

Sada Reddy: Economic contribution of tourism – the way forward

Speech by Mr Sada Reddy, Governor of the Reserve Bank of Fiji, at the Fiji Tourism Forum 2010, Suva, 20 August 2010.

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The Attorney-General & Minister for Trade & Tourism,
Chairman of the Organising Committee for the Forum,
Distinguished Guests,
Ladies & Gentlemen

Good Morning

Thank you for inviting me to speak to you on the ***Economic Contribution of Tourism – The Way Forward***.

I recall we met around this time last year when I had the pleasure of speaking to this august forum on a similar topic.

Before I speak to you on the topic for this morning, I wish to first discuss very briefly, recent developments in the Fiji economy in the context of the global economic and financial developments.

This time last year we were still faced with a very uncertain global environment. While there were indications of gradual recovery in some economies, the mood was still very uncertain. However, it is very pleasing to note that the world economy has recovered much sooner and stronger than expected and is now on a solid growth.

According to the International Monetary Fund (IMF) July 2010 World Economic Update, world growth this year is now projected at 4.6 percent. This compares with the projection of 2.5 percent growth around mid-last year. This shows a substantial upward revision to the global growth rate.

In line with the improved outlook for the world economy, the performances of our 5 major trading partner economies from this year onwards are all expected to be positive.

Driving the improved recovery in global growth is strong performances in Asia, particularly India and China which are expected to each record around 9 to 10 percent growth in 2010.

Of particular importance to Fiji tourism is the growth forecasts for Australia, New Zealand and US. The Australian economy is chugging along pretty well while the NZ and US economies are also expected to recover from the low levels of last two years.

Therefore, against this background, we expect good recovery in tourism from these economies. However, one needs to be a little cautious on this front as most analysts say there are still some risks that some economies may not see a sustained recovery.

In line with the global economy, Fiji's economy is also expected to show a positive growth of 1.8 percent this year.

This expected growth has been supported largely by the growth in tourism. The activity in the mining and manufacturing sectors also looks promising. The exports of fish, timber and mineral water are also looking positive.

However, sugar production does not look very promising. Sugar production is expected to decline further significantly this year due to continuing milling problems and drop in cane production. Lower cane production is due largely to very low rainfall this year while mill up grade works has not delivered the efficiencies that were expected.

Consumption indicators show that consumer spending has recovered somewhat. Net Value Added Tax (VAT) collections in the first 6 months of the year rose by around 7 percent on a yearly basis; a good part of this growth in VAT revenue could be due to the growth in tourism. Bank lending figures also support some increase in consumption demand.

Looking ahead, recent survey results on future business expectations indicate a strengthening of investor confidence as more businesses expect an increase in investment in plant and machinery as well as in building and construction.

Labour market sentiments also look positive.

In line with our expectations, growth in exports was positive in the first four months of the year, rising by 16 percent, on an annual basis. This is attributed to increases in earnings from fish, mineral water, timber and gold. Looking ahead, total exports are expected to grow by 12 percent this year. Last year, exports fell by 16 percent.

On the other hand, imports declined by 7 percent annually in the first four months of this year. However, for the year as a whole, imports are expected to grow by 10 percent. The slower growth in imports against a higher growth in exports naturally has a positive influence on our balance of payments. This is reflected in the trade balance declining by 20 percent to \$469 million in the first four months of the year.

As far as the inflation rate is concerned we have seen a significant slowdown in recent months as the effects of the devaluation worked through the economy. The inflation rate fell to 5.4 percent in July after peaking at 10.5 percent in April.

Another important economic indicator that we monitor closely is our level of foreign reserves. I am pleased to say that the foreign reserves have held up very well so far this year and is currently at around F\$1.2 billion, equivalent to between 3.5 to 4 months of imports of goods and non-factor services.

Let me now move to the topic that you had asked me to speak on i.e. the economic contribution of tourism and the way forward.

Ladies and gentlemen, over the past 5 years, the total estimated contribution of the tourism sector to the economy, taking into account both its direct and indirect impact as well as the impact of its induced activities, has averaged around 30 percent.

Employment in the hotel industry has increased over the years, rising from 26,700 in 2003 to approximately 39,000 in 2008. Preliminary estimates show that the hotel industry employment may be around 40,000 now. This level represents a little under a third of total formal sector employment.

In addition to tourism's significant contribution to output and employment, this sector is also a major foreign exchange earner for the country.

Tourism earnings averaged around \$820 million in the last three years, compared with \$250 million for remittances, \$200 million for sugar exports and \$130 million for fish receipts. Earnings from other exports such as garments and mineral water averaged around \$100 million.

This year, tourism earnings are expected to grow further by around 11 percent to around \$910 million.

Visitor arrivals for the first 5 months of this year rose by over 22 percent to 217,000, over the levels in 2009. We expect to hit 600,000 visitors this year. If we reach this number this year, then this will be the highest visitor arrivals on record. The outlook for visitor arrivals for 2011 and 2012 also look very promising with arrivals expected to reach 660,000 by 2012.

Australia and New Zealand continue to be our major source markets. Figures on resident departures from these respective countries show that in the January–May 2010 period, Australian departures for Fiji rose by 49 percent to 105,000 visitors when compared with the

same period last year. Over the same period, tourist departures from New Zealand to Fiji rose by 22 percent.

Nevertheless, there is potential for Fiji to tap into the huge Asian market given that more and more Asians are now travelling abroad as their income levels have increased. Tourists from Asia for the past 5 years have averaged around 45,000 annually. Better airline connectivity between Fiji and Asia through the introduction of flights to Hong Kong last year augurs well for the tourism industry.

With respect to occupancy rates, it is encouraging to see that it has increased to more normal levels of over 60 percent after declining to around 40 percent in the last two years. Of course, efforts need to be made to increase occupancy rates to over 70 percent to optimally utilise tourism infrastructure.

In my view, the tourism sector holds huge promise for our country given that most of the other sectors are not performing as well. However, there are challenges moving forward. One area that could easily become a constraint to future tourism growth would be the availability of a good mix of hotel rooms. This maybe adequate now but in two to three years, this will definitely become an issue. Therefore, investment in more hotels will be critically important to sustain the current rate of growth of visitor arrivals. As it takes nearly two to three years to get a hotel completed, it may be necessary that more investment in this area starts soon.

Another important challenge for the industry is the relatively low retention rate for the industry, estimated at around 44 percent. In comparison with other countries, Fiji retains much less of the tourism dollar when compared with other developing countries at between 50–60 percent and advanced countries at between 80–90 percent.

One area that has recently come to Government's attention is the loss of Vat revenue from packaged tours. Almost all services provided to packaged tours are of a domestic nature except for airfares (excluding Air Pacific). Therefore VAT should be payable on all domestic services. Unfortunately, Fiji has been losing out on the VAT revenue for packaged tours. Government should study this issue and see how it can plug this leakage.

To support the Government's focus on agriculture and to reduce the country's reliance on imports, the industry is encouraged to continue its efforts to this end. The recent collaborative effort between the Fiji Islands Hotel and Tourism Association and the Ministry of Agriculture is commendable but more and a sustained effort is needed.

The Reserve Bank of Fiji is also doing its part to support the Government's efforts to boost the economy through the tourism sector. Recent initiatives by the RBF include the engagement of an Asian Development Bank (ADB) Consultant to conduct a review on the local value added content requirement for a sustainable tourism industry. Once this report becomes available the Bank will consult with the key stakeholders to see how best we can get our tourism industry to contribute more in terms of local value added.

In this regard the RBF will also work with the commercial banks and other lending agencies to ensure that new lending is targeted more towards hotels which have significant local value added.

The RBF has also embarked on a programme to bring about changes in the hotel food and beverages services so that more and more local inputs are utilised by the hotel industry. In this regard the RBF has recently provided scholarship to a local chef from the Training Productivity Authority of Fiji (TPAF) for a two month attachment in a five star resort in Malaysia to receive training on how to specialise in the use of local foods in the preparation of local hotel menus, in particular high value menus. Upon the chef's return the RBF will work with TPAF and the Fiji Hotel and Tourism Association to provide training to other local chefs on the use of local inputs. It is also the intention of the RBF to make an Annual Prime Minister's Award to a chef who creates the most innovative local input menu or dish.

You might well ask as to why the RBF is taking such interest in the tourism industry. As I said before given the size of the industry in the domestic economy the country will benefit greatly if we are able to increase the local value added. It will significantly add to our balance of payment and also increase incomes to our farmers and assist in more employment creation.

The Bank has also made funds available for exports and import substitution through its recently revamped Import Substitution and Export Finance Facility (ISEFF). This facility can be accessed through the commercial banks and the Fiji Development Bank.

The RBF also relaxed its policy on foreigners to borrow in the domestic market for purchase or construction of residential properties. This is to encourage the building and construction industry and also for the development of integrated resorts with residential accommodation.

I also wish to mention here a related new policy of Fiji My Second Home Scheme which was introduced last year. The scheme provides an opportunity for citizens of other countries to make Fiji their second home. The financial criteria under the scheme is the compulsory opening of a fixed deposit account of \$100,000 for participants over 50 years, and a fixed deposit account of \$150,000 for participants below 50 years. Interest income from these deposits is exempt from tax. From the 3rd year onwards, a minimum of \$50,000 must be maintained in the account, participants of this scheme can use the funds expenses relating to house purchase, education and medical purposes. More details can be obtained from the RBF website.

Through these various initiatives, the Bank hopes to encourage more activity in the tourism sector and help lift economic growth.

Ladies and gentlemen, one of the key strengths of Fiji's attraction as a tourism destination is the pristine environment that we enjoy but take for granted most of the time. Many countries which currently enjoy very high growth rates and high living standards unfortunately suffer seriously from environmental degradation and overcrowding. Therefore, Fiji needs to have a policy on sustainable tourism development which preserves and secures our environment for future generations. In this regard it is critically important that all developments, in particular, large scale tourism developments, are strictly regulated.

In this regard, I wish to once again reiterate the need for eco-friendly tourism development which uses more renewable energy technology and building designs to minimise the importation of fossil fuel. The Government ministries in charge of planning, environment and energy need to work very closely with the various stakeholders to ensure that we have policies to give effect to these strategies. We do have some policies already in place but one needs to ask how effective these are.

If properly implemented, these strategies will add more value to our tourism and differentiate our tourism product from many other destinations.

One of the key challenges for the Government is to keep the infrastructure developed and maintained. Substandard infrastructure will have serious implications for the growth of tourism in Fiji. Therefore, long term planning is absolutely necessary to develop adequate infrastructure in terms of electricity, water supply, roads, bridges, airports, hospitals, telecommunications, etc. Fiji's infrastructure has been left neglected for a number of years but it is good to see more activity in some of these areas recently.

In summary, ladies and gentlemen, the tourism industry is a major contributor to the growth and development of our country. Its importance, as I highlighted earlier, underscores the need for all stakeholders, not only the Government, but the private sector and the community in general, to work together and make every effort to raise our tourism industry to a level where it can compete more effectively with the rest of the world.

Against the adverse impact of recent global and domestic developments, tourism contributed significantly to turn the economy around from this year.

I am confident that with the efforts of everyone, the tourism industry will continue to grow strongly and achieve its growth target of 1.1 million visitors and \$1.2 billion earnings by 2016, if not sooner.

Thank you very much.