



Population	838,700
Population growth	0.5 percent
Surface area	18,270 sq. km.
Capital	Suva

Source: World Development Indicators.

As Fiji enters 2011, it faces several economic challenges. In the last four years, the economy has either contracted or grown only marginally and the government is yet to gain traction on the structural reforms that could help to underpin stronger growth in future. In 2010, the economy is estimated to have grown by only 0.1 percent, with the agriculture sector performing particularly poorly, having contracted by an estimated 11.3 percent. The decline of sugar cane agriculture continued, but the performance of other crops was also very weak—partly due to the impact of a cyclone and the drought. The causes of the decline of the sugar sector are long-standing and complex, and reversing this trend is now a formidable challenge for the government and the other stakeholders in the sugar sector.

Fiji's economy is increasingly dependent on tourism, which performed reasonably well in 2010. Visitor arrivals in the nine months to September 2010 were 18.4 percent higher than in the same period of previous year (when arrivals were adversely affected by major flooding), and 6.2 percent above the corresponding figure for 2008 (the previous record year for arrivals). The trend in earnings is not so clear, with continued heavy discounting possibly offsetting the positive impact of the earlier devaluation of the Fijian dollar

to leave earnings per tourist roughly unchanged. The government projects that tourist arrivals will expand by just over 4 percent in 2011, accompanied by a parallel growth in total earnings.

The government forecasts a modest economic expansion over the next two years—with projected GDP growth averaging around 1 percent for 2011 and 2012. That growth will depend in part on a rebound in the agriculture sector in 2011 and its continued strong performance in 2012. In recent years, the government has sought to boost domestic production of a range of crops, particularly with a view to supplying the tourism industry. The contribution of non-sugar commercial agriculture to GDP in recent years has been about three times that of sugar cane. The government has taken steps to improve supply chain management in non-sugar agriculture, but has also increased protection for domestic products. Many fruit and vegetable imports now incur tariffs or equivalent border charges of some 42 percent.

On the external side, export revenues were boosted in 2010 by higher receipts for gold, mineral water, fish and timber, which more than offset lower receipts for sugar. The value of merchandise imports is estimated to have risen in parallel, keeping the trade balance as a percentage of GDP roughly unchanged on the previous year. A large surplus on the services account, primarily due to the solid performance of the tourism industry, and continued strong remittance receipts, are estimated to have led to a small reduction in the current account deficit in 2010.

With food and fuel typically accounting for nearly half of merchandise imports, Fiji's current account deficit is vulnerable to the threat of rising food and fuel prices in 2011. At the end of 2010, foreign reserves were at a comfortable level, equivalent to about 4.1 months of imports—up from the 3.7 months of imports covered by reserves at the end of 2009. After subsiding mid-year, inflation began to pick up in late 2010 to 5 percent in December, year-on-year, due mainly to rising food and electricity prices. Annual average inflation for

2010 was 5.5 percent, compared to 3.7 percent in the previous year.

Indicators of investment activity in Fiji have remained weak. Uncertainty in respect of the political situation in Fiji is likely to continue to constrain investment in the near term. In the seven months to July 2010, imports of investment goods were 5 percent lower than in the same period of the previous year. In the ten months to October 2010, bank lending for investment purposes was 1.1 percent lower than the previous year. Overall, private sector credit growth has also remained subdued, with growth of only 2.2 percent in October 2010 compared with the same period of 2009. Although the construction sector is estimated to have expanded modestly in 2010, the government is forecasting a significant contraction in 2011.

The government is budgeting for a deficit equivalent to 3.5 percent of GDP for 2011, after an estimated deficit of 3.8 percent in 2010. On the revenue side, a substantial increase in the revenue share of GDP—by about 2 percentage points—is budgeted, primarily due to an increase in the VAT rate from 12.5 to 15 percent in 2011. Even without this rate increase, VAT receipts were estimated to be significantly higher in 2010 than in the previous year, due to a combination of inflation, improved compliance and increased consumption. A number of tariffs and equivalent border charges have also been increased in 2011. In addition, the government has introduced a 10 percent capital gains tax in 2011.

On the expenditure side, the government is continuing its efforts to reduce the proportion of the budget going to the civil service wage bill, with wage and partial hiring freezes in place. In 2010, wages and salaries as a share of current expenditure are estimated to have been 43.7 percent (compared to 47.5 percent the previous year), and are budgeted to fall to 41 percent in 2011. It will be important for the government to ensure that core functions and services receive priority among competing human resource demands and are kept sufficiently well staffed to operate effectively. In addition, efforts to ensure that the partial hiring freeze is implemented effectively will need to be strengthened,

in order to support the achievement of civil service reform objectives. Under capital expenditure, the largest item in the 2011 budget is a FJD110 million allocation to the Fiji Sugar Corporation (FSC) for restructuring purposes. This represents nearly 6 percent of total expenditure and around half of the projected budget deficit. Restructuring FSC and the wider sugar industry has proven very challenging in the past.

Persistent deficits in recent years have caused steady and significant increases in Fiji's public debt, most of which is domestic and held primarily by the Fiji National Provident Fund. In 2010, Fiji's public debt is estimated to have reached 57.6 percent of GDP (compared to 49.9 percent in 2007). In September 2011, Fiji will have a \$150 million global bond due (4.5 percent of GDP), which the government is seeking to re-finance. Persistent losses by a few large public enterprises and government-owned corporations have also caused an increase in the contingent liabilities of the government in recent years. In 2010, contingent liabilities are estimated to have been 33.5 percent of GDP (compared to 24.8 percent in 2006). Over the last five years, the Fiji Electricity Authority and FSC have increased the government's contingent liabilities by FJD 240 million and FJD 164 million, respectively (together accounting for nearly two-thirds of the increase in the government's contingent liabilities between 2006 and 2010).

**Fiji Key Economic Indicators**

	2007	2008	2009	2010e	2011f	2012f
	Year	Year	Year	Year	Year	Year
<b>Output, Employment and Prices</b>						
GDP (% change y-y)	-0.9	0.2	-3.0	0.1	1.3	0.7
Tourist arrivals (thousands)	540	585	542	630	650	665
(% change y-y)	-1.6	8.4	-7.3	16.2	3.2	2.3
Unemployment rate (%)	8.6	7.7	9.4	..	..	..
Consumer price index (% change y-y)	4.3	6.6	6.8	5.0	3.3	3.0
<b>Public Sector</b>						
Government revenues (% GDP)	25.4	25.7	24.8	24.8	27.3	27.4
Government expenditures (% GDP)	27.4	25.5	29.4	28.6	30.9	29.6
Government balance (% GDP)	-2.1	0.2	-4.6	-3.7	-3.6	-2.3
Domestic public sector debt (% GDP)	42.6	42.4	45.8	47.2	48.5	48.8
<b>Foreign Trade, BOP and External Debt</b>						
Trade balance (millions US\$)	-842	-1,108	-670	-726	-789	-817
Exports of goods (millions US\$)	787	944	625	694	750	761
(% change y-y)	8.0	19.9	-33.8	11.1	8.1	1.5
Key export (% change y-y) 1/	-7.5	35.5	-38.7	-47.7	5.8	0.0
Imports of goods (millions US\$)	1,629	2,052	1,295	1,421	1,540	1,578
(% change y-y)	0.2	26.0	-36.9	9.7	8.4	2.5
Current account balance (millions US\$)	-462	-640	-230	-215	-265	-291
(% GDP)	-13.6	-18.0	-7.9	-6.9	-8.1	-8.9
Foreign direct investment (millions US\$)	343	320	127	169	160	166
Total external debt (millions US\$)	461	449	501	531	531	540
(% GDP)	13.5	12.6	17.3	17.0	16.3	16.6
Short-term debt (millions US\$)	210	210	210	..	..	..
Debt service ratio (% exports of g&s) 2/	2.3	3.4	3.0	2.6	12.5	3.4
Foreign exchange reserves, gross (millions US\$) 3/	519	317	565	660	..	..
(months of imports g&s)	2.9	1.4	3.9	4.2	..	..
<b>Financial Markets</b>						
Domestic credit (% change y-y) 4/	2.8	11.2	0.2	1.9	..	..
Short-term interest rate % p.a.)	4.5	0.3	7.11	7.5	..	..
Exchange rate (FJ\$/US\$, eop)	1.6	1.8	1.9	1.9	..	..
Real effective exchange rate (2000=100)	99.4	102	90.5	87.7	..	..
(% change y-y)	1.7	2.6	-11.3	-3.1	..	..
Memo: Nominal GDP (millions US\$)	3,405	3,565	2,903	3,131	3,259	3,255

Source: National data sources.

e = estimate

f = forecast

1/ Sugar.

2/ Rise in debt service ratio in 2011 reflects the maturity of the US\$150 million global bond, which may be refinanced.

3/ Includes foreign assets of non-bank financial institutions.

4/ Domestic credit to the private sector.