

FIJI

Table 1

| | 2023 |
|--|--------|
| Population, million | 0.9 |
| GDP, current US\$ billion | 5.4 |
| GDP per capita, current US\$ | 5804.3 |
| International poverty rate (\$2.15) ^a | 1.3 |
| Lower middle-income poverty rate (\$3.65) ^a | 12.4 |
| Upper middle-income poverty rate (\$6.85) ^a | 52.6 |
| Gini index ^a | 30.7 |
| School enrollment, primary (% gross) ^b | 108.0 |
| Life expectancy at birth, years ^b | 67.1 |

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2019), 2017 PPPs.

b/ WDI for School enrollment (2022); Life expectancy (2021).

Output surpassed pre-pandemic levels in 2023, supported by tourist arrivals above 2019 levels. Fiscal policy has shifted towards revenue-based consolidation to reduce high debt accumulated during the pandemic. Growth is expected to revert to its long-term average of 3.3 percent over the medium term. Risks to the outlook include tropical cyclones and elevated commodity prices. Structural reforms and diversification beyond tourism are critical to enhance growth and reduce poverty.

Key conditions and challenges

Fiji is a tropical island nation of 900,000 people in the South Pacific Ocean. It is the second largest economy in the Pacific, most industrially advanced, and the center for re-exports. Its closest major trading partners, Australia and New Zealand, are around 3,000km away. An average of one tropical cyclone (TC) passes through the Fijian waters each year. Tourism remains the main driver of growth and a key source of foreign exchange earnings. Fiji is an upper middle-income country (UMIC) and its size, remoteness, and increasing exposure to climate change re-strain economic development. These structural constraints are amplified by substantial obstacles, such as human capital and connectivity deficiencies, and inadequate infrastructure.

Economic growth averaged 3.3 percent in 2010-19. While the economy has fully recovered now, the pandemic left behind high debt with limited fiscal buffers for future shocks. Post-pandemic, Fiji successfully reduced its fiscal deficit considerably attributed to the gradual phasing out of stimulus measures and increased domestic revenues. Additional efforts are required to diminish fiscal deficits and address vulnerabilities associated with elevated debt levels.

Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national

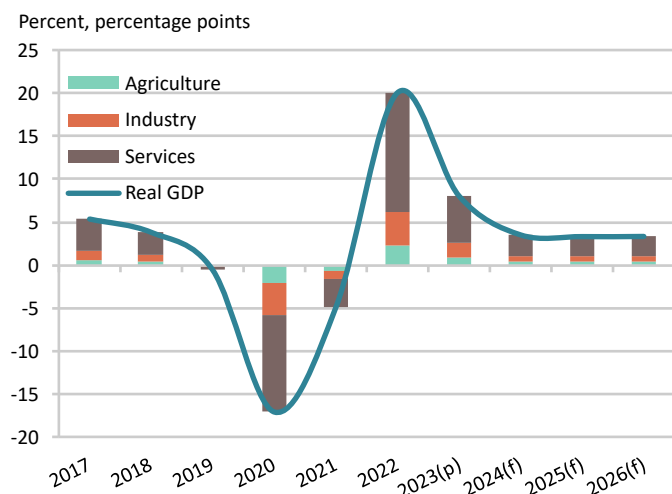
standards of living. The 2019-20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty at 1.3 percent, which is in line with other UMICs. Extreme poverty is low but Fiji's standard of living is below its UMIC peers. The upper middle-income poverty rate is 52.6 percent, nearly double the UMICs' average of 23.5 percent in the same period.

Recent developments

The economy has fully recovered with a 28 percent growth (cumulative) during 2022-2023 on the back of a swift tourism rebound of 4 percent above 2019 levels by the end of 2023. Moreover, the countercyclical fiscal response to the pandemic and a pick-up in domestic demand contributed to the strong recovery. About 50 percent of the 2022 and 2023 growth came from accommodation, transport, manufacturing, wholesale, retail and finance sectors. This quick recovery is estimated to have reduced poverty by UMIC standards (US\$6.85 in 2017 PPP) from 67.2 percent in 2021 to 52.1 percent in 2023.

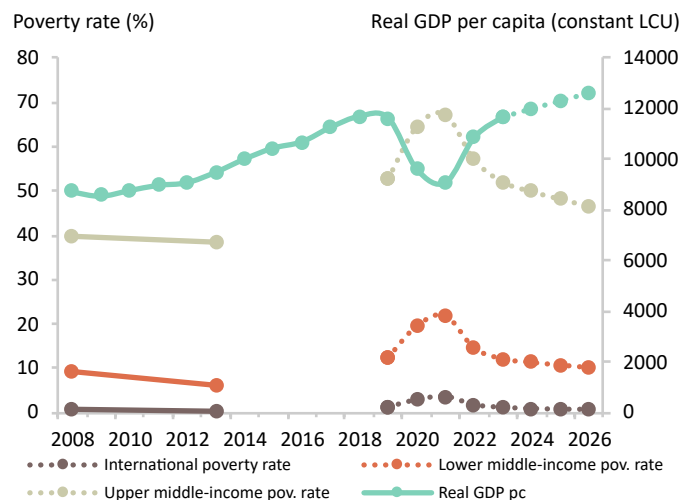
Inflation in Fiji has generally been much lower than elsewhere in the world owing to price controls and various mitigation measures. The consolidation of 9 percent and 15 percent VAT rates in August 2023, and higher import prices and tariff rates led to a 5.1 percent (y/y) headline inflation in December, the highest in the last decade. However,

FIGURE 1 Fiji / Real GDP growth and sectoral contributions to real GDP growth



Sources: Ministry of Finance, IMF, and World Bank staff estimates. Note: 2023(p) - p stands for provisional.

FIGURE 2 Fiji / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

it fell to 3.6 percent in January 2024, partially due to the diminishing impact of tax changes and lower global food prices. Monetary policy remains accommodative to support growth with the overnight policy rate maintained at 0.25 percent since 2020.

The current account deficit decreased to 5.5 percent of GDP in 2023 due to an increase in tourism receipts and remittances, partially from Fijians in various labor mobility schemes in Australia/New Zealand. Foreign reserves remained at a comfortable level of 5.7 months of retained imports as of the end of 2023.

The fiscal deficit declined to 5.1 percent of GDP in 2023 from an average of 11.6 percent in 2020-22 due to high tax buoyancy and lower capital transfers. Gains from revenue measures introduced in 2023 were around 3.3 percent of GDP but were partly offset through higher public spending. The deficit was financed through external concessional and domestic borrowing. Public debt fell to 80.6 percent of GDP in 2023 because of declining primary balance and high growth.

Outlook

Growth is poised to decelerate in the medium term and is projected to average 3.3 percent in 2025-2026, supported by manufacturing, wholesale and retail trade, and finance sectors. This deceleration comes as the initial post-pandemic demand boost for tourism gradually subsides and new source markets are constrained by limited hotel capacity. However, strategic measures such as diversifying beyond tourism, enhancing infrastructure resilience and adaptation, investing in human capital, and harnessing talent are expected to be drivers of sustained growth.

The growth outlook is expected to reduce poverty to below pre-pandemic levels to 49.9 percent in 2024 (compared to 52.6 percent in 2019). Strong rebound in tourism and remittances are expected to positively impact the poorest 40 percent. Headline inflation is projected to converge to 3 percent over the medium term as global inflationary pressures subside. The current account deficit is projected to remain

above 7 percent reflecting a decline in official grants despite steady tourism earnings and remittances. Remittances are expected to be above a tenth of GDP. The current account deficit will be largely financed by official borrowing. Foreign reserves are projected to remain adequate over the medium term at above 4 months of retained imports.

The fiscal deficit is expected to narrow to 4.5 percent of GDP by 2026 due to revenue-generating reforms and expenditure rationalization. The Government intends to review the tax expenditure, advance the investment appraisal and selection process, and freeze nominal spending over the medium term. Public debt is projected to stay around 80 percent by 2026. The World Bank Debt Sustainability Analysis 2024 assesses public debt as sustainable but subject to considerable risks.

Risks to the outlook include persistent out-migration and skilled labor shortages, global commodity price shocks, and natural disasters. Structural reforms, economic diversification, and fiscal consolidation are essential for building resilience, enhancing growth, and reducing poverty.

TABLE 2 Fiji / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f |
|--|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | -4.9 | 20.0 | 8.0 | 3.5 | 3.3 | 3.3 |
| Real GDP growth, at constant factor prices | -3.4 | 15.7 | 8.0 | 3.5 | 3.3 | 3.3 |
| Agriculture | 0.8 | 4.1 | 2.3 | 2.9 | 3.4 | 3.7 |
| Industry | -6.7 | 5.7 | 15.3 | 5.9 | 4.4 | 4.4 |
| Services | -3.1 | 21.1 | 6.9 | 2.9 | 3.0 | 2.9 |
| Inflation (consumer price index) | 3.0 | 3.1 | 5.1 | 3.3 | 3.2 | 3.1 |
| Current account balance (% of GDP) | -15.9 | -17.3 | -5.5 | -7.4 | -7.8 | -7.8 |
| Fiscal balance (% of GDP) | -11.7 | -10.3 | -5.1 | -7.3 | -5.9 | -4.5 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 3.7 | 1.8 | 1.2 | 1.0 | 0.8 | 0.8 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 21.9 | 14.6 | 12.2 | 11.4 | 10.8 | 10.2 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 67.2 | 57.1 | 52.1 | 49.9 | 48.2 | 46.6 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

a/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.