FRIEND provided groceries to 181 students stranded at the Fiji National University campus in Lautoka lockdown (FRIEND/Facebook)

Fiji's next budget should focus on crisis mitigation and economic recovery

By Neelesh Gounder

The resurgence of COVID-19 positive cases from local and community transmission in Fiji has dealt a swift blow to the economic optimism around a travel bubble with New Zealand and Australia. Opening of international borders is essential to economic recovery due to the importance of Fiji's tourism sector.

According to the World Travel and Tourism Council, travel and tourism contributes to 26.3 per cent of total employment in Fiji. However, removal of border restrictions and a travel bubble with New Zealand and Australia will now be pushed far down the economic reopening agenda.

Socio-economic reality

The COVID-19 pandemic and its economic fallout hit the economy hard in 2020. When the tourism and travel industry ground to a halt by the end of the first quarter in 2020, agriculture and the informal sector provided a lifeline to those working in the tourism and travel industry. The unemployment rate, which hovered around 6 per cent before the pandemic, is estimated to have shot up to around 35 per cent.

With COVID-19 numbers worsening, the economic and social repercussions are expected to intensify, especially in terms of inequality in already vulnerable households. While stringent measures are required to contain and suppress the pandemic to protect lives, these measures will also increase the risk of economic losses. With Suva and Lautoka cities in containment zones and various lockdowns in place, production and distribution have been dealt a severe blow, with negative impacts on jobs and household incomes. If the lockdown is extended, reduced consumer demand will further negatively impact employment and incomes.

The government has announced some measures to support households impacted by the recent COVID-19 related restrictions:

- Lockdown relief: those unable to go to work due to containment/lockdown can apply for a one-off withdrawal of F$220 (A$140) from their retirement savings at the Fiji National Provident Fund (FNPF). By 19 May, almost 2,000 employers had registered their businesses with FNPF to facilitate withdrawals for their employees. As at 17 May, 14,600 FNPF members were able to access F$3.1 million under this scheme.

- Cash assistance (one-off): F$90 (A$57) to households in containment/lockdown areas. Figures released by the government show that as at 14 May, 118,000 individuals had been paid the $90 cash assistance.

Indications coming from civil society organisations currently supporting vulnerable households show that many households are struggling to meet basic needs such as food.

Macroeconomic scenario

In line with a GDP growth rate for 2020 of -19 per cent, key economic indicators point to an economy operating at a much-reduced level. Value added tax (VAT) collection declined by 38 per cent in 2020, particularly as a result of reductions in import VAT (-29 per cent) and domestic VAT (-27 per cent). Commercial bank new lending for consumption decreased by 27 per cent in 2020. Moreover, new lending for investment fell by 25 per cent in 2020, largely from a decline in lending to the real estate and construction sectors. The reduced economic activity seen in 2020 has continued through to at least March 2021. As a result, government revenue is expected to remain at least 40–50 per cent below its pre-COVID-19 level (2018-2019 fiscal year).

Remittances tell a different story. Inward personal remittances rose by 11 per cent to reach F$652.7 million (A$414.6 million) in 2020. This would have helped cushion household consumption and domestic demand. The momentum of domestic demand is reflected in retail sales (excluding motor vehicles), which showed a rebound beginning in the third quarter of last year after a sharp fall in the second quarter.

2021-2022 budget: crisis mitigation and economic recovery

Simultaneous action on two fronts will be important in the 2021-2022 budget due in June – crisis mitigation and economic recovery:

- Crisis mitigation: right now, the top priority has to be containing the virus outbreak in the community, to save lives and bring back economic activity. With no certainty as to how long this pandemic will continue, the budget should provide more resources for the health sector – for testing and treatment and additional medical staff, and to implement a clear vaccination strategy and strengthen medical infrastructure. Apart from health, investment in social assistance and social protection must be expanded to mitigate the economic harm to households. By now, there should be sufficient data and implementation lessons to move ahead, swiftly and effectively.
- Economic recovery: there also must be a focus on shifting to recovery. The lower level of government revenue needs to be focused on priority areas: health protection and social assistance as mentioned above, but also other core public services and support to boost economic activity. For now, the risks from the pandemic remain high, adding to the uncertainty of economic recovery. Nonetheless, once the health crisis starts to wind down, a quick policy response will be necessary to steer the economy back towards normal. The budget must therefore incorporate flexible and quickly adjustable policies and processes.

To implement these two strategies, the greatest challenge for the government will be marshalling financial and other resources. The benefits of regional and bilateral cooperation (including solidarity) have already been demonstrated. Australia and New Zealand will provide around F$105 million (A$67 million) to support the 2021-2022 budget. Moreover, New Zealand has committed to provide 250,000 doses of the AstraZeneca vaccine from its domestic vaccine portfolio.

These and other supports are important to fill the fiscal gap. Revenue constraints, however, are expected to push government debt higher (around 100 per cent of

GDP). Consequently, the government must strive to maintain policy and budgetary discipline. The need to manage a crisis and nurture a recovery will require both dedication and vision.

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