

Savenaca Narube: Overview of economic and financial developments in Fiji

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the official opening of Rooster Poultry's renovated facilities, at Rooster Poultry, Ba, 1 November 2007.

* * *

Mr. John Duncan, Chairman, Colonial Fiji Group Board
Ms. Linley Wood, Director of Colonial Fiji Group
Mr. Laurie Mellsop, Managing Director, Colonial Fiji Group
Mr. Hank Arts, General Manager, Rooster Poultry
Distinguished Guests
Ladies and Gentlemen

Introductory remarks

Good Afternoon:

I am pleased to be here today at Navau Farm in Ba for the official opening of Rooster Poultry's renovated facilities. My wife and I have spent a pleasant afternoon on site viewing the operations of the company. I tell you, I have learnt a lot today about the process of getting the chicken to the customer.

I commend Colonial Fiji Life Limited – the owners of Rooster Poultry – on this investment. It is good to see an insurance company in Fiji diversify its investment outside the financial sector. I believe it is a win-win combination.

Investment

We tend to talk a lot about investment and its important role of lifting our economic growth rate which has been historically low at less than 3 percent. Even when we look ahead to the next two to three years, the same low growth scenario remains. We all know that for us to lift this growth rate to say 5 percent requires, amongst other things, more investment. We have thrown in an investment figure of 25 percent of GDP as a possible target. We are estimating investment however to fall back to around 15 percent of GDP this year. So we have a lot of space to cover.

How do we bridge this investment gap? There is a host of factors that is required for this to happen. Obviously, political stability is important. We also need to maintain strong economic fundamentals. We need to raise productivity to keep unit cost competitive. Predictability and certainty in government policies and their implementation is also important. We also need a sound and efficient financial system.

Economic fundamentals

First, let's look at our economic fundamentals and here I am referring to inflation, the balance of payments and government debt. Our inflation has started to come down again and we project it at around 3.5 percent at the end of the year. So, there is no major problem here. Government debt has grown to over 54 percent of GDP. The interim government has made a firm commitment that it would bring that down to below 50 percent of GDP and we wish them well in that endeavour.

Balance of payments

However, the balance of payments remains a concern basically because of the poor performance of our traditional exports. Collectively, exports of sugar, garments and gold are lower by \$400 million from their peak year. And that is a lot of money to lose! This has been made worse by the rise in oil prices which broke above 90 US dollars per barrel recently. Our major policy challenge is clearly to address our widening trade deficit.

I am glad to say that we have seen some encouraging signs recently of stability in our level of foreign reserves. Due to this improvement, the Reserve Bank yesterday announced relaxation on the payment of credit cards for expenditure abroad from \$5,000 to \$10,000 per month for overseas transactions. In addition, cash drawings from credit cards were increased from \$200 to \$1,000 per month. Delegated limits on advance imports payments were also raised from \$15,000 to \$50,000 per invoice.

Exports

Our policies of dampening import demand seem to be taking effect. However, the key is not so much to discourage imports but rather to grow our exports and we should continue to work hard at achieving this.

To help exporters, the Reserve Bank has made changes to the Export Finance Facility. This facility was designed to assist the export sector access credit at relatively lower interest rate. Under the facility, the Reserve Bank will provide funds to the commercial banks and the Fiji Development Bank at an interest rate that is aligned to the 182 day treasury bill market rate with a cap of 2 percent. This rate is currently below 1 percent. The commercial banks and FDB can then on-lend these funds to exporters with a maximum added margin of 4 percent which currently translates to about 5 percent. Furthermore, the local value added content previously set at 40 percent has been removed. The loan eligibility amount under the pre-shipment lump sum facility has been increased from 20 to 50 percent and is now based on local value added content rather than total exports. The list of ineligible exports has now been extended to include re-exports. We hope that these changes will make the facility more attractive to commercial banks and exporters. Details of this facility are available from the Reserve Bank, FDB and your commercial bank.

2008 economic growth

A mild economic recovery of about 2 percent is expected in 2008. The major impetus is a rebound in visitor arrivals which is expected to contribute to growth in wholesale & retail trade and hotels & restaurants and transport & communication sectors. In addition, better performances are expected from agriculture, forestry and fishing and manufacturing sectors. The re-opening of the Vatukoula gold mine will also contribute to economic growth in 2008.

Government policies

I said that predictability and certainty in government policies and their implementation is also important. As you know, the government budget will be delivered in two weeks time. We look forward to the announcement of economic policies that will take us forward in the next two years. In my view, a key foundation of such a policy framework is to allow the private sector to be the growth locomotion. For the private sector to better play this role, it needs certainty and predictability. Another important component of the framework would be reforms to allow us to use our scarce resources as effectively as possible.

Financial system

Let me now say something on the financial system. I would like to start by emphasizing that the financial system remains sound. With the credit ceiling in place and the slowdown in the economy, the rate of credit growth has declined to around 8 percent compared to the highs of close to 25 percent eighteen months ago. I consider this rate of growth commensurate with our current economic conditions.

I wish to clarify that the Reserve Bank does allow banks to exceed their credit ceiling for lending to priority sectors, for investment and to the micro, small and medium sized enterprises. At the same time, the Bank has allowed liquidity in the financial system to rise which has led to lower interest rates. We intend to review the credit ceiling at the end of the year.

The efficiency of the financial system is important to everyone particularly businesses and investors. We launched "FIJICLEAR" – Fiji's electronic payment system on 16 October. FIJICLEAR is an important component of the Bank's overall plan to modernise the financial system in Fiji – it will improve efficiency in making and receiving payments as well as help safeguard financial stability. The system is secure and its key elements are speed, certainty, reliability and convenience. Payments using this system will deliver funds the same day compared to 3 to 6 days required to clear cheques. I invite businesses to start taking advantage of the new system. We worked very closely with Laurie in his role as the Chairman of the Association of Banks in Fiji on this project and I must thank him and his Association for their support and cooperation.

Rooster Poultry

It is with this investment and economic backdrop that makes such a venture that we are celebrating today extremely encouraging. We certainly need more investment such as this. I recall discussing this investment with Colonial in 2005 and I was pleased that in September that year, Colonial went ahead and invested considerably to re-establish the business of Padarath Poultry Enterprises Limited (PPEL).

Colonial has gained full control of Rooster Poultry. Reflecting its confidence in the business, between September 2006 and today, Colonial has invested additional funds in the project. One of the major parts of this investment has been the re-establishment of breeder and rearing farms to produce local fertile eggs rather than importing such eggs. These farms are now on stream and the business is experiencing a progressive reduction in the volume of imported eggs. This would certainly help our balance of payments.

I found the partnership with grower program very interesting. I understand that the growing of broiler chickens combines well with cane farming and virtually all of the growers contracted are also cane growers. I have been informed that already 12 contract growers have taken up the opportunity to join Poultry Rooster's developments and more are in the process of building sheds. At least 6 more are planned for placement prior to end of December 2007. This is an excellent model in small and micro finance that works.

The resurrection and further capacity building has resulted in the direct employment of over 180 people in the Ba area, and that does not include the additional employment available through contract growers.

I found the details of this investment very interesting. The Rearing Farm in Tavarau is where the new facilities are capable of producing 4 flocks per annum in 4 sheds. After 18 weeks, the birds are transferred to the Breeding Farm at Qalitu where they lay fertile eggs that are transferred to the Hatchery in Lautoka. The Ba farm has 18 sheds and the general processing plant. One of the largest projects undertaken was the building of a large 250 ton holding freezer, and a six months road and drainage upgrade. A new rendering plant has been commissioned as well as an environmentally appropriate water waste system.

At the Suva depot in Vatuwaqa, a new holding freezer to facilitate daily delivery to Poultry Rooster's customers in Suva and surrounding areas. I am told that the sales team now enjoy the use of updated freezer trucks.

This investment has come with new IT infrastructure, capacity building, development of OHS requirement and commencement of international accreditation.

The outcome of this investment program is that Fiji once again has a credible and sustainable second broiler chicken producer that will reduce the requirement for Fiji to import frozen chicken product. We hope that production will increase to cater for our South Pacific Island markets so that Fiji's foreign reserves position will be strengthened.

Concluding remarks

Colonial therefore deserves our collective commendation today. The Colonial Group has contributed well to the development of the Fiji economy. It has a diversified portfolio with Poultry Rooster. I take this opportunity to wish Mr. Duncan, Ms Wood and Mr. Mellsop as well as the Colonial Team all the best in their future endeavours.

Official opening

I have much pleasure in declaring new Poultry Rooster open and wish it well in its operations.

Thank you.