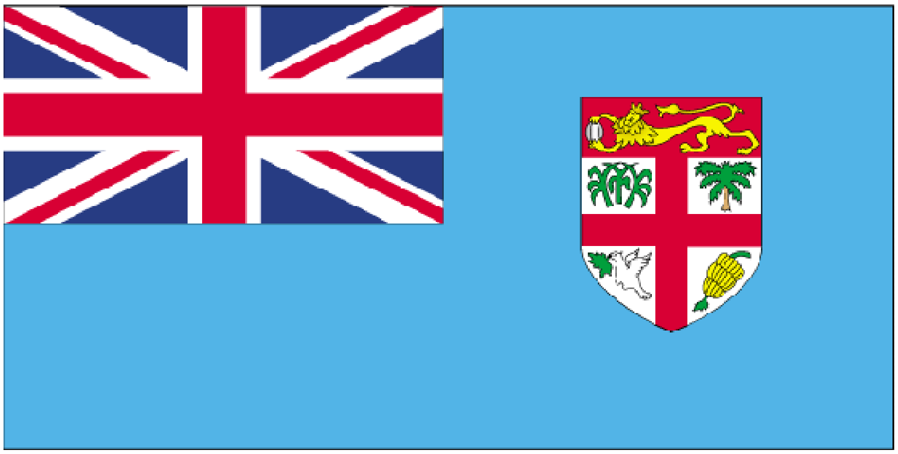
Rabobank

Country report

FIJI



Summary

The military coup in 2006 marked a continuation of Fiji's tumultuous political history. Coup leader Bainimarama has remained in charge since, at the cost of democracy. The coup and subsequent repression has isolated Fiji internationally. After the coup, Fiji's economy has deteriorated strongly. Especially the once important sugar sector is in decline. On the back of the stronger performance of the tourism sector, Fiji's economy grew by an estimated 1.4% in 2010, a figure which may be overly optimistic, however. Increased spending has led to a deterioration of the government budget, which will show a 3.5% of GDP deficit in 2010 and 2011. Meanwhile, public debt is high at around 50% of GDP. The external account is weak due to the large trade deficit. As a result, IMF support was needed to boost FX-reserves to a barely sufficient 4 months of imports.

Things to watch:

- Democratic reforms, if any
- Rollover of international bond in September
- Weak external accounts

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Fiji

National facts	
Type of government	Republic
Capital	Suva
Surface area (thousand sq km)	18
Population (millions)	0.9
Main ehtnic groups	Fijian (57%)
	Indian (38%)
Main religions	Christian (65%)
	Hindu (28%)
	Muslim (6%)
Head of State (president)	Ratu Epeli Nailatikau
Head of Gov. (PM, formally)	Laisenia Qarase
(interim PM, acting)	Commodore Bainimarama
Monetary unit	Fijian dollar (FJD)

Social and governance indicators		rank / total
Human Development Index (rank)		86 / 169
Ease of doing business (rank)		62 / 183
Economic freedom index (rank)		86 / 179
Corruption perceptions index (rank)		n.a. / 178
Press freedom index (rank)		149 / 178
Gini index (income distribution)		n.a.
Population below $1 per day (PPP)		n.a.
Economy		**2010**
Economic size	*bn USD*	*% world total*
Nominal GDP	3	0.01
IMF quotum (in mln SDR, 2010	70	0.03
Economic structure	*%*	*5-year av.*
Real GDP growth	1.8	-0.1
Standards of living	*USD*	*% world av.*
Nominal GDP per head (PPP)	4300	37

Source: CIA World Factbook, UN, Heritage Foundation, Reporters Without Borders, World Bank, IHS Global Insight.

Due to limited data availability, the tables presented in this evaluation should be interpreted with caution.

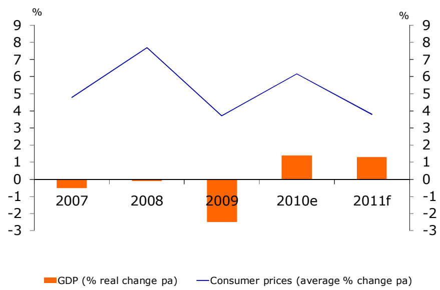
Economic structure and growth

Fiji is a small island group in the South Pacific Ocean with nearly 900,000 inhabitants. Together, they generate a nominal GDP of USD 3.18bn. Due to the many subsistence farmers in Fiji, its agricultural sector, which employs 70% of the population but contributes only 9% to the country's GDP, is inefficient. The sugar sector, once the main pillar of the economy, has been in decline since the military coup in 2006. On top of sharply falling sugar output, the sugar sector in Fiji is also adversely affected by the phasing out of preferential pricing arrangements with the EU, as demanded by the WTO. Whereas other sugar exporters have received aid from the EU to reduce the impact of the rule changes, Fiji has not, as a result of the military coup in 2006. The services sector, which includes the important tourism sector, is now most important sector in Fiji with a share of 77% in Fiji's GDP. Due to Fiji's dependence on the export of cash crops, garments and tourism, GDP growth is historically volatile. Moreover, Fiji's GDP growth has been constrained by low investment, political uncertainty, adverse government policies and poor quality of human and physical capital. The Asian Development Bank therefore concluded that Fiji is "trapped on a low growth path". GDP contracted by 2.5% in 2009 but the economy recovered somewhat in 2010 on the back of increased tourist arrivals. Real GDP growth is estimated at 1.4% in 2010, but this could prove overly optimistic, as the sugar sector performed worse than expected last year.

Political and social situation

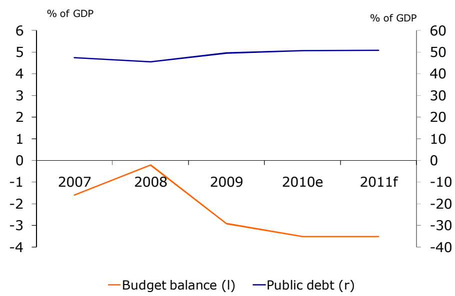
Fiji's political history is characterized by numerous coups and political turmoil. After a coup in 2000, democratic elections brought Prime Minister Qarase to power in 2001. He was re-elected in 2006, but subsequently ousted in a military coup led by Commodore Voreqe Bainimarama in December that year. Since, the country is ruled by the military regime and remains under a state of emergency, which implies that Bainimarama controls by decree. Although Bainimarama has promised to re-introduce democracy by 2014, the prospects for democratic strengthening remain bleak. Bainimarama seems more determined than ever to hold on to power, the regime does not tolerate any opposition and the domestic media is heavily censored. As a result of the political repression, Fiji is becoming more and more isolated internationally.

Chart 1: Growth and inflation



Source: IHS Global Insight

Chart 2: Government finances



Source: Reuters EcoWin, IHS Global Insight

Economic policy

Fiscal policies have been highly expansionary in the past years and will remain so in 2011. Government expenditure growth (14% in 2011) will be mostly driven by higher capital spending, which will increase by 37% this year. However, a recovery of economic activity, a VAT increase from 12.5% to 15%, higher airport taxes and a new 10% capital gains tax will boost government revenues by 16%. As a result, the budget deficit is expected to remain more or less equal at 3.5% of GDP. Meanwhile, the government's debt position is worrisome. Public debt to GDP amounts to around 50% of GDP. However, this figure excludes government guaranteed debt, which, when included, is estimated to push the public debt level up to around 90% of GDP. Of special concern is a USD 150m international bond that will fall due in September 2011. With talks with the IMF halted in November 2010, the government is likely to turn to Asian private markets to roll over the bond. During 2010, inflation slowed sharply following the decision of the Commerce Commission to lower the prices of numerous food items. In addition, food prices eased after Fiji recovered from the damages inflicted by cyclone Thomas in March 2010. With utility prices hiked by the government, inflation is set to rise in 2011. In order to reduce the rapid outflow of FX-reserves, capital controls were imposed and the Fijian dollar (FJD) was devalued by 20% in early 2009. Early 2010, capital controls were relaxed after IMF support was obtained.

Balance of Payments

Sugar exports, remittances and tourism are the main foreign exchange earners in Fiji. However, as Fiji needs to import nearly all consumer goods, the trade balance shows a large deficit each year. Although data availability is limited, the trade deficit seems to have increased to 26% of GDP in 2010, up from 22% of GDP in 2009. Due to the large trade deficit, the current account deficit is normally in double digit territory. After an unusually low deficit of 8.9% of GDP in 2009, the current account deficit widened to 10% of GDP again in 2010. FDI and portfolio inflows covered less than half of the current account deficit in 2010. As capital inflows will expectedly only cover 20% of the current account deficit in 2011, the balance of payments will remain in a precarious condition

External position

Fiji's total external debt amounted to USD 576m in 2010, which is equal to 18% of GDP or 37% of total export receipts. However, in spite of these seemingly acceptable figures, Fiji's external position is highly vulnerable due to the large deficit on the trade balance. Fiji's low level of FX-reserves is an indication of this vulnerability. These cover 4 months of imports, but only after IMF support was obtained.

Fiji

Selection of economic indicators	2007	2008	2009	2010e	2011f
Key country risk indicators					
GDP (% real change pa)	-0.5	-0.1	-2.5	1.4	1.3
Consumer prices (average % change pa)	4.8	7.7	3.7	6.2	3.8
Current account balance (% of GDP)	-13.6	-17.9	-8.9	-10.1	-13.8
Total foreign exchange reserves (mln USD)	551	381	590	628	551
Economic policy					
Budget balance (% of GDP)	-1.6	-0.2	-2.9	-3.5	-3.5
Public debt (% of GDP)	47	46	50	51	51
Balance of payments (mln USD)					
Current account balance	-463	-640	-261	-317	-457
Trade balance	-567	-732	-402	n.a.	n.a.
Export value of goods and services	836	936	831	n.a.	n.a.
Import value of goods and services	1403	1669	1233	n.a.	n.a.
Net direct investment flows	344	318	53	149	111
Net portfolio investment flows	119	41	-37	38	18
External position (mln USD)					
Total foreign debt	347	379	542	576	638
o/w short term debt	0	19	17	14	169
Total foreign exchange reserves	551	381	590	628	551
Key ratios for balance of payments, external solvency and external liquidity					
Trade balance (% of GDP)	-24.7	-31.0	-22.8	-26.4	n.a.
Current account balance (% of GDP)	-13.6	-17.9	-8.9	-10.1	-13.8
Net FDI (% of GDP)	10.1	8.9	1.8	4.7	3.4
Foreign debt (% of GDP)	10	11	19	18	19
Foreign debt (% of XGSIT)	20.4	19.7	37.8	36.7	39.5
FX-reserves import cover (months)	3	2	4	4	3

Source: IMF, World Bank, IHS Global Insight