

**Presentation by Mr. Savenaca Narube, Governor, Reserve Bank of Fiji to the  
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**“The Fiji Economy: Analysis and Discussion”**

**I. Current Economic Performance and Outlook for the Medium-term**

**1. Economic Growth – Real GDP 2000-2010**

- a. The growth in the past 8-years has average at 0.9 percent.
- b. For the medium-term (2008-2010), growth is expected an average of 1.7 percent.
- c. Growth rates for: 2008 – 1.7 percent; 2009 – 1.4 percent; 2010 – 1.9 percent.
- d. **Contribution to Economic Growth (2008-2010)**
  - i. The major positive contributors to the forecast medium-term growth are tourism (transport and wholesale & retail trade and hotels & restaurants), agriculture, manufacturing and mining sectors, which more-than-offset the negative contributions from community, social & personal services sector.
- e. **Key Points on Growth**
  - i. After a decline in 2007, economy will grow in 2008-2010
  - ii. Tourism is driving growth
  - iii. Gold production will exceed previous levels
  - iv. Other sectors are anticipated to pick up
  - v. Lower Government spending affecting growth in short-term
  - vi. Medium term growth outlook is too low
  - vii. Threats – gold, world prices, weather & instability

**2. Employment Conditions**

- a. Employment indicators
  - i. Job advertisements – cumulative to July this year, the number of vacant posts advertised registered an annual increase of around 15 percent.
  - ii. Newly registered taxpayers – recorded an annualised decline of around 10.0 percent, in the year to July.
- b. **Key points on the Labour Market**
  - i. Only partial indicators available
  - ii. Indicators are mixed
  - iii. Overall, new job creation appears weak
  - iv. Recruitment intentions are positive

**II. What Are Our Key Challenges?**

**3. Challenge 1: Dealing with External Price Shocks**

- a. Inflation – Core/headline
  - i. The headline inflation rate in June rose to 6.9 percent from 5.8 percent registered in May.
  - ii. The underlying (or core) inflation rose marginally to 3.5 percent, from 3.4 percent noted in May.
  - iii. The year-end inflation forecast at 7.5 percent.
- b. Domestic and Imported inflation

- i. In June, prices of imported goods and services rose by 13.8 percent, whereas, costs of locally produced goods and services rose by 1.3 percent.
  - c. Food & Energy Inflation
    - i. In June, the overall food inflation increased by around 8.2 percent, while energy inflation increased by around 19.8 percent.
  - d. **Mitigation strategies:**
    - i. Income and expenditure policies.
      - Changes in income tax exemption threshold (to \$15,000 from \$9,000).
      - Zero-rated VAT on locally produced food items.
      - Reduction in import duties (decrease in import tariff on petroleum products)
    - ii. Forward Exchange Contracts (FEC) for imported food items (e.g. dairy, wheat, etc).
      - RBF de-rationalised the FEC policy specifically for the relevant staple food (eg. Wheat, rice, dairy) importing companies.
    - iii. Demand Management to promote efficient consumption patterns
      - Allow for pass-through to promote efficiency – recent fuel price hikes, increase in tariff rates for electricity.
      - Promoting alternative energy programs.
      - Public campaign to educate the public on importance of demand management and efficiency.
  - e. **Key points on Prices**
    - i. Imported inflation rising
    - ii. Driven by world food and energy prices
    - iii. International phenomenon
    - iv. Mitigation measures are in place
    - v. Demand management
    - vi. Short-term factor

#### **4. Challenge 2: Raising Investment Levels**

- a. Investment (as a % of GDP)
  - i. Total investment in 2007 was estimated at around 15.0 percent of GDP and is expected to remain at similar level in 2008.
- b. The Quarter 1 total value of work put-in-place in 2008 totaled around \$55 million, a decline of 6.7 percent on annual basis. While the private sector registered an increase, the Public sector recorded a significant decline.
- c. Commercial banks investment lending
  - i. New investment lending rose over the year and over the month to June; and
  - ii. Overall investment related lending continued to slowdown to 4.8 percent in June.
- d. The Governments' capital expenditure is expected to increase to around 20 percent of total expenditure this year, in line with the Governments' target of 80:20 ratio of operating to capital expenditure. This compares to 90:10 ratio of operating/capital expenditure mix in 2007.
- e. Imports of investment type goods rose by 6.4 percent cumulative to June this year. The increase was underpinned by all the components under this category.
- f. **Recent Policies for Promotion of Investment**
  - i. Government:
    - Process Improvement
    - PM's commitment to Private Sector
    - Economic Summit

- E-government initiative – online application and tracking of investment proposals
- ii. 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

**g. Key points on Investment**

- i. Activity substantially weaker than 2 years ago!
- ii. Investment is generally flat
- iii. But sentiments appear to be improving
- iv. Governments' Commitment
- v. Strengths
- vi. Relaxations in exchange control
- vii. Monetary conditions are accommodating

**5. Challenge 3: Raising Exports in Areas of Natural Comparative Advantage**

- a. Sugar –
  - i. Exports earnings are forecast to increase by 30 percent in 2008. However for 2009 a decline of 26% is projected. A 13 percent growth is nonetheless envisaged for 2010.
  - ii. Major Challenges:
    - Expiry of sugarcane land leases
    - Operational problems at mills and poor transportation infrastructure
    - Reduction in preferential sugar prices
    - Delay in reforms
  - iii. Mitigating Factors:
    - New Sugar Agreement with Tate & Lyle
    - Mill Upgrade Program
    - Harvesting and Transportation reforms
    - Electricity co-generation & Ethanol production
- b. Mineral water exports –
  - i. Earnings from mineral water have grown strongly over the last decade, with growth in mineral water receipts is expected to be strong from 2008-2010.
- c. Fisheries –
  - i. Fish exports have fared quite well in the last couple of years. Marginal growth in earnings expected from 2008-2010.
  - ii. Concerns:
    - Higher fuel costs constraining prospects
    - Short span of fishing license (issued for only 1 year)
    - EU ban on fish imports
    - Port Infrastructure
  - iii. Mitigating factors:
    - Rectifying sanitary standards
    - Some relief on fuel price
  - iv. Issues:
    - Increasing the span of the fishing license for certainty of business decisions for the industry

- d. Gold –
  - i. Earnings from gold is expected to increase in the medium term, as Vatukoula Gold Mines is anticipated to operate at full capacity.
  - ii. Challenges:
    - Higher fuel prices has resulted increased production costs
    - Operational delays
      - 1. New generators and refurbishment of existing machinery
      - 2. Water clogged mines due to prolonged closure
  - iii. Issues:
    - Concession on imports of capital machinery
    - Plans for further surface exploration in Vatukoula
- e. Forestry –
  - i. Timber earnings have been performing well, with earnings expected to improve from 2008-2010.
  - ii. Challenges:
    - Hardwood land leases
    - Certification of Fiji's Mahogany for exports
    - Funding
  - iii. Issues:
    - Cabinet has set up a Task Force to map a new direction for the mahogany industry
    - Funding Negotiation
    - Survey of Leases
- f. Export-focused SMEs –
  - i. Have a huge potential in Fiji, for instance, handicrafts, cosmetics and related products (eg. Pure Fiji products), packaged foods and drinks
- g. Services sector –
  - i. Call, Information, Data Processing & Back-up and Financial Advisory services
- h. Key points on Exports**
  - i. Good growth in exports recently
  - ii. Need to sustain this performance
  - iii. Potential hindered by industry specific issues
  - iv. Issues are being addressed
  - v. New areas of potential identified
  - vi. Economic Summit Commitment

## **6. Challenge 4: Strengthening our Balance of Payments Position**

- a. Exports
  - i. Exports are forecasted to rise from 2008 to 2010 by 17.5 %, 7.6% and 6.1%, respectively.
  - ii. The increase is mainly underpinned by almost all categories.
- b. Imports
  - i. Imports growth are also strong at 14.8, 6.6, 2.2 percent, respectively, for 2008-2010.
  - ii. The strong growth in imports from 2008-2010 is expected to be broad based (led by mineral fuel and food imports).
- c. Tourism earnings
  - i. Strong growth is expected in line with higher visitor arrivals; 2008 - \$745m; 2009 - \$795m; and 2010 - \$911m.

- d. Personal remittances
  - i. Growth remains flat; 2008 - \$225m; and \$224m for 2009 & 2010.
- e. Trade Deficit
  - i. Despite the surplus on the services, Income and Current Transfers, it is not sufficient to fully offset the trade deficit to produce a current surplus or even to balance off.
- f. Direct Investment into Fiji
  - i. Foreign investment inflows are forecast to be significantly positive mainly attributed to the equity capital and re-invested earning into Fiji.
- g. Official Foreign Reserves
  - i. Currently (Aug), official foreign reserves holdings is around \$911 million, sufficient to cover 4.0 months of imports of goods only.
- h. Strengthen our BOP Position**
  - i. External prices shocks are increasing price of imports
  - ii. Positive export performance, but can we sustain it?
  - iii. Exports need to grow at three or more times than that of imports to rein in the widening trade deficit.
  - iv. While a surplus from the services and transfers accounts are growing, the surplus generated is still insufficient to fully offset the trade gap.
  - v. As a result, placing pressure on Fiji's balance of payments.
- i. Mitigating Factors**
  - i. RBF has utilized the credit ceiling to quell the surge in consumption driven demand and to curb rising import bill for consumption goods.
  - ii. Government is working of Fiscal consolidation.
  - iii. National Exports Strategy has been developed in order to raise Fiji's exports.
  - iv. Alternative sources of energy are being pursued to reduce our dependence on fuel imports.
  - v. Import substitution is being considered for relevant and viable areas.
  - vi. Support for Services from National Economic Summit.
- j. Key points on BOP**
  - i. Trade deficit is still very large
  - ii. Tourism earnings and remittances have helped
  - iii. Remittances are declining
  - iv. Foreign reserves still under pressure, but at comfortable levels
  - v. Some mitigation factors in place
  - vi. Need to implement additional measures now
- k. National Economic Summit**
  - i. First Consultation Forum
  - ii. Clear Government Commitment to Private Sector
  - iii. Focus on Exports & Investment
  - iv. Commitment to Act

### **III. Summary**

- a. After declining in 2007, economy will grow in 2008
- b. Tourism and gold are major drivers for growth
- c. Government consolidating its fiscal position
- d. Lower government spending affecting growth in short-term
- e. Economic growth positive in the medium-term
- f. Medium term growth is too low

- g. Labour market is weak
- h. Consumption primarily driven by higher prices
- i. Inflationary pressures from external prices
- j. Investment improving but lower than 2-years ago
- k. Exports expected to pick-up
- l. Trade deficit is still very large
- m. Foreign reserves still under pressure, but at comfortable levels
- n. Significant challenges remain
- o. Issues need to be addressed now
- p. National Economic Summit