

**2008 PRIME MINISTER'S**  
**MINI ECONOMIC SUMMIT**

**Current State of the Economy and  
the Way Forward**

**Mr Savenaca Narube**  
**Governor, Reserve Bank of Fiji**  
**05<sup>th</sup> September 2008**



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**Outline**

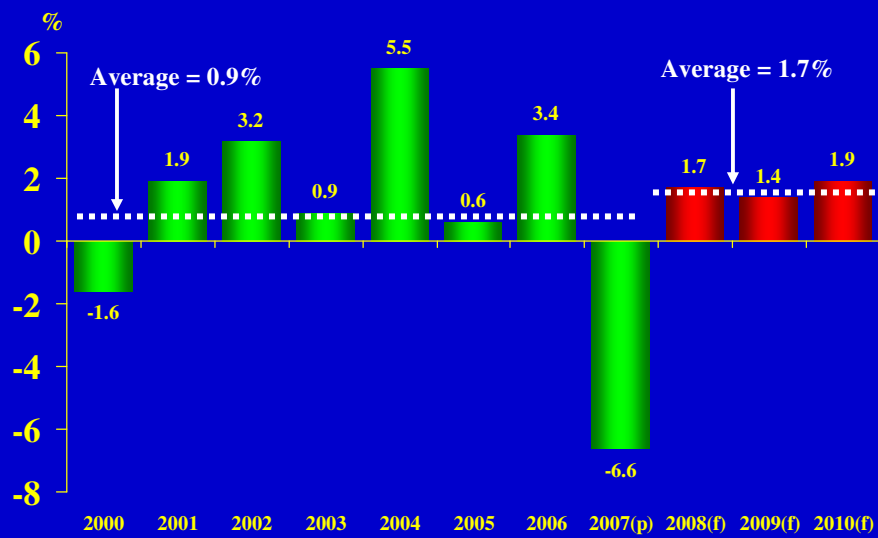
- **Economic Conditions**
  - ✓ **Current performance and medium-term projections**
  
- **What Are Our Key Challenges?**
  - ✓ **External Price Shocks**
  - ✓ **Raising Investment**
  - ✓ **Raising Exports**
  - ✓ **Strengthening the BOP**

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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

## Contribution to GDP Growth: 2008-2010

Contribution to Growth	2008	2009	2010
	↑1.7	↑1.4	↑1.9
<b>Agriculture</b>	0.5	0.4	0.5
<b>Transport</b>	0.4	0.5	0.4
<b>Manufacturing</b>	0.4	0.5	0.6
<b>Wholesale</b>	0.3	0.2	0.4
<b>Mining</b>	0.3	0.5	0.1
<b>Electricity</b>	0.1	0.1	0.1
<b>Building</b>	0.0	-0.1	0.0
<b>Finance</b>	-0.2	0.1	0.1
<b>Community</b>	-0.6	-0.8	-0.4

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Source: The Macroeconomic Committee

### Key Points on Growth

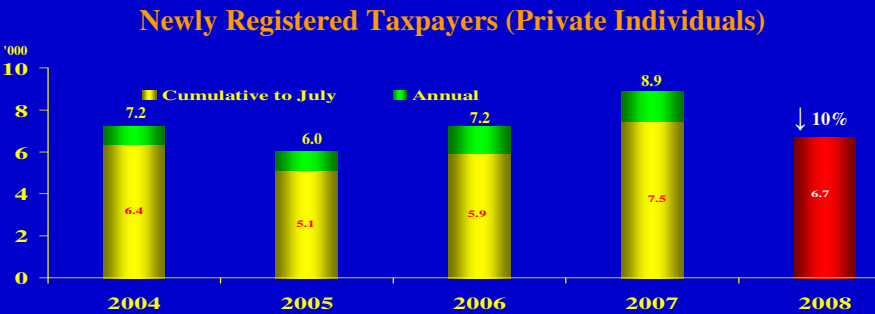
- After a decline in 2007, economy will grow in 2008
- Tourism is driving growth in 2008
- Gold production is important
- Other sectors are anticipated to pick up slowly
- Lower Government spending affecting growth in short-term
- Medium term growth outlook is too low

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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
- Employment mainly to replace personnel
- Recruitment intentions are positive

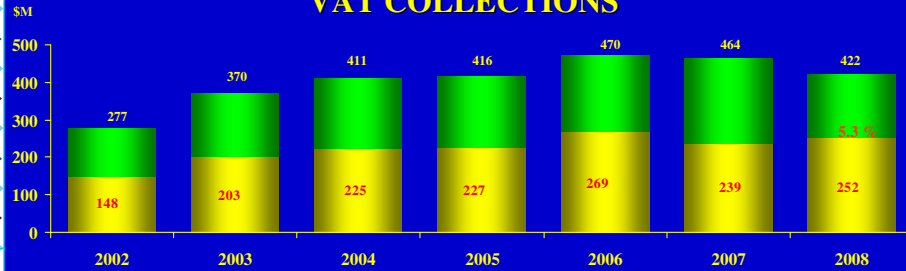
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**CONSUMPTION**

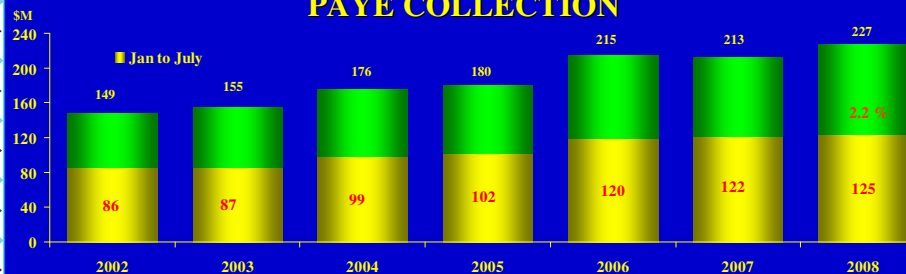
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## Consumption Indicators

### VAT COLLECTIONS



### PAYE COLLECTION

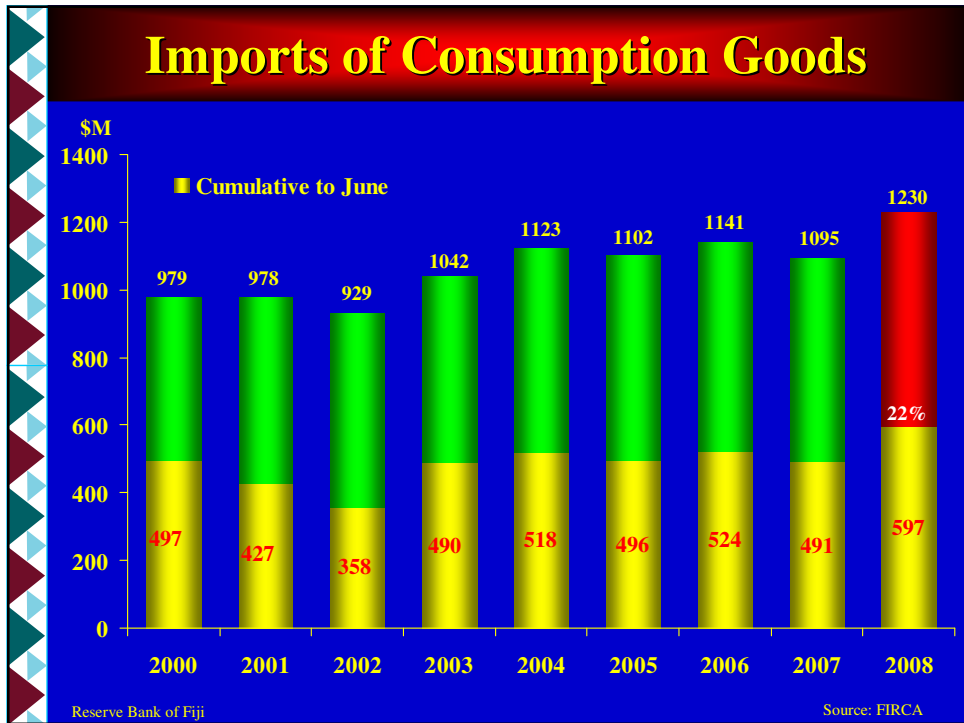
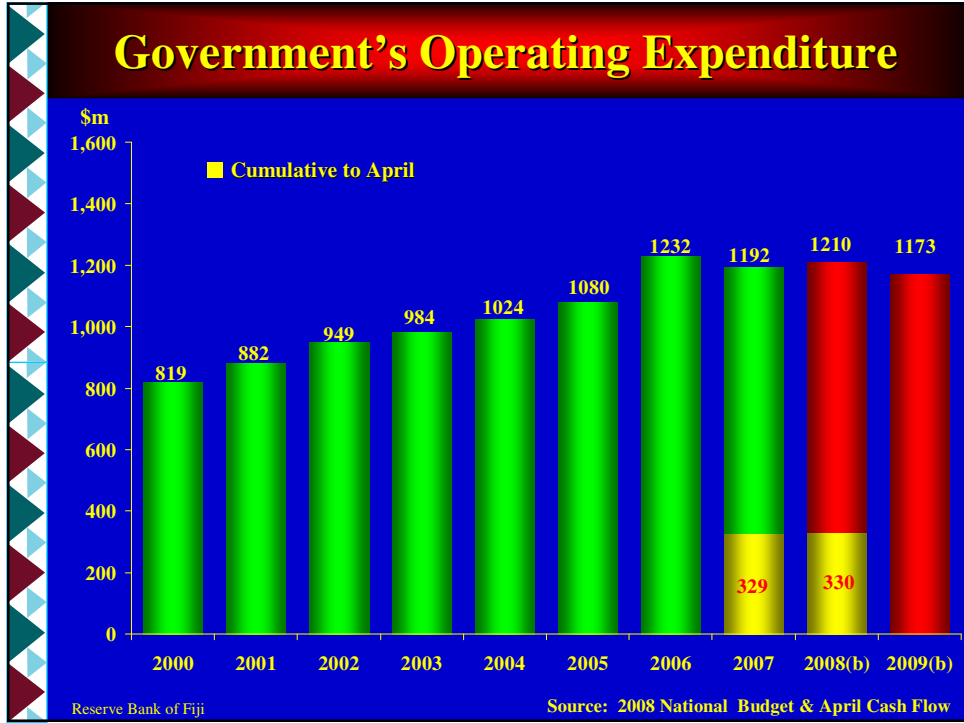


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Source: FIRCA

## Commercial Banks' Consumption Lending





## Consumption

- Partial indicators suggest a mild growth
- However, this is driven primarily by higher prices

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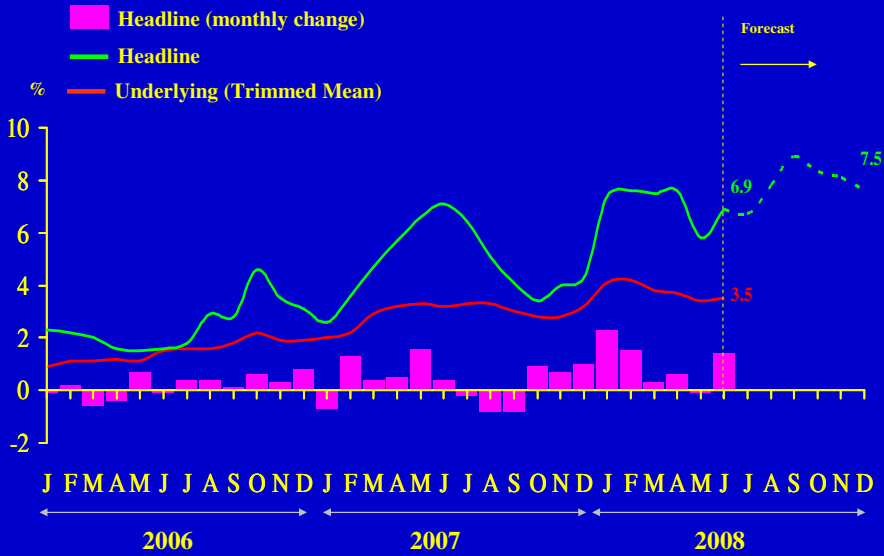
**WHAT ARE OUR KEY  
CHALLENGES?**

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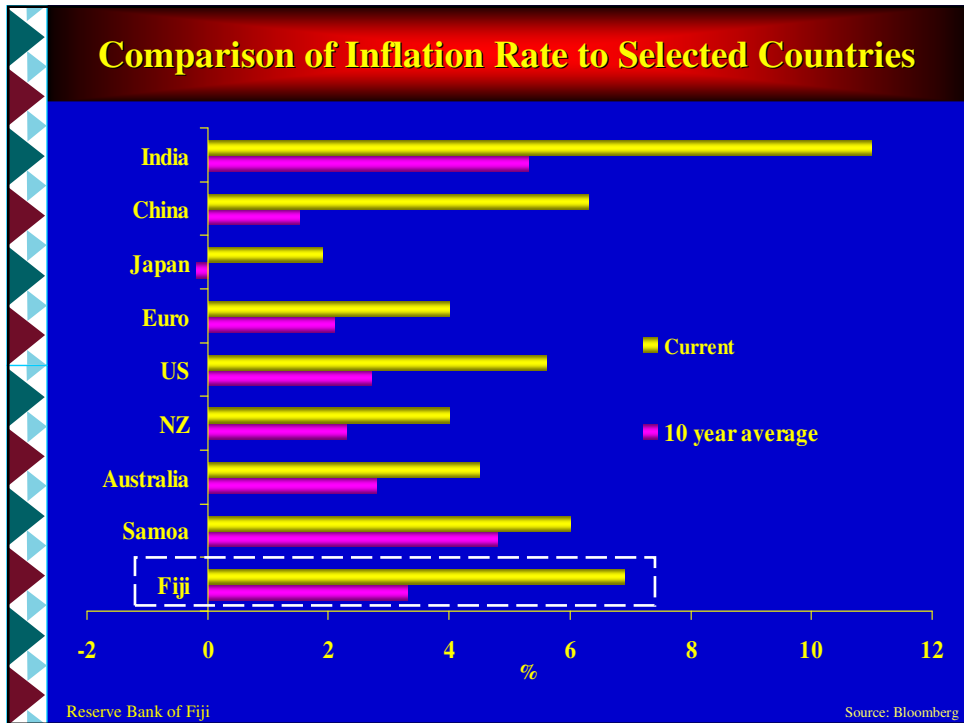
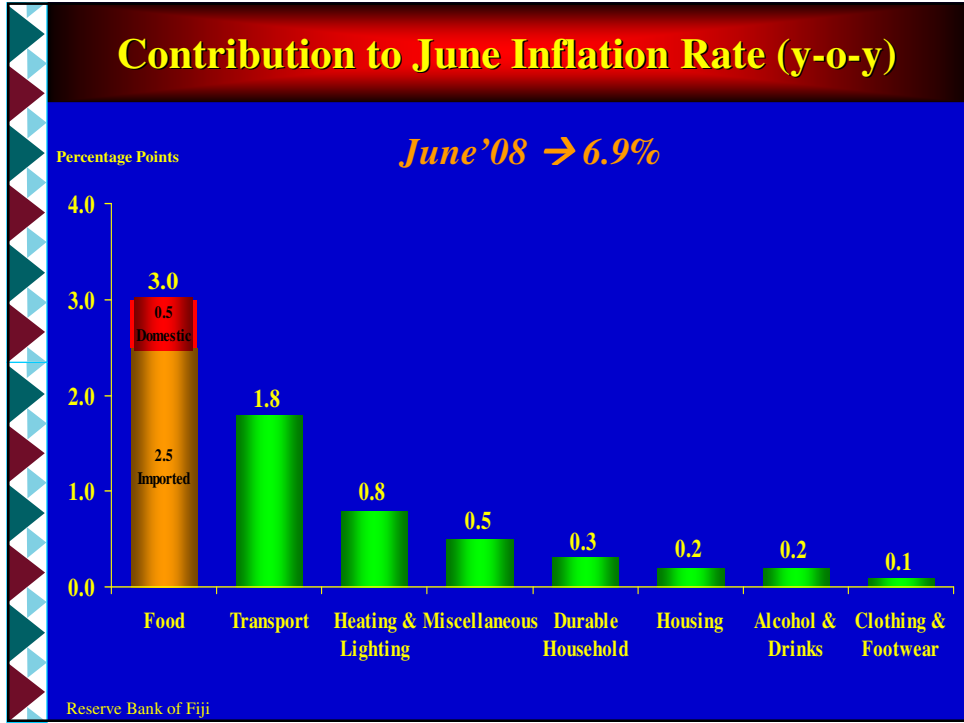
# CHALLENGE 1: Dealing with External Price Shocks

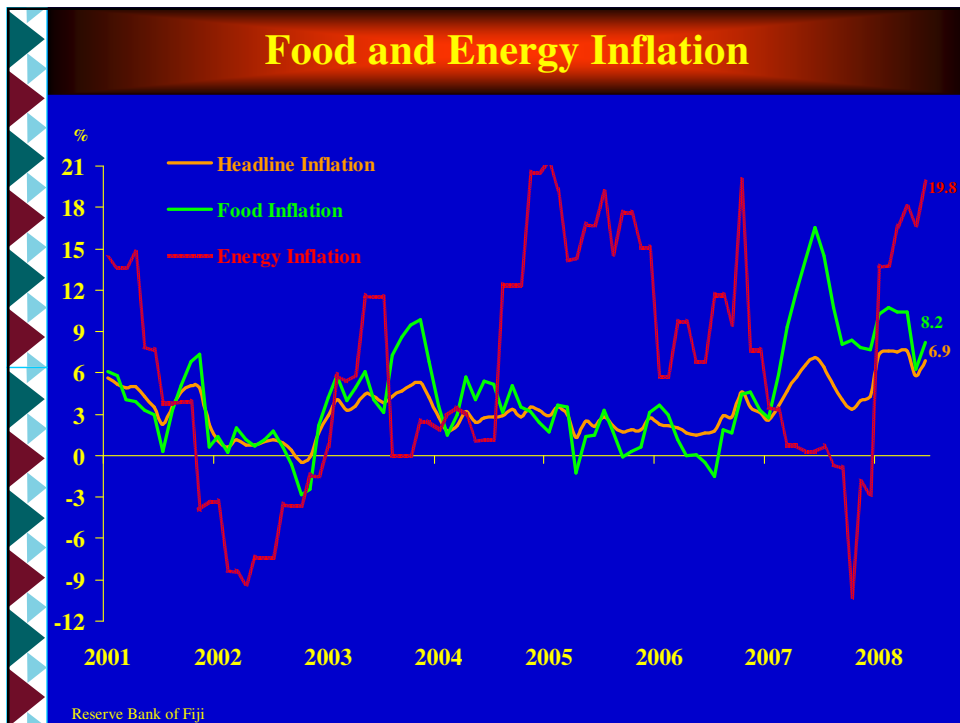
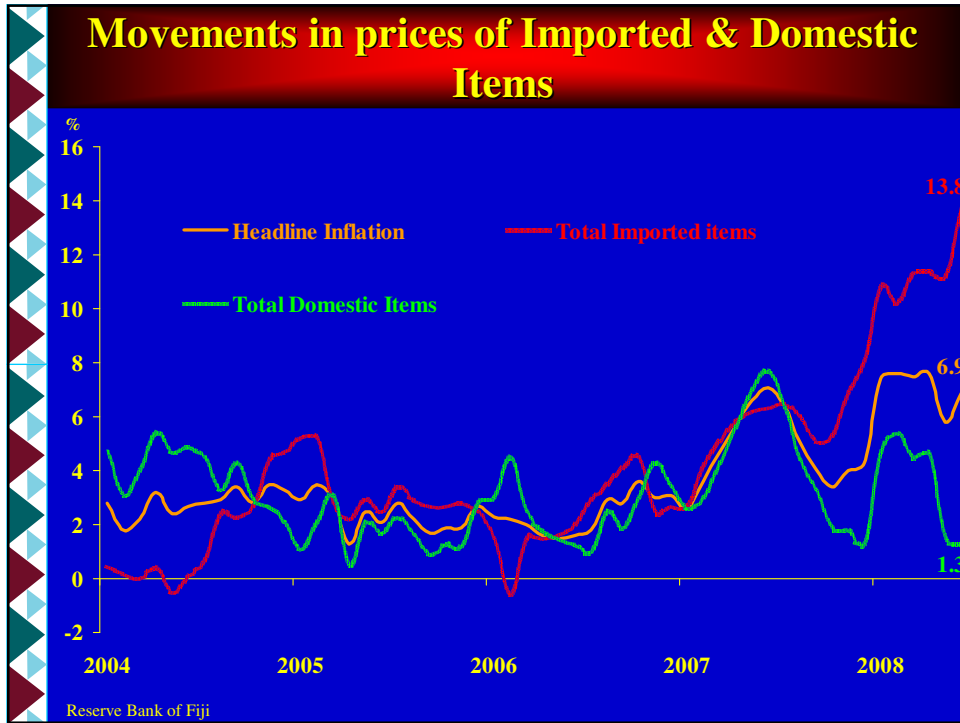
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## Inflation



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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**

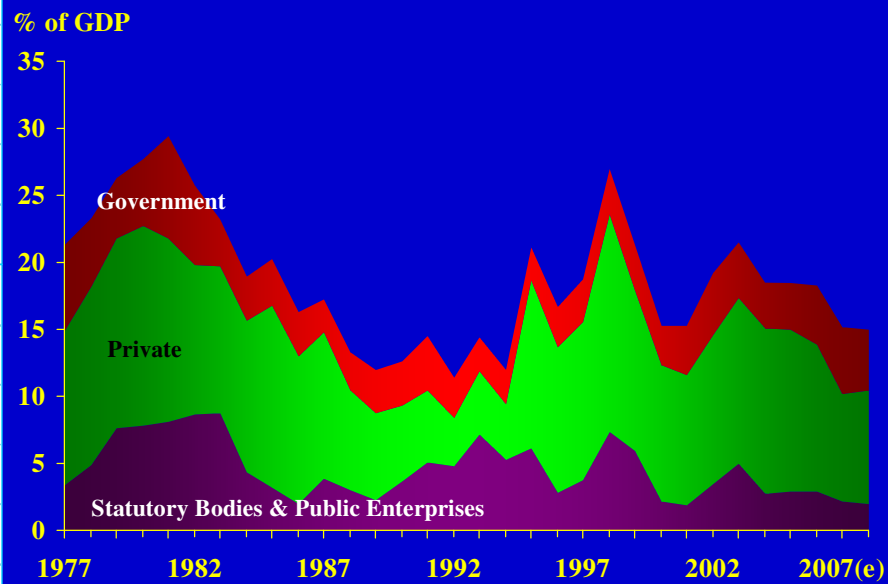
## Prices

- **Shocks from imported inflation**
- **Driven by world food and energy prices**
- **International phenomenon**
- **Mitigation measure are in place**
- **Need to manage demand for efficiency**

## CHALLENGE 2: Raising Investment

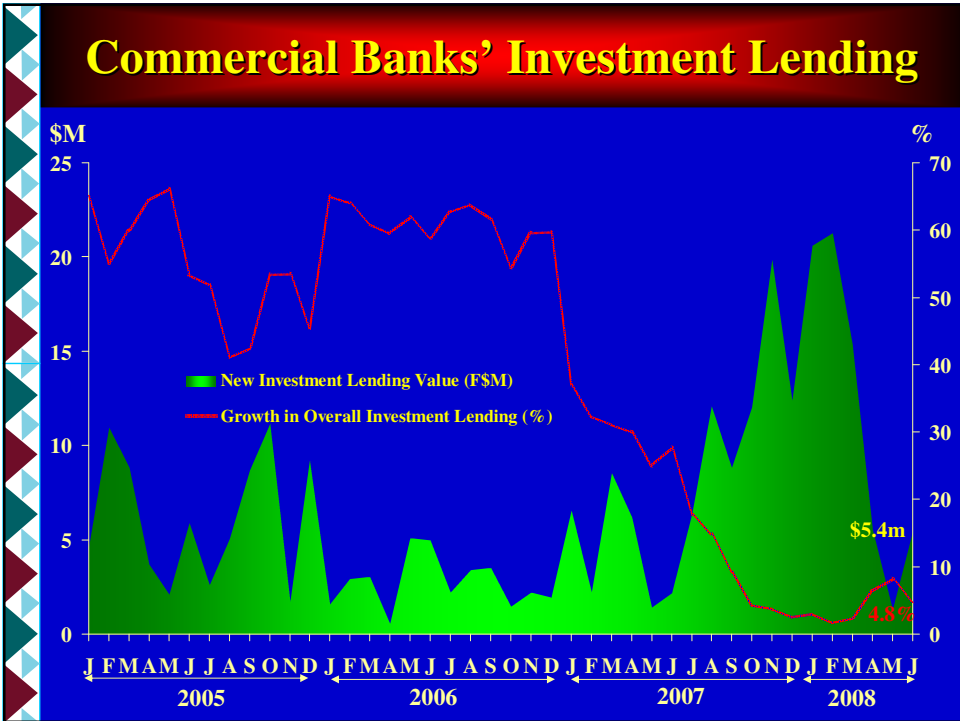
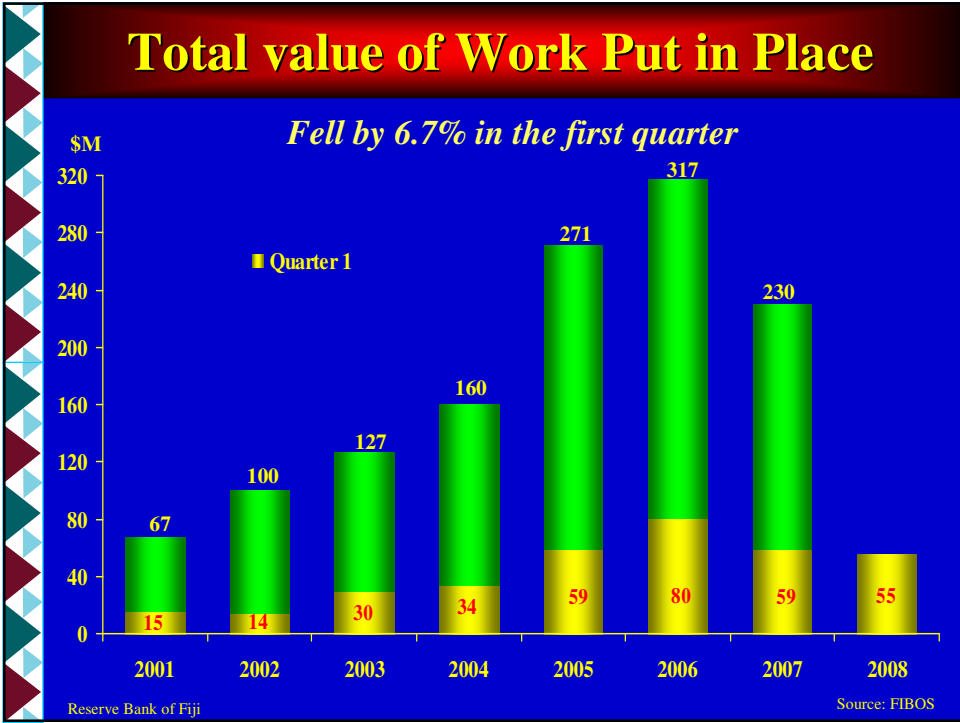
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## Investment



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Source: FIBOS and RBF



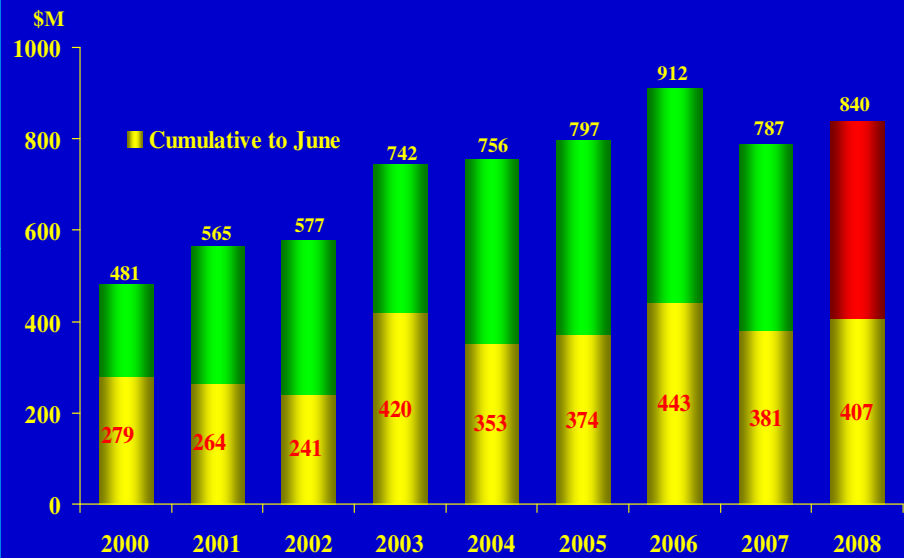
## Government's Capital Construction Expenditure



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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 and FTIB :

- **E-government initiative :**  
Website: [www.egov.gov.fj](http://www.egov.gov.fj)
- **New Foreign Investment Regulations (FIR) under the Fiji Investment Act 1999 effective from 11 July 2008**
- **These regulations will only be applicable to all new companies intending to set up their business in Fiji**

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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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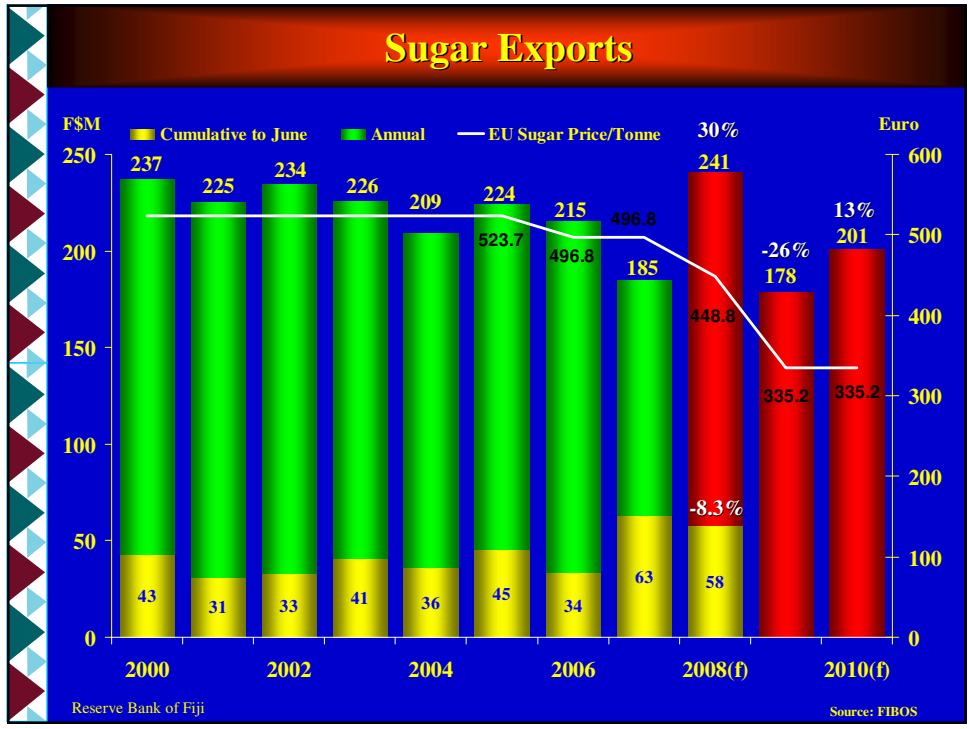
## Investment

- Activity substantially weaker than 2 years ago!
- Seems that investment is generally flat
- But sentiments appear to be improving
- Relaxations in exchange control
- Monetary conditions are accommodating

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## **CHALLENGE 3: Raising Exports in Areas of Natural Comparative Advantage**

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### Sugar Exports

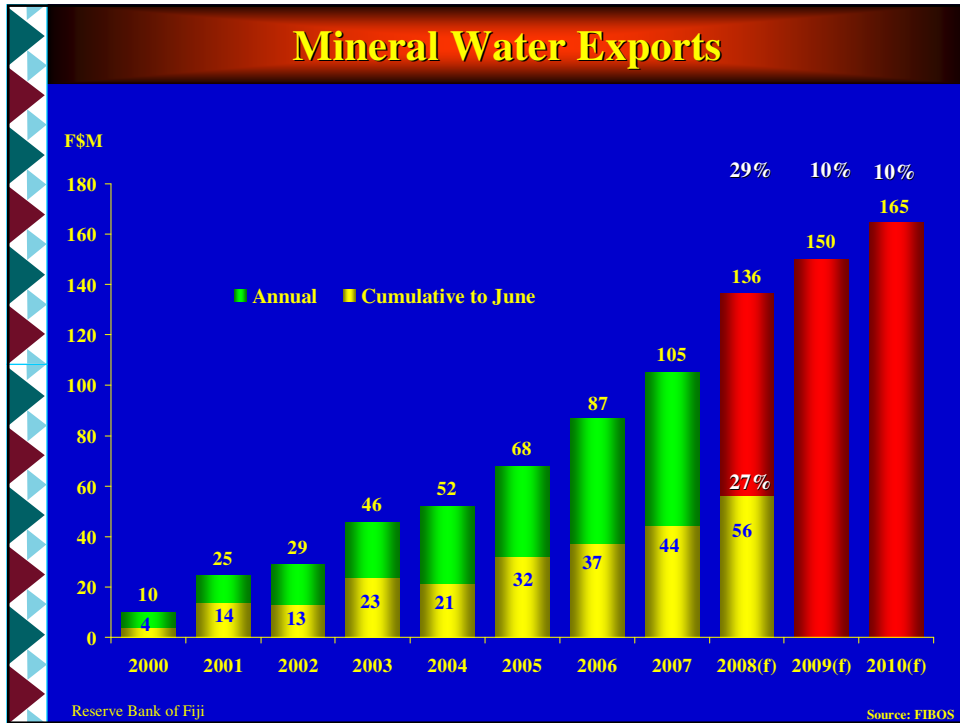
**Major Challenges:**

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

**Reforms:**

- New Sugar Agreement with Tarte & Lyle
- Mill Upgrade Program
- Accelerating Replanting Program
- Harvesting and Transportation
- Electricity co-generation & Ethanol production

Reserve Bank of Fiji | Source: FIBOS



### Mineral Water Exports

**Most impressive performance out of all exports:**

- Expected to contribute significantly in the medium term
- Industry with the tremendous potential
- New firms have started exporting (e.g. Island Chill)
- Local supplies to Hotels and Resort
- Scope for development of niche markets

• **Issues:**

- Rising production cost

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
- **Mitigating factors:**
  - Rectify sanitary standards in conformance with EU market
  - Some relief on fuel price
- **Issues:**
  - Increasing the span of the fishing license



### Gold Exports

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

- **Production is expected to gain momentum**
- **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

- **Industry poised for gradual improvement**
- **Challenges:**
  - **Hardwood land leases**
  - **Certification of Fiji's Mahogany for exports**
  - **Funding**
- **Issues:**
  - **Cabinet Task Force to map a new direction for mahogany**

Source: FIBOS

## 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

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## Our Strengths

- Declining telecommunications costs
- English speaking population and high rate of literacy
- Pool of graduates in areas of IT & finance

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## Exports

- Some good growth seen in exports recently
- Need to sustain this performance
- Potential hindered by industry specific issues
- Issues need to be addressed
- New areas of potential identified
- Make use of our strengths

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## **CHALLENGE 4: Strengthening our Balance of Payments Position**

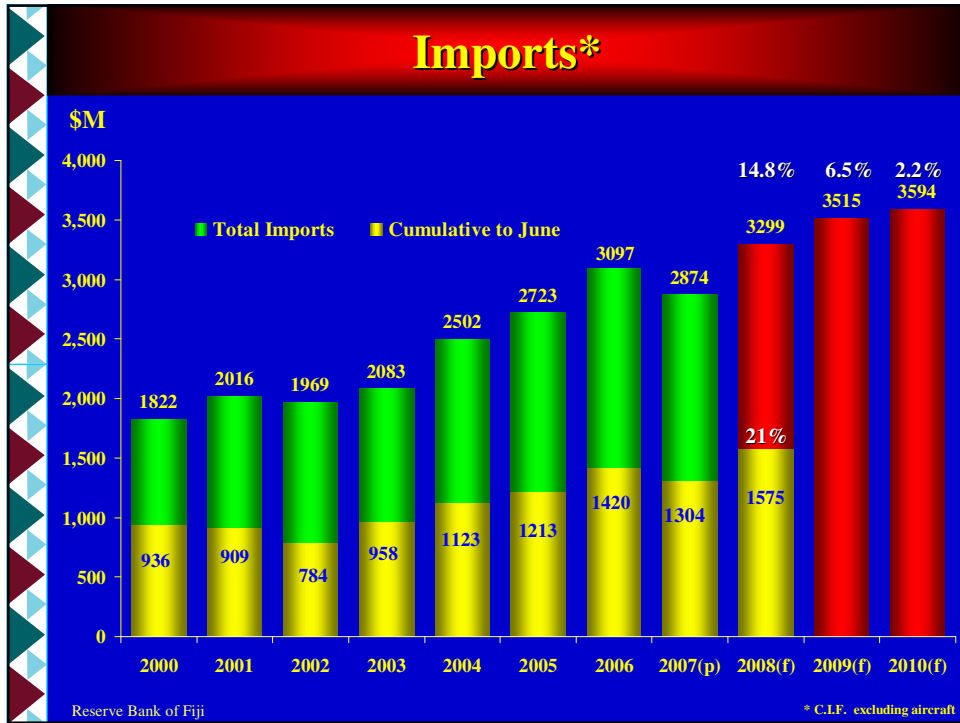
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### Contribution to Exports Growth: 2008 - 2010

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

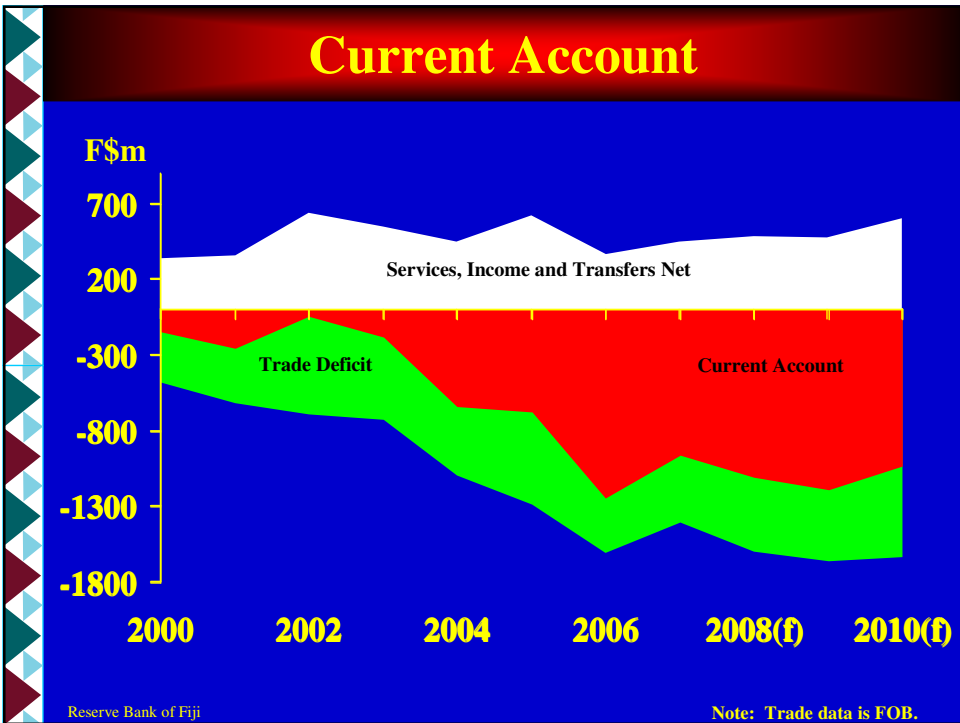
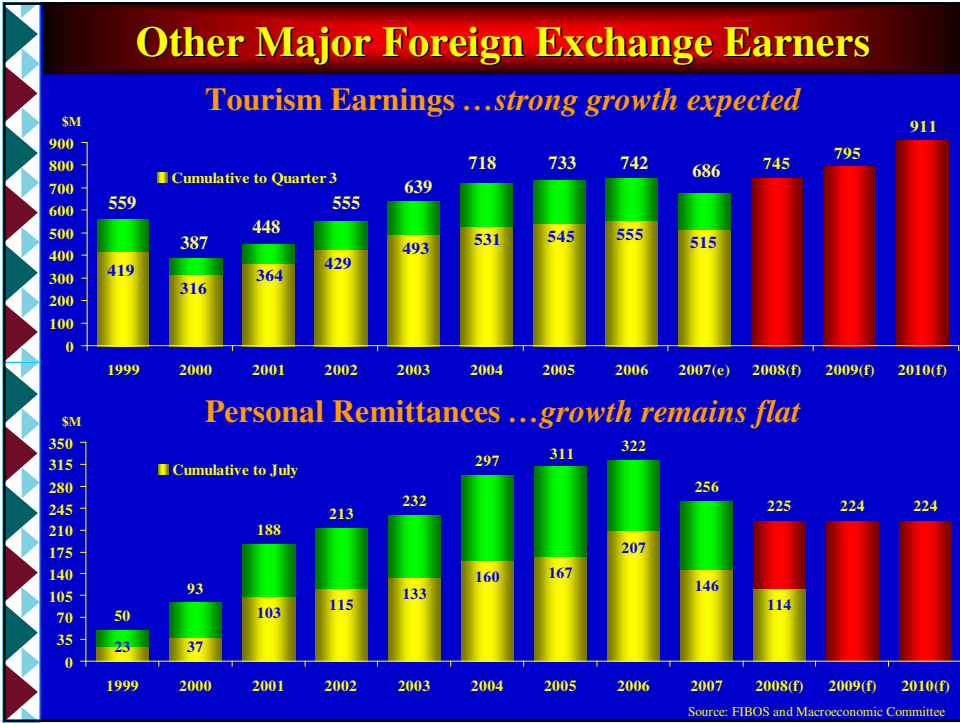
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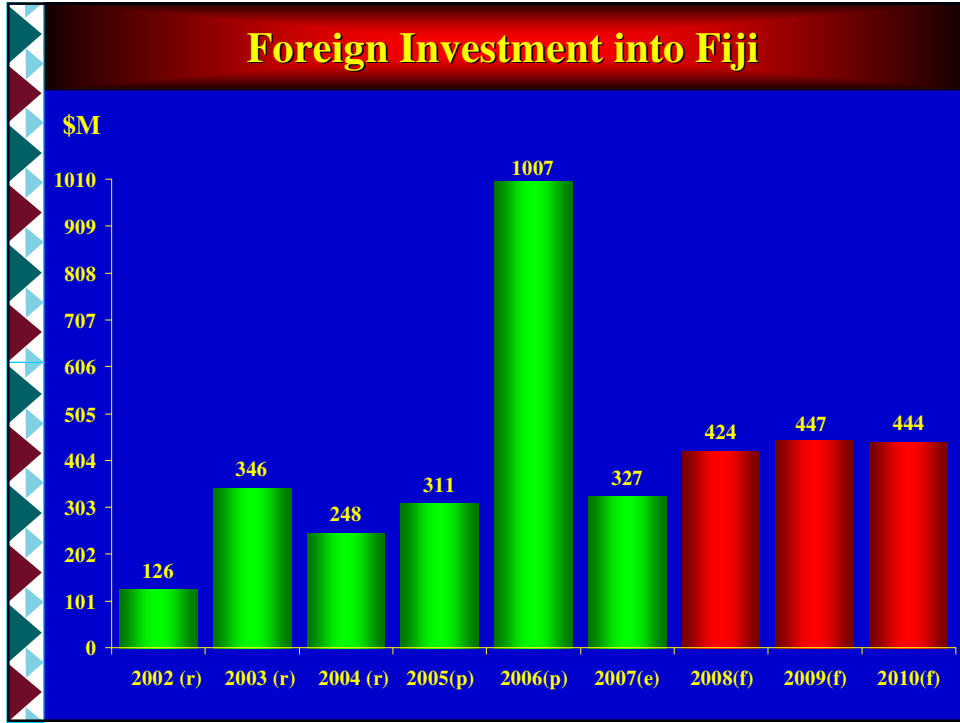


### Contribution to Imports Growth: 2008 - 2010

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 plans
- National Exports Strategy
- Alternative sources of energy
- Import substitution considered for relevant and viable areas
- Services
  - Tourism – Tourism Action Group
  - Remittances – Remittances Action Group

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## Summary on BOP

- **Trade deficit is still very large**
- **Tourism earnings and remittances have helped to reduce the pressure on foreign reserves**
- **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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## 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**

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*Thank You!!*

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