

FJI

Since the takeover of Fiji's Parliament in December 2006, the Interim Government led by the military commander has continued to face international sanctions by some donors. These include the suspension of parts of the aid program and immigration restrictions. Restoration of bilateral relations with key external partners remains largely dependent on the Interim Government's demonstrating a commitment to return Fiji to democracy. National elections are expected in the first quarter of 2009.

Fiji's real GDP contracted by an estimated 4 percent in 2007, largely reflecting the effect of recent political events on the tourism and construction sectors. Tourism earnings fell by an estimated 20 percent while construction activity declined by one-third in the first 9 months of the year. Sugar production declined by 23 percent due to unfavorable weather conditions and supply chain inefficiencies. Copra production declined by 9 percent. Garment export earnings have remained subdued since the expiry of the US preferential agreement in 2005.

The trade balance showed some improvements in 2007. Export earnings rose slightly (led by mineral water, fish, and timber), while imports dampened, reflecting tightened credit conditions (following the imposition of credit ceilings on commercial banks). The trade and current account deficits remain large at approximately 27 percent and 16 percent of GDP, respectively. Despite the current account deficit, the balance of payments recorded a small surplus largely attributable to foreign direct investment. With the import cutback driven by investment goods, investment declined from 19 percent of GDP in 2006 to approximately 15 percent in 2007. Domestic demand weakened in 2007, as indicated by slower domestic credit growth (from an average of 28 percent in 2006 to 6 percent in September 2007), sluggish employment conditions, fall in remittance receipts, and declined imports of consumption goods.

On a positive note, gross foreign reserves stabilized in 2007 to reach US\$618 million as of December. Excluding foreign assets of non-bank financial institutions, gross reserves were estimated at US\$510 million at end-2007 (sufficient to cover approximately 3 months of imports).

The budget was in near balance in 2007 through a substantial reduction in capital expenditure and a cut in civil service wages. The 2008 budget targets a fiscal deficit of 2 percent of GDP, focusing on consolidating Fiji's fiscal position and reducing public debt from 50 percent to 45 percent of GDP over the next 3 years.

Inflation for 2007 was estimated at 4 percent, reflecting increases in excise duties and higher food prices following supply shocks (flood- and cyclone-related losses). However, it jumped to 7.4 percent at end-January 2008 as higher global oil prices affected domestic transport and electricity costs, and higher international wheat prices and cyclone-led disruptions in local supply increased food prices. The inflation rate projected for end-2008 has been revised upwards to 5 percent.

A modest recovery of approximately 2 percent real GDP growth is forecast for 2008 linked to expected growth in tourism. However, economic recovery remains vulnerable to political instability, natural disasters (cyclones, floods), high global oil prices, and uncertain relations with key development partners. Reforms in macroeconomic policy, public sector management, land, and the sugar sector are much needed but difficult to implement under present circumstances.