

Savenaca Narube: Overview of Fiji's economy

Summary of a presentation by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, to the 19th Australia Fiji Business Forum on The Fiji Economy, Sunshine Coast, Australia, 9 October 2006.

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1. Economic performance

- Economic growth has averaged around 2.4 percent over the past 5 years and is expected to average around 2.7 percent in the next 3 years.
- Investment performance has increased since 2001, with the momentum coming from the private sector.

2. What are our key challenges?

- ***Challenge 1: Underperforming resource based sectors***
 - Gold production has performed poorly in spite of favourable international prices recorded in recent years
 - Forestry showing signs of recovery in the medium term
 - Fisheries sector has shown some growth but is still below potential
 - Mitigating factors:
 - A company restructure is underway at the Vatukoula gold mine
 - Incentives are being offered by Government for investment in agricultural production
 - Greater public-private partnership is being encouraged
 - Government is looking at ways to improve market access for these sectors
 - Value adding initiatives are also being promoted
- ***Challenge 2: Sugar***
 - Sugar production is far below its potential with sugar exports performing poorly when compared to previous years
 - Preferential pricing is gradually being withdrawn:
 - 60 percent of Fiji's sugar is exported to the EU market
 - EU preferential price will undergo a 36 percent reduction over a period of 4 years, beginning in 2006
 - Expiring land leases also pose a challenge for the sector:
 - Around 2,800 farm leases will expire by 2008
 - About 10,300 farm leases will be expiring over the next 25 years
 - Mitigating factors:
 - Sugar reforms are underway with support from the Indian Government
 - ADB support through the Alternative Livelihoods Programme is ensuring that those displaced by the reforms have assistance
 - EU support has also been promised

- The multi-party system will facilitate the passage of land tenure legislation through Parliament
 - Diversification within the industry to produce ethanol is also being considered
- ***Challenge 3: Debt***
 - Increasing Government debt is becoming an issue of sustainability
 - While, the higher fiscal deficits in the past worked well to raise economic growth, we now need to relook at our strategy to secure sustainability
 - Mitigating factors:
 - Strategic Development Plan 2007-2011 has a strong commitment to lower deficits to around 2 percent in any year of the SDP plan period
 - This is expected to help bring the level of Government debt down to 49 percent of GDP by 2009
- ***Challenge 4: Balance of payments***
 - Strong demand is leading to an increase in imports
 - Unfortunately, this is happening at a time when our exports are performing poorly
 - This is unsustainable given that it is leading to a widening trade gap
 - While a surplus from the services and transfers accounts are growing, the surplus generated is still insufficient to offset the trade gap
 - As a result, our current account imbalance is worsening, thus placing pressure on Fiji's balance of payments
 - Mitigating factors:
 - RBF has raised interest rates to quell the surge in consumption driven demand
 - Fiscal consolidation plans is a part of the SDP commitment
 - This means that there will be greater policy coordination between monetary and fiscal policy
 - Government has successfully conducted an international bond issue
 - National Exports Strategy has been developed in order to raise Fiji's exports
 - Alternative sources of energy are being pursued to reduce our dependence on fuel imports
 - Import substitution is being considered for relevant and viable areas

3. **What are our key strengths?**

- ***Strength 1: Low external debt***
 - Government external debt has been on a declining trend since 1999 and was around 3.6 percent of GDP or 6.8 percent of total Government debt by 2005
 - This declining trend in external debt has also led to lower debt servicing commitments over the years with debt servicing ratio at 0.5 percent
 - International bond issue by Government:

- This was to finance government capital projects and avoid crowding out the private sector at a time when liquidity conditions are tight
 - With very low external debt, there is much room for government to diversify its sources of borrowing externally
 - Requirement of US\$150 million
 - Fiji received a Ba2 rating by Moodys and a BB rating by Standard & Poors – reflecting a stable outlook for the Fiji economy
 - Results: 5 year tenure; initial price guidance of 7.25 percent was announced; 10 times oversubscribed (US\$1.4 billion); finally priced with a coupon rate of 6.875 percent to yield 7.000 percent
 - This very successful debut bond issue reflects confidence in the Fiji economy
- **Strength 2: Low inflation**
 - Inflation in Fiji has been low, averaging around 3 percent over the last 10 years
 - Reasons for low inflation:
 - Fiji has a fixed exchange rate that serves as an anchor on prices
 - Wage demands are relatively modest
 - Good inflation management is practised by our major trading partners all of whom either explicitly or implicitly target inflation
 - Good supply conditions for local market produce
- **Strength 3: Robust tourism sector**
 - The tourism industry is currently being touted as Fiji's flagship industry, with future prospects looking very bright
 - Fiji has been able to attract significant investment through this industry from major international hotel name brands
 - Other supporting factors for this growing sector are:
 - Increases in airline seat capacity with Air Pacific
 - Introduction of low cost carriers
 - Development of new markets
 - This industry has also spurred growth in other sectors like the wholesale and retail trade and building and construction
- **Strength 4: Strong and stable financial system**
 - Independent central bank
 - Sound financial system
 - Favourable report from the Financial Sector Assessment Programme conducted by the World Bank/IMF
 - Financial Intelligence Unit has been set up
 - Development of a Real Time Gross Settlement System
- **Strength 5: Sustainable political stability**
 - 2 elections since 2000 and both were declared free and fair by international observers

- Formation of a multi party cabinet
- Strong investor and consumer confidence
- Affirmative action policies are addressing the needs and concerns of the marginalised and disadvantaged
- Clarification of the role of the military