Barry Whiteside: Update of the global and Fijian economy

Address by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the Fiji Economic Update, Suva, 20 August 2013.

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Professor Jafarey, Head of the School of Economics, USP

Distinguished Guests

Students

Ladies and Gentleman

Bula vinaka and a very good morning to you all.

Introductory comments

First of all, let me thank Professor Jafarey for his kind invitation for me to speak to you this morning. It is always pleasing to address a forum such as this, where academics, policy makers, NGO's and the general public can put our ***heads together*** and discuss Fiji's economic issues.

Economists, as we all know, will have differing opinions on economic performance and it is no different here in Fiji. However, the discussions today will help identify economic challenges and constraints and enable us to debate solutions so that we may achieve our full potential. Let me therefore applaud the University of the South Pacific for organising this important forum every year.

I see my role this morning as helping to prepare the ground for further deliberations later today. My address will cover what we at the Reserve Bank deem to be the current state of the economy and some of the challenges we are facing. In discussing our general macroeconomic environment I will also point out areas where we have excelled and one or two where we have not, and some of the key risks we face as we set ourselves up to move ahead.

The global economy

On all occasions when we make such reviews we first touch on what is happening around us. As a small open economy it is very likely that developments offshore will work their way back to Fiji in one form or another. Hence we need to assess the risks and opportunities in this area.

The recovery after the Global Financial Crisis (GFC), unfortunately, has been uneven and rather short-lived. Advanced economies remain jolted with poor confidence, high unemployment and unsustainable public debt. Some are also grappling with weak financial sectors. The emerging & developing economies, while performing relatively better, have now also succumbed to the latest slowdown. The International Monetary Fund (IMF) has revised global economic growth downwards three times already this year. We see that the world economy is now poised to grow by 3.1 percent. While growth for 2014 has also been downgraded, the good thing is that it is expected to higher than this year, at 3.8 percent.

Fiji's major trading partners, those economies with which we have important trade and investment links, have also not been spared and are facing numerous challenges of their own.

The ***US*** economy is quite fragile after facing fiscal challenges and poor confidence. Across the Atlantic, the ***Euro zone*** is mired in a prolonged recession and is facing record high unemployment. We are talking here of numbers in excess of 25 percent, or 1 in 4 people without a job. It is worse for the youth of these countries where up to 2 out of every 3 young people between the ages of 18 to 25 years, or 66 percent, are without jobs. Many member countries have needed bailouts and are struggling to contain debt in the midst of a growing backlash from the public over harsh austerity measures which are part of deals struck by their respective Governments for the bailouts.

Closer to home, economic activity in ***Australia*** and ***New Zealand*** remains patchy as growth remains uneven across sectors. However, both these economies are expected to have growth in excess of 2.5 percent. The Reserve Bank of Australia lowered its policy interest rate this month to a new record low to assist growth. In ***Japan***, there are spurts of optimism following massive fiscal and monetary stimulus, although it is yet to be seen how this can spur sustained growth in light of the weak demand across the globe.

As I alluded to earlier, the emerging economies, the main source of global growth in recent times, are losing steam as well. ***China's*** heavy reliance on investment and credit to spur growth in the past decade has resulted in vulnerabilities in the financial sector, government finances and real estate, while ***India*** faces its own challenges, including high inflation. These, coupled with a slowing global demand have brought down their growth prospects to the lowest in a decade.

The Fijian economy

Let me now turn to the ***Fijian*** economy.

In spite of my earlier comment, we have been fortunate in that our economy has so far been somewhat shielded from the global slowdown. Our GDP expanded by 2.2 percent last year following a 1.9 percent expansion in 2011.

Growth prospects are expected to improve further to around 3.2 percent this year and, with the exception of the mining & quarrying sector, all sectors will contribute to this growth. The projection for 2013, if achieved, will be the highest since 2004 and is a culmination of detailed re-assessment of the relevant data and information available, as well as direct feedback from a wide cross section of industries and sectors.

As you may be aware, over the past two weeks we have had an IMF Article IV Mission visiting the country on their regular annual survey to assess how we are doing. We had numerous discussions with them on the economy and, as we are closer to the ground or "coal face", we shared with them the latest numbers and business sentiments. While we did not agree on every issue (again this is not uncommon amongst economists), there was a general consensus on two fundamental issues with regard to economic growth.

Firstly, the IMF team agreed that economic growth for 2013 would be higher than in 2012 (they have a forecast of 3 percent) and secondly, Fiji has the potential to do even better!

The Fijian economy's improved outlook is validated by a host of indicators.

Consumption activity has been upbeat from last year and is a reflection of the lower personal income taxes, higher inward remittances, improved employment prospects and cheaper and easier access to credit. New lending for consumption purposes more than doubled to $247 million in the first half of the year when compared with the same period last year. Other indicators such as VAT collections, imports of consumption goods and new vehicle sales are also registering significant annual gains.

The improved consumer confidence has translated well to business and investor confidence. Investment is forecast to be around 28 percent of GDP this year, compared to an estimated 18 percent of GDP last year and above the Government target of 25 percent. We last only briefly touched on these levels back in 1998 and 1981!

Recently, significant new investments have been noted in the aviation, tourism, mining and financial services sectors while the Government has embarked on massive public infrastructure projects in roads, ports and bridges. Our garments and manufacturing sectors are also showing much greater confidence with higher investments this year and more envisaged.

The surge in investment is well reflected in new bank lending for investment purposes, which rose by 154 percent in the first half of this year.

Our labour market has been improving in line with the improved investor confidence, though unfortunately we do not have any recent official numbers from the Bureau of Statistics. The Reserve Bank's latest Job Advertisements Survey shows that the number of vacant positions advertised rose nearly 14 percent in the first half of this year.

On the production side there has been mixed results. ***Gold*** production has been declining significantly over last year. This year again there are no expectations of a significant pick up in gold output and this is quite unfortunate as this means we are unable to capitalize on the existing high world market price.

Cane and ***sugar*** production are expected to improve this year after declining last year due to the two major floods. Data from the Fiji Sugar Corporation reveals that cane crushed so far this year is around 10 percent higher than last year and more sugar has been produced with a further improvement in the TCTS ratio. It is especially heartening to see the improvements of the Sugar Reforms now slowly coming to fruition and there is still more work being done in this critical industry of ours.

The ***tourism*** industry continues to be robust despite some declines in visitor arrivals last year and the early part of this year due to natural disasters.

Gross earnings for 2012 were $1.3 billion and this momentum is expected to continue over the medium term. Right now we are in the peak tourism season and data on room occupancy and visitors from our major markets, such as Australia and New Zealand, are favourable.

Ladies and gentlemen, the Reserve Bank of Fiji has maintained an accommodative ***monetary policy*** stance since November 2011 and the banking system is awash with liquidity, which has put consistent downward pressure on market interest rates. Lending rates in the financial system are now hovering at historically low levels while capital and money market rates also continue to trend downwards. Against this background, domestic credit has continued to gain momentum with private sector credit growth expanding by 9.6 percent in June, further signaling the improved confidence in the economy.

Our challenges

Whilst we may applaud ourselves for the progress we have made in raising our growth prospects and revitalising some of our sectors on the backdrop of a weak global economy and other domestic challenges – many other hurdles face us and could restrict us from forging ahead on a path to sustainable growth. We totally agree with the IMF comment that we can do more.

While it is encouraging that investment has picked up and is poised to even surpass the Government's target of 25 percent this year, maintaining it at such levels remains an important challenge moving ahead. This requires that we continue with the current monetary and fiscal incentives and at the same time improve our ease of doing business. Sentiments from the business community suggest that there are still a number of hurdles in registering and conducting business which can be streamlined and better managed by the relevant agencies. Improving our ease of doing business will not only encourage local investors but also help attract the much desired foreign investors.

We also must be mindful that consumption and investment led growth cannot be sustained for too long as they have heavy import content. This can be counterproductive if not matched by gains in our export and service sectors and negatively impact our fragile external balance. Our export sector is small and highly vulnerable to changes in global demand and domestic supply constraints and shocks. In this regard, policies aimed at export diversification and promotion and import substitution remain as paramount as they were before.

Restoring the sugar industry back to its glory is also necessary given its importance as a major foreign exchange earner and the indirect spin-off activities it creates in the Western and Northern Divisions. The Government's grants to the sugar mills to improve efficiency and the Sugar Action Group's strategies to improve cane yield and farm productivity are welcomed. While the Government's commitment to revitalizing the sugar industry is encouraging, it is imperative that these plans are brought to fruition sooner rather than later, so that the industry is able to sustain itself without grants, subsidies or preferential prices. However, it is well understood this can be a daunting and difficult task and cannot be achieved overnight.

Ladies and gentlemen, poor and inadequate infrastructure has been for many years, not only a deterrent to growth, but also a frustrating experience for all Fijians. Improved infrastructure can go a long way towards boosting agriculture as well as boosting the economies in our rural and maritime areas. Again the Government's planned reforms in road and port maintenance and upgrade is welcomed and we hope the constraints of poor infrastructure no longer remain constraints moving ahead. I note that the $420 million earmarked for roads and other infrastructure projects this year appears to have already generated a lot of confidence and activity in the business community, not the least being the large investments in new trucks, utility vans and buses.

Keeping Government debt low is another challenge, not only for Fiji, but the world over. Public debt has become a topical issue these days given the awful experience in Europe which has required many countries to seek bailouts and adopt harsh and extremely unpopular austerity measures. Small developing economies like Fiji are even more disadvantaged as we cannot sustain high public debt for too long due to limited and volatile revenue streams of Government and the need to maintain adequate fiscal buffers to mitigate future crises.

Fiji's Government debt is currently estimated to be just under 50 percent of GDP. While we are a bit fortunate that we have relatively low external Government debt, of around 15 percent of GDP, which shields us from exchange rate risks, Government must remain committed to reduce our total debt further. Appropriate fiscal consolidation, effective tax collection, civil and public sector reforms and the creation of new high taxed industries, such as mining, can provide the necessary avenues to reduce our debt to more sustainable levels and perhaps later to the IMF benchmark of 40 percent of GDP.

Ladies and gentleman, while I have elaborated on the major macroeconomic challenges, there are a few others worth mentioning which can also provide the necessary base for sustained economic growth moving ahead. These include well known issues such as land reform, raising agricultural productivity, solid and clear progress towards parliamentary democracy and ensuring inclusive growth for all. For many of these, great strides have been made and some are still work-in-progress and I wish the very best to the relevant agencies involved in spearheading these initiatives.

Concluding remarks

Let me conclude by highlighting to you what we at the Reserve Bank sees as some of our current macroeconomic strengths.

We have made a significant turnaround from a contraction in 2009 to three years of consecutive economic growth. In addition, growth in each succeeding year from 2010 has been higher. Growth this year is forecast to be higher still, while growth in 2014 and 2015 is expected to be above our historical average.

Consumption and investment – both important indicators for growth and job creation, have surged, boosting business and investor confidence. This has been supported by reforms undertaken in a number of areas to improve efficiency and reduce dependence on Government hand-outs, resulting in the privatization of a number of state owned enterprises. In addition, apart from maintaining fiscal discipline, the Government has channeled more funds to productive sectors and infrastructure investments. Incentives given by Government have been targeted and transparent and the reduction in corporate and personal taxes has not had an adverse impact on Government revenue.

The Reserve Bank's monetary policy objectives remain intact. The weak global demand and absence of major natural disasters so far this year has helped us contain inflation which was registered at 1.9 percent in July. In the absence of any major price shocks we expect inflation to be around 3.0 percent by year-end.

Foreign reserves have increased annually since 2009 and have helped boost confidence in our financial system. As of yesterday, reserves held with the Reserve Bank were above $1.84 billion, a historical high and sufficient to cover 5.2 months of retained imports of goods and non-factor services.

Ladies and gentleman, the numbers are coming together for us and I have not seen them this good for a long time. The Government has played its part in recent years and continues to do so, but we are also now seeing the Private sector, the often quoted "engine" of growth, stepping up to the plate in a serious way. On our recent road trips in the central and western divisions and in discussions with captains of Fijian industry we have noted a general buzz of confidence. A confidence and optimism that has this sector spending money to grow their businesses, and in their doing so, they grow Fiji.

On that note let me thank you all for your kind attention. I wish you all the

best in today's presentations and deliberations and hope that we can together come up with innovative ideas in further addressing our economy's challenges.

Before I finish, please allow me to relate a brief story to you.

Many years ago I used to play in the Suva Cricket Competition for a team made up of players of different ages varying from school boys to near senior citizens, both locals and foreigners and of many different ethnic backgrounds. We were truly a mixed bag of people who loved the game. We did not come from the well known traditional cricketing strongholds of Lau or QVS, and were not part of the expatriate players who grew up representing their schools in Australia or New Zealand and who opted to join the top teams here. We were just your bunch of keen cricketers bent on succeeding as a unit. We committed ourselves and played smart and moved from the "C" Grade to the "A" Grade competition in 3 seasons, playing at the top level and holding our own for a number of years after that (there were of course many more teams back in the 1980s and cricket actually had exclusive use of Albert Park from October to April each year!). We had achieved much of what we set out to do through great teamwork and much enthusiasm for what we were doing. I can still remember those days quite vividly and it was a great experience in togetherness. We actually called ourselves ***Tovata Heads***, which for us literally meant "heads together".

Vinaka vakalevu and thank you all for listening.

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