

FIJI

| Table 1 | 2021 |
|---|--------|
| Population, million | 0.9 |
| GDP, current US\$ billion | 4.7 |
| GDP per capita, current US\$ | 5163.1 |
| International poverty rate (\$1.9) ^a | 2.6 |
| Lower middle-income poverty rate (\$3.2) ^a | 17.8 |
| Upper middle-income poverty rate (\$5.5) ^a | 55.5 |
| School enrollment, primary (% gross) ^b | 116.5 |
| Life expectancy at birth, years ^b | 67.4 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Reopening of Fiji's borders to tourism in December 2021 marked a major step towards economic recovery. The economy is expected to reach the pre-pandemic level by 2024, supported by private consumption and investment. The outlook remains highly uncertain as the tourism sector may recover slower than expected. Risks also include re-emergence of COVID-19, cyclones and floods, and the impact of the Russia-Ukraine war. Speeding up economic recovery will require structural reforms while fiscal consolidation is needed to ensure that the public debt returns to a downward trajectory.

Key conditions and challenges

Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards, and climate change represent major obstacles to development. Tourism is the main driver of the economy and a major source of foreign exchange, contributing nearly 40 percent of GDP, prior to COVID-19. In recent years to 2019, growth was underpinned by robust tourism, rising household consumption, and extensive reconstruction after major natural disasters. Before the onset of the global pandemic, Fiji's poverty rate was 17.8 percent and 55.5 percent based on the lower and upper middle-income poverty lines, respectively.

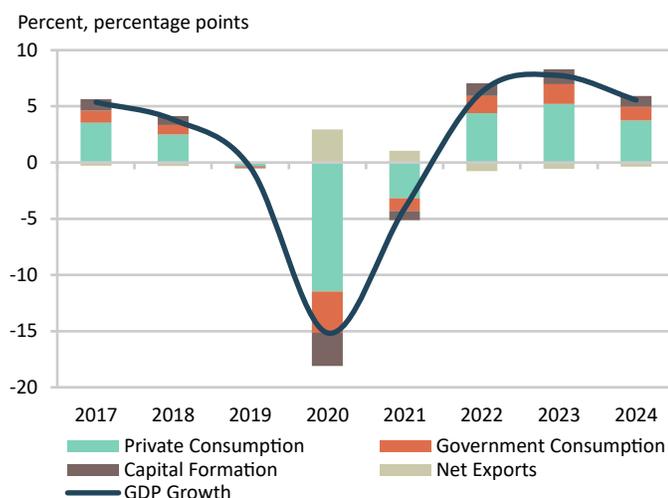
The COVID-19 pandemic presented Fiji with an economic crisis of unprecedented scale. The country recorded one of the steepest economic contractions in the world and the worst in its history. Following the onset of the pandemic and border closures in 2020, the tourism sector collapsed with a ripple effect on all segments of the economy. Real GDP contracted by 15.2 percent in 2020 and a further 4.1 percent in 2021 in the wake of the Delta variant outbreak. The country was also hit by Tropical Cyclone (TC) Harold and TC Yasa in 2020, and TC Ana in 2021 with extensive damage to agriculture, public buildings, and tourism facilities. These shocks aggravated pre-existing fiscal vulnerabilities and upended the authorities' fiscal policy

goals, leading to a sharp increase in public debt. The compound effect of lost livelihoods across sectors and asset damage from the natural disasters exposed a significant proportion of the population to increased poverty and vulnerability. Excluding the impact of the COVID assistance measures, poverty rate based on the upper-middle income poverty line is estimated to have increased by 11 percentage points in 2020 from the pre-pandemic level. The Government introduced several measures to mitigate these impacts, including top-ups through existing social programs and the National Provident Fund unemployment assistance.

Recent developments

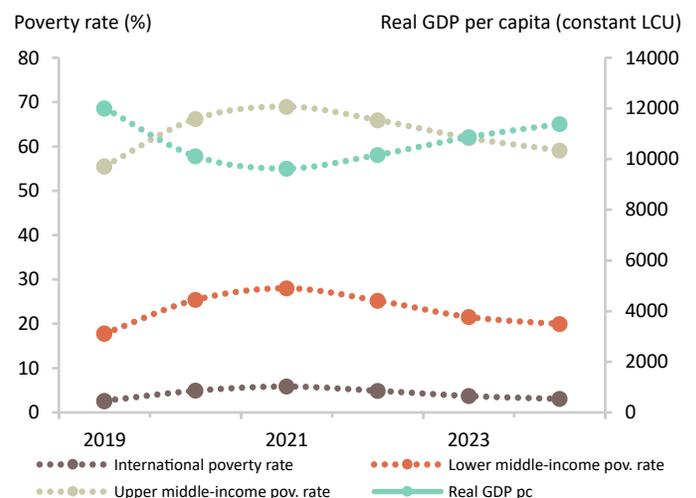
Reopening of Fiji's borders to tourism in December 2021 after a 21-month closure marked a major step towards economic recovery. Border reopening was enabled by a COVID-19 vaccination rate of over 90 percent and the adoption of best-practice COVID-19 control policies and protocols. Tourists and visitors have begun returning from the country's traditional source markets, especially Australia. The initial figures show the arrivals to be around 45 percent of pre-COVID-19 levels. However, while this is a positive sign, recovery is likely to be slow and risks remain due to the emergence of potential new variants, a highly vulnerable population given the high prevalence of non-communicable diseases, and the risk of cyclones and floods. The high dependence on tourism adds to

FIGURE 1 Fiji / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Economy, and IMF and World Bank staff estimates.

FIGURE 2 Fiji / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

the vulnerability of sustained recovery and highlights the need for diversified sources of growth. The structural reform agenda includes building climate resilience and creating a more supportive environment for private-sector-led growth. Attracting more FDI and expanding the role of the private sector in the economy will require modernizing the legal and regulatory framework.

A steep fall in revenue and rise in expenditures due to fiscal stimulus to mitigate the impact of the pandemic widened the fiscal deficit to 8.1 percent of GDP in 2020 and 12.8 percent in 2021. As a result, the public debt-to-GDP ratio increased to 87 percent in 2021 from 51.6 percent in 2019. Monetary policy was eased to counter the impact of COVID-19 and remains accommodative. The Central Bank cut the overnight policy rate from 0.50 to 0.25 percent in the first quarter of 2020. Inflation fell to a historic low of -2.8 percent at end-December 2020, in the context of a substantial output gap, and on account of lower food and fuel prices as well as reduced tariffs and taxes (implemented to mitigate the impact of the pandemic). Inflation re-emerged in the second half of 2021 due to the surge in global commodity prices and continued supply chain disruptions, reaching 3 percent at year-end. The current account deficit widened to 15.6 percent of GDP in 2021, relative to 13.2 percent in

2020, reflecting the drop in the service balance. Tourism receipts in 2021 fell by 94 percent from the pre-pandemic level. Pressure on the balance of payments has been cushioned by the influx of external financing through loans and grants from multilateral and bilateral creditors. This is supplemented by strong growth in personal remittances, which rose by 42 percent in 2021 from 2019, the sale of Energy Fiji Limited (EFL) shares abroad and the additional 2021 IMF SDR allocation. Reserves remained stable, US\$1,570 million (9.9 months of prospective imports) at end-December 2021.

Outlook

Outlook is subject to considerable uncertainty and hinges on the tourism sector's performance. Growth is projected to recover to 6.3 percent in 2022 and rise to 7.7 percent by 2023 driven by increased private consumption and investment supported by tourism and remittances. Poverty is expected to follow a downward trend, although it is not anticipated to return to pre-pandemic levels by 2024. The Russia-Ukraine war is likely to add to inflationary pressures and dampen external account and may also impact tourism. Higher food and energy prices will especially harm the

poorest and most vulnerable as food accounts for about 40 percent of their consumption basket. The Government is committed to fiscal consolidation with the fiscal deficit projected to fall to 4.0 percent of GDP in 2024 from 12.1 percent in 2022. This will be achieved through efforts to mobilize domestic revenues, including through the revenue measures announced in the Revised Budget in March. In parallel, spending will be contained through strict wage bill control and a reduction in operating subsidies and capital outlays. The risk of debt distress has heightened with the debt-to-GDP ratio projected to climb to 90.9 percent of GDP in 2022, reflecting borrowing to counter the impact of COVID-19 and the contraction in nominal GDP. Public debt is assessed as sustainable over the medium-term, contingent on fiscal consolidation, the resumption of growth and commitment to borrow primarily on concessional terms. The current account deficit is expected to narrow to 8.8 percent of GDP in 2022 and converge to 6.8 percent of GDP by 2024 due to increases in the services and secondary income balance on account of higher anticipated tourism and remittance inflows. Risks to growth include a drop in tourism appetite, a new wave of COVID-19 in Fiji or Australia and New Zealand, impacts of adverse natural disasters, and the economic consequences of the Russia-Ukraine war.

TABLE 2 Fiji / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2019 | 2020 | 2021e | 2022f | 2023f | 2024f |
|---|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | -0.4 | -15.2 | -4.1 | 6.3 | 7.7 | 5.6 |
| Inflation (Consumer Price Index) | -0.9 | -2.8 | 3.0 | 4.5 | 3.0 | 2.7 |
| Current Account Balance (% of GDP) | -12.6 | -13.2 | -15.6 | -8.8 | -7.0 | -6.8 |
| Fiscal Balance (% of GDP) | -4.3 | -8.1 | -12.8 | -12.1 | -6.4 | -4.0 |
| International poverty rate (\$1.9 in 2011 PPP)^{a,b} | 2.6 | 4.9 | 5.9 | 4.9 | 3.7 | 3.0 |
| Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b} | 17.8 | 25.4 | 28.0 | 25.2 | 21.5 | 20.0 |
| Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b} | 55.5 | 66.2 | 69.0 | 65.9 | 61.9 | 59.1 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

a/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.