



# WESTPAC WAVE

**Fiji Quarterly Economic Update  
October 2021**

**Fijian economy past the worst:  
Recovery in sight although caution remains**

# EXECUTIVE SUMMARY

- With the world still in the midst of a pandemic, the health and economic outlook remains uncertain. In Fiji, the COVID-19 pandemic-led blow in economic activity continues so far in 2021 and is being brought under control through widespread vaccination across the nation, allowing for a relaxation in restrictions and setting the scene for recovery next year.
- Outcomes of the 2021/22 Government National Budget add much-needed stimulus to both households and businesses. While there have been discussions around international border reopening before the end of the year, we remain conservative in this regard and do not expect quarantine-free travel in 2021. If borders do reopen, we expect minimal uptake this year and growth outlook remains conservative as the international environment is fluid and challenges around the global pandemic remain immense, particularly in major source markets.
- Against this backdrop, we have upgraded our real GDP forecast for 2021 and project the Fijian economy to contract by a **lower 3.8% from a contraction of 4.2% anticipated in the last release**. This outcome rests on the back of activity generation through fiscal and monetary stimulus, positivity surrounding widespread vaccination and uplifting of domestic borders.
- For 2022, we anticipate well above trend growth, supported by an acceleration of vaccinations to those below 18 years and achieving herd immunity, major uptake in domestic demand and the reopening of the international borders with quarantine-free travel. The magnitude of the recovery next year though will differ under different scenarios. The economic outlook for 2023 looks promising and we project the Fijian economy to grow further with the return of international tourism, increase in business and consumer confidence, and ongoing fiscal and monetary stimulus.
- We anticipate monetary conditions to remain easy, but it's the fiscal policy that is likely to continue to play a key role in supporting the economy in the near to medium term. Over time, we project consumption spending to likely normalise, as borders reopen, which will result in the gradual recovery of services exports.
- Overall, COVID-19 continues to be a dominant force, with the Delta variant and the detection of a new vaccine-resistant strain of the virus in South America, representing a complex set of risks, both in Fiji and abroad. Hence, there remain ongoing risks around our forecast. On the activity side, further major COVID-19 outbreaks could weigh on growth and, therefore, result in slower progress in reaching desired growth outcomes next year.

## For enquiries:

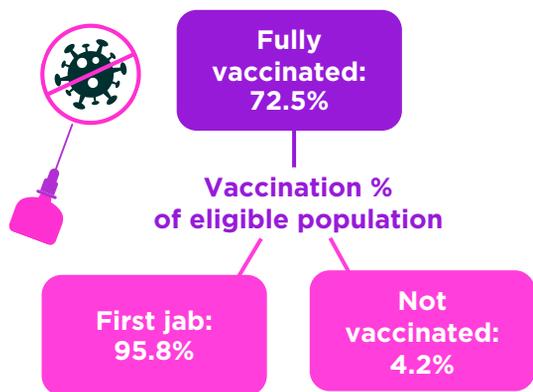
### Contact Westpac Fiji

**Krishal Prasad, Senior Economist**

Email: [krishalprasad@westpac.com.au](mailto:krishalprasad@westpac.com.au)

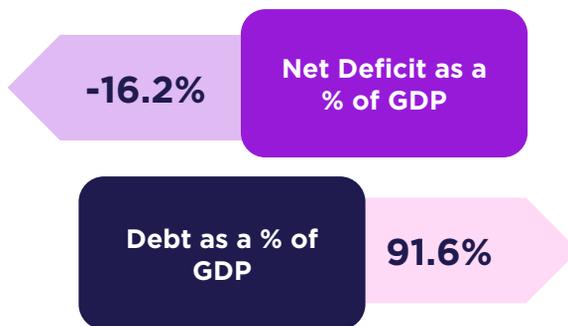
Phone: +679 321 7450

**1) Widespread vaccination gains momentum across the nation after Government introduces the 'No Job, No Job' policy in the National Budget...**



Source: Ministry of Health & Medical Services as at 29 September 2021

**2) ...which also announced an increased net deficit as % GDP and Debt to GDP ratio for the next fiscal year...**



Source: National Budget 2021/22

**3) National Budget outcomes and widespread vaccination led to upgrade in GDP forecast for 2021 compared to the last release.**



Source: Westpac Fiji calculations

**4) Liquidity and foreign reserves remain at very comfortable levels, ensuring financial and external stability.**



Source: Reserve Bank of Fiji

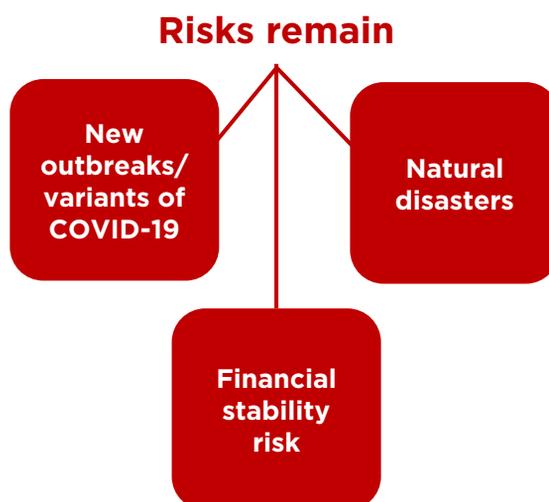
**5) Fiscal and monetary stimulus is ongoing...**

- FNPF COVID-19 withdrawal scheme relief of around \$326.2 million paid out.
- Government unemployment income support programme: \$104.2 million pay-out to 289,489 eligible Fijians.
- More than 57,312 ration packs distributed across the country.
- RBF has maintained OPR at 0.25%, ensured ample system liquidity and announced enhancement to DRCF\*.



\*DRCF is the Disaster Rehabilitation and Containment Facility. The changes include an additional funding allocation of \$200 million, a limited and tiered guarantee targeting MSMEs, streamlined debt recovery processes and the removal of related fees and charges by participating financial institutions for a period of two years.

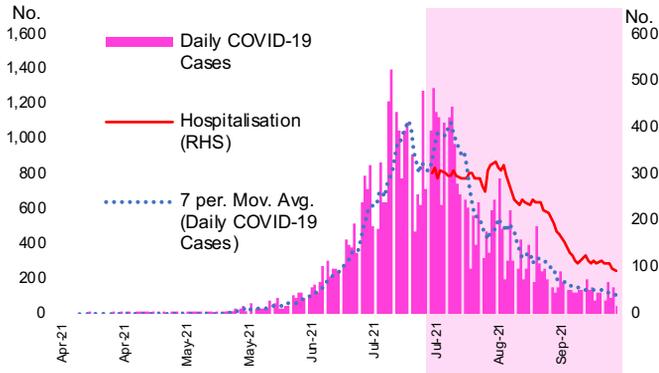
**6) ...but the medium term outlook is clouded with risks.**



# While COVID-19 still weighs on economic activity in Fiji, signs of recovery emerge.

Six months into the current outbreak, communities across the nation continue to record daily cases of COVID-19, however, the number of new cases have now decreased, mainly due to the Health Ministry's testing strategies and the widespread vaccination in line with the Government's target. Case numbers in the Central Division, which has been the epicentre of the outbreak, seems to have peaked, and the daily number of cases has fallen. Nonetheless, a rapidly growing number of cases are now being detected in the Western Division, with the Northern and Eastern divisions also recording some cases. The hospitalisation numbers of severe and critical cases have slightly slackened from its peak, while the 7-day average death rate has also fallen.

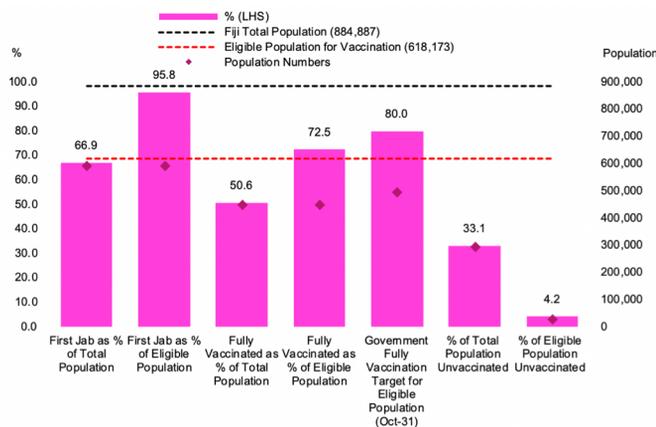
Chart 1: COVID-19 and Hospitalisation Cases in Fiji



Source: Ministry of Health & Medical Services

The vaccination campaign in communities across Fiji continues and picked up momentum after the Government introduced the "No Jab, No Job" policy in the 2021/22 National Budget. The Government targets to vaccinate 80.0 percent of the eligible population by 31 October 2021, and at the current rate, this target is expected to be met in time. More recently, the Government also laid out plans for the gradual reduction in curfew hours and easing of other restrictions, all aligned to achieving the vaccination targets. Latest statistics show that 592,242 adults in Fiji have received their first dose of the vaccine and 448,128 have received their second dose. This means that 95.8% of the target population has received at least one dose and 72.5% are now fully vaccinated nationwide. In terms of the total population, an estimated 66.9% Fijians have received the first jab, while 50.6% are fully vaccinated.

Chart 2: Fiji Vaccination Statistics

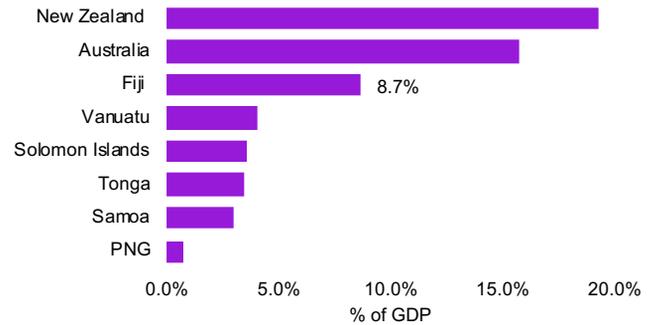


Source: Ministry of Health & Medical Services and Westpac Fiji calculations

Meanwhile, the pandemic continues to weigh on economic conditions and aggregate demand remains largely subdued, but is supported in part by the rollout of the first phase of the government unemployment benefit as announced in the National Budget. The positive ripple effect of this and other government

initiatives is providing some boost to domestic demand, which seems to have bottomed out. So far, the Fijian Government has provided more than \$439 million as part of various initiatives and distributed more than 57,000 food and essential item packs across Fiji. The Government has consistently ensured fiscal support to provide backing to affected Fijians, which is equivalent to around 8.7% of GDP!

Chart 3: COVID-19 Support by Government



Source: International Monetary Fund and Westpac Fiji calculations

On the back of widespread vaccination, positive impact of the 2021/22 National Budget and plans to reopen (domestically) the economy fully in coming months, we expect a lower contraction in GDP for 2021. We now upgrade our real GDP projection for 2021 to -3.8% from the -4.2% contraction projected in July 2021. While the Government has announced the reopening of international borders by November this year, we do not expect quarantine-free travel to resume immediately. Thus, we still expect a significant contraction in visitor arrivals and decline in related sectors of the economy. However, we do anticipate some sectors to record a lower decline than initially expected due to the easing of restrictions and resumption of most businesses as well as the boost provided to households and businesses by the Government. For 2022, we expect international borders to reopen with quarantine-free travel and given the timing of it, we project a rebound presented by different scenarios (refer to GDP analysis in Data Wraps/Outlook on page 4).

Financial and external stability is assured for the medium term on the back of ample liquidity and record levels of foreign reserves.

The Reserve Bank of Fiji has maintained its easy monetary policy stance (OPR at 0.25%), which has helped prevailing accommodative financial conditions with generally lower lending and deposit rates. Banking system liquidity remains high and stands at around \$1,612.7 million (as at 24 September 2021). This has been supported by high levels of foreign reserves. With the Special Drawing Rights (SDRs)<sup>2</sup> distribution by the International Monetary Fund (IMF) of around \$283.7 million, foreign reserves stand at an all-time high above \$3.2 billion, sufficient to cover more than 11.0 months of retained imports. We expect foreign reserves to remain comfortable into the medium term, once again on the back of borrowings as the government gross deficit will be financed through borrowings from multilateral and bilateral development partners. Subsequently, liquidity in the banking system is also expected to remain at comfortable levels in the medium term. This augurs well for Fiji's overall balance of payment position.

Overall, the economic outlook remains uncertain. The upside and downside scenarios considered present plausible alternative paths for the economy in the medium term based on different underlying assumptions about health outcomes. These assumptions affect the extent of domestic activity and easing of restrictions, the consumption response out of savings, and the speed with which international travel recovers. It is assumed that Fiji will achieve widespread vaccination of its eligible population as per the Government's target and effectively contain the pandemic by the end of the year, hence, substantially reduce new cases. However, a more persistent pandemic with new variants, financial sector stress and any natural disaster could derail recovery next year.

<sup>1</sup>This is based on 2020 Nominal GDP.

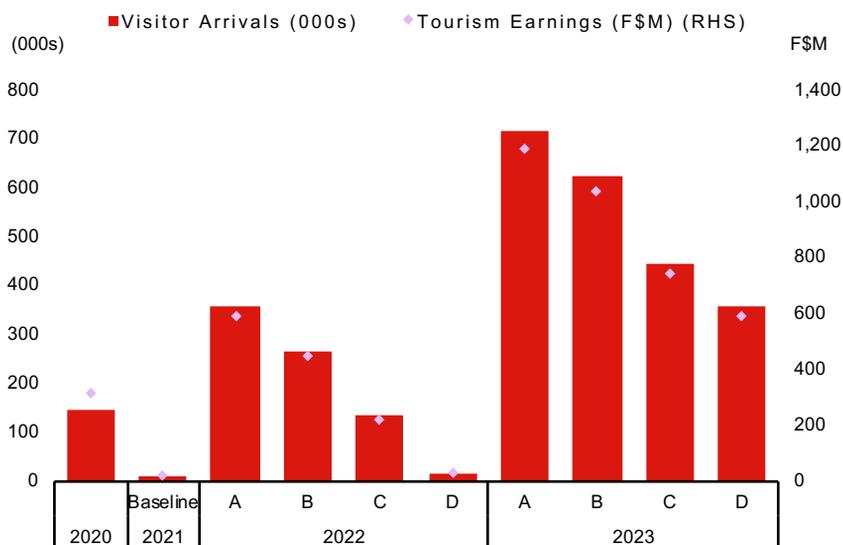
<sup>2</sup>The SDR is an international reserve asset, created by the IMF to supplement its member countries' official reserves. To date, a total of SDR 660.7 billion (equivalent to about US\$943 billion) has been allocated. This includes the largest-ever allocation of about SDR 456 billion

approved on August 2, 2021 (effective on August 23, 2021). This most recent allocation was to address the long-term global need for reserves, and help countries cope with the impact of the COVID-19 pandemic. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

# Data Wraps/Outlooks

## Scenario Analysis – Gross Domestic Product

	Scenarios	Assumptions
2021	Baseline	No Quarantine-free travel in 2021
2022/2023	A	Quarantine-free travel to start early 2022
	B	Quarantine-free travel to start mid 2022
	C	Quarantine-free travel to start late 2022
	D	No Quarantine-free travel in 2022



### Notes:

Given the uncertainty surrounding COVID-19, we present four scenarios with subsequent impact on growth outlook.

For 2022, the visitor arrival numbers are a certain percent of 2019 arrivals. Scenario A: 40% of 2019 arrivals, Scenario B: 30% of 2019 arrivals, and Scenario C: 15% of 2019 arrivals.

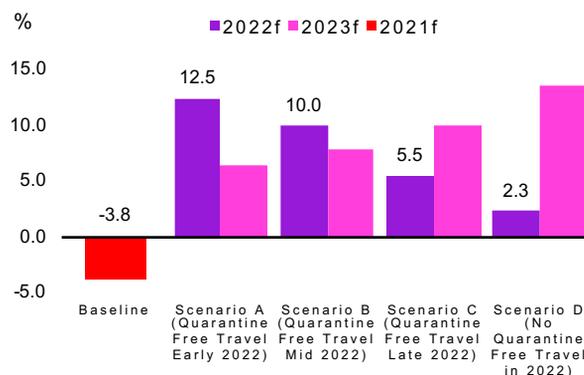
For 2021 Baseline and 2022 Scenario D, arrivals numbers are not same despite no travel for the whole year for both years. This is because for 2021, Jul to Dec arrivals is based on average Apr-Jun arrivals which were lower compared to the first 3 months of 2021 due to second wave of COVID-19. For 2022 Scenario D, we have used the average for the first 3 months of arrivals for 2021.

For 2023, under all scenarios, visitor arrivals differ because of the uptake given the timing of border reopening in 2022.

Tourism earnings is calculated using estimated per diems and average length of stay, whereby per diems and average length of stay differs across scenarios and are mostly conservative.

- The economic outlook for the Fijian economy continues to be hindered by the effects of the COVID-19 pandemic, particularly the second wave which hit the country in April this year, leading to a sprawling community transmission, subsequently adding to an already fragile economy with sharp decline in activity.
- Nonetheless, while economic activity almost came to a standstill in the June quarter, it has picked up somewhat with the reopening of businesses and uplifting of some restrictions as widespread vaccination gained momentum across the country.
- Additionally, the economic compass provided by the 2021/22 Government National Budget has also helped cushion the impact of the pandemic to both businesses and households to some extent.
- There is expectation that with widespread vaccination in line with the Government's target, the economy will reopen (business as usual domestically) in the last two months of this year.
- However, uncertainty surrounding international border reopening remains with the Delta variant of COVID-19 now spreading rapidly across many parts of the world and the detection of the new vaccine-resistant strain of the virus in South America.
- As such, although Government expects international borders to reopen in November, we expect little to no quarantine-free travel for this year, but factoring in widespread vaccination and ongoing fiscal and monetary stimulus, we upgrade our GDP forecast this year and project an economic contraction of 3.8% (from -4.2% anticipated earlier). The impact of the Government National Budget adds positively to the economic outcomes for this year and is somewhat offset by the downturn in general economic activity propelled by low business and consumer confidence.

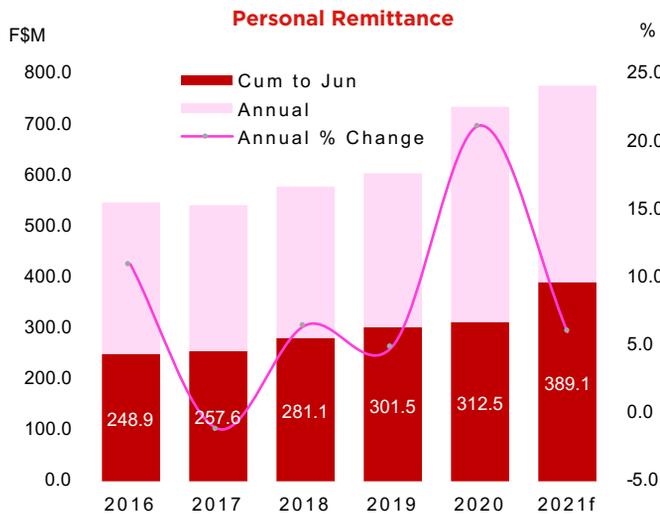
### Gross Domestic Product



Source: Westpac Fiji calculations

- For 2022, we project the economy to rebound in any case regardless of the timing of quarantine-free travel or otherwise. With quarantine-free travel as early as the first quarter of 2022, we project a rebound of 12.5%, with mid-year quarantine-free travel, we expect a 10.0% rebound. If quarantine-free travel is delayed to the latter part of 2022, we anticipate a 5.5% growth and in the event if there is no quarantine-free travel next year, we still project a recovery driven solely by domestic demand (on the back of herd immunity and the return of local tourism activity).
- The economic outlook for 2023 looks promising and we project the Fijian economy to grow further with the return of international tourism, increase in business and consumer confidence and ongoing fiscal and monetary stimulus.

# Personal Remittance



Source: Reserve Bank of Fiji

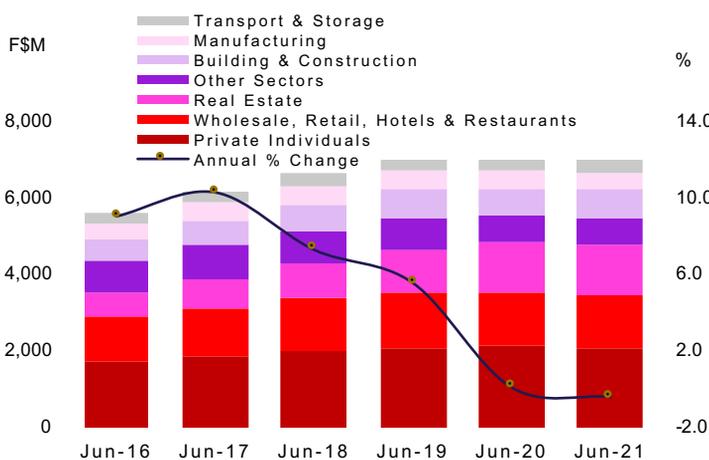
### Notes:

1. Personal transfers component consists of all current transfers in cash received by resident households.
2. Compensation of employees refers to the income of border, seasonal, and other short-term workers who work in an economy where they are not resident, and to the income of resident workers who are employed by a non-resident entity.
3. Migrant transfers is capital transfers related to all the financial assets that migrants bring with them when they move to the host country, or when they finally return to their home country. Source: Balance of Payments Manual.

- Consumption activity, which was robust in Fiji pre-COVID-19, has been affected due to the pandemic, which has caused loss of income for many, resulting from unemployment or underemployment.
- However, inflow of personal remittances has continued to support households to a large extent, with a surprisingly on record increase noted in 2020 and the growth continues so far in 2021.
- Usually as the second largest foreign exchange earner but with restricted borders and tourism travel, personal remittances displaced tourism as the major foreign exchange earner last year, much to the credit of Fijians working and living abroad and the trend is expected to continue this year.
- The key components of remittances received in Fiji include personal transfers, compensation of employees and migrant transfers. (Refer to Notes box for definition)
- Inward remittances through the mobile money platform has contributed towards the increase in the flows. Easing of lockdown restrictions in key remittance source countries such as the United Kingdom and the US, along with the removal of service fees by mobile operators, underpin the spike in transfers via this platform.
- This outturn in personal remittances is certainly supportive of Fiji's external position as it partly offsets the losses from tourism and helps stimulate consumption and broader economic activity.
- With global economy projected to rebound this year, we expect remittance inflow to Fiji to increase further in the medium term.

# Fiji Financial Stability

## Commercial Banks Total Loans & Advances



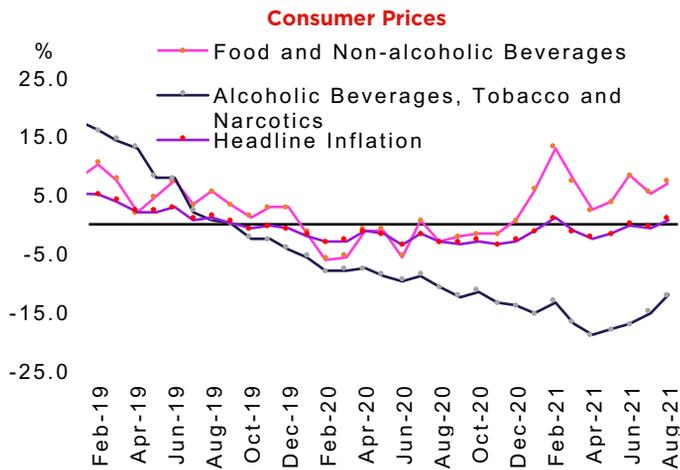
Source: Reserve Bank of Fiji

### Notes:

1. 'Other Sectors' include electricity, gas & water, agriculture, mining & quarrying, non-bank financial institutions, public enterprise, professional & business services, central & local government, and others.
2. Private individuals sector accounts for the largest portion (30%) of total lending followed by wholesale, retail, hotel & restaurants and real estate sectors.
3. Housing, personal transport and unsecured personal loans make up the loans to private individuals' sector.

- The economic downturn being experienced in the country has also taken a toll on the financial sector.
- Demand for credit remains subdued in the tourism and other sectors because of border restrictions and ongoing uncertainties. This is despite the low interest rate environment. Commercial banks' total lending has fallen slightly with challenges associated with COVID-19.
- Nonetheless, businesses have been cautious and reduced their investments owing to uncertainty in the economic outlook. While this can have negative implications for future productivity and output growth, a sizeable fraction of businesses continues to repay bank debt.
- The outlook remains weak compared to pre-pandemic, and the underlying resilience of some households and businesses is still being challenged as relief initiatives have rolled off. The broader impacts of the weak economic conditions may result in an increase in the number of loan defaults over the coming months.
- The risks in the banking system are being mitigated by sufficient levels of provisioning and adequate levels of capital. Additionally, the Reserve Bank of Fiji maintains a close supervisory oversight to ensure that all banks remain adequately capitalised.
- Overall, bank capital and liquidity currently remain strong and are expected to support the resilience of the financial system over the medium term.

# Consumer Prices



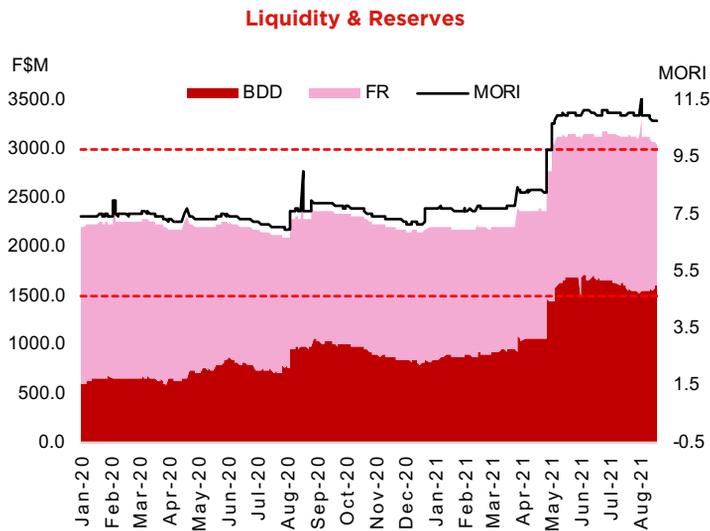
Source: Reserve Bank of Fiji

## Notes:

1. The Consumer Price Index is compiled by the Fiji Bureau of Statistics. It indicates the average changes in the prices of goods and services purchased by households nationwide.
2. The divisions of inflation of Fiji are as follows: Food and non-alcoholic beverages, Alcoholic beverages, tobacco and narcotics, Clothing and footwear, Housing, water, electricity, gas and other fuels, Furnishings, household equipment and routine household maintenance, Health, Transport, Communication, Recreation and culture, Education, Restaurants and hotels.

- Inflationary pressures are associated with post-COVID recovery and pick-up in domestic and global demand. Major trading partner countries have seen an increase in consumer prices as economies reopened.
- Inflation in Fiji has remained in the negative territory since October 2019, with an exception for February 2021 (1.1%; largely influenced by increased prices for local fruits and vegetables due to the impact of Tropical Cyclone Ana and the associated floods) and June 2021 (0%). In August 2021, annual inflation once again entered the positive territory and stood at 0.8%.
- In Fiji, the major drivers of overall inflation are the food and non-alcoholic beverages and alcoholic beverages, tobacco and narcotics (*among others; refer to Notes*).
- It is expected that there will be a rise in global food and crude oil prices in the medium term with pick-up in demand, together with high freight cost which will eventually feed into domestic prices.
- Additionally, ongoing COVID-19 situation and protocols have also resulted in slightly higher prices for some items and have also raised the cost of doing business.
- Given these factors, we expect inflation to gradually increase in the coming months but mostly next year, in line with the expected economic recovery.
- As per the Fiji National Budget Supplement, the year-end inflation is projected at around 1.5% in 2021 and pick up to 2.4% in 2022 and further increase to 3.4% in 2022.

# Liquidity & Foreign Reserves



Source: Reserve Bank of Fiji

## Notes:

1. Fiji's official foreign reserves are those assets that are held in foreign currencies by the Reserve Bank of Fiji.
2. Under the Exchange Control Act, companies and people of Fiji that receive these foreign currencies are required to bring these monies to Fiji and exchange them for Fijian dollars at licensed money exchange dealers like commercial banks. In turn, commercial banks are required to sell these foreign currencies to the Reserve Bank of Fiji (RBF) at the end of each working day. The RBF invests these foreign reserves in the major financial markets around the world.

- Liquidity [Bank Demand Deposit (BDD)] in the banking system has remained flush and above \$1.0 billion since end of March 2021, mainly due to increase in foreign reserves. Currently, BDD is at around \$1.6 billion.
- Despite the closure of the tourism industry, Fiji's largest foreign exchange earner, foreign reserves levels have not deteriorated, but in fact have increased substantially supported by external grants and borrowings and large inflow of foreign exchange following the divestment of EFL and the distribution of SDR allocation by the IMF. Muted import demand due to the downturn in the economy was also a contributor. Currently, foreign reserves remain above \$3.2 billion, sufficient to provide more than 11.0 months of imports cover.
- Record high levels of foreign reserves and liquidity in the banking system has resulted in declining yields for all government debt instruments issued in the market. Market yields for the shorter-term T-bills have dropped significantly this year, largely owing to excess liquidity in the banking system.
- Foreign reserves are projected to remain comfortable into the medium term, once again on the back of borrowings as the government gross deficit will be financed through borrowings from multilateral and bilateral development partners.
- Subsequently, liquidity in the banking system is also expected to remain at comfortable levels in the medium term.

# Economic & Financial Statistics/Forecasts

## Economic Statistics (annual unless otherwise stated)

Fiji	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Outlook for 2022
Visitor Arrivals (%)	-96.4	-96.1	-95.9	-95.6	n.a	Increase
Net VAT (%)	-21.5	-20.9	-18.2	-16.7	n.a	Increase
Personal Remittance (%)	45.0	27.7	24.5	n.a	n.a	Increase
Private Sector Credit (%)	-3.7	-3.6	-2.8	-2.1	n.a	Increase
Liquidity (F\$M)	1,451.44	1,690.13	1,668.53	1,548.4	1,617.6	Remain ample
Foreign Reserves (F\$M)	2,777.29	3,132.55	3,174.01	3,116.6	3,303.4	Remain adequate
MORI	8.6	11.0	11.0	10.9	11.6	-
Inflation (%)	-2.4	-1.6	0.0	-0.4	0.8	Increase
Overnight Policy Rate (OPR)	0.25	0.25	0.25	0.25	0.25	0.25

Source: Reserve Bank of Fiji, Fiji Bureau of Statistics and Ministry of Economy n.a - data not available

## Round-up on Fiji Financial Markets

Fiji Government Yields	3 mths	6 mths	12 mths	10 yrs	15 yrs	20 yrs
Sep-21	0.20%	0.30%*	0.54%	4.00%	4.30%	4.75%
Aug-21	0.36%	0.52%*	0.82%	4.00%	4.30%	4.75%
Jul-21	0.54%	0.74%	1.17%	4.25%*	4.64%	4.99%
Jun-21	0.67%	0.85%	1.30%	4.40%*	4.64%	4.99%
May-21	0.74%	0.97%	1.45%	4.50%	4.80%	5.25%
Apr-21	0.98%	1.13%	1.67%	4.50%	4.80%	5.25%

Source: Reserve Bank of Fiji and Westpac Fiji calculations\*

## Exchange Rate Forecast

Fiji	Latest	Dec-21	Mar-22	Jun-22	Dec-22	Dec-23	Dec-24
FJD-USD	0.4771	0.4865	0.4899	0.4932	0.4930	0.4907	0.4818
FJD-AUD	0.6545	0.6402	0.6362	0.6323	0.6321	0.6292	0.6339
FJD-EUR	0.4078	0.3955	0.4015	0.4076	0.4075	0.4124	0.4083
FJD-JPY	52.96	54.49	54.86	55.24	55.71	56.44	55.89
FJD-NZD	0.6801	0.6757	0.6710	0.6665	0.6662	0.6723	0.6883

Source: Westpac Fiji calculations

## Interest Rate Forecast

Australia	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50	0.75
10 Year Bond	1.30	1.55	1.70	1.80	1.90	2.00	2.05	2.10	2.20
US									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.375	0.625	0.875	0.875
US 10 Year Bond	1.33	1.60	1.70	1.80	1.90	2.00	2.05	2.10	2.20
New Zealand									
Cash	0.25	0.75	1.00	1.25	1.25	1.50	1.50	1.75	2.00
10 Year Bond	1.92	2.10	2.15	2.25	2.30	2.40	2.45	2.50	2.60

Source: Westpac Economics

## Global & Trading Partner Growth Forecast

(%)	2018	2019	2020e	2021f	2022f
World Economy	3.6	2.8	-3.2	6.0	4.9
US	2.9	2.2	-3.5	7.0	4.9
Eurozone	1.9	1.3	-6.5	4.6	4.3
Australia*	2.8	1.8	-2.4	3.0	5.0
New Zealand*	3.0	2.2	-2.9	4.8	4.8
Japan	0.8	0.3	-4.7	2.8	3.0
China	6.6	6.0	2.3	8.1	5.7
India	6.8	4.2	-7.3	9.5	8.5

Source: International Monetary Fund, World Economic Outlook July 2021 and Westpac Economics\*

### IMPORTANT DISCLAIMER

The information in this article is general information only, it does not constitute any recommendation or advice; it has been prepared without taking into account your personal objectives, financial situation or needs and you should consider its appropriateness with regard to these factors before acting on it. Any taxation position described is a general statement and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice. You should also consider obtaining personalised advice from a professional financial adviser before making any financial decisions in relation to the matters discussed.