

RESERVE BANK OF FIJI

PRESS RELEASE



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Telephone : (679) 331 3611

Date : 02 July 2021

Facsimile : (679) 330 2094

Email : info@rbf.gov.fj

STATEMENT BY THE CHAIRMAN OF THE MACROECONOMIC COMMITTEE¹ AND GOVERNOR OF THE RESERVE BANK OF FIJI

REVISED GROWTH PROJECTIONS FOR THE FIJIAN ECONOMY: 2020-2023

The latest assessment by the Macroeconomic Committee shows that the Fijian economy is estimated to have contracted by 15.7 percent in 2020, lower than the 19.0 percent contraction estimated earlier. The improvement is reflective of the latest available data, which show that major sectors such as finance, wholesale & retail trade, transport & storage, accommodation & food services, construction and information & communication performed better than initially expected.

Nonetheless, 2020 still represents the most severe economic contraction in Fiji's modern history, as the collapse in visitor arrivals reverberated across the economy. As tourism activity stalled, the negative knock-on effects were felt on overall economic activity leading to the deterioration in employment as well as business and household incomes. This broad-based contraction in demand and economic activity also translated into lower tax revenue for Government, which also contributed to the negative GDP outcome for 2020. The contraction in the Fijian economy is consistent with most emerging and developing economies, especially tourism-dependent countries, where economic activity contracted significantly and will take some time to return to pre-pandemic levels.

For 2021, with no community transmission for almost a year, there were strong prospects for positive growth as several economic indicators and business sentiments noted improvements. However, the second wave of the coronavirus outbreak of the highly contagious Delta variant in Fiji has thwarted all chances of an economic recovery this year. The localised lockdowns in Viti Levu, restrictions on certain economic activity and movement of people, and the mandatory "COVID 19-safe" operational requirements for many businesses have further curtailed economic activity and raised the cost of doing business. The high unemployment and under-employment situation has worsened from last year, and Government finances have taken another hit, thereby further suppressing domestic demand.

Given these developments, the economy is forecast to contract further by 4.1 percent this year, driven by the services² and industrial³ sectors, which are expected to more than offset the positive contributions from the primary⁴ sector.

¹ The Macroeconomic Committee is made up of Heads and senior representatives from the Ministry of Economy; Fiji Bureau of Statistics; Ministry of Commerce, Trade, Tourism & Transport; Office of the Prime Minister; Investment Fiji; Fiji Revenue & Customs Service and the Reserve Bank of Fiji. The meeting was held on 1 July, 2021.

² The services sectors include accommodation & food services; transport & storage, public administration & defence, financial & insurance services; real estate; health; information & communication; education; and other services.

³ The industrial sectors include manufacturing; construction; mining; and utilities.

⁴ The primary sectors include agriculture, forestry and fisheries.

From next year, economic recovery is expected on the assumption that the current outbreak is controlled, herd immunity is achieved through vaccination, and borders re-open towards the latter part of 2022. Hence, growth is expected to rebound to 6.2 percent in 2022 and accelerate to 8.0 percent in 2023. While the economic recovery from next year is contingent on the resumption of tourism activity, visitor arrivals are not expected to return to pre-pandemic levels for some time.

However, since the current outbreak has yet to peak and there remains considerable uncertainty on its future evolution and impact on Fijian lives and the economy, the economic outlook could deteriorate further. Therefore, the balance of risk to the current economic outlook is heavily tilted to the downside. These include further delays in controlling the recent outbreak of the virus locally, inability to achieve herd immunity, the persistence of the virus globally (especially amongst our major trading partners), and further delays in the resumption of tourism activity. The ongoing threats from natural disasters and the recent upswing in commodity prices constitute other downside risks.

Given the economy's precarious outlook, economic recovery is critically dependent on the successful containment of the outbreak in the near term and the re-opening of borders for international tourism as local conditions allow. In this regard, a large part depends on achieving herd immunity by ramping up our current vaccination efforts. It is encouraging to note that around 50 percent of our adult population have already received the first dose of the vaccine. Based on the current inoculation trend, Fiji will be close to herd immunity by the end of October this year.

It is therefore critical that macroeconomic policies remain geared towards adequately resourcing the health and other frontline agencies to contain the pandemic whilst at the same time ensuring adequate social protection for households impacted by the outbreak and the containment measures. In addition, carefully re-opening businesses within the required health and safety parameters is also crucial for maintaining jobs and livelihoods.

In contrast to the challenges faced by the pandemic in the real sector, Fiji's external position has improved substantially. Foreign reserves are currently just over \$3.1 billion, sufficient to cover 11.1 months of retained imports of goods and services and have been boosted by lower imports; increased personal remittances & official aid; external borrowing by the Government; and the sale of Energy Fiji Limited's shares. In addition, the recent announcement by the International Monetary Fund (IMF) to distribute US\$650 billion to its members through additional Statutory Drawing Rights (SDR)⁵ allocations will further boost our foreign reserves by around \$265 million in the coming months. As a result, foreign reserves are projected to remain at comfortable levels over the medium term.

The next review of the macroeconomic projections is scheduled for November 2021.

ARIFF ALI
Chairman of the Macroeconomic Committee

⁵ Statutory Drawing Rights (SDR) are an international reserve asset created by the IMF to supplement member countries official reserves are a component of Fiji's foreign reserves.