

## 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- Preferential pricing is gradually being withdrawn: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