Sada Reddy: Tourism in Fiji's economy

Presentation by Mr Sada Reddy, Deputy Governor of the Reserve Bank of Fiji, to the Fiji Tourism Forum 2008, Suva, 22 August 2008.

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Introduction

I am delighted to make a presentation on Tourism in Fiji's Economy. The areas I have been specifically requested to address are the following:

- The contribution of tourism to foreign exchange earnings
- The potential of tourism in reviving the economy
- Retention level

Outline

The outline of my presentation is as follows:

- Global economic conditions
- Domestic economic conditions
- Fiji's tourism industry
- Retention rate and economic impact
- Policy implications
- Summary

Global economic conditions

Global growth is slowing. The International Monetary Fund (IMF) expects global growth to slow to 4.1% in 2008 and to soften further to 3.8% in 2009. Our major trading partners and visitor source markets have a sluggish outlook for the next two years. However, emerging market economies, like China and India, will continue to experience firm growth rates and provide stability to global growth.

Domestic conditions

- **GDP growth**: After contracting in 2007 (-6.6 percent), our economy is undergoing some recovery in 2008 (1.7 percent). Forecasts for 2009 and 2010 are 1.1 percent and 1.6 percent, respectively. These forecasts were released by the Macroeconomic Policy Committee in April 2008. These growth rates are too low and insufficient to generate sufficient employment opportunities.
- **2008/2009 growth sectors**: Tourism is one of the key growth sectors for 2008 and 2009. Tourism also contributes to the growth of the other sectors.
- **Inflation**: Inflationary pressures will continue through to the end of the year. Inflation is expected to exceed 8 percent by September before settling at around 7.5 percent by year end.
- **Foreign reserves**: Monetary policy of the Reserve Bank in recent years was focussed on protecting foreign reserves. Foreign reserves levels are holding up well

at around $940 million. Current levels are sufficient to cover around 4.0 months of imports of goods. This is a very comfortable level.

- **Lending rate of banks**: Interest rates have trended down since early 2007 to around 8 percent now.
- **Commercial banks' private sector lending**: Despite the credit ceiling imposed by the Reserve Bank, lending to the private sector has exceeded the credit ceiling due to special approvals given by the Reserve Bank for special investment projects. Special approvals have totalled $250 million dollars. Approvals for the Building & Construction have reached $125 million followed by Transport, Storage & Communication ($21 million), Electricity, Gas & Water ($16 million) and Manufacturing ($16 million). Other miscellaneous approvals totalled $72 million.

  Recent figures show a moderate recovery in bank lending.

Fiji's tourism industry

- **Visitor arrivals**: Visitor arrivals are at historical highs. A strong recovery in visitor arrivals by an annual 12 percent was seen in the first seven months of the year. Using the Fiji Islands Visitors Bureau's growth forecast of around 571,000 visitors for 2008 translates to a projected annual growth rate of around 6 percent.
- **Visitor arrivals by country**: Our nearest neighbours, Australia and New Zealand, account for more than half (56%) of our visitor source market. The growing markets of US (12%), Canada (3%) and Europe (15%), provide us with 30% of our visitors.
- **Tourism earnings**: While we note historically high levels in visitor arrivals, tourism earnings is what ultimately matters – for the industry and for the country in terms of foreign exchange, employment and investment. Tourism earnings have largely been flat since 2004. In 2008, we expect a marginal improvement over 2006 earnings levels, a 6.7 percent rise in 2009 and a 14.6 increase in 2010. Thereafter we are hopeful that the tourism earnings will reach and surpass the $1 billion mark.
- **Gross foreign exchange earners in 2008**: Tourism is the major source of foreign exchange for Fiji forming around 23 percent of total foreign exchange receipts[1] in gross terms.
- **Occupancy**: There has been a huge level of investment into the hotel industry in the last few years where we have seen new hotels, renovations/extension of existing ones and an expansion of services provided (weddings/spas/conventions). The increase in hotels and rooms have seen occupancy levels fall. 50 percent of tourism capacity in terms of room days is unutilised. The challenge for the industry and for the country is to fill these rooms.
- **Employment**: The Hotels & Restaurants sector directly employed around 9,000 workers in 2007. Using the hotels employment multiplier of 2.6, the total employment generated by the tourism industry is approximately 23,400 workers. The employment multiplier was sourced from a 1990 study by the Tourism Council of the South Pacific (TCSP).[2]

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[1] Foreign exchange receipts include exports of good (fob) and services, income and transfers.

[2] Tourism Council of the South Pacific, 1990, Economic Impact of Tourism in Fiji.

Fiji's tourism industry – retention rate and economic impact

- **Retention rate**: The 1990 study by the TCSP showed the tourism industry in Fiji has a retention rate of 44 percent. Hence for every $1000 of tourist dollars spent in the country, $438 is retained in the economy after deducting import requirements (direct, indirect and induced).
- **Factors contributing to higher leakage**: These include:
  1. An industry which is not fully integrated into the domestic economy
  2. Import of food and other requirements
  3. Repatriation of income and interest payments on foreign loans
  4. Overseas marketing costs
  5. Other foreign services
- **Tourism's impact on the economy**: Based on the methodology and tourism multiplier (2.9) provided in an in-house study, which compares well with the 1990 study by the TCSP, and using projections for 2008, the tourism industry is expected to contribute $1,424 million this year, equivalent to 24 percent of GDP.
- **Policy implications**
  - Given that there is 50 percent spare capacity, strategies must be put in place immediately to increase visitor arrivals!!
  - Improve local input into tourism industry. Possible ways are:
    - Improve the quality and consistency of local fruits & vegetables, thereby reducing imports
    - Examine ways to increase production of beef and other meat and dairy products
    - Encourage manufacturers to produce goods demanded by tourists
    - Provide more opportunities for tourists to spend locally (eg, expanding retail opportunities)

Summary

- Tourism is a <u>key driver</u> for economic growth in Fiji
- Provides vital support to Balance of Payments
- Highly resilient, has quick bounce-back
- Industry with substantial spare capacity to *immediately* propel growth to higher levels
- Need to remain competitive
- Some downside risks:
  - The global slowdown
  - Rising oil and food prices