Fiji

Since the military takeover of Fiji's Parliament on December 5, 2006, an interim government has been installed with the military commander as interim Prime Minister. National elections have been set for 13 March, 2009, in accordance with the recommendation of the Forum-Fiji Joint Working Committee. The targeted timeline for the elections is subject to the redistribution of constituency boundaries following the 2007 census, an update of the registers of voters, and voter education and information programs. External partners are providing financial aid and technical assistance to support Fiji's return to democratic rule. However, international sanctions—which include the suspension of some aid and defense cooperation, immigration restrictions, and travel bans—are being maintained by a number of donors.

Fiji's economy is officially forecast to contract by 3.1 percent in 2007 compared to real GDP growth of 3.6 percent in 2006. The recent political uncertainty appears to have affected the tourism sector, Fiji's main foreign exchange earner, with tourist arrivals falling by 5 percent in the first half of 2007. As a result, construction activity fell 26 percent in the first quarter of 2007, and tourism-related activity also slowed. Lower government expenditure is also anticipated.

The main traditional exports—sugar and garments—remain weak. Sugar production fell 11 percent in the year to July 2007. The industry continues to face land tenure and low productivity issues. In addition, the European Union (EU)'s package of F$350 million (US$208 million) to assist the industry adjust to phased reduction in subsidies is uncertain. Garment production dropped by 25 percent since the expiry of preferential access agreement in 2005. On a positive note, official remittances reached 6 percent of GDP in 2006, and the re-opening of the gold mine (closed in December 2006 for commercial reasons) may create an estimated 600 jobs.

A budget surplus of 1 percent of GDP was achieved in the first quarter of 2007, mainly due to a reduction in capital expenditure. The interim government targets a fiscal deficit of 2 percent of GDP for 2007. Public debt increased from 47 percent of GDP in 2006 to 51 percent as of June 2007.

The current account deficit is projected to narrow from 21 percent of GDP in 2006 to 13 percent in 2007, as the trade balance improves. Merchandise export earnings increased by 7 percent in the first half of 2007 led by mineral water, fish and timber. Thanks to tightened credit conditions (following the imposition of credit ceilings on commercial banks), import payments fell by 7 percent during the same period. However, the import cutback is driven by investment goods, suggesting lower investment in 2007 compared to the 19 percent of GDP estimated for 2006.

Foreign reserves increased to US$530 million (equivalent to 4 months of imports) as of August 2007. Interest rates are showing a downward trend. The commercial bank lending rate fell from 9.20 percent in June to 8.84 percent in August while the Policy Indicator Rate remains at 4.25 percent. The real effective exchange rate appreciated by 5.3 percent in the year to July 2007. Projected inflation for 2007 has been revised up to 7 percent, reflecting continued upward pressure on prices of domestic market products following supply shocks (flood and cyclone-related losses which occurred earlier in the year), as well as global price movements.

Looking forward, the economy is officially projected to rebound by 2 percent in 2008, with the services sector the main driver of growth. Downside risks include uncertainty about the EU's sugar adjustment support and weakening investor confidence.