

PRESENTATION TO THE
AUSTRALIA-FIJI BUSINESS FORUM

**The Fiji Economy:
Analysis and Discussion**

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Governor, Reserve Bank of Fiji
08th September 2008



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Outline

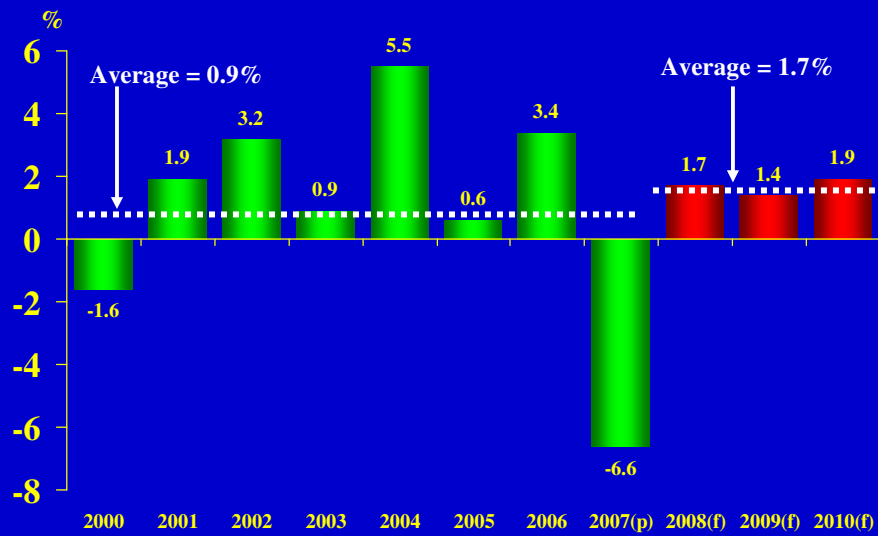
- **Economic Conditions**
 - ✓ **Current performance and medium-term projections**
- **What Are Our Key Challenges?**
 - ✓ **External Price Shocks**
 - ✓ **Raising Investment**
 - ✓ **Raising Exports**
 - ✓ **Strengthening the BOP**

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ECONOMIC PERFORMANCE & OUTLOOK

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Real GDP Growth: 2000-2010



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Source: The FIBOS & Macroeconomic Committee

Major Drivers of Economic Growth

2008:

- Tourism (Transport & Wholesale)
- Agriculture (Sugar cane, Fishing & Forestry)
- Manufacturing

2009:

- Tourism
- Mining (Gold)
- Manufacturing (except Garments)
- Agriculture

2010:

- Tourism
- Manufacturing
- Agriculture (Sugar cane)

Negative (2008-2010):

Community & Social Services (Government Expenditure)

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Key Points on Growth

- After a decline in 2007, economy will grow in 2008-2010
- Tourism is driving growth
- Gold production will exceed previous levels
- Other sectors are anticipated to pick up
- Lower Government spending affecting growth in short-term
- Medium term growth outlook is too low
- Threats – gold, world prices, weather & instability

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EMPLOYMENT CONDITIONS

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Partial Indicators for Employment



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Labour Market

- **Only partial indicators available**
- **Indicators are mixed**
- **Overall, new job creation appears weak**
- **Recruitment intentions are positive**

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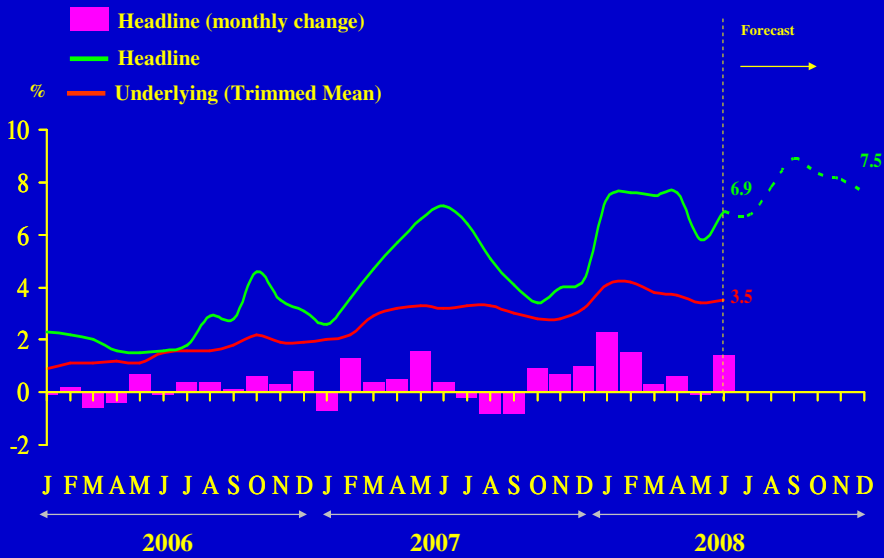
**WHAT ARE OUR KEY
CHALLENGES?**

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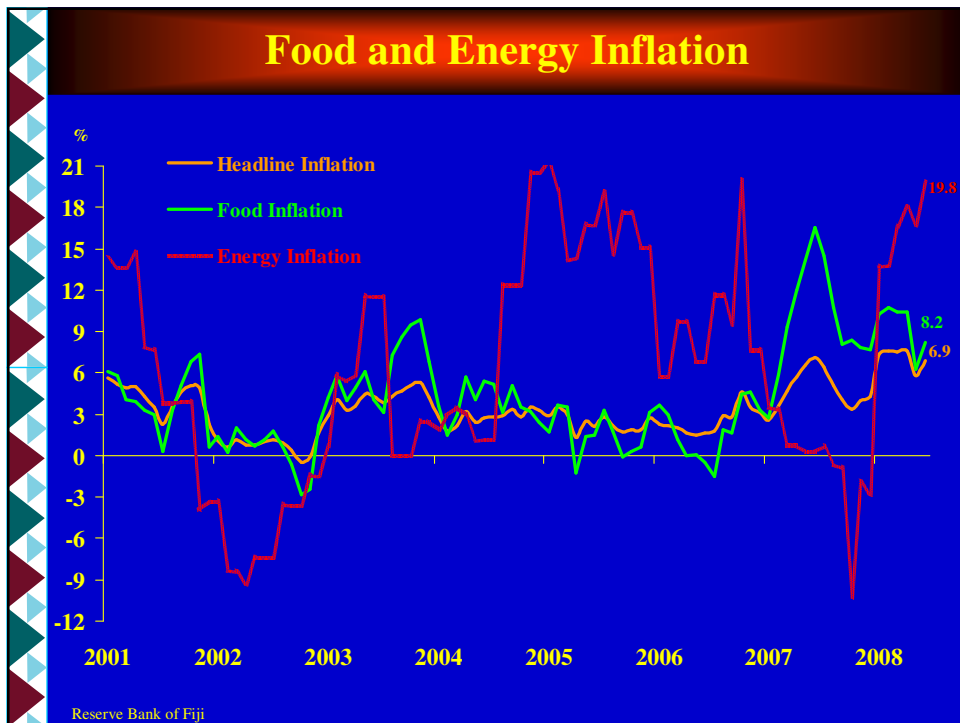
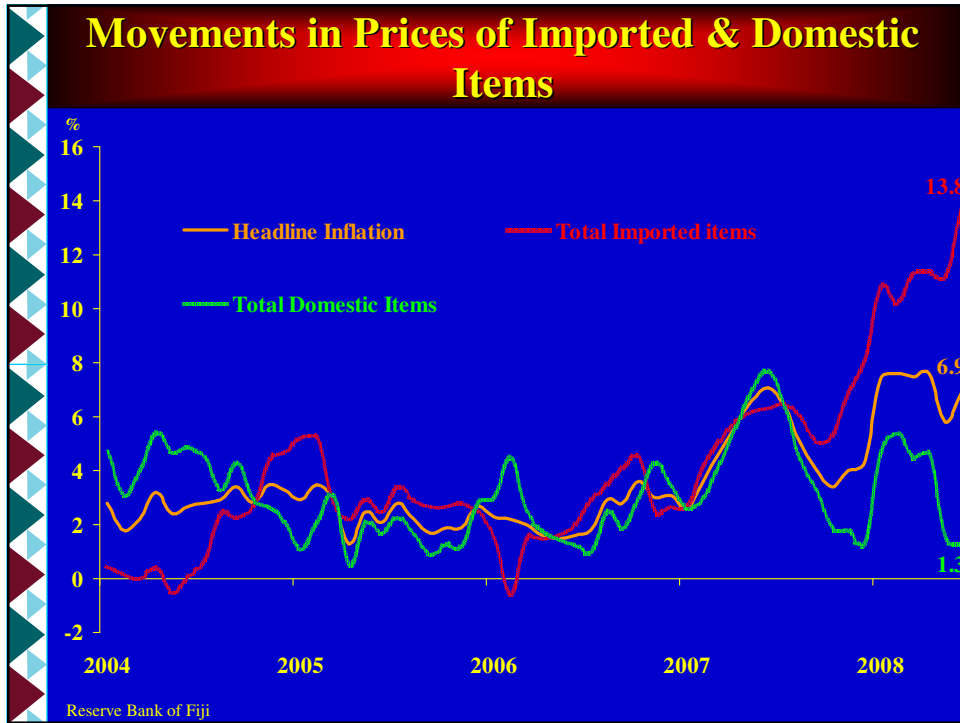
CHALLENGE 1: Dealing with External Price Shocks

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Inflation



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Food and Energy Inflation

Mitigation strategies:

→ Income and expenditure policies

- Increase in income tax exemption threshold
- Zero-rated VAT on certain food items
- Reduction in import duties

→ Forward Exchange Contracts for imported food items (e.g. dairy, wheat, etc)

→ Demand Management to promote efficient consumption

- Allow for pass-through to promote efficiency
- Promoting alternative energy programs
- Campaign to educate public on demand management

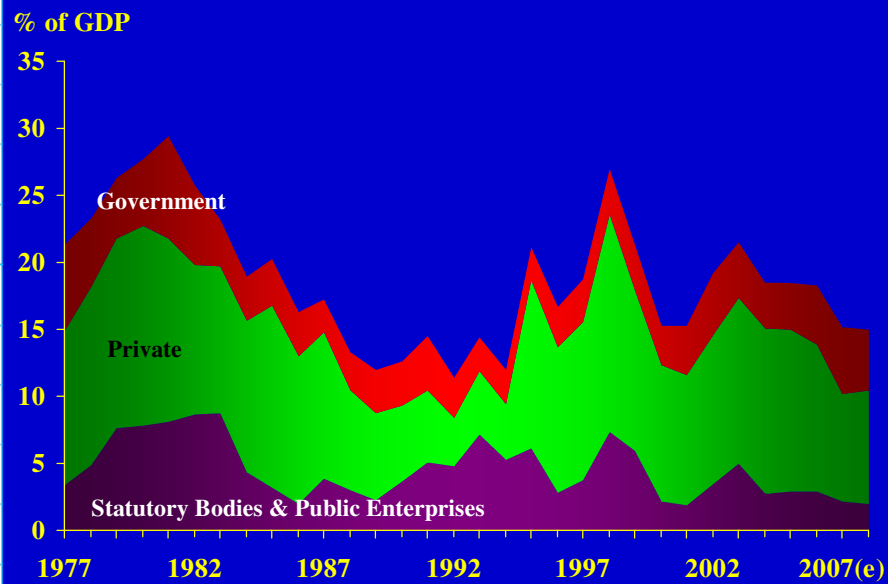
Prices

- Imported inflation rising
- Driven by world food and energy prices
- International phenomenon
- Mitigation measures are in place
- Demand management
- Short-term factor

CHALLENGE 2: Raising Investment

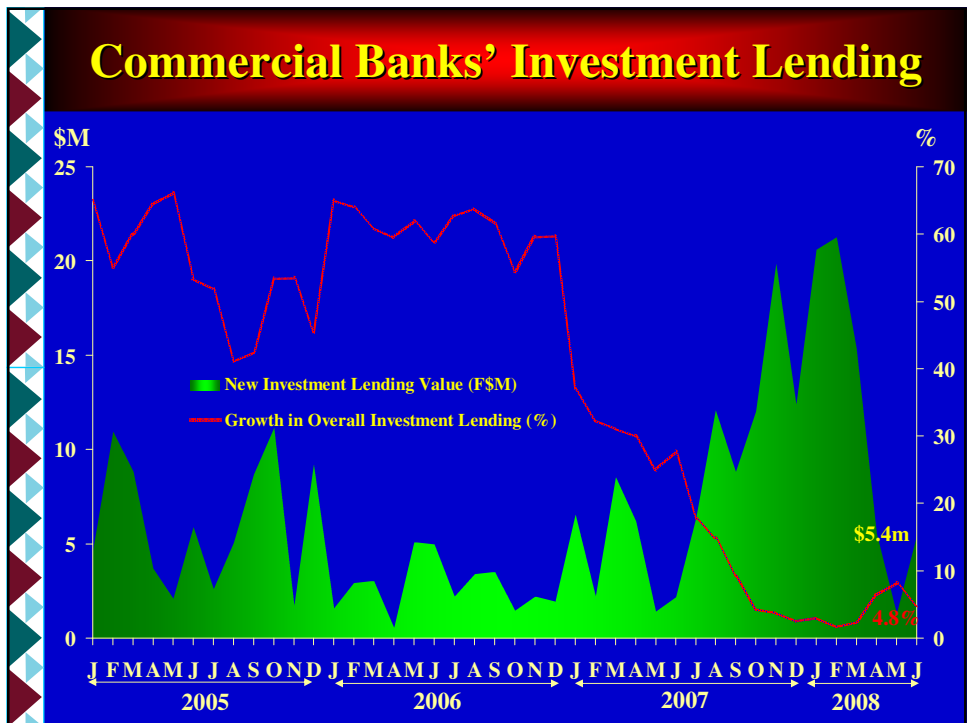
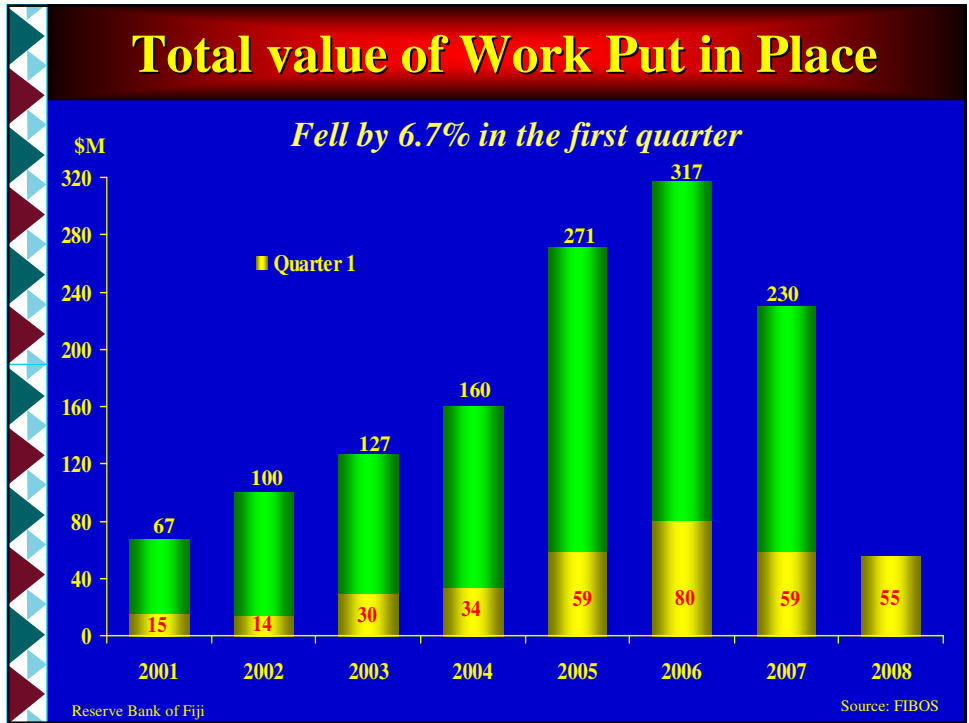
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Investment



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Source: FIBOS and RBF



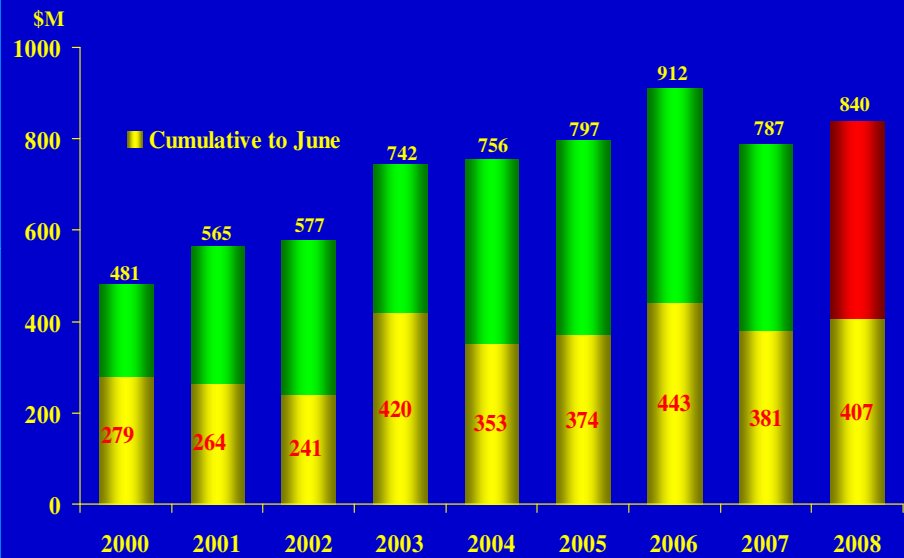
Government's Capital Construction Expenditure



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Source: 2008 National Budget & April Cash Flow

Imports of Investment Goods



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Source: FIBOS

Investment Promotion Policies

Government:

- **Process Improvement**
- **PM's commitment to Private Sector**
- **Economic Summit**
- **E-government initiative :**

Website: www.egov.gov.fj

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Investment Promotion Policies

Relaxations in the Exchange Control Policies:

- **Non-resident borrowing requirements**
- **Further relaxations of Prepayment of Imports**
- **The Reserve Bank has amended its definition of Fiji residents**
- **Former Fiji residents with PR visas will now be classified as Fiji residents**

Special Approvals to Priority Sectors (\$264m)

Interest rates have fallen

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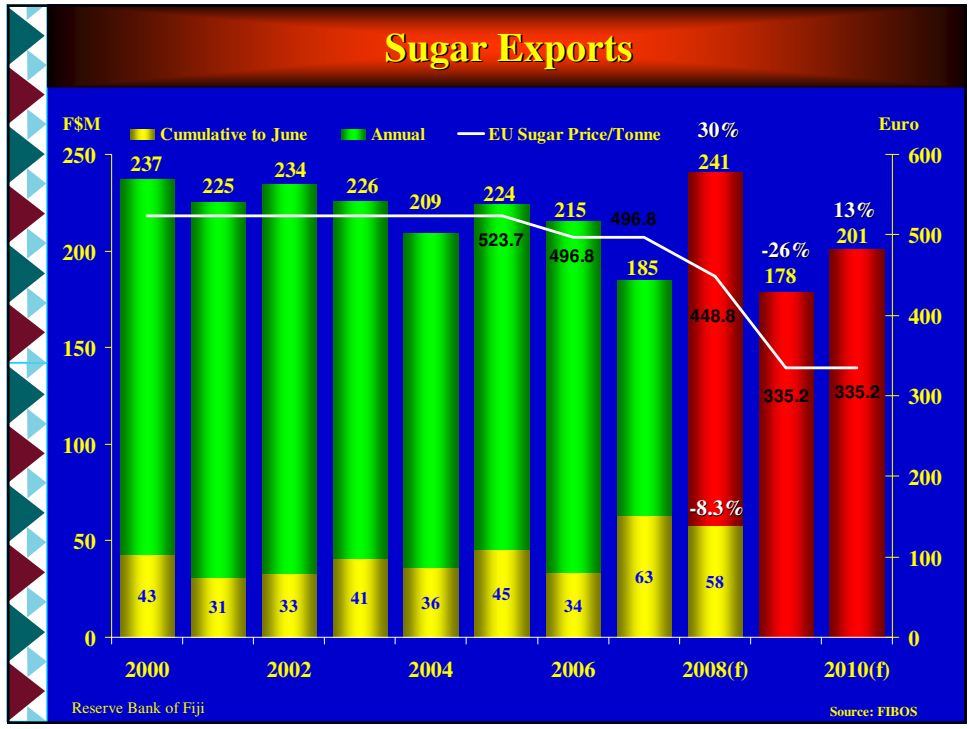
Investment

- Activity substantially weaker than 2 years ago!
- Investment is generally flat
- But sentiments appear to be improving
- Governments' Commitment
- Strengths
- Relaxations in exchange control
- Monetary conditions are accommodating

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CHALLENGE 3: Raising Exports

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Sugar Exports

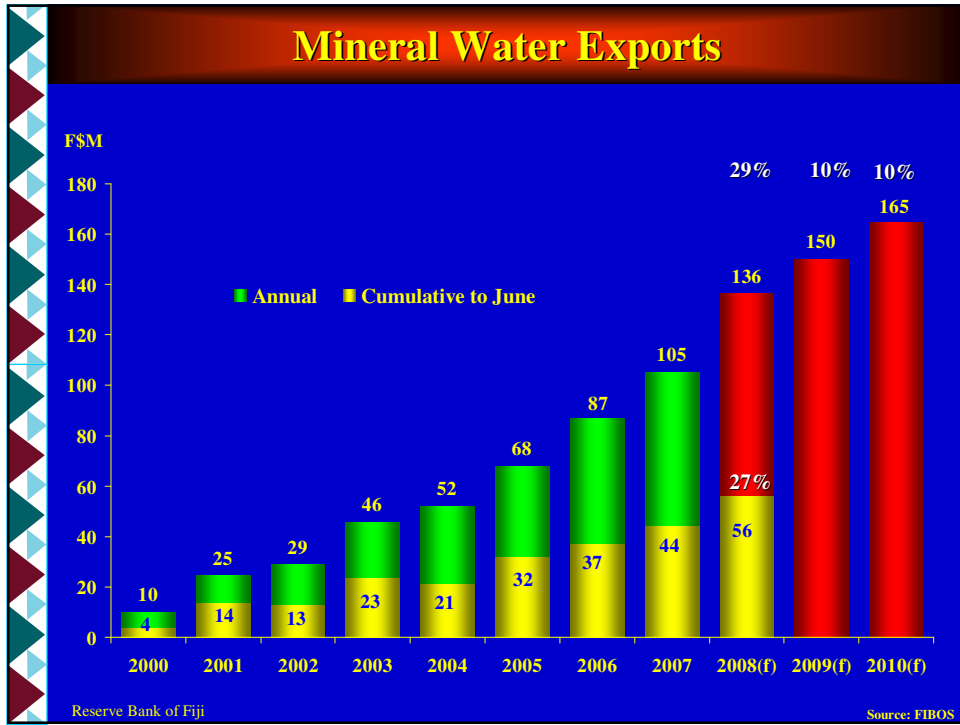
Major Challenges:

- Expiry of sugarcane land leases
- Operational problems at mills and poor transportation infrastructure
- Reduction in preferential sugar prices
- Delay in reforms

Mitigating Factors:

- New Sugar Agreement with Tate & Lyle
- Mill Upgrade Program
- Harvesting and Transportation reforms
- Electricity co-generation & Ethanol production

Reserve Bank of Fiji | Source: FIBOS



Fish Exports

Expected to increase, however, below potential

- Concerns:

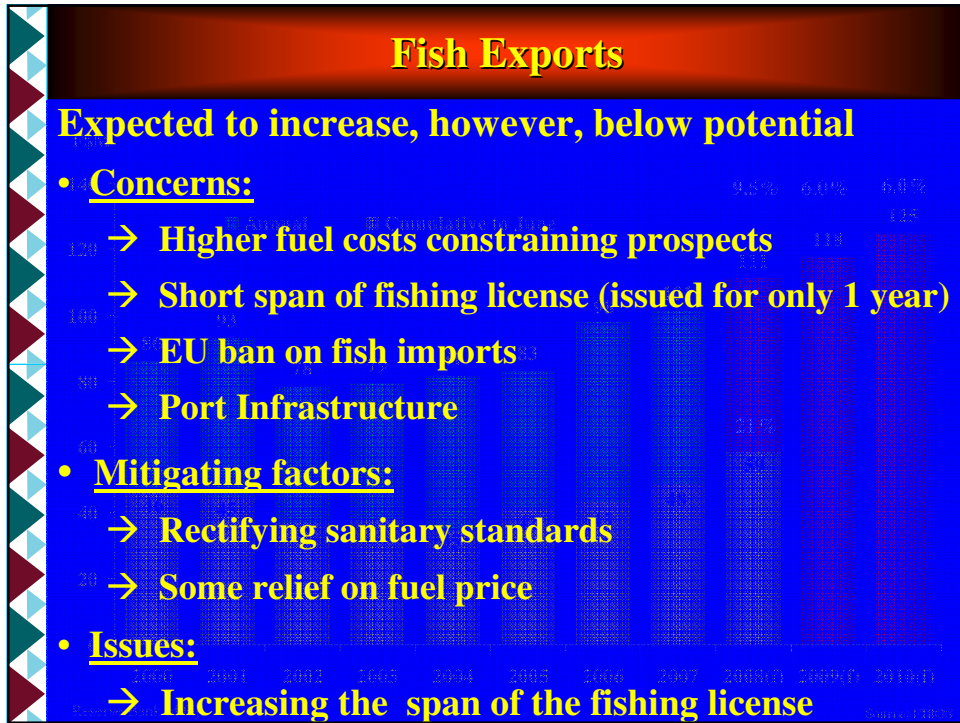
- Higher fuel costs constraining prospects
- Short span of fishing license (issued for only 1 year)
- EU ban on fish imports
- Port Infrastructure

- Mitigating factors:

- Rectifying sanitary standards
- Some relief on fuel price

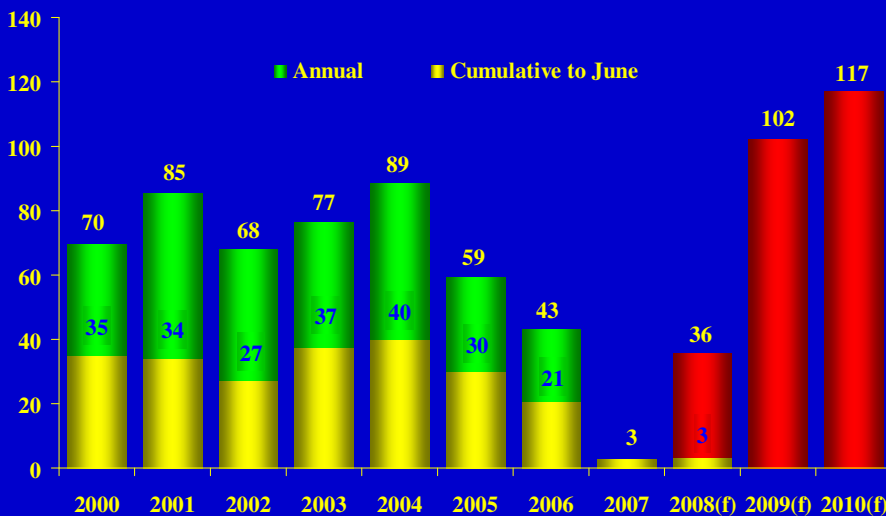
- Issues:

- Increasing the span of the fishing license



Gold Exports

F\$M



Gold Exports

Vatukoula Gold Mines (VGM) → River Diamonds (UK)

- Production is expected to exceed previous levels

- Challenges:

- Higher fuel prices

- Operational delays

- New generators and refurbishment of machinery

- Water clogged mines

- Issues:

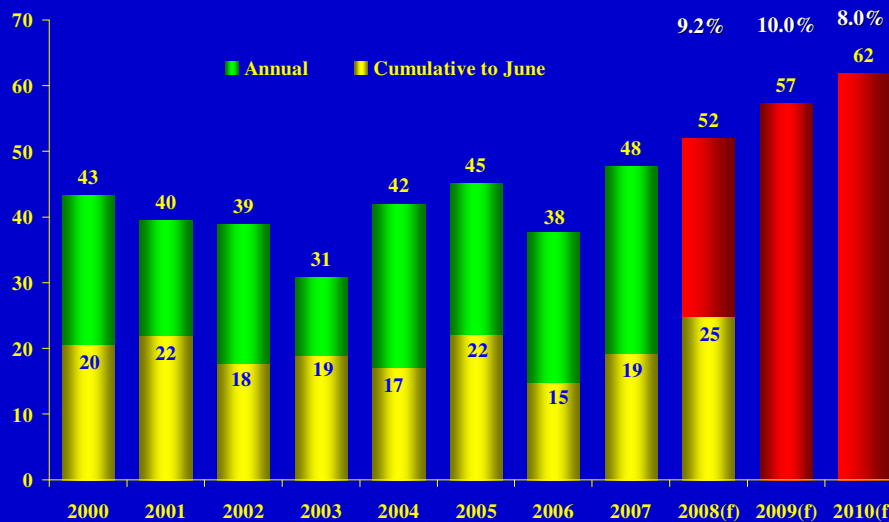
- Concession on imports of capital machinery

- Plans for further surface exploration



Timber Exports

F\$M



Source: FIBOS

Timber Exports

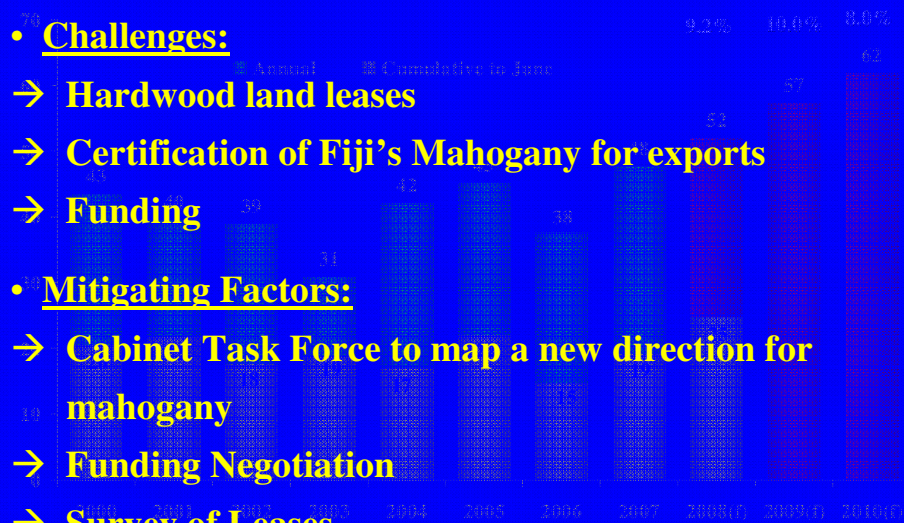
Industry poised for growth

- Challenges:

- Hardwood land leases
- Certification of Fiji's Mahogany for exports
- Funding

- Mitigating Factors:

- Cabinet Task Force to map a new direction for mahogany
- Funding Negotiation
- Survey of Leases



Other Areas of Potential

Export-focused SMEs & Services Sector

- Export-focused SMEs

- Handicrafts
- Cosmetic and Related products (e.g. Pure Fiji Products)
- Packaged food & drinks

- Services Sector:

- Call & Information services
- Data Processing services
- Financial Advisory services

Exports

- **Good growth in exports recently**
- **Need to sustain this performance**
- **Potential hindered by industry specific issues**
- **Issues are being addressed**
- **New areas of potential identified**
- **Economic Summit Commitment**

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CHALLENGE 4: Strengthening our Balance of Payments Position

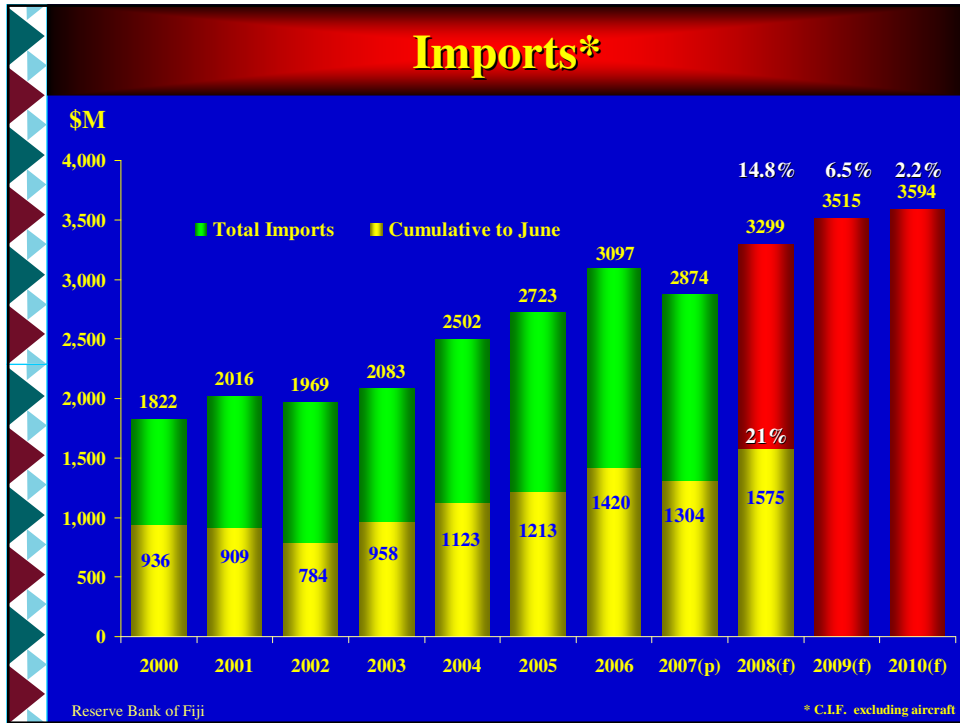
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Contribution to Exports Growth: 2008 - 2010

Contribution to Growth	2008	2009	2010
	↑17.5	↑7.6	↑6.1
Sugar	4.6	-4.4	1.5
Gold	2.7	4.7	1.0
Timber	0.4	0.4	0.3
Fish	0.8	0.5	0.5
Mineral Water	2.6	1.0	1.0
Other Domestic Exports	1.9	0.9	0.8
Re-exports	5.1	3.2	0.9

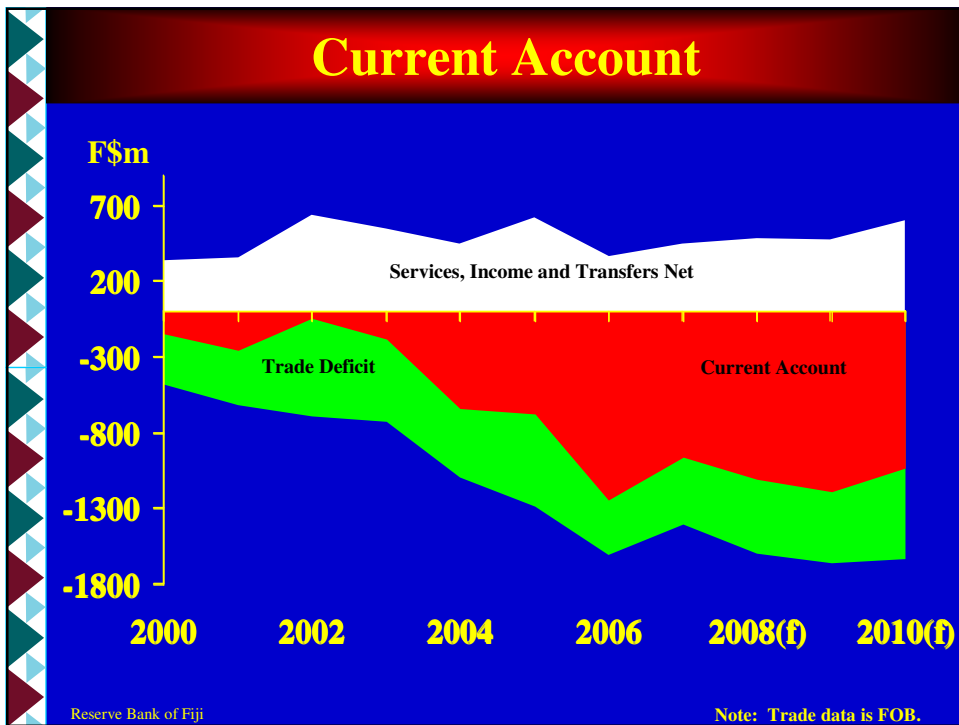
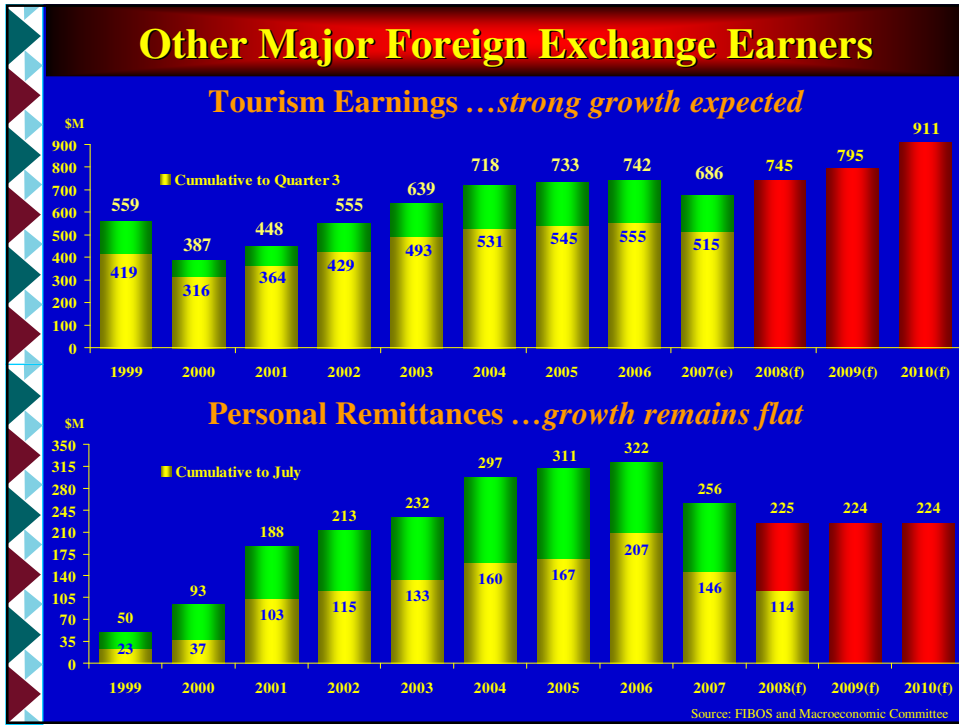
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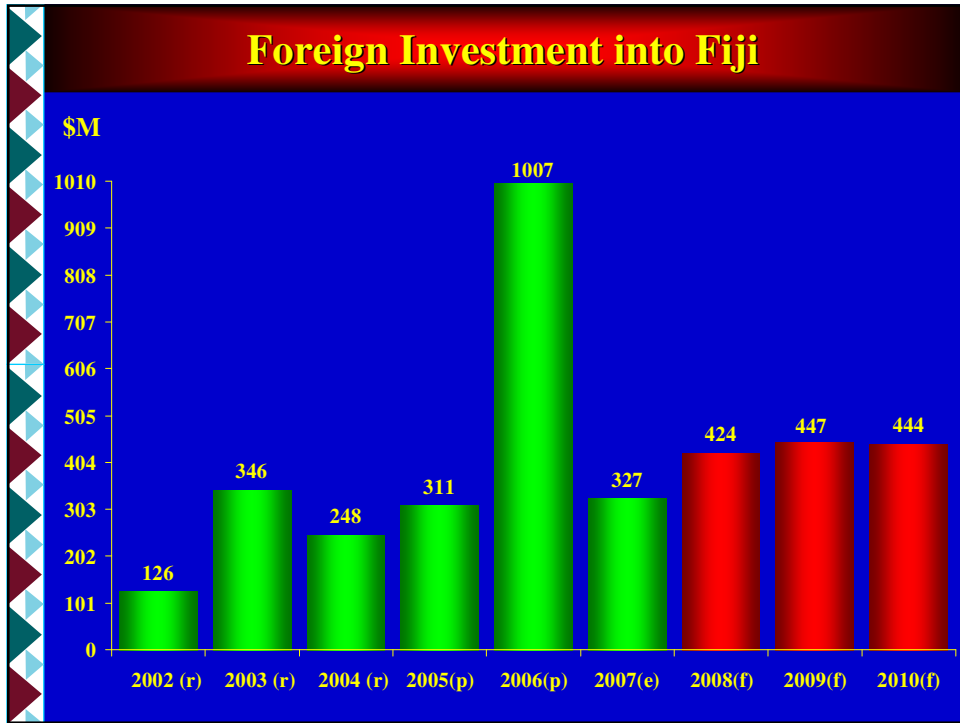


Contribution to Imports Growth: 2008 - 2010

Contribution to Growth	2008	2009	2010
	↑14.8	↑6.5	↑2.2
Food	3.1	0.9	0.6
Mineral Fuels	8.0	5.6	0.4
Chemicals	0.5	0.1	0.2
Manufactured Goods	0.7	0.2	0.2
Machinery & Transport Equipment	1.3	0.1	1.0

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Strengthen BOP Position

- External prices shocks → increasing imports
- Positive export performance → can we sustain it?
- Exports need to grow @ 3X Imports
- Surplus from services and transfers cannot fully offset trade gap
- As a result → Pressure on Fiji's balance of payments

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Strengthen BOP Position

Mitigating Factors:

- Credit ceiling to quell the surge in consumption imports
- Fiscal consolidation
- National Exports Strategy
- Alternative sources of energy
- Import substitution considered for relevant and viable areas
- Support for Services from National Economic Summit

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Summary on BOP

- **Trade deficit is still very large**
- **Tourism earnings and remittances have helped**
- **Remittances are declining**
- **Foreign reserves still under pressure, but at comfortable levels**
- **Some mitigation factors in place**
- **Need to implement additional measures now**

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National Economic Summit

- **First Consultation Forum**
- **Clear Government Commitment to Private Sector**
- **Focus on Exports & Investment**
- **Commitment to Act**

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Summary

- **After declining in 2007, economy will grow in 2008**
- **Tourism and gold are major drivers for growth**
- **Government consolidating its fiscal position**
- **Lower government spending affecting growth in short-term**
- **Economic growth positive in the medium-term**
- **Medium term growth is too low**
- **Labour market is weak**

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Summary

- **Consumption primarily driven by higher prices**
- **Inflationary pressures from external prices**
- **Investment improving but lower than 2-years ago**
- **Exports expected to pick-up**
- **Trade deficit is still very large**
- **Foreign reserves still under pressure, but at comfortable levels**
- **Significant challenges remain**
- **Issue need to be addressed now**
- **National Economic Summit**

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