading partners in 2011 clouds the prospects for both tourism (where deep discounting is set to continue) and merchandise exports. On the balance of these factors, GDP growth is forecast to remain low at 0.5% this year, picking up to 0.8% in 2012 if the sugar industry's reforms gain traction.

The 2011 budget targets a deficit of 3.5% of GDP (the same target set in 2010). It assumes a 16.0% revenue gain from actual levels last year, driven by an increase this year in the value-added tax to 15.0% from 12.5% and a new capital gains tax of 10.0%. It projects expenditure to rise by

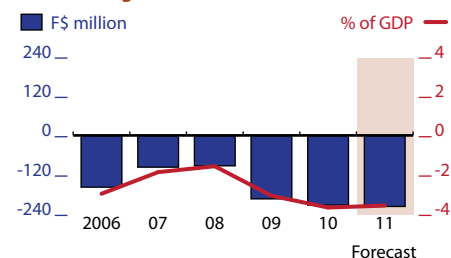
### 3.32.3 Sugar and cane production



Sources: Ministry of Finance. *Budget Supplement 2008, 2009, 2010, 2011*. <http://www.mfnp.gov.fj>; Fiji Sugar Corporation.

[Click here for figure data](#)

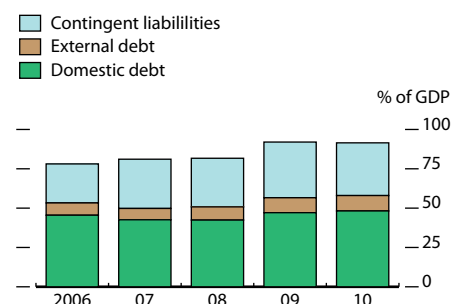
### 3.32.4 Budget balance



Source: Ministry of Finance. *Budget Supplement 2009, 2010, 2011*. <http://www.mfnp.gov.fj>

[Click here for figure data](#)

### 3.32.5 Government debt



Source: Ministry of Finance. *Economic and Fiscal Update. Supplement to the 2011 Budget Address*.

[Click here for figure data](#)

14.4%, partly reflecting transfers to Fiji Sugar Corporation for operating expenses and mill repairs. The budget also assumes that GDP growth will quicken to 1.3% in 2011. Failure to meet this target would dent projected revenue and probably require spending cuts to be prolonged.

Ample liquidity is expected in the banking system in 2011, but growth in credit to the private sector will likely remain slow in view of forecast low investment levels. The Reserve Bank of Fiji lowered the overnight policy rate in February 2011, to 2.0% from 2.5%, to support growth in light of what it described as “still very weak domestic economic conditions.”

Inflation rose to 5.9% in January 2011, from 5.0% in December 2010, mainly reflecting the increase in the value-added tax and higher global oil prices. For this year, inflation is projected to average 4.0% (Figure 3.32.6).

The government plans to roll over a US\$150 million sovereign bond that matures in September 2011, which would delay the need to repay the bond (it represents 55% of total public external debt). Last year, the authorities discussed with the International Monetary Fund a possible stand-by credit arrangement that would bolster foreign exchange reserves, targeted primarily at debt repayment, but they put the idea of a program led by the institution on hold.

Imports will increase faster in 2011 than last year, according to official projections, while growth in exports will moderate. Foreign exchange reserves are likely to come under pressure.

These forecasts are vulnerable to external risks, including oil prices (every US\$10 a barrel increase in oil prices raises the cost of oil imports by about US\$50 million, or 26% of 2010’s total import bill) and weaker than anticipated earnings from tourism. Lack of progress on sugar reforms poses a domestic risk to the outlook.

## Development challenges

Weakness in investment confines the economy to a low-growth path. Public and private investment combined is estimated to have fallen to 14% of GDP in 2010, from an average of 18% in 2000–2005. Private investment is estimated at the low level of 3% of GDP.

The return of significant donor assistance for infrastructure and other projects, largely withheld since the 2006 coup, depends on new elections. The government is adamant, however, that it will not call them until 2014.

Investor concerns include an opaque and uncertain regulatory environment, as illustrated by foreign exchange controls, price controls, and unpredictable policy decisions. For example, a government decree in 2010 required media organizations to ensure that their directors and 90% of the beneficial shareholders are Fijian citizens permanently residing in the country, which forced a divestment by a foreign firm.

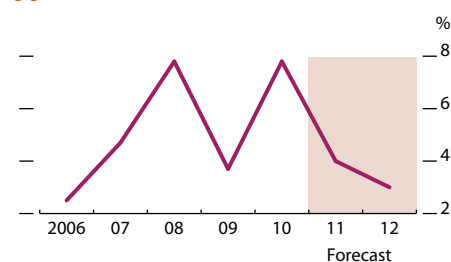
Deficiencies in infrastructure and the poor performance of government-owned enterprises also hurt the investment climate. The need to spur growth is pressing in light of rising poverty, estimated to affect 35%–40% of the population. The authorities have provided some targeted social welfare and have expanded price controls. But the sustainable remedy to poverty—job creation—is unlikely without higher rates of investment.

### 3.32.1 Selected economic indicators (%)

	2011	2012
GDP growth	0.5	0.8
Inflation	4.0	3.0
Current account balance (share of GDP)	-2.2	-2.1

Source: ADB estimates.

### 3.32.6 Inflation



Sources: Ministry of Strategic Planning, National Development & Statistics; Reserve Bank of Fiji. *Quarterly Review*, September 2010. <http://www.reservebank.gov.fj>; ADB estimates.

[Click here for figure data](#)