RESERVE BANK OF FIJI
PRESS RELEASE

Press Release No.	**: 29/2020**	**Telephone**	**: (679) 331 3611**
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Date	**: 24 November 2020**	**Email**	**: info@rbf.gov.fj**

STATEMENT BY THE CHAIRMAN OF THE MACROECONOMIC COMMITTEE[1] AND GOVERNOR OF THE RESERVE BANK OF FIJI

REVISED GROWTH PROJECTIONS FOR THE FIJIAN ECONOMY: 2020-2023

The COVID-19 pandemic persists with some countries facing a second wave of infections and have reintroduced lockdown and social distancing measures. Fortunately, Fiji has not had any community transmission in over 200 days. Despite the successful local containment of the virus, the economic ramifications continue to affect the Fijian economy as international borders remain closed.

The recent assessment by the Macroeconomic Committee reveals that the projected economic contraction for 2020 is lower than initially anticipated, despite the delay in resumption of international travel this year. The Fijian economy is now forecast to contract by 19.0 percent in 2020, slightly lower than the earlier estimate of -21.7 percent, stemming from higher-than-expected growth in the agriculture sector coupled with lower-than-expected declines in the wholesale & retail trade, manufacturing and construction sectors. Nonetheless, the expected contraction in 2020 is still the largest on record and pulls back on economic gains made over the past few years.

The economic recovery for 2021 remains contingent on the recommencement of international travel, although there is substantial uncertainty around the reopening of borders for quarantine-free travel and the appetite for tourism activity. Given this uncertainty, economic growth for next year is anticipated to range between 1.6 percent and 8.0 percent.

In the best-case, we assume that borders will open around mid-2021 and that visitor arrivals will be around 50 percent of the 2019 level, as travel appetite would be high with people not travelling abroad for almost a year and half. Alternatively, if borders open in late 2021, we can expect around 150,000 visitors, approximately the same as this year. Economic recovery in 2022 will be influenced by the pace of rebound in tourist arrivals and when borders open in 2021. As such, GDP growth for 2022 is forecast to range between 5.2 percent and 8.7 percent.

The inflation rate has been negative since October 2019, led by lower prices of alcohol, yaqona, food and fuels, and supported by weak domestic demand, reduction in import and excise duties and lower global crude oil prices. The deflationary environment is forecast to last until mid-2021 and inflation is expected to pick up to around 1.5 percent by the end of next year.

In the external sector, lower foreign demand has affected exports while subdued domestic demand and lower crude oil prices have lowered the import bill, leading to a narrowing of the trade deficit in 2021.

[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; Ministry of Infrastructure and Meteorological Services; Office of the Prime Minister; Investment Fiji; Fiji Revenue & Customs Service and the Reserve Bank of Fiji.

However, the halt in regular tourism activity from March this year has severely curtailed tourism earnings. As a result, the current account deficit (excluding aircraft imports) is expected to deteriorate significantly to -15.7 percent of GDP this year, from -4.8 percent of GDP in 2019. However, over the next few years, the current account deficit is projected to improve gradually as tourism earnings recover. Nonetheless, foreign reserves have remained above adequate, boosted by external loan drawdowns by Government earlier in the year. Foreign reserves are currently (24/11) around $2,192.2 million, sufficient to cover around 7.3 months of retained imports. The short to medium-term outlook for foreign reserves remain comfortable given the additional external loan drawdowns anticipated next year and the anticipated recovery in tourism inflows from 2022 onwards.

While the risks to the outlook remain elevated, the recent announcements of three vaccines showing significant effectiveness is a much welcome development. Nonetheless, the official approval processes are still in train and administering any approved vaccine will be a mammoth challenge. In light of this, there remains considerable uncertainty around the pandemic, its economic ramifications and our macroeconomic projections.

The next review of the macroeconomic projections is scheduled for mid-2021.

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