

# **BUILDING MACRO-ECONOMIC CONFIDENCE AND STABILITY**

## **Fact Sheet**

### **BACKGROUND**

Fiji has historically faced low economic growth rates, averaging 2.8 percent from 1970 to 2009 but experienced a slight surge from 2010 to 2018, recording nine consecutive years of growth at an average of 3.7 percent. This growth was fueled by expansionary policies, tourism development, sector investments, and political stability. However, the COVID-19 pandemic and natural disasters reversed this trend, resulting in significant GDP contractions in 2020 and 2021, highlighting Fiji's vulnerability to climate change and its structural deficiencies. With 70% of the economy dependent on services, the government aims to modernize and diversify the economy while ensuring stable governance for sustained macroeconomic stability in the long term.

### **CURRENT STATUS**

#### ***Economic Growth***

International Monetary Fund estimates a decline in growth from 3.5 percent in 2022 to 3.0 percent in 2023, with a further drop to 2.9 percent projected for 2024. Similarly, the World Bank has revised its growth projection for 2023 down to 1.7 percent, citing factors such as tightened monetary policies in developed economies, geopolitical tensions, and the ongoing Russia-Ukraine conflict. Fiji's economy showcased resilience with a notable rebound in 2022, boasting a 20.0 percent recovery growth rate. By 2023, growth continued at a steady pace, estimated at 8.2 percent, with a forecasted rate of 3.4 percent for 2024. The government's strategic measures, including robust vaccination efforts, tax reductions in the tourism sector, and incentives for economic diversification, have contributed to this recovery. However, the reliance on tourism, which constitutes around 40 percent of Fiji's GDP, highlights the need for economic diversification to ensure macroeconomic stability.

#### ***Monetary Policy and Balance of Payments***

The financial sector in Fiji remained stable and conducive to growth, with liquidity levels surpassing \$2.0 billion in 2022 and increasing to \$2.1 billion by December 2023. Interest rates remained low and stable, while private sector credit saw a notable rise of 7.6 percent in 2023, expected to continue its momentum into 2024. The Reserve Bank of Fiji (RBF) maintained an accommodative monetary policy stance to bolster growth, with foreign reserves standing at \$3.4 billion by the end of 2023. Challenges persisted on the external front, as Fiji's trade deficit widened, reaching approximately \$3.7 billion due to increased imports driven by the rebounding domestic economy and elevated commodity prices. Looking ahead, monetary policy will focus on maintaining low and stable inflation and adequate foreign reserves, emphasizing the need to expand Fiji's exports and services base for a supportive macroeconomic framework aligning with Vision 2044.

#### ***Fiscal Position***

Government expenditure trended upwards over the last five fiscal years (from FY2015-2016 to FY2019-2020) averaged around 31 percent of GDP and increased to around 35 percent in FY2020-2021 and FY2021-2022. This increase was primarily driven by heightened investment spending, increased allocations to health, education, and disaster-related construction projects, along with the introduction of social protection programs. However, in FY2022-2023, total expenditure reached \$3,589.2 million, marking a 5.1 percent increase compared to the previous fiscal year, standing at 30.2 percent of GDP. Fiji faced challenges, with the tax-to-GDP ratio declining to approximately 15.5 percent in FY2020-2021 before slightly rebounding to 16.8 percent in FY2021-2022.

## CHALLENGES

1. *Sustainable tourism:* Overreliance on the tourism sector poses a critical challenge for Fiji's long-term economic growth. Medium to long-term challenges include the need for an aggressive economic diversification strategy to reduce dependence on tourism.
2. *Debt management:* Public debt has risen significantly, requiring immediate action to restore financial discipline, rebuild fiscal buffers, and put debt on a sustainable path.
3. *Fiscal constraint:* Limited fiscal space exists for further deficit expansion, compounded by the potential risk of contingent liabilities, which could strain the government's balance sheet and exacerbate debt level.

## OPPORTUNITIES

1. Capitalizing on competitive and comparative advantages to tap into niche areas and foster sustainable economic growth.
2. Fiji has a reliable and advanced telecommunications infrastructure and a young-educated labor force, which needs to be capitalized to further stimulate growth in the services sector.
3. Leverage large-scale commercialization in the agricultural sector to compete in the export market and cater to the demands of the local tourism industry.
4. Pursuing an aggressive economic diversification strategy to reduce dependence on tourism and explore potential growth sectors such as business process outsourcing, medical tourism, creative industries, retirement villages, manufacturing.

## FUTURE POLICIES AND STRATEGIES

- **Achieving sustained, inclusive and climate resilient growth and high-quality living standards:**
  - ✓ Maintain external balance by narrowing the trade deficit through export diversification and promotion of private sector led growth.
  - ✓ Achieve price stability through prudent monetary policy and fiscal policy strategies.
  - ✓ Implement expenditure strategy consistent with revenue collection and debt management.
  - ✓ Improve the ease of doing business and regulatory regime.
  - ✓ Improve access to finance especially for micro, small, medium businesses.
  - ✓ Address the lack of skills and labour shortage issue.
  - ✓ Raise productivity through economic diversification.
  - ✓ Encourage private sector participation services through Public-Private Partnerships (PPP).