

Fiji

A bloodless military coup ousted the elected Prime Minister and cabinet on December 5, 2006. A month later, Fiji's military commander who led the coup, was sworn-in as interim PM and has since installed a 16 member interim cabinet. The main priorities of the interim government include reforming the electoral process before holding the next general elections and establishing an anti-corruption unit to investigate alleged corrupt practices. In mid-February, the interim PM announced a 'roadmap' to democracy which could see the return to democratic rule in 2010. The roadmap includes plans for a review of Fiji's 1997 Constitution and an examination of electoral boundaries which will include a population census.

These events have drawn condemnation from several countries, some of whom have imposed sanctions on Fiji, such as suspension of part of their aid, and travel bans on the interim government officials. The Council of the Commonwealth suspended Fiji's membership, and the U.S. withdrew its support for the Fijian military's participation in new peace operations (although Fijian troops currently in Iraq are not affected). The interim government's 3-year roadmap has also been criticized with calls for speedier progress in restoring democracy.

Vigorous expansion in the services sectors, especially construction, led to a doubling of real GDP growth to 3.4 percent in 2006, notwithstanding a downturn in tourism and gold production that occurred later in the year. The tourist sector, Fiji's main foreign exchange earner, was adversely affected by the coup and the extended period of uncertainty that preceded it. Tourist visitor arrivals fell from 576,000 in 2005 to 545,000 in 2006. The closure of the Emperor Gold Mining Company's mining operations in early December 2006 occurred for commercial reasons—gold production contracted by 50 percent and 1800 job losses are expected as a result. Sugar production in 2006 registered growth of 2 percent. In light of recent political developments, the European Union is however re-evaluating the nature of its F\$350 million (US\$208 million) adjustment support to the sugar industry. Inflation of about 3 percent has been well contained through tight monetary policy.

The fiscal deficit narrowed slightly to just below 4 percent of GDP in 2006, as targeted. The revised 2007 Budget, presented by the interim administration in early March, aims to reduce the fiscal deficit below 2 percent of GDP in 2007 (as was the target of the original 2007 Budget). The main measures to reduce public expenditure include a 5 percent civil service wage cut as well as reductions in capital expenditure, operating grants and transfers, and grants to the Fiji Visitors' Bureau. The VAT rate is maintained at its current level of 12.5 percent while customs tariff have been raised.

The revised budget aims to reduce the public debt level from 53 percent of GDP in 2006 to 45 percent of GDP in the medium-term, with most debt sourced domestically. Public external debt and debt service were below 5 percent of GDP and 2 percent of exports in 2006, respectively. However, interest payments on a US\$150 million international bond issue in September 2006—expected to mature in 2011—will increase debt servicing requirements.

The current account deficit widened through the year to November 2006. Merchandise exports (excluding mineral fuel re-exports) fell by 3 percent mainly due to lower earnings from sugar, while imports climbed by 17 percent owing to stronger consumption demand and higher cost of oil. This led to a downward slide in foreign exchange reserves, now estimated to stand at US\$457 million (equivalent to just over 3 months of imports) at end-January 2007.

A tight monetary stance is being maintained, with measures including interest rates hikes, credit ceilings on individual banks, exchange controls mainly on current account transactions, and the repatriation of the National Provident Fund's foreign assets. Overall, these measures appear to have safeguarded the reserves from further erosion.