

RESERVE BANK OF FIJI

PRESS RELEASE



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

REVISED GROWTH PROJECTIONS FOR THE FIJIAN ECONOMY: 2019-2022

The COVID-19 pandemic continues to ravage across most of the world causing significant human suffering as the number of cases has soared close to 11 million with over half a million deaths so far. It has also brought about unprecedented economic disruptions, especially to tourism and trade, which has fuelled a massive surge in unemployment across the globe. The International Monetary Fund has projected a 4.9 percent contraction for the global economy this year, while the World Bank predicts that global poverty will rise for the first time in over 20 years. The contraction in the global economy this year is the largest since the Great Depression of the 1930s and far worse than the 2009 Global Financial Crisis when the world economy contracted by 0.1 percent.

Similarly, the spill-over of the COVID-19 pandemic has trickled down to the domestic economy given Fiji's interconnectedness to the global economy that is deeply dependent on the movement of goods and people. The tourism industry which accounts for around 35 percent of GDP has been devastated by travel-related restrictions and the consequent halt in international tourism. As such, visitor arrivals are forecast to decline by 75 percent this year with the flow-on effects bringing tourism dependent sectors to a standstill. This has culminated in a spike in unemployment as many businesses have scaled back or shut down operations. The retrenchment in consumption and investment activities along with the plunge in external trade will place additional downward pressure on Government's tax collections. Against this backdrop, the Fijian economy is projected to contract by 21.7 percent in 2020 - the most severe contraction in our modern history.

In particular, the accommodation & food services and the transport & storage sectors will suffer the brunt of the contraction in visitor arrivals. Protracted weaknesses in aggregate demand arising from reduced disposable incomes, increased unemployment, subdued business confidence and constrained fiscal space are expected to have a compounding effect on wholesale & retail trade, finance & insurance, construction, manufacturing, and the public administration & defence sectors.

Investment spending is also forecast to fall to around 12.8 percent of GDP, from an average of around 20.0 percent in the preceding three years. Private investment projects are likely to be halted or delayed given the uncertainty surrounding the economic outlook and resumption of global travel while there will be challenges on Government funded capital projects due to limited fiscal space. In the primary industries, the export-oriented forestry and fishing sectors are also bound to contract due to dampened external demand. However, the agriculture, information & communication and health sectors are still expected to contribute positively to economic activity this year.

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 current forecast assumes that inbound travel to Fiji will return to some form of normalcy from the last quarter of 2020 and not revert to 2019 levels at least until 2023. Therefore, the recovery is expected to be gradual but contingent on resumption of international travel. Based on these assumptions, the Fijian economy is forecast to rebound and grow by 14.1 percent in 2021 and an additional 6.5 percent in 2022.

Inflationary pressures remain contained and the inflation rate has been negative since October last year as prices of food, *yaqona* and fuel have fallen over the year. Amid waning domestic demand and subdued global crude oil prices, inflation is forecast at 1.0 percent by end-2020 and rise to around 1.4 percent by end-2021, notwithstanding any major supply side shocks.

The crisis has come at a time when Fiji's external position is strong with adequate buffers given that foreign reserves were at comfortable levels throughout the last decade. Despite the narrowing of the trade deficit, the current account deficit² (CAD) is now forecast to widen to 10.7 percent of GDP from 4.9 percent in 2019 due to declines in tourism and remittance inflows. The increase in the CAD will be financed largely by higher external loan drawdowns by the Government. While the overall balance of payments position is expected to decline by around \$100 million, foreign reserve adequacy will remain well above the international benchmark of three months of import cover.

The balance of risks to the outlook is uncertain as there are significant downside as well as upside risks. The economic recovery from 2021 may be higher if the virus is contained this year, the planned tourism bubbles open and there is reasonable travel appetite. Contrastingly, the economic downturn may be deeper and the recovery more protracted if the virus containment stalls, the opening of travel bubbles is delayed to next year and travel appetite remains weak.

The provisional GDP growth estimate for 2019 has been revised from a marginal 0.5 percent growth to a 1.3 percent contraction, in line with the synchronised global slowdown and weakness in domestic demand from the second half of last year.

The next review of the macroeconomic projections is scheduled for October, 2020.

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Chairman of the Macroeconomic Committee

²Excluding aircraft imports and re-exports.