

Fiji's Economy

Post-2022 General Elections

Dr. Janesh Sami (Ph.D., Australia)

Lecturer in Economics

School of Accounting, Finance, and Economics

The University of the South Pacific.

Email: janesh.sami@usp.ac.fj

Overview of Presentation

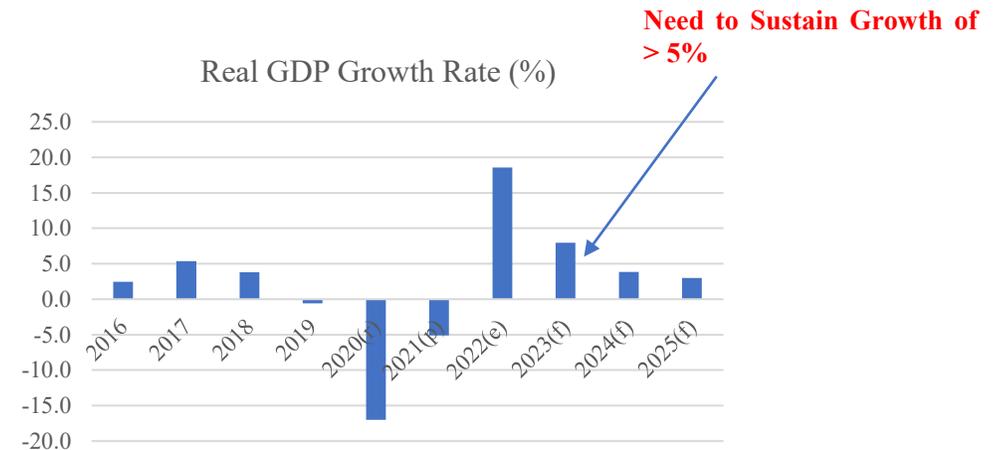
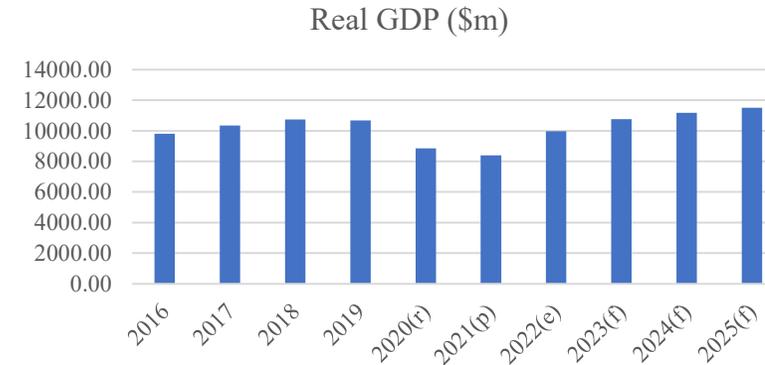
- Introduction
- Brief Overview of Fiji's Economic Recovery
- Achievements, Existing Challenges, and Concerns
- Revenue and Expenditure Reforms
- Implications for the 2023/2024 Budget
- Future Directions

Introduction

- Three-party coalition and high debt from the previous governments have put Fiji's economy in a difficult position.
- Numerous challenges with difficult unpopular policy choices ahead.
- 2023/2024 budget alone will not solve Fiji's economic and social miseries or fully correct the mismanagement of the past sixteen years. Rather, it's the starting point to avoid painful policies in the future.
- By implementing a mix of forward-thinking, well-designed, and evidence-based policies, the government can provide a sound basis for addressing pressing national issues.
- Global growth to fall from **3.4% in 2022** to between **2.5% to 2.8% in 2023** (IMF, 2023).
- Existing domestic and external risks: **vulnerability to natural disasters**, monetary tightening, **sluggish private sector recovery**, and high commodity prices (ADB, 2023; IMF, 2022; IMF, 2023).

Fiji's Economic Recovery

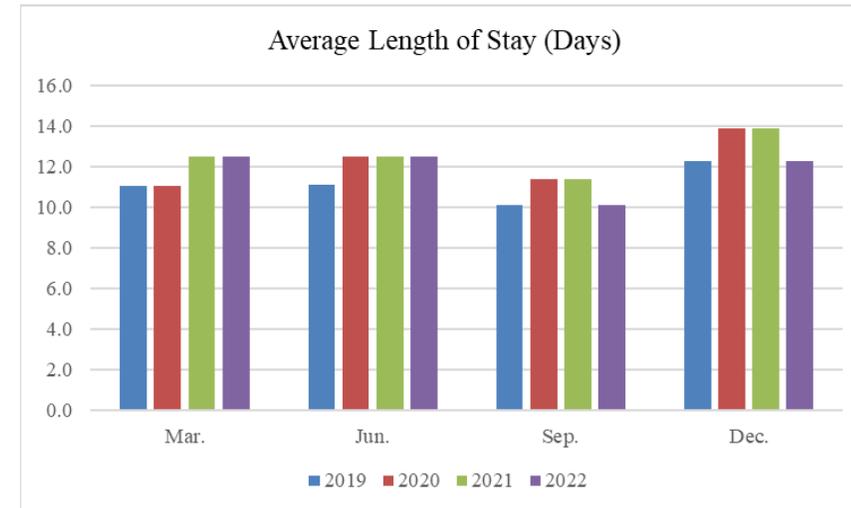
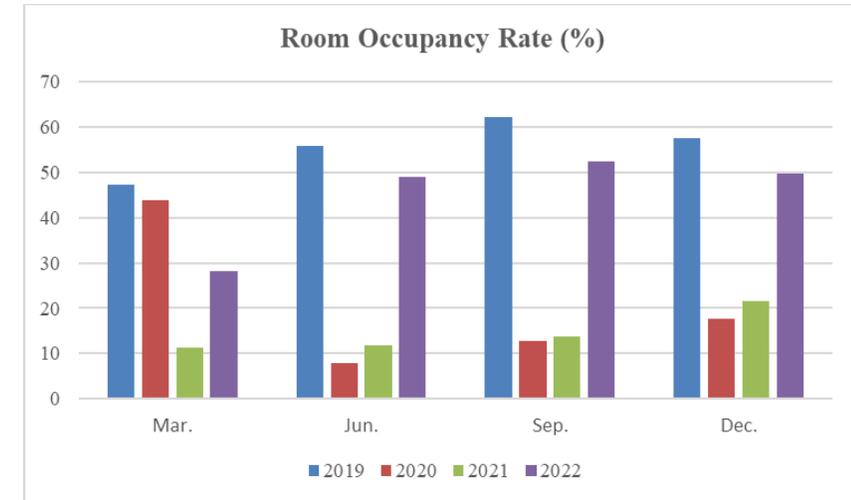
- Fiji's economy is recovering well from the pandemic, supported by tourism, sugar, and niche agriculture (ADB, 2023).
- Expect **recovery by the mid of 2024** in the absence of adverse domestic and external shocks.
- Prior to COVID-19, the average growth rate was 3.1% from 2015-2019. Projected GDP growth of 11.2% in 2023 and 9.1% in 2024 (ADB, 2023).
- The 2023/2024 budget must focus on **sustainable, inclusive, and resilient** economic recovery in order to maintain macroeconomic stability.



Source: Reserve Bank of Fiji (2023)

Tourism

- Total visitor arrivals in 2022: 636,312 compared to 894,389 (Reserve Bank of Fiji, 2023)
- Tourism earnings in 2022 stood close to \$1.5 billion and about 73% of the pre-covid level.
- **Expect a full recovery of the tourism sector by the end of 2023.** The positive economic effects of this recovery on employment, spending, and government revenue are encouraging.
- **Strategies:** diversification, addressing labor shortages, intensive marketing; encouraging investment in the tourism sector. (**Attract more tourists, make them stay longer and spend more**).
- Target should be to increase monthly visitor arrivals by 5-10% compared to pre-covid levels.
- **Tourism is expected to bring more than \$2 billion dollars in 2023.**



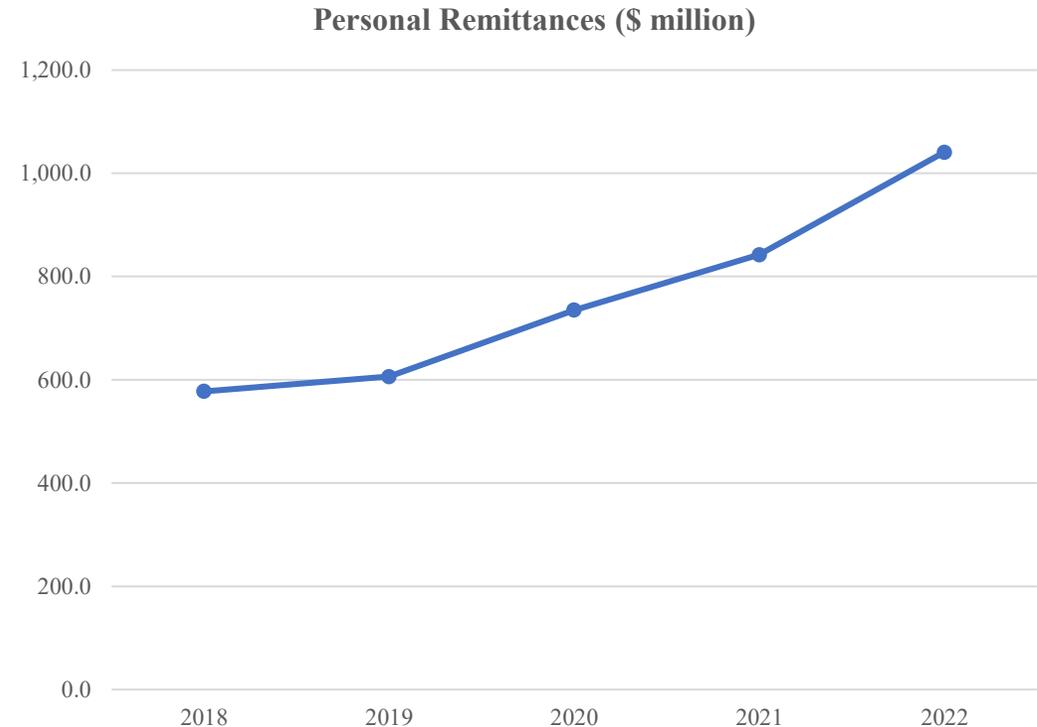
Source: Reserve Bank of Fiji (2023)

Consumption, Investment, and Exports

- Some recent positive signs :
 - ✓ Higher new lending (for consumption and investment) by commercial banks as of April 2023 reflects improved confidence following elections.
 - ✓ Lower interest on new lending by commercial banks should support economic recovery.
 - ✓ Provisional domestic export data reflects recovery compared to the pre-covid period and the need for supporting policies in the upcoming budget.

Remittances

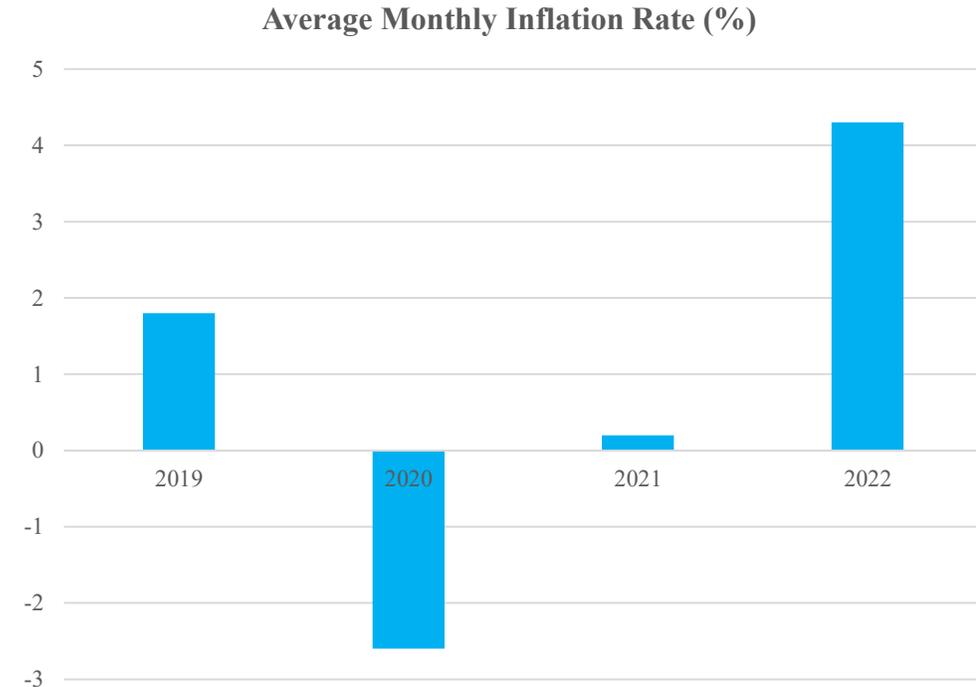
- Remittances crossed more than \$1 billion and almost doubled compared to pre-covid-level.
- The key challenge is to modernize and strengthen seasonal worker programs to ensure a healthy flow of funds but also deal with labor shortages.
- More than 24, 000 workers from the healthcare and tourism sector have left the country.
- To deal with labor shortages, **sector-specific targeted training and education programs** are essential in the 2023/2024 budget.
- Need to take a long-term perspective and pursue a **sustainable** approach.



Source: Reserve Bank of Fiji (2023)

Labor Market and Inflation

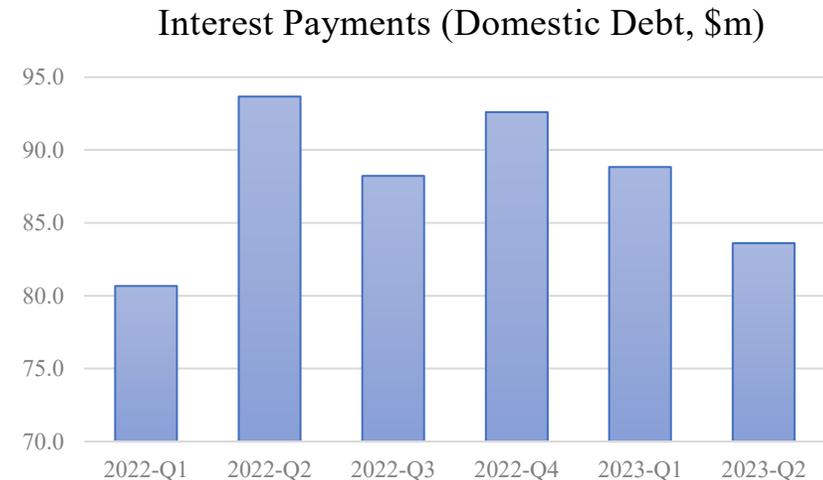
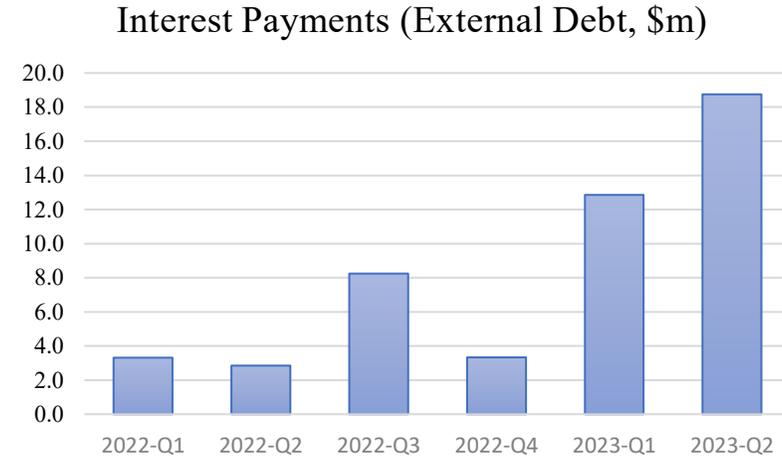
- Job ads data reflects the improvements in the labor market have been positive but still below pre-covid levels.
- This reflects businesses have been cautious in hiring more staff following the election.
- **Inflation is a policy challenge** and the 2023/2024 Budget need to be mindful of this.
- Government can more effectively understand and address inflation by having an independent analysis.
- Projected inflation rate of **4.2% in 2023** and **3.5% in 2024** given global commodity price trends (ADB, 2023).



Source: Reserve Bank of Fiji (2023)

Public Debt

- Fiji's public debt is high compared to other major PIEs (ADB, 2023).
- Limited scope for borrowing. Grant-based financing can be useful but not really in control of the government (IMF, 2022).
- The coalition government paid about **\$204m** just in interest payments in 2023!
- Fiji's public debt ratio is expected to be around 80% for 2023 and 2024 (ADB, 2023), and therefore fiscal reforms in the upcoming budget are necessary.
- World Bank Report: Public debt is expected to be close to **99.6%** under the baseline scenario, 65.2% under moderate consolidation, and 44.3% under ambitious consolidation by **2032** (all under the assumption of an average growth rate of more than 5%).



Source: Reserve Bank of Fiji (2023)

Achievements, Existing Challenges, and Concerns

Commendable Achievements

- \$200 Back-to-School Package, National Economic Summit, Girit Day, GCC, Media Freedom

Existing Challenges and Concerns

- Misinformation regarding policies undermines investor and political confidence.
- Being transparent is important but the government needs a more responsible communication strategy.
- Need for a fair and balanced representation of women and other ethnic groups (for statutory boards /executive positions).

- Out of 211 board members in 38 SOEs, 45 % are indigenous Fijians, 38% are Indo-Fijians.
- No of boards with no other ethnic group participation (47% in 2023 compared to 29% in 2020).
- Women’s representation on boards remains stagnant at 20% in 2023 compared to 21% in 2020.
- Board chair positions held by women (5% in 2023 compared to 18% in 2020).
- No of boards with no Indo-Fijian participation (11% in 2023 compared to 8% in 2020).

So :

- **Where is inclusivity?** Provide the basis for “race-based politics”
- What will be the impact on trust between different ethnic groups?

- If past political candidates serve as board members/ permanent secretaries, how will you ensure :
 - ✓ **the SOEs/ministries function efficiently and do not serve specific political interests.**
 - ✓ **that civil servants work freely without fear. Implications for productivity and reforms.**
 - ✓ **upcoming appointments of CEOs, permanent secretaries, and or even civil servants follow do not follow a similar path.**
- The unbalanced representation of women and Indo-Fijians in recent appointments also raises similar questions and seriously undermines confidence in the coalition government.
- **All executive and board appointments should be subject to independent scrutiny.**
- Carefully evaluate the economic and political implications of appointments/policies and their effects on private sector confidence.
- Coalition government can succeed based on **strong partnerships and fair representation.**

Revenue Reforms

- Comprehensive reform of government revenue policies should be the major focus of the upcoming budget.
- Which policies are effective, and still relevant? Rationalize tax exemptions and incentives. Fiji loses an estimated more than 24% of its total tax revenue due to tax exemptions (IMF, 2022).
- Areas: VAT reform, increasing excise tax of alcohol, departure tax, phasing out fiscal measures implemented during the pandemic, raising tax on sugary products.
- **Other reforms** required to address inefficiencies in tax policy and revenue administration.
- Improve the effectiveness of FRCS (improve quality of services, perceptions of quality, improving independence, ability to implement policies, and improve compliance).
- FICAC can be a useful tool to deal with corruption, but political commitment is more important.
- Enhance the capacity of SOEs, town and city councils to sustainably generate and manage revenue.

VAT Reforms

- 15% VAT will seriously undermine economic and political confidence and is **NOT** recommended.
- Timing of policy is important. Benefits vs costs.
- Rather consider a **single-broad rate regime between 10-12%** and adopt a **phased approach** and then **improvise**.
- VAT is one of the least distortionary taxes and the burden falls on both consumers and producers.
- Well-designed and implemented VAT reforms can improve compliance, boost non-VAT revenue collection, and reduce informality.
- Conditioning factors (compliance, complexity of tax system, winners and losers) and **complementary reforms to enhance collection efficiency**.
- **Essential Reforms:** better targeting of social assistance spending (poverty benefit scheme, free bus fare scheme, care protection scheme, social pension, and subsidies for electricity and water).
- VAT exemptions have a distortionary impact on the investment decisions of firms.
- **Impact:** Cost of living concerns (given recent commodity trends) and social implications (crime and migration).

Expenditure Reforms

- Massive expenditure cuts are unlikely and unhelpful for economic recovery, so it's best to focus on **reviewing existing expenditure policies** and **improving the efficiency of spending**.
- Improving the targeting of public social spending and the efficiency of public investment spending (through effective project appraisals, maintenance of assets, better documentation and reporting) can support economic recovery, create jobs, and improve tax revenue.
- Reforms (not necessarily involving expenditure cuts) to improve targeting for social assistance programs will more effectively help the poor and vulnerable.
- Review spending for the past 16 years by sector/ministry. Look at project failures, areas of excessive spending, wastage & duplication, implement decisive remedial measures, and demonstrate prudent expenditure management.
- Transparently **redirect spending towards** skill upgrading, income-generating, and diversification projects in poor and vulnerable communities.

Implications for the 2023/2024 Budget

- Government will be under pressure to address the cost-of-living crisis but also drive inclusive and sustainable economic recovery and necessary fiscal reforms.
- 2023/2024 budget should focus on:
 - ✓ Improving the private sector's confidence through forward-looking, well-developed, and transparent policy reforms.
 - ✓ Strategic economic diversification, economic empowerment, and resilience building.
- Voters should expect a “balanced and realistic” budget and not a popular budget.
- Limited fiscal space will necessitate unpopular fiscal reforms (including moderate tax increases).
- **Difficult policy choices now or even more difficult policy choices in the next budget.**

Future Directions

- Fiji's economy is recovering from massive economic contraction with limited fiscal space and adverse external conditions.
- However, maintaining the growth momentum will be a challenge in the absence of strategic diversification and private sector reforms.
- We must work together to build a more united and inclusive nation over the next four years, using every opportunity to build trust and boost private sector confidence and growth.
- **Effective communication** (need to convince & avoid misinformation), **evidence-based inclusive policies**, and innovative **transparent partnership** (across ethnic groups, private sector, development partners, NGOs, and faith-based organizations, etc.) will be useful to achieve economic and social prosperity.

Thank you for listening!