

PACIFIC UPDATE

Development Policy Centre, Crawford School of Public Policy
ANU College of Asia and the Pacific

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Japan-Pacific ICT Centre
USP Laucala Campus

Fiji's debt crisis in the post COVID-19 recovery era

28th June 4.00pm Panel 3: Fiji economy



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Presentation

- **Introduction – Pandemic and the Global Debt Crisis**
- **Fiji Debt Situation**
- **Some Comparisons**
- **Diminishing Revenue Streams and Economic Downturn**
- **Reenergising the Economy**
- **Concluding Remarks**
- **Policy Recommendation**

Introduction – Growth Projection

January 2022 Projection – Before the Ukraine – Russia War

TABLE 1: GROWTH RATES

Covid-19 Crisis

	2019	2020	2021e	2022f	2023f
World Economy	2.6	-3.4	5.5	4.1	3.2
Advanced Economies	1.7	-4.6	5.0	3.8	2.3
Emerging Mkts. and Dev. Eco	3.8	-1.7	6.3	4.6	4.4
East Asia and the Pacific	5.8	1.2	7.1	5.1	5.2
Fiji	-0.4	-15.7	-4.1	7.8	6.9
Malaysia	4.4	-5.6	3.3	5.8	4.5
Papua New Guinea	4.5	-3.5	1.0	4.0	3.0
Samoa	3.6	-2.7	-8.1	1.5	3.0
Solomon Islands	1.2	-4.3	2.0	4.5	4.4
Thailand	2.3	-6.1	1.0	3.9	4.3
Vanuatu	3.9	-6.8	1.2	3.0	4.1
Vietnam	7.0	2.9	2.6	5.5	6.5
Argentina	-2.0	-9.9	10.0	2.6	2.1
Brazil	1.2	-3.9	4.9	1.4	2.7
India	4.0	-7.3	8.3	8.7	6.8
Maldives	6.9	-33.5	22.3	11.0	12.0

Introduction – With War Crisis

June 2022 Projection

Table 2: Annual Estimates (% Change)

Covid-19 Crisis

War Crisis

	2019	2020	2021e	2022f	2023f	2024f
World Economy	2.6	-3.3	5.7	2.9	3.0	3.0
Advanced Economies	1.7	-4.6	5.1	2.6	2.2	1.9
Emerging Mkts. and Dev. Eco	3.8	-1.6	6.6	3.4	4.2	4.4
East Asia and the Pacific	5.8	1.2	7.2	4.4	5.2	5.1
Fiji	-0.4	-15.7	-4.1	6.3	7.7	5.6
Malaysia	4.4	-5.6	3.1	5.5	4.5	4.4
Papua New Guinea	5.9	-3.5	1.0	4.0	2.7	2.5
Samoa	4.4	-2.6	-8.1	-0.3	2.5	3.8
Solomon Islands	1.2	-4.3	0.1	-2.9	5.3	3.8
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9
Vanuatu	3.9	-6.8	1.2	2.0	4.1	3.7
Vietnam	7.0	2.9	2.6	5.8	6.5	6.5
Argentina	-2.0	-9.9	10.3	4.5	2.5	2.5
Brazil	1.2	-3.9	4.6	1.5	0.8	2.0
India	3.7	-6.6	8.7	7.5	7.1	6.5
Maldives	6.9	-33.5	31.0	7.6	10.2	7.1

Fiji Growth Compared to China, Maldives and Vanuatu

January 2022

Year	2019	2020	2021e	2022f	2023f
China	6.0	2.2	8.0	5.1	5.3
Fiji	-0.4	-15.7	-4.1	7.8	6.9
Maldives	6.9	-33.5	22.3	11.0	12.0
Vanuatu	3.9	-6.8	1.2	3.0	4.1

June 2022

Year	2019	2020	2021e	2022f	2023f	2024f
China	6.0	2.2	8.1	4.3	5.2	5.1
Fiji	-0.4	-15.7	-4.1	6.3	7.7	5.6
Maldives	6.9	-33.5	31.0	7.6	10.2	7.1
Vanuatu	3.9	-6.8	1.2	2.0	4.1	3.7

6.3% and 7.7% growth rates are not possible

Pandemic and the War

Due to Ukraine-Russia war the global economy is expected to sharply deceleration, which is now expected to slow down to 2.9 percent in 2022. This is a substantial downward adjustment.

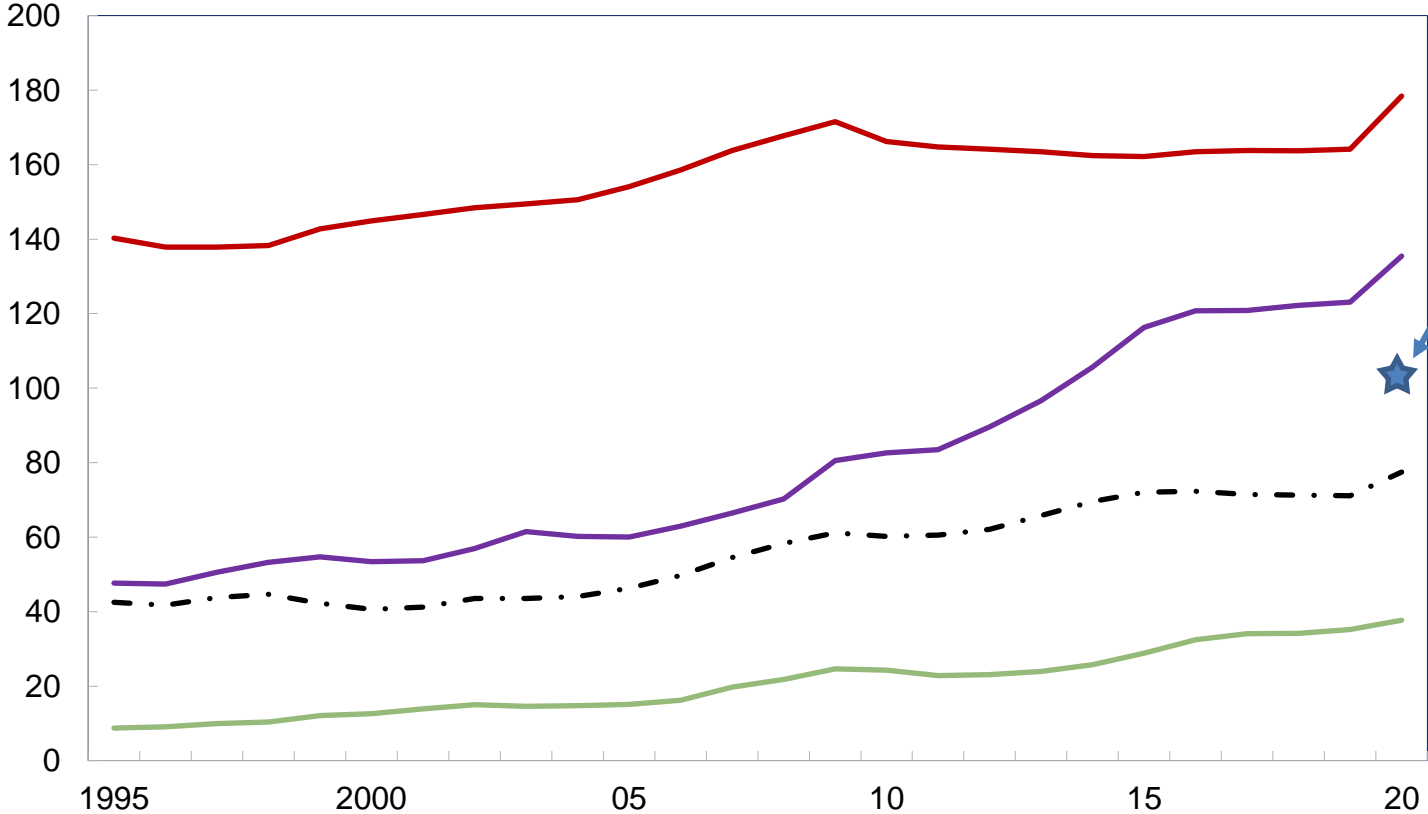
The war is leading to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty.

Growth in emerging market and developing economies (EMDEs) in 2022 has been downgraded to 3.4 percent.

The war has intensified the pressure on resources globally. Most developing countries, particularly small developing states, would face serious constraints growing their economies to 2019 levels.

Global Debt – Emerging Markets have experienced much bigger increase

Chart 1: Total Public Debt

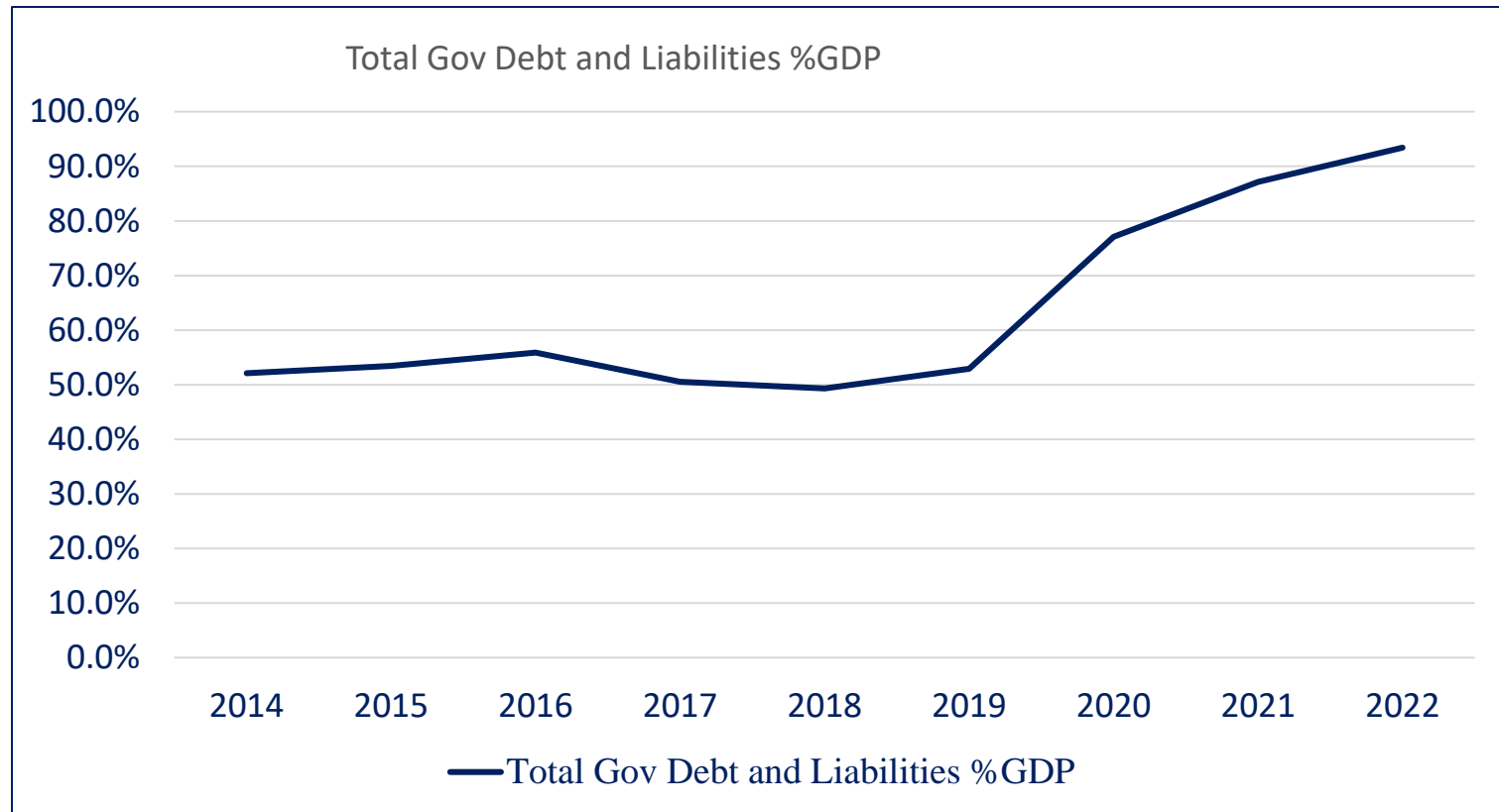


Fiji's Debt ratios is around here.

- Advanced Economies
- Emerging Markets
- · - Emerging Markets excl. China
- Low-Income Developing Countries

FIJI PUBLIC DEBT

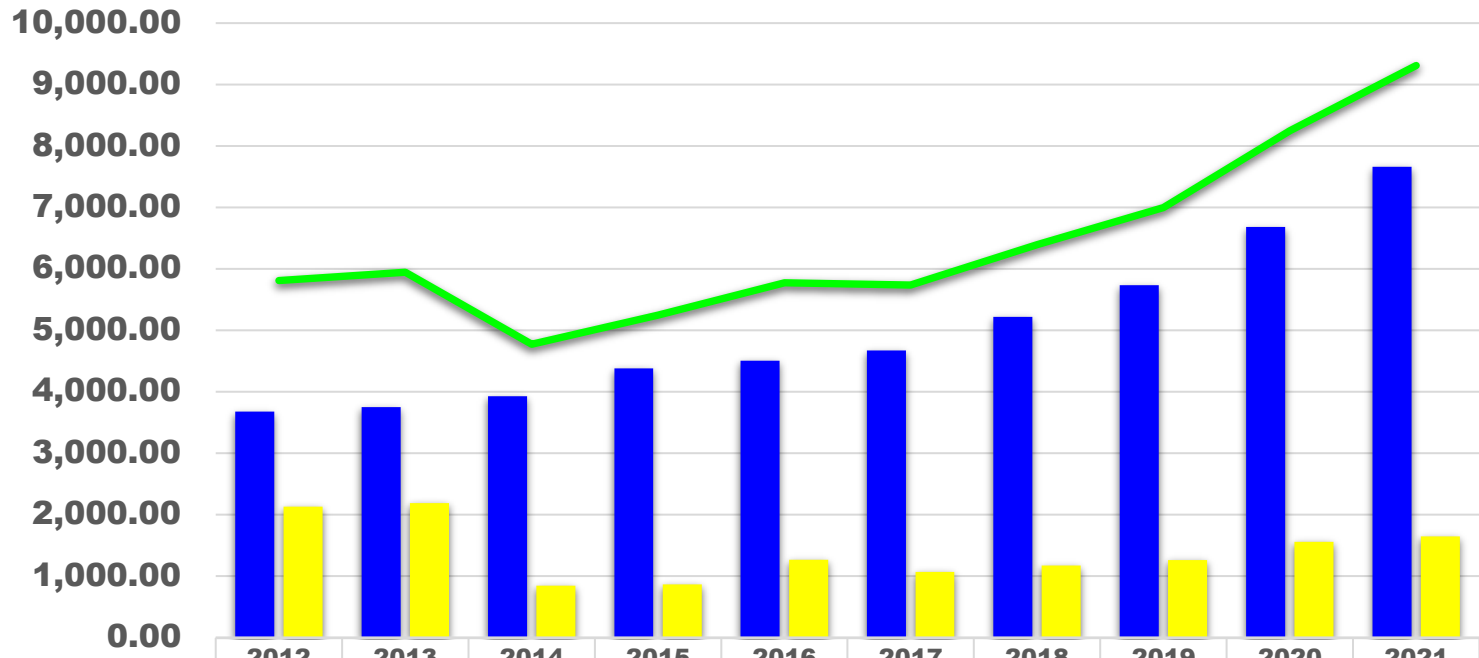
Chart 2: Fiji Total Public Debt (with Contingent Liabilities)



External Debt is around 35% of total debt. This is the reason IMF continues to lend to the Fijian Government.

Chart 3: Total National Exposure

**TOTAL EXPOSURE (\$M)
2012-2021**



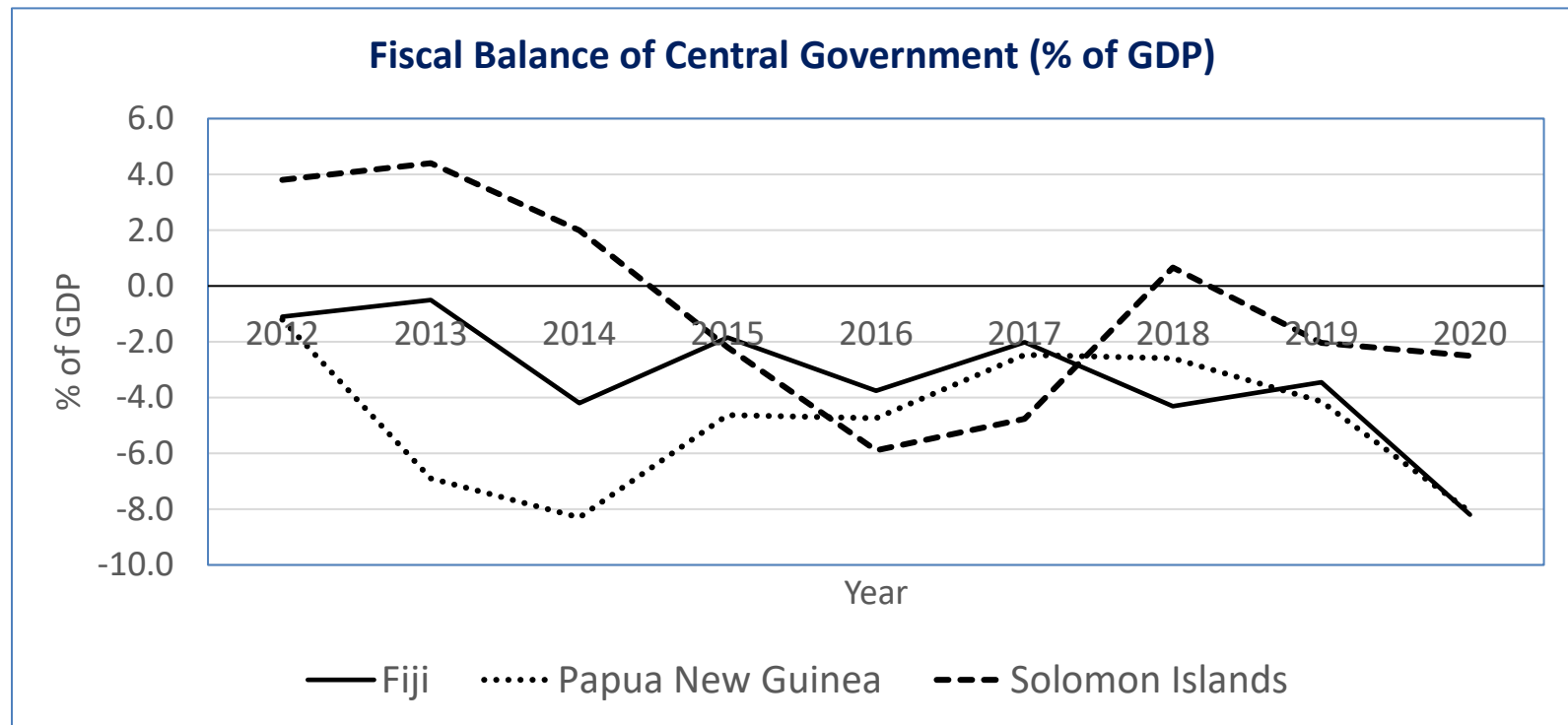
■ Debt	3,679.50	3,753.70	3,929.10	4,382.80	4,507.70	4,671.70	5,220.50	5,735.20	6,686.00	7,663.70
■ Contingent Liabilities	2,133.40	2,191.40	847.6	867.8	1,265.60	1,067.60	1,173.20	1,264.60	1,561.60	1,646.90
— Total Exposure	5,812.90	5,945.10	4,776.70	5,250.60	5,773.30	5,739.30	6,393.70	6,999.80	8,247.60	9,310.60

■ Debt ■ Contingent Liabilities — Total Exposure

*These excludes Japanese Loan - \$200m, FDB Guarantee - \$200m amongst others

Some Comparisons

Chart 4: Fiscal Balance of Central Government (% of GDP) from 2012-2020



Source: Key Indicators for Asia and the Pacific of the Asian Development Bank, 2021

Deficit has been increasing since 2018 largely due to falling tax revenues.

Some Comparisons

- 1) Sri Lanka's public debt to GDP ratio rose from 91% to 119% between 2018 and 2021. At the end of March 2022, Sri Lanka had external debt service payments of \$6 billion for the remainder of 2022 against foreign reserves of US\$1.9 billion. **On 6 April 2022 all the members of a bloated 26-member cabinet resigned apart from the President and the Prime Minister following mass public protests over the rising cost of living and economic mismanagement.**

Note that Fiji and Sri Lanka are on similar per capita income on PPP basis.

Some Comparisons

2) Pakistan's Public debt is projected to remain sustainable. At the backdrop of higher-than-expected economic growth, relatively stronger exchange rate, fiscal adjustments supported by EFF and efforts to enhance cash and debt management, the public debt is projected to decline from **88.6% of GDP from FY2021 to 70.4% by FY2026**. The extension of the Debt Service Suspension Initiatives (DSSI), covering about \$1 billion of debt service in FY2022, has also provided relief and contributed to the sustainability of the debt. Despite improvement in the maturity structure of the debt, the gross financing needs from FY2022 is projected to rise. -----ADB

Pakistan's Public debt sustainability - Under the baseline scenario, total public debt will remain sustainable, however, in going forward, macro-fiscal shocks will continue to pose threat to debt sustainability. For example, if the key variables such as real GDP growth, inflation, primary balance, and effective interest rate are assumed to grow at their historical trends, public debt-to-GDP ratio exceeds the baseline scenario and will reach 84% of GDP by FY2026. ----- ADB

One common observation is that in both Pakistan and Sri Lanka, the government's have collapsed or fallen.

Fiji may not be at the turning point but the symptoms are very similar to those existing in SL and Pakistan.

The Symptoms are:

1. Rising prices of domestic goods and services indicating supply side problems;
2. Unemployment;
3. Increasing Poverty (read the Fiji Times for the last 5 days and you will find graphic discussions of poverty);
4. Increasing Crime
5. Loss of productivity and competitiveness;
6. Exports are declining;
7. Lack of domestic demand; and
8. Declining private investments.

FIJI HAS SOME SERIOUS PROBLEMS:

- 1) The government has minimal Fiscal Space available due to high Debt/GDP ratio – currently between 85 ad 90 percent of GDP. The domestic debt is a buffer against default. The government is in full control of the FNPF an unresisting lender.
- 2) The problem is more intense since the internal productive capacities are weak – Some of our best performing sectors are not likely to pick up easily.
- 3) Tourism is the only hope to generate the necessary growth but there are many underlying problems for future growth.

There are two ways increasing revenue:

- 1) Economic Growth
- 2) Increasing the tax rate

According to the revenue data the economy is still more than 20% below 2019 levels.

2022 may see some growth due to return of tourism. But there are huge downside problems right now. The costs of travel and tourism services are likely to increase substantially.

DIMINISHING REVENUE STREAMS AND ECONOMIC DOWNTURN

(\$M)	2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
Estimates	3,128.7	3,175.3	3,857.3	4,236.4	3,491.7	2,111.2	2,085.1
Actual	2,908.30	2,837.40	3,244.4	3,181.10	2,716.7	2100.5	2200.1
VARIANCE	220.4	337.9	612.9	1,055.3	775	NA	NA
As a % of GDP	32.3	32.2	35.1	36.3	25.3	22.0	21.1
Tax Revenue	2,427.40	2,579.20	2,831.60	2,819.8	2,194.0	1,410.9	1,597.6
Non- Tax Revenue	480.9	258.3	412.8	361.3	522.7	700.3	487.5

Revenue (\$M)	2016	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Actual	2,908.30	2,837.40	3,244.4	3,181.10	2,716.7	2100.5	2200.1
Percent of 2016	NA	97.5%	111.5%	109.4%	93.4%	72.2%	75.6%

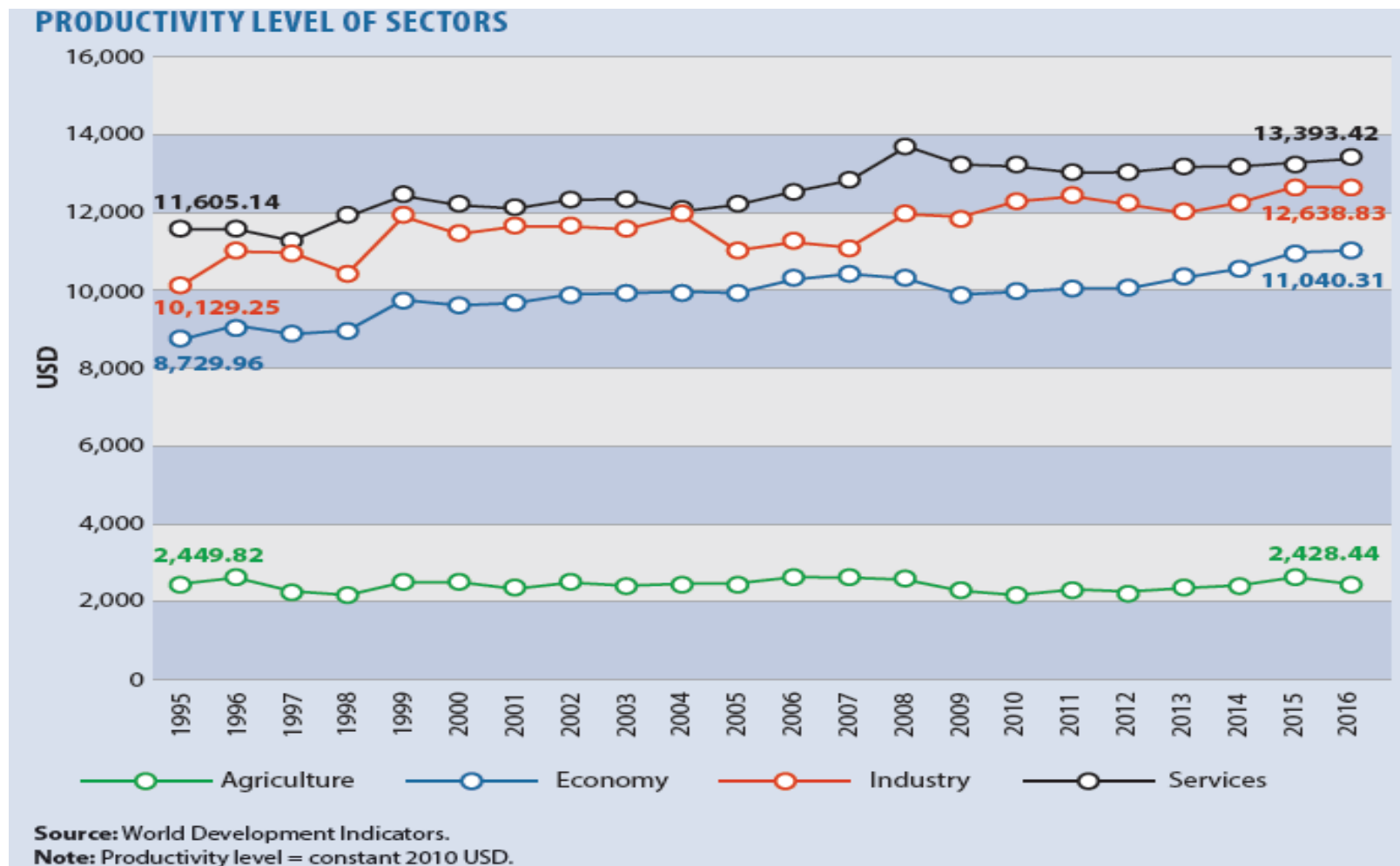
RE-ENERGIZING THE ECONOMY

1. **Current Policies are not working – Investment policies don't seem to work. Now a new investment policy is planned which I here has serious implications for investors (see today's Fiji Times).**
2. **Government doesn't have the capacity to address the root causes of the problems.**
3. **Most non-tourism sectors are suffering from lack of incentives and productive capacity. Most sectors have not seen much productivity growth in the last 30 years (see data next Slide)**
4. **Reforms are completely rudderless – not much is visible.**
5. **Banks are confident lending to domestic investors.**
6. **Whatever incentives that are there seem distorted and unclear.**
7. **Small business loans are not showing results – largely due to government not having monitoring and incentivising mechanisms.**

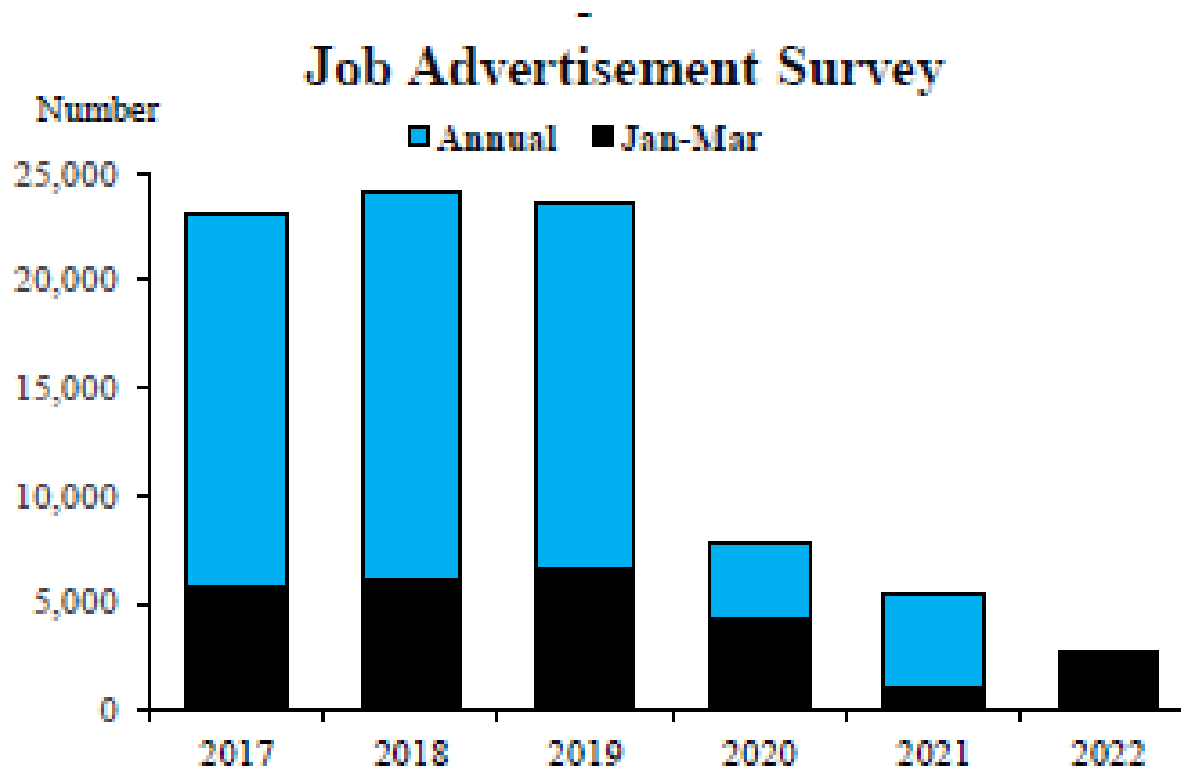
SEE FOLLOWING SLIDES FOR THE GLIMPSES OF SOME OF THE PROBLEMS.

SECTOR WISE COMPARISONS – Productivity

Growth has been very low for the last 20-30 years

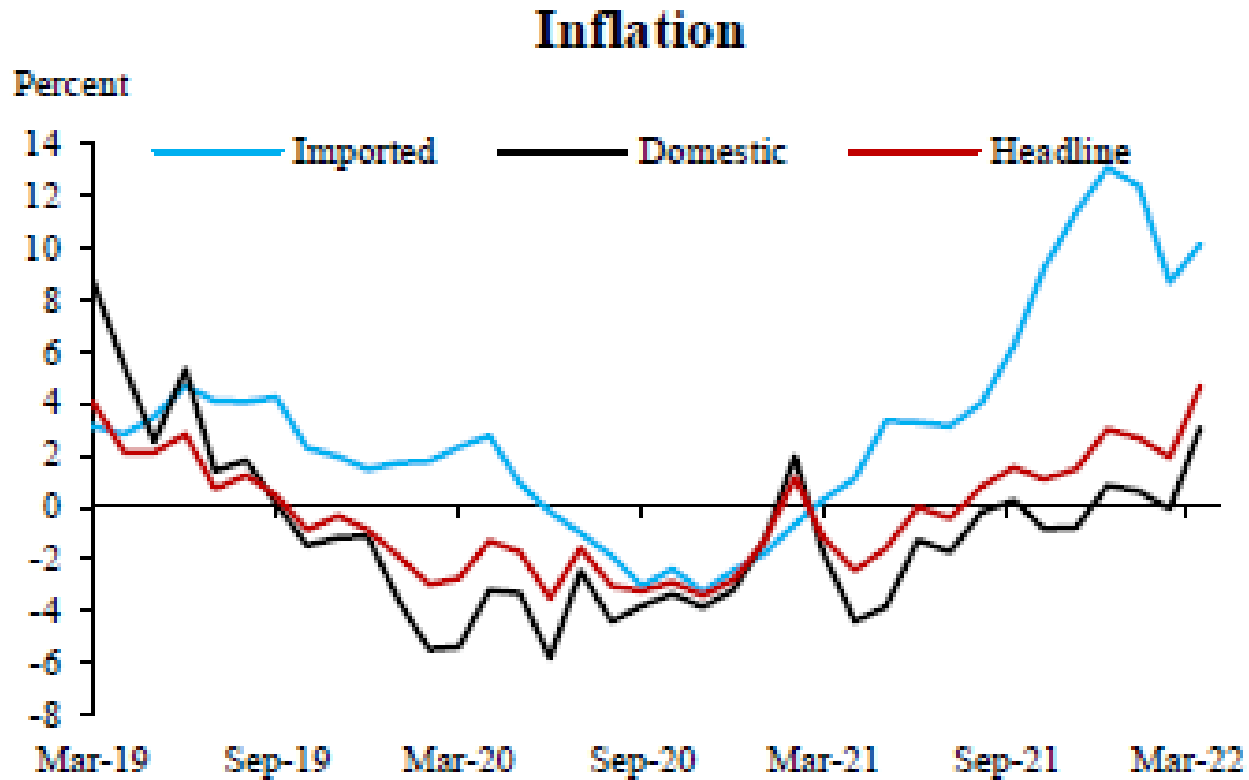


Unemployment



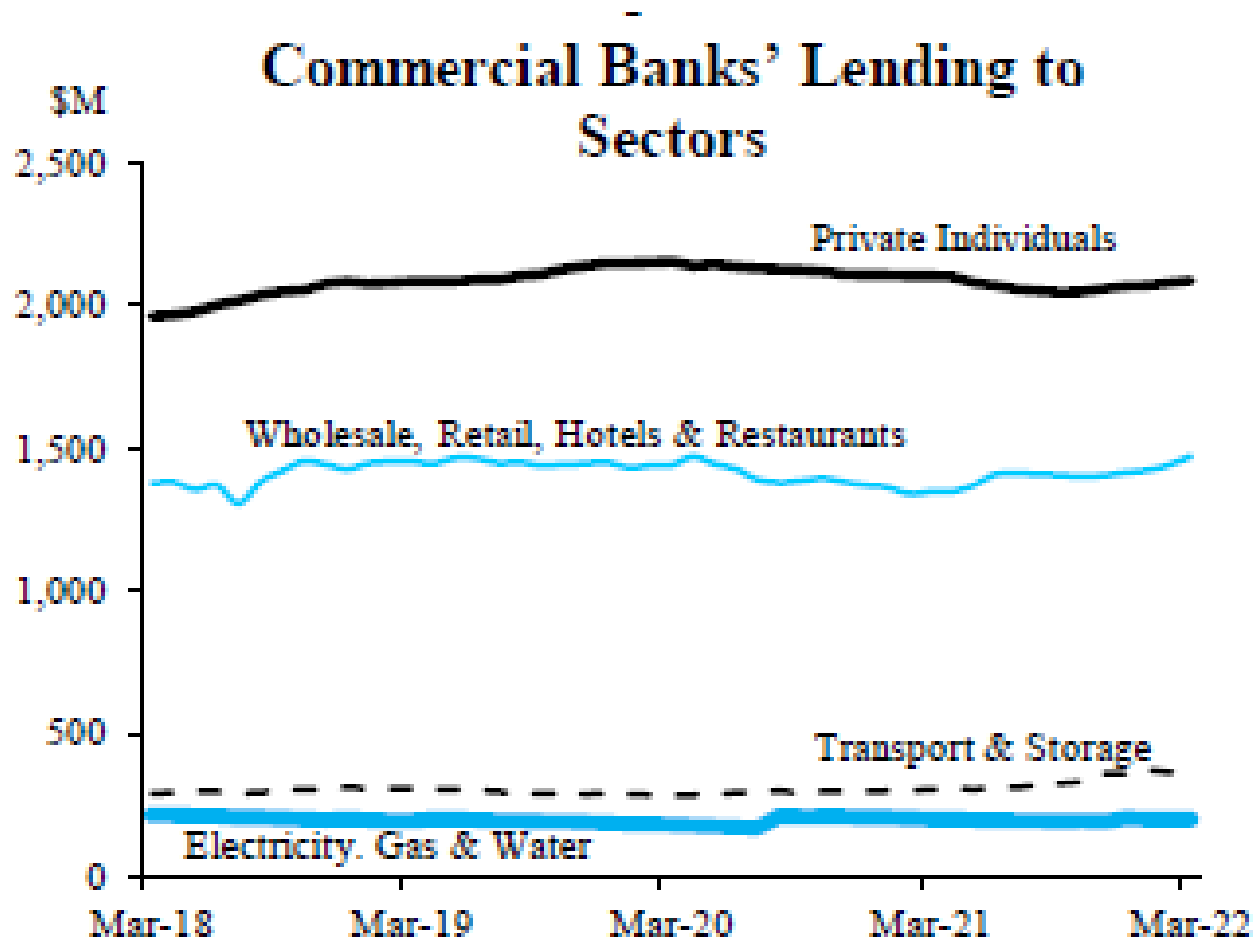
Sources: The Fiji Times and Fiji Sun

INFLATION



Sources: RBF and FBOS

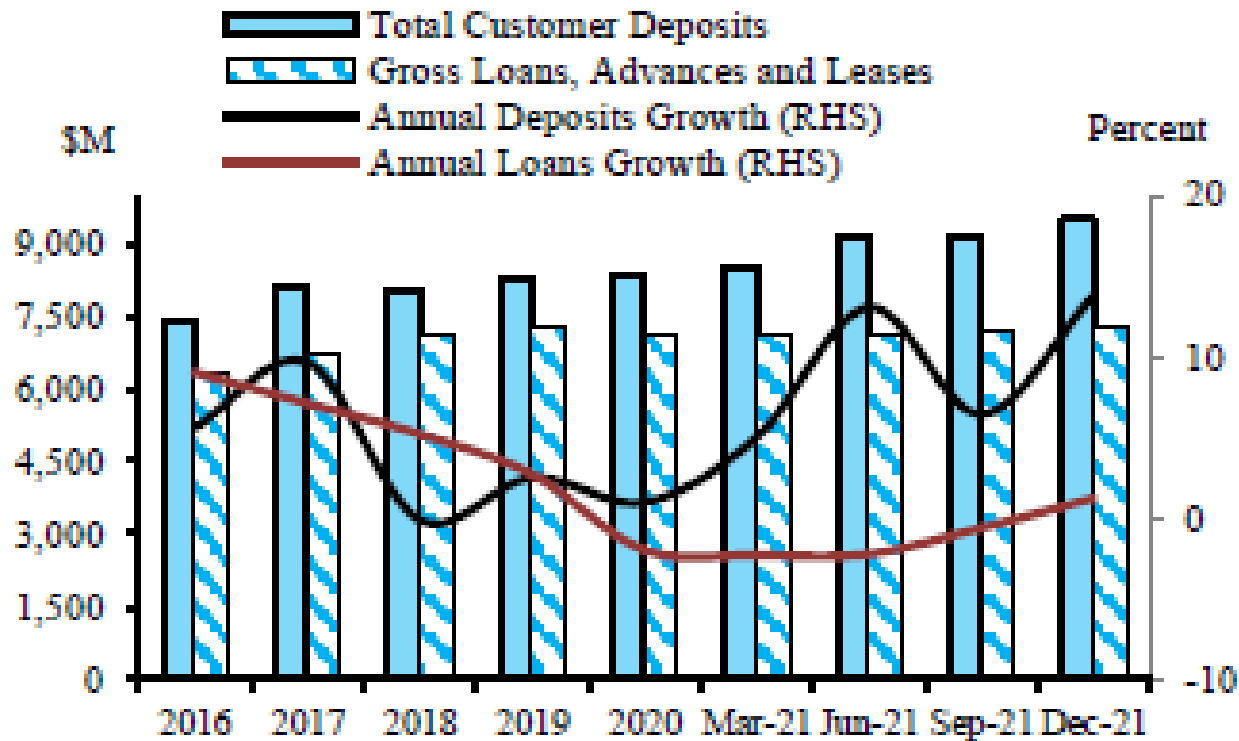
Investment and lending Data



Source: RBF

Bank Loans and Deposits

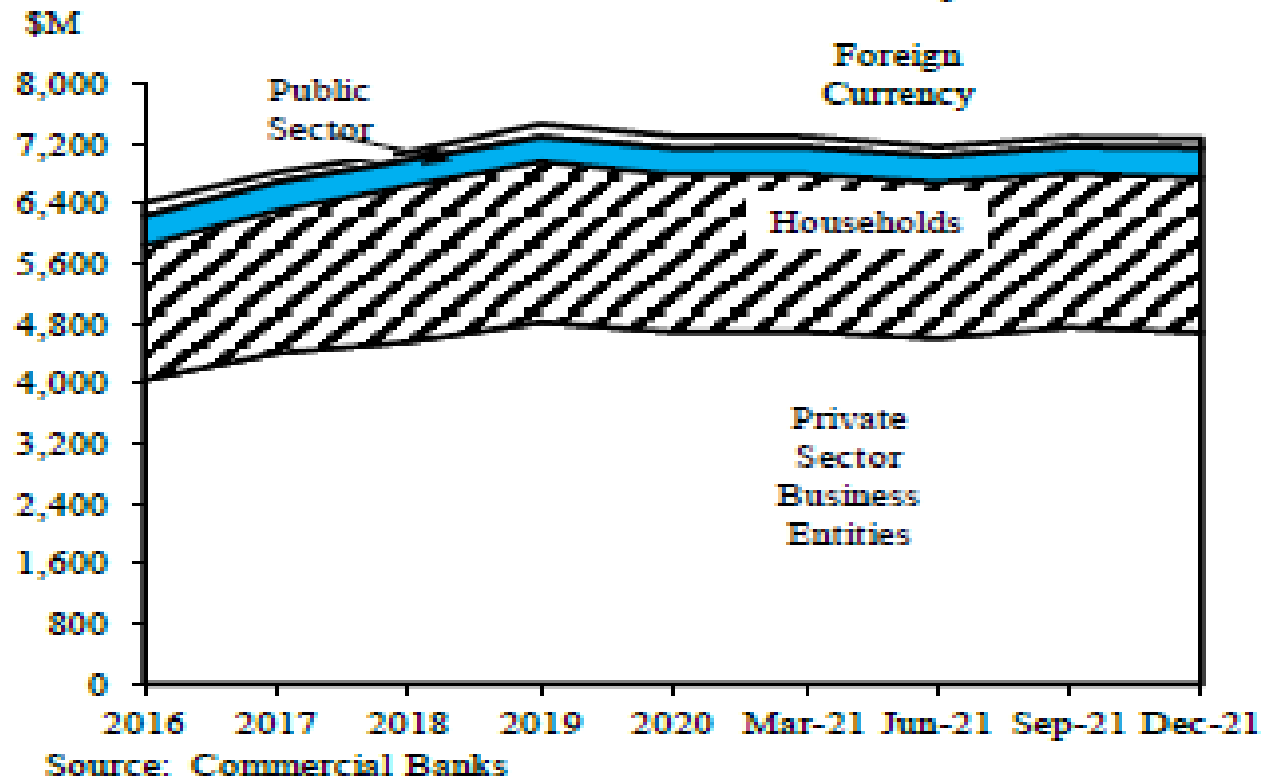
Commercial Banks' Customer Deposits & Loans



Source: Commercial Banks

Gross Loans by Sectors

Commercial Banks' Gross Loans, Advances & Leases by Sector



INTERNATIONAL TRADE

In the year to February 2022, **Fiji's merchandise trade deficit** (excluding aircraft) widened by an annual 78.6 percent (to a total of \$634.6 million), compared to a 25.7 percent narrowing in the same period last year. The outcome was due to a stronger rebound in imports relative to exports. Exports have remained subdued due to diminished external demand and lack of global competitiveness.

**GLOBAL ECONOMIC AND GEOPOLITICAL
CONDITIONS TO NOT LOOK GOOD.**

Long run Policies are needed

CONCLUDING REMARKS AND POLICIES

- Government Needs to Start working towards long term strategies for growth;
- Reduce Public Debt by establishing better monitoring of Government Expenditures;
- Attract FDI since domestic savings is very low;
- Fiji Needs productivity growth to growth the Economy;
- Government Budgeting process is very weak – needs to follow EU or at least Australian standards in Budgeting and Fiscal consolidation;
- Budget reflects Populist policies;
- Budget is almost a joke when 6 month review period is established at the announcement

REQUIRED GROWTH AS PER APO PROJECTIONS



Source: World Development Indicators for GDP from 1995 to 2017.

Note: GDP level = constant 2010 USD.

POLICY RECOMENDATION

- 1) Internalization of Production and promotion of Exports
- 2) Trade will come back but Tourism may take time
- 3) Develop Agriculture through National Planning
- 4) Adopt New Technologies – New training plans needed
- 5) Generate Positive competition
- 6) Develop New economic sectors – Small Scale Cluster Processing
- 7) Human Resources needs big boost – More training and Education
- 8) Health Sector Needs new initiative – both Private and Public

Some Pointers:

- 1) New market-oriented labour Policies are needed;
- 2) New legal and procedural mechanism need to be put in place to deal with industry matters;
- 3) New Constructive in-house training policies are needed – Incentives must be provided by the Government ;
- 4) New and more Responsive Technology and Investment Policies are needed;
- 5) May be retirement age policy needs to be reconsidered.

Thank You for listening, Vinaka
Will take any questions