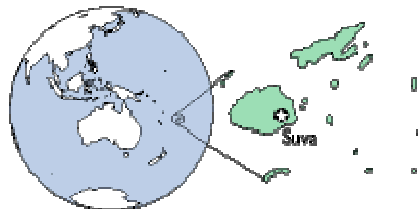


# COUNTRY REVIEW

## Fiji



11 February 2011

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**EULER HERMES COUNTRY RISK GRADE: D**

Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.

## Strengths

- Relatively low level of external debt.

## Weaknesses

- No real evidence of a meaningful return to democracy following the military coup in 2006.
- Narrow economic base on tourism, sugar and gold. Vulnerable to shocks.
- Rising public debt-GDP ratio.
- Wide current account deficit and low FDI.
- Larger-than-usual debt repayments in 2011.
- Exchange controls in place with pegged exchange rate.

## Country Risk Assessment

Ratings	Fiji		Median Grade D	Peers Jamaica
	Latest	Previous		
<b>Systemic Political Risk:</b>	<b>P4</b>	<b>P4</b>	<b>P3-</b>	<b>P2-</b>
<b>Systemic Economic Risk:</b>	<b>E6</b>	<b>E6</b>	<b>E6</b>	<b>E3</b>
ME rating:	ME6	ME6	ME3	ME6
<i>Structure</i>	<i>6.0</i>	<i>6.0</i>	<i>6.0</i>	<i>5.7</i>
<i>Policy</i>	<i>4.8</i>	<i>4.6</i>	<i>5.6</i>	<i>6.0</i>
<i>Solvency</i>	<i>4.2</i>	<i>3.8</i>	<i>4.3</i>	<i>5.6</i>
<i>External Liquidity</i>	<i>3.8</i>	<i>5.2</i>	<i>4.3</i>	<i>4.8</i>
SBE rating:	SBE5	SBE3	SBE6	SBE4
<b>COUNTRY GRADE:</b>	<b>D</b>	<b>D</b>	<b>D</b>	<b>D</b>

Nomenclature:  
 Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).  
 Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).  
 ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).  
 The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).  
 SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).  
 Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes

## ECONOMIC STRUCTURE

<b>Country Profile</b>	
Capital city:	Suva
Population:	0.83 mn (2009)
GDP:	USD 2431 mn (2009)
Currency:	Fijian dollar (FJD)

<b>Major Industries (% of GDP at market prices, 2009)</b>	<b>Global Assumptions</b>	2010	2011	
Agriculture& fishing	13.4%	Real GDP grth (% yr/yr) *	3.3	2.9
Mining	0.4%	Inflation (% , av) *	1.2	1.4
Manufacturing	15.2%	Dated brent (USD/b)	80	110
Construction & Utilities	4.1%	* World		
Services	66.8%			

<b>Main Exports (% of total, 2009)</b>	<b>Main Imports (% of total, 2009)</b>		
domestic exports	73.1%	Mineral fuels	25.7%
food	36.5%	Machinery & transport equipment	21.5%
Miscellaneous articles	8.0%	Food	18.6%
Beverages and tobacco	7.0%	Manufactured goods	14.4%
Re-exports	26.9%	Miscellaneous articles	8.6%

## Basic indicators

<b>Selected economic indicators</b>	2007	2008	2009	2010e	2011f
Nominal GDP (USD mn)	2,896	3,050	2,431	2,679	2,896
Population (mn)	0.83	0.83	0.83	0.84	0.84
GDP per capita (USD)	3,490	3,674	2,929	3,190	3,448
Real GDP growth (% yr/yr)	-0.5	-0.1	-2.2	0.1	0.5
Inflation (% , annual average)	4.7	7.8	3.7	7.8	5.0
Fiscal balance (% of GDP)	0.4	1.7	-5.4	-2.9	-5.5
Current account balance (% of GDP)	-16.8	-21.5	-9.9	-9.0	-10.0
External debt/GDP (%)	12	12	18	20	23
External debt/Exports of goods & services (%)	19	18	28	33	40
Interest payments/Exports of goods & services (%)	1	1	1	1	1
Foreign exchange reserves (USD mn)	519	317	566	703	700
Import cover (months)	1.7	2.3	2.2	3.8	4.5
Exchange rate assumption, FJD:USD (av)	1.61	1.59	1.96	1.92	1.90
f: CRU central forecast					

Sources: National, IMF, World Bank, ADB, Euler Hermes

## Political Stability

Ethnic tensions (between Indians 40% and Melanesians 55%), a complicated constitutional framework and a powerful military produced an unstable political system where, since independence in 1970, elected government rule has been punctuated by a series of coups. The latest—the fourth in less than 20 years—took place in December 2006 when the military, led by Commodore Bainimarama, seized executive power from President Ilioli and dismissed PM Laisania Qarase. Subsequently in 2009 the military regime abrogated the constitution, after the Court of Appeals ruled the military takeover illegal and recommended fresh elections. Bainimarama, now Interim Prime Minister, rules by decree, while the country remains under a state of emergency. Bainimarama has said that there will be a new constitution by September 2013 followed by elections in September 2014, but the timing is far from assured. There has been a strong crackdown on political opposition which remains in place and the domestic media is censored. Moreover, although Bainimarama has indicated that the new constitution will not be defined on ethnic lines, there is little to suggest that longer-term deep ethnic divisions have been resolved.

International relations have been strained by continued military rule. The EU suspended sugar allowances (still in force) and the US suspended aid. Australia has not suspended aid but has imposed travel sanctions against individuals in the regime. New Zealand has also imposed sanctions against individuals but not on broader trade and aid. Fiji was suspended from the Pacific Islands Forum and the Commonwealth after the coup.

## Economic Stability

Fiji is the largest and the most developed of the Pacific Island economies. As the economy is heavily dependent on tourism, sugar, gold and garments it is highly vulnerable to external shocks. Annual average growth of real GDP per capita over the past ten years has been a relatively low 0.4%, which has not been helped by recurring political instability. The economy contracted in 2007, 2008 and 2009—in the latter year by an estimated 2.2% and may have expanded by only 0.1% in 2010, according to the Asian Development Bank (ADB). Despite an improvement in earnings from tourism after serious floods in 2009, sugar and cane output and, on the demand-side, investment were subdued. Growth is likely to remain below 1% in 2011.

The fiscal deficit was contained to around 3.6% of GDP in 2010, compared with a target of 3.5%, through tight controls on operational expenditure and reduced capital spending in the revised budget. The deficit target for 2011 is 3.5%, but, as GDP growth is likely to be lower than official projections, the deficit may well be higher unless expenditure is cut. General government debt has increased to 58% of GDP and would rise to 91% if government guaranteed debt was included. Monetary policy is geared to maintaining the exchange rate peg against a basket of currencies. In 2009 the exchange rate was devalued by 20% and as a consequence the real effective exchange rate is not overvalued. Inflation accelerated to 9.4% yr/yr in April 2010, before declining through to September when it began to accelerate again, ending the year at 5% and rising to 5.9% in January 2011. With imported food prices high, annual average inflation in 2011 is likely to be around 5%.

The current account deficit was almost 10% of GDP in 2009. The deficit may have narrowed slightly to around 9% of GDP in 2010 but is likely to return to around 10% in 2011. Both exports and imports of goods have picked up from the lows of 2009. Remittances and tourism earnings have also recovered modestly, but the latter appears still to be well below earlier peaks. Net FDI fell sharply in 2009 and probably will cover less than 45% of the current account deficit in 2011. Foreign exchange reserves increased from USD317mn at end-2008 to USD685mn in October 2010, though this was helped by restrictions on profit repatriation and foreign exchange controls more generally, which remain in place. FX reserves cover 4.4 months of imports and around 300% of external debt falling due in 2011. However, in 2011 an external bond of USD150mn is due for repayment, which far exceeds the actual debt principal repayments paid in recent years. Towards the end of last year the authorities began negotiations with the IMF on a programme to provide additional external finance, but broke off discussions citing the increase in FX reserves, though it is not clear if the intention now is to repay the bond or, indeed, if the bond can be rolled over. It is worth noting, however, that the ADB suggest that the IMF would have required a tighter fiscal programme than the authorities' current plan. Overall, external liquidity remains a key vulnerability.

External debt is relatively low at 20% of GDP and 34% of exports of goods and services. The debt service ratio will rise to 11% in 2011 but interest as a proportion of exports of goods and services remains around 1%. Public external debt is also low as a proportion of total public debt.

## Structural Business Environment

The Structural Business Environment is generally sound. However, exchange controls persist.

Based on data and definitions from the World Bank's 2011 Doing Business Survey, of nine areas surveyed three—Starting a Business, Closing a Business and Trading Across Borders—were weaker areas, ranking below average but none was very weak. The World Bank Institute's Governance Research Indicator puts Regulatory Quality, Rule of Law and Control of Corruption below average for the Caribbean region, below average for the East Asia region and the lower middle income group of countries. As a broad measure of the pro-business environment The Heritage Foundation's 2011 Index of Economic Freedom ranks Fiji 86 out of 179.

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## Charts

