FIJI

Table 1	2020
Population, million	0.9
GDP, current US$ billion	4.2
GDP per capita, current US$	4678.3
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	35.8
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	67.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Decimated by the COVID19 pandemic, the economy contracted by 19 percent in 2020, the fourth most severe contraction in the world. Tourism, the life blood of the economy, is at a virtual standstill, trade flows are disrupted, and business activities are curtailed. The impact on livelihoods is severe and exacerbated by three severe tropical cyclones. One third of the total workforce is now unemployed or on reduced working hours and much of the population is exposed to a greater risk of poverty.

Key conditions and challenges

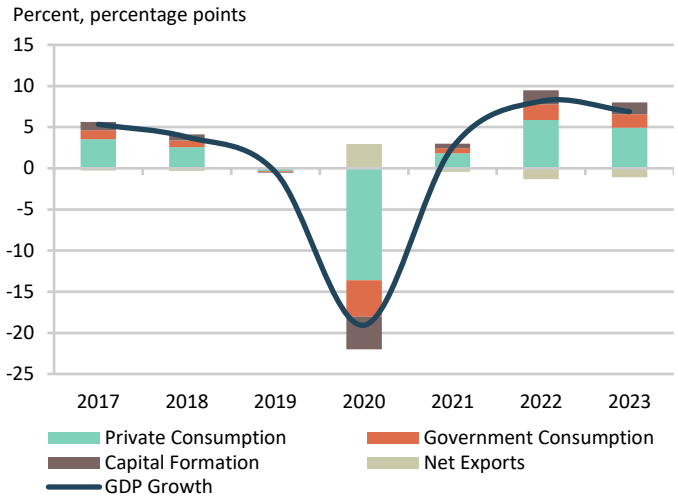
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards and climate change represent major obstacles to development. Prior to COVID-19, tourism—the main driver of the economy and a major source of foreign exchange—contributed nearly 40 percent of GDP, with close to 900,000 visitor arrivals in 2019. Agriculture is the main source of livelihood for nearly half of rural Fijians, although it contributed roughly 8 percent of GDP prior to COVID-19. The country is highly vulnerable to extreme weather conditions and on a tropical cyclone belt. On average, one cyclone passes through Fijian waters each year, but climate related events have become more frequent. Recent growth was underpinned by robust tourism, rising household consumption and extensive reconstruction after Tropical Cyclone (TC) Winston. TC Winston caused extensive damage and losses in 2016 amounting to FJ$2.9 billion (US$1.5 billion; nearly 20 percent of GDP).

The Government's success in the fight against COVID-19 virus has largely prevented direct health impacts but the economic impact has been devastating. The overall impact of the COVID-19 pandemic will depend on how it continues to unfold. More protracted travel restrictions in Fiji's key tourism markets, Australia and New Zealand, will slow the pace of recovery. Sluggish growth in the global economy will also challenge recovery. Fiji also faces the ever- present threat of natural disasters and the environmental risk is significant. The disasters and rising expenditures have eroded fiscal space in the last five years. Natural disasters not only undermine macroeconomic stability but also divert the bureaucracy, which in ideal circumstances is limited and spread thin, to recovery efforts, thereby delaying essential responses and fiscal consolidation. The structural reform agenda includes building climate resilience and creating a more supportive environment for private-sector-led growth, which will require a modernization of the legal and regulatory framework.

Recent developments

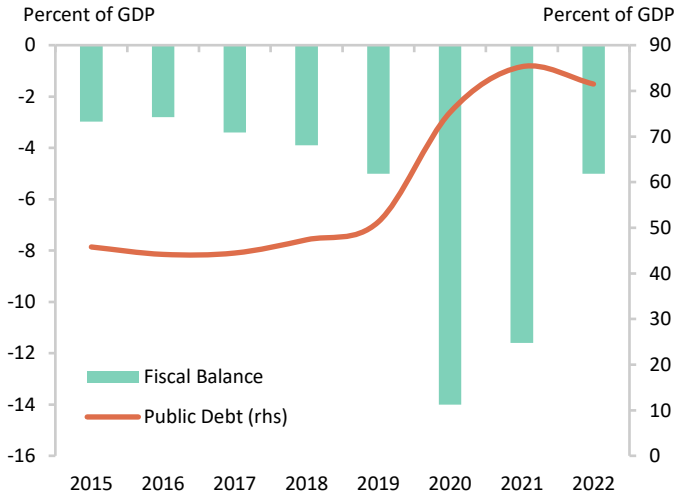
The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale with an expected contraction of 19 percent in 2020. International travel restrictions brought tourism to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related industries such as retail trade, transport and finance and spillover effect on consumption, finance and investment. Strict measures to contain COVID-19 have also impaired economic activity, leading to 115,000 Fijians becoming unemployed or working reduced hours. Fiji was also hit by Category 4 Tropical Cyclone (TC) Harold in April 2020, Category 5 TC Yasa in December 2020 and Category 3 TC Ana in January 2021. The compounded

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



Sources: Ministry of Economy and World Bank staff estimates.

FIGURE 2 **Fiji** / Fiscal balance and public debt



Sources: Ministry of Economy and World Bank staff estimates.

effect of lost livelihoods across sectors (tourism from COVID-19 and agriculture from the TCs) and asset damage from the multiple shocks exposes much of the population to a greater risk of poverty.

The shocks strained fiscal buffers and upended short-term fiscal policy goals. Prior to the shocks, the ratio of tax revenue to GDP averaged 24 percent—higher than the average for East Asia and the Pacific - and the Government was implementing an expenditure-based fiscal consolidation. The shocks reversed these trends pushing the fiscal deficit in FY2020[1] to 9 percent of GDP, a substantial increase from the 2.7 percent originally budgeted. Borrowing to close the fiscal gap raised the debt-to-GDP ratio to 65.5 percent in FY2020, from 49.3 percent the prior year. The Central Bank cut the overnight policy rate to 0.25 percent in the first quarter of 2020 in response to the pandemic. Inflation has been negative since October 2019 and decelerated to a historic low of -2.8 percent at end-December 2020 on account of lower food and fuel prices and the domestic slowdown. Tourism receipts dropped 80 percent in 2020 putting pressure on the balance of payments and widening the current account balance to 15.7 percent of GDP. Foreign reserves remained stable, US$1,022 million at end-December 2020, equivalent to 8.1 months of imports cover.

Outlook

Economic recovery hinges on when international borders can reopen and renewed appetite for tourism. The economy is forecast to grow by 2.6 percent this year and rebound to an average of 7.5 percent in 2022 -2023. But this assumes borders reopen in the second half of 2021 and a gradual easing of travel restrictions brings international arrivals back up to pre-crisis levels by 2023. The tourism sector accounts for around 40 percent of the economy and is expected to be the main driver of growth, with domestic demand picking up as the labor market and business activity rebound.

The fiscal deficit is expected to widen to 13 percent of GDP in FY2021 but to gradually decline thereafter to 3.9 percent by FY2024, as the Government reverts to its fiscal consolidation strategy. The strategy combines targeted time-bound revenue and expenditure measures and maximization of concessional financing to cover deficits. The goal is to increase in tax revenue from a projected 18 percent of GDP in FY2021 to 19.4 percent by FY2024 and reduce expenditures to around 29.2 percent of GDP by FY2022 and 25.9 percent of GDP by FY2024. The risks of debt distress have heightened with the debt-to-GDP ratio forecast to climb to 81.1 percent in FY2021, reflecting borrowing to counter the impact of COVID-19 and the contraction in GDP. However, debt management policies are prudent and public debt is assessed as sustainable over the medium-term assuming growth resumes, tourism rebounds and the fiscal consolidation measures are implemented setting the debt-to-GDP ratio on a downward trajectory. The balance of payments is projected to improve as international tourism receipts rebound and exports recover. The current account deficit is forecast to narrow to 12.5 percent of GDP in 2021 and improve steadily thereafter to 6.1 percent of GDP by 2023 as international tourism receipts rebound, exports recover and measures to attract foreign investors take hold.

1/ The Fiji Government fiscal year is from August to July.

TABLE 2 **Fiji** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.5	-0.4	-19.0	2.6	8.2	6.9
Real GDP growth, at constant factor prices	2.3	0.5	-13.9	1.5	8.1	6.7
Agriculture	3.7	4.4	4.0	3.2	2.9	2.8
Industry	5.5	-0.4	-6.6	1.6	3.1	4.9
Services	1.2	0.2	-18.8	1.2	10.9	8.0
Inflation (Consumer Price Index)	4.8	2.0	-2.8	1.0	1.8	2.0
Current Account Balance (% of GDP)	-8.6	-12.7	-15.7	-12.5	-7.3	-6.1
Fiscal Balance (% of GDP)	-3.9	-5.0	-14.0	-11.6	-5.0	-4.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.