

RESERVE BANK OF FIJI

PRESS RELEASE



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Telephone : (679) 331 3611

Date : 11 March 2016

Facsimile : (679) 330 2094

Email : info@rbf.gov.fj

FIJI'S ECONOMIC PERFORMANCE EXPECTED TO REMAIN POSITIVE THIS YEAR

Tropical Cyclone (TC) Winston hit Fiji on 20 February 2016 with devastating impact on the economy. Much of the destruction occurred in the agricultural sector and in particular around the northern, north eastern and north western parts of Viti Levu and around south eastern Vanua Levu and Taveuni. The sugar industry in these areas sustained significant damage as did most other crops. Similarly our infrastructure was also badly hit and this is causing prolonged disruption to electricity, water supply and telecommunications in the same areas. What has stood out above all else is the extensive damage to thousands of homes which were in the path of the category 5 cyclone, leaving many communities without shelter and, in most cases, their sources of livelihood. The Fijian Government responded swiftly, and with the huge groundswell of both local and international assistance, has started the process of recovery.

Preliminary assessment by the Reserve Bank on the macroeconomic impact of TC Winston shows an expected downward revision to this year's GDP growth from the earlier forecast of 3.5 percent on account of lower output in the agriculture and a number of other sectors. Further to this we see increased repairs and reconstruction spending by Government and the private sector and a widening in the trade deficit from lower exports and higher imports. Inflation is expected to rise temporarily due to the anticipated shortages in agricultural market items. Foreign reserves are forecast to decline slightly, although remaining adequate, supported by inflows from grant assistance, higher inward remittances and a likely swift recovery in tourist arrivals.

Notwithstanding the negative impact of TC Winston, the Fiji economy remains positive. Estimated growth last year was 4.0 percent, the third consecutive yearly growth of over 4 percent while end-year inflation was 1.6 percent, below the earlier forecast of 2.0 percent. Fiscal outcomes have been driven by Government's spending on infrastructure development and improving health and education while revenues, especially from VAT, remain buoyant, supported by strong consumer spending, higher disposable incomes and remittances. The financial sector remains sound as the Reserve Bank maintains a fine balance between ensuring our financial institutions are healthy and providing supportive monetary and interest rate conditions for growth. Despite the dampening effects of a slowing global economy and lower external demand for exports, the current low world oil prices continue to help reduce our import payments, thus supporting our foreign reserves levels. Currently (as of 10 March) reserves are around \$2,009.1 million, sufficient to cover 5.6 months of retained imports, while inflation in February was low at 1.2 percent.

Overall, Fiji's firm macroeconomic fundamentals prior to the cyclone and the expected stable near-term economic outlook provide a solid platform for the economy to recover quite quickly. Added to this is the fact that our core tourism, industrial and large commercial centres remained relatively unscathed by TC Winston. As such, while growth this year is projected to be lower than earlier forecast, it will remain positive, with major added impetus from reconstruction and rehabilitation

activity. The tourism industry, which has recorded positive arrivals growth in both January and February this year, is expected to pick up pace in the upcoming peak season period. The tourism industry has activated TAG (Tourism Action Group) with the goal to “reassure” our key tourism markets that the major tourism regions are fully operational and open for business. Special air fares and hotel packages were launched last week in the major markets to stimulate arrivals.

The special response of Fijians abroad as well as our international friends and family will likely boost remittance inflows significantly this year. Initial forecasts suggest that these flows will easily surpass the record \$492 million received in 2015.

Overall, this year’s economic outlook remains positive although risks associated with a slowing global economy and further natural catastrophes, remain.

The overall reaction and response to the crisis brought about by TC Winston has been swift and almost unprecedented for Fiji and will go a long way in helping the economy recover quickly. The Government has been supported internationally by both bilateral and multilateral donations in cash and in-kind grants. In a similar manner, local donors have come forward in huge numbers to provide their assistance to our fellow Fijians, as have the many non-governmental organisations. Specific assistance through food, temporary shelters and other basic necessities, member withdrawals from Fiji National Provident Fund savings, cash transfers through the Social Welfare Poverty Benefit Scheme and Care and Protection Allowance and various facilities through the Reserve Bank, commercial banks and other financial institutions are expected to help drive economic activity and the recovery in the near term. Nevertheless, prioritisation on rebuilding homes, schools, health and community centres and other infrastructure and key sectors, such as agriculture, is necessary for the full restoration of livelihoods of all Fijians and normalisation of economic activity. Therefore, effective coordination between relevant authorities and agencies is necessary to ensure the timely implementation of planned actions. This is critical to raising growth in the economy, strengthening macroeconomic resilience in the face of growing uncertainties and improving confidence.

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