

Inia Naiyaga: Engineers' role in economic growth and financial stability

Speech by Mr Inia Naiyaga, Deputy Governor of the Reserve Bank of Fiji, at the Fiji Institute of Engineers' (FIE) workshop, Suva, 2 June 2011.

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Welcome

The President, Mr Pratarp Singh and Members of the Fiji Institute of Engineers;
Distinguished Speakers;
Distinguished Guests;
Ladies and Gentlemen;

Introduction

My presentation this morning is "***Engineers' Role in Economic Growth and Financial Stability***".

Let me begin with the outline of my presentation.

Firstly, I will look at the recent developments in the international and domestic economy followed by the contribution of the building and construction industry to the Fiji Economy. I will also elaborate on the economic costs arising from natural disasters and the importance of the National Building Code to Fiji and the way forward.

Global economy

Developments in the world economy remain promising. Although the world GDP growth forecast was unchanged in April, conditions remain significantly varied across major regions of the world. While the recovery in the US economy is showing signs of slowing, growth in most of Asia remains strong. However, the outturn in Asia is still below the rapid pace experienced in the earlier recovery, with the exception of Japan where earthquake-related damage is having a significant effect on economic activity. At the same time, growth in other emerging markets and transition economies has been encouraging.

However, uncertainties linger on the horizon. Global risks prevail in terms of rising unemployment and inflation, and even though global food prices were unchanged in April this year – they are still higher by 36 percent when compared with the same period last year. Furthermore, global imbalances are anticipated to widen further if overheating in Asia worsens.

Domestic economy

Domestically, the performance of the economy last year was supported by the improved global economic recovery. In 2010, Fiji's economy is estimated to have grown marginally by 0.6 percent driven by the positive performance of the manufacturing, hotels and restaurants, mining, financial intermediation and services, and real estate sectors. This year, aggregate growth is expected to be 2.7 percent.

Growth is predicted to be broad based in 2011 with the only decline (marginal) expected in the construction sector. Most sectors of the economy (like tourism and mining) are expected to maintain their 2010 momentum into this year. Additionally, the sugar sector is forecast to increase production this year given the reforms currently undertaken within the industry.

Looking forward, the local labour market conditions are anticipated to improve through increased hiring intentions and incomes, on the back of higher economic activity forecast for this year.

Construction sector

In 2010, the construction sector is estimated to have grown by 3.9 percent – an upward revision compared to the previous forecast of 2.7 percent growth. The upward revision is largely from the Central Government activity. As expected for building and construction industries, activity in this sector can be volatile depending on construction projects.

Over the period 2005 to 2009, the sector has contributed on average 3.0 percent to GDP. The contribution of the construction sector increased from 2001 onwards and peaked in 2003 – contributing around 4.7 percent to GDP. This is attributed to increased construction activity due to the South Pacific Game in 2003.

In 2009, in relation to other sectors of the economy, the Building and Construction sector contributed around 2.9 percent to total GDP. In terms of formal paid employment, the sector contributed around 1.1 percent of total paid employment in 2010. As an indicator of building and construction activities, the latest Construction Report by the Fiji Bureau of Statistics (FBOS) revealed that in 2010, a total of 1,204 building permits were issued – valued at \$123.3 million. The number and value of permits issued increased by 7.6 percent and 21.0 percent, respectively. In addition, a total of 413 completion certificates valued at \$92.3 million were issued. This represented an annual increase of 19.0 percent and 42.9 percent, respectively.

Following the real estate boom and increased investment in tourism industry in 2006, lending to the building & construction sector rose to \$202.2 million. In 2010, loans to the building & construction sector fell by 7.3 percent to \$201 million, attributed to the decline in lending to the hotels & tourism sub-sector.

Economic costs of natural disasters

Fiji has been prone to numerous natural disasters. In a study by SOPAC, in the period 1970 to 2007, Fiji was on the receiving end of numerous forces of nature. This includes tropical cyclones, floods and droughts. According to the report, the direct cost of disaster events in Fiji for 1970–2007 was estimated to be about US\$532 million. Cyclones accounted for the highest proportion of total costs reported for Fiji during 1970–2007, reflecting its dominance.

Let me now touch on the National Building Code (NBC), its importance and how the Reserve Bank of Fiji became involved in the early days.

Buildings are an important part of the infrastructure of our society. It is appropriate that society seeks to ensure that buildings meet certain standards which are outlined in a country's building code. Therefore, Fiji's National Building Code plays a significant role in disaster management reducing human losses from natural disasters directly promoting economic and safe building structures.

As most of you are aware, in Fiji, we have a National Building Code.

What is it?

It is a standard, which essentially is a set of provisions designed for the benefit of the community to address, structural sufficiency, fire safety; and health and amenity. This Code is intended for use throughout Fiji and sets out a consistent set of rules to ensure a building structure is able to withstand the reasonable impacts of a catastrophe. The code also

complements other various legislative requirements such as Occupational Health and Safety Act, National Fire Authority Act and insurance industry guidelines.

The National Building Code currently falls within the ambit of the Public Health Act Cap 111 and is enforced by the Ministry of Health.

Where does it come from? Why was it developed?

In the early 1980's Fiji suffered a high incidence of damages to buildings resulting from a series of tropical cyclones that struck the country. Some of you may recall Cyclone Erick, Nigel, Gavin and Hina which struck Fiji one after the other in 1985 to be followed by even more destructive cyclones.

The losses sustained to the Fiji economy was no doubt very high. Fortunately, the bulk of the losses were met by overseas reinsurers as per the reinsurance arrangements with the local insurers. This resulted in the overseas reinsurers not wishing to reinstate the catastrophe covers for Fiji.

Consequently, a special trip was made to London to plead with the London reinsurers to reinstate catastrophic covers and insurance underwriting for Fiji. The delegation, at that time, comprised of the Governor of the Reserve Bank who was also the Commissioner of Insurance, the late Mr. Savenaca Siwatibau, Deputy Commissioner of Insurance Mr. Clive Amputch and the Permanent Secretary for Finance.

The meeting was a success, however, the conditions set by the London reinsurers required Fiji to develop a Building Code for structural sufficiency and insurance coverage eligibility. So, upon their return in September 1984, the then Governor, the late Mr. Siwatibau, formed the Fiji Buildings Standards Committee (FBSC), spearheaded by the Deputy Commissioner of Insurance Mr. Amputch. The Committee's broad terms of reference were to "*consider the adequacy of existing building standards as prescribed by law and make recommendations for improvements*".

In 1985, the Government of Fiji officially charged the FBSC with the responsibility of coordinating the preparation of the National Building Code. The Committee was also charged with the responsibility of exercising surveillance and control on the standards of building materials imported into the country.

The development of the National Building Code was funded and carried out through Australian Aid, while the operations of the FBSC consisted of the initial contributions from Government and the Private Sector. In 1990, the Australian Government handed over the draft documents of the Fiji National Building Code and the Home Builders Manual to the FBSC, upon which the committee approved in principle the technical aspects of the draft documents submitted.

The administration of the FBSC was later transferred to the Ministry of Trade and Commerce in 1993 due to the enactment of the Fair Trading and Quality Control Decrees.

In October 2004, the Fiji National Building Code was passed in Parliament, however falling within the ambit of the Fiji Public Health Act Cap 111.

Why is the National Building Code important to our role as the Supervisor of the Fiji Insurance Industry?

As we all know, Fiji is prone to natural disasters like any other country and insurance provides a means of sharing the risks or losses resulting from such disasters. In order to be insured, one must meet the underwriting standards of insurers, which include being NBC compliant, a condition set by reinsurers, as alluded to earlier. Therefore, the National Building Code is the "bridge" providing the link between the insured, insurer and reinsurer.

Meeting the requirements of the National Building Code is so important these days that even lenders require projects to be NBC compliant and insured, before funding is approved. It can

be noted therefore, that compliance with the National Building Code and insurance industry guidelines contributes to the reduction in economic and financial losses.

The Reserve Bank's role as the supervisor/regulator is to contribute to public confidence in Fiji's financial system and safeguarding insurance policyholders and bank depositors from undue financial loss. To be an effective supervisor, the Reserve Bank participates in various forums to communicate with the industry and the public on its expectations amongst other forms of public medium such as publications, press releases and workshops.

Regulating engineers

The profession of Engineering is similar to that of accounting, medicine, law, architecture and so forth, as it requires a high degree of integrity and accountability. Therefore, to strengthen the effectiveness of the engineering profession, they need to be regulated by the Fiji Institute of Engineering (FIE), with an appropriate Code of Conduct.

Why regulate?

We view the profession of engineering, plays an important role in the building of an economy such as Fiji. Developments, whether they are infrastructure, private, public or tourism based cannot take place without proper input from professional engineers.

It is for this reason, the profession of engineering must be regulated.

- ***For Legislative Efficiency***
To have a comprehensive, consistent statutory registration system for engineers that would alleviate inconsistencies across jurisdictions.
- ***For Professional Recognition***
So that the set of standards and skills expected of the engineers are maintained.
- ***And finally for the Industry/consumer efficiency***
To provide consumers with the level of experience and skills that is required of the engineer.

Way forward

Ladies and Gentlemen, let me emphasise that we cannot operate in isolation. The Fiji Government, in its 2010 Budget Address, amongst other key important economic goals, announced the following medium term macro economic targets. The three key targets I have chosen, work hand in hand:

1. Investment is to be raised to above 25% of GDP;
2. Economic Growth is to be increased to 5% over the medium term;
3. Employment – annual employment rate is to increase by 3%.

Concluding remarks

We need to achieve higher investment and growth. Clearly, we –

- Need higher Private Sector Investments;
- Need Public and Private Sector Partnership;
- Need to speed up structural reforms.

Finally, I would like to congratulate Mr Pratarp Singh and the Fiji Institute of Engineers for organising this important seminar and bringing together the relevant key stakeholders.

Henry Ford once said that:

***“coming together is a beginning;
keeping together is progress;
working together is success”***

Vinaka vakalevu, Dhanyavad