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  - Preferential pricing is gradually being withdrawn: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**
  
  o Inflation in Fiji has been low, averaging around 3 percent over the last 10 years
  
  o 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**
  
  o The tourism industry is currently being touted as Fiji’s flagship industry, with future prospects looking very bright
  
  o Fiji has been able to attract significant investment through this industry from major international hotel name brands
  
  o 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
  
  o 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**
  
  o Independent central bank
  
  o Sound financial system
  
  o Favourable report from the Financial Sector Assessment Programme conducted by the World Bank/IMF
  
  o Financial Intelligence Unit has been set up
  
  o Development of a Real Time Gross Settlement System

• **Strength 5: Sustainable political stability**
  
  o 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