Barry Whiteside: The Fiji economy

Speech by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the DFK Australia New Zealand Annual Partners Conference, Suva, 26 May 2016.

* * *

The Chairman, DFK Australia New Zealand, Mr Stephen Bushell

Vice President DFK Asia Pacific, Mr Navin Patel

Delegates

Ladies and Gentlemen

Bula vinaka and warm greetings to you all! It is my pleasure this morning to share with you some recent developments and our outlook for the Fiji economy.

But before I do so, I would like to especially thank you for choosing our beautiful country as the venue for your annual meeting! You are part of a growing MICE market, the niche tourism speak for "Meetings, Incentives, Conferences and Events", which never ceases to amaze me in terms of its growth. What could be better than mixing a little business with a lot of fun and relaxation!

I have noted from your program that you have set aside some down- time to sample what we have to offer, which is excellent! If you want your golf game to be really challenged then you should try the Natadola course! I assure you that you would need to travel far to find better scenery. Whatever you do, spend as much as you can!!

That's my little spiel for tourism, now to the business at hand.

Introduction

Every month the Reserve Bank reviews the performance and prospects of the Fiji economy to assess what impact recent developments would have on our key monetary policy objectives of maintaining low inflation and adequate foreign reserves. These developments may or may not warrant changes in policy depending on our outlook for macroeconomic and financial stability at the time. Given Fiji's small size and associated vulnerabilities as a small island developing state, as well as its dependence on the world economy[1], our economic performance is impacted by developments both domestically and globally, particularly in our major trading partner economies.

Our latest assessments, as you would expect, have considered the economic impacts from the recent natural disasters, the consequential reconstruction and rebuilding activities post-disaster, as well as the ongoing slowdown in the global economy. External risks to our growth outlook are largely associated with a bumpy transition in China's economy, financial market turbulence and sharp movements in asset and commodity prices which, if realized, would impact us mainly indirectly through our trading partners, including Australia and New Zealand.

Domestic risks are mostly related to our susceptibility to natural catastrophes and climate change which, apart from damaging infrastructure and basic utilities and eroding years of development in a few hours, can significantly affect domestic production, exports and our services and tourism sector.

Nevertheless, a notable upside risk to our growth outlook is the still relatively low international fuel prices which have resulted in windfall gains for Fiji through lower import costs and lower

---

1 Total gross trade as share of GDP = 80% (average for 2012–14)

inflation. This is particularly pertinent when you consider mineral fuels make up almost 30 percent of our total imports bill.

Recent developments in the Fiji economy

Ladies and gentlemen, despite the sizeable devastation from the category 5 Tropical Cyclone (TC) Winston packing winds in excess of 300 kmph in February and the floods associated with TC Zena in April, I am pleased to say that the Fiji economy is still poised to grow this year, by 2.4 percent, our seventh straight year of growth (something which we have not enjoyed since the early 1970's). This growth reflects robust activity in our tourism-related industries, including the transport, wholesale, retail, accommodation & food services industries, which were relatively unscathed by TC Winston. Moreover, this growth also assumes a strong expansion in the construction sector due to post cyclone reconstruction activity, which will also boost retail activity.

However, on the downside, a significant decline is expected in agricultural output this year, particularly for sugar, which had earlier also been impacted by El-Nino drought conditions. Furthermore, the extreme devastation to many household dwellings and livelihoods especially in the maritime areas, damage to schools and health facilities, water supply and power supply disruptions which to date have not been fully restored, have exacerbated the situation.

Nevertheless, ladies and gentlemen, the quick response and immediate and tremendous assistance by our development partners – including Australia and New Zealand, the business community and family members and friends of Fiji both locally and abroad, are making a tremendous difference in helping our people get back on their feet through inflows of grants-in-aid and kind. Government efforts were nothing short of swift in facilitating access to the worst affected areas and also in implementing measures to assist financially stricken businesses and households. Some of these initiatives include the "Help for Homes" and "Adopt a School" campaigns. We know that the many military and civilian personnel from your countries who came in immediately after TC Winston played a huge role in turning the lives of many of our people around and indeed they have made friends for life here.

Financial institutions also came on board to assist in the recovery efforts through the special member withdrawals from the Fiji National Provident Fund and special loan arrangements and payment holidays offered by banks and other financial institutions. The Reserve Bank also contributed through its natural disaster and Micro, Small and Medium Enterprises (MSME) funding facilities.

These measures are expected to benefit growth this year through higher consumption and investment by businesses and government, although a pick-up in imports associated with the higher domestic demand is likely to dent our foreign reserves a little.

Our official reserves are currently around $2.0 billion, enough to pay for 5.6 months of retained imports, a level which is considered comfortable. While inflation spiked in April to 3.8 percent on the back of price hikes in agricultural market items following the cyclones, this effect will be temporary, as we expect inflation to remain subdued in the near term due to the low world commodity prices. End of year forecasts for both these key macro-indicators (for which the Reserve Bank is responsible) remain favorable at this time.

The medium term outlook for the Fiji economy is also expected to remain positive, notwithstanding any further adverse shocks, with higher growth forecasts of 3.6 percent and 3.2 percent for 2017 and 2018, respectively. The major impetus for future growth is expected to result from ongoing rebuilding efforts (similar, but on a smaller scale to what New Zealand has experienced with the Christchurch rebuild), as well as the faster pace of government capital spending and strong tourist numbers and remittance inflows.

Ladies and gentlemen, Government has in recent years been targeting its capital share of total spending at around 40 percent, which is a notable increase from just 28 percent in 2013 and well above the levels of a decade ago. The benefits of this higher capital spending are now clearly seen in our improved roads and other infrastructure.

Tourism receipts and inward remittances, our number one and number two foreign exchange earners at $1.5 billion and $492 million respectively in 2015 (both new records) are expected to continue their positive growth trajectory.

As I alluded to in my opening, the Tourism sector is, and has been, key to our overall economic performance for many years now and I thought I should say a little more about the industry. It makes up around 34 percent of GDP and contributes significantly to employment. In 2015 visitor arrivals totaled a record 754,835 with Australians and New Zealanders accounting for 49 and 18 percent respectively. Despite the recent visits by TCs Winston and Zena, visitor arrivals in the first four months of this year were still up by 6.8 percent on the same period last year, a testimony to the untiring efforts of the industry and all those who support it. Efforts are continually being made to grow our share of visitors. Niche markets targeted now include MICE, weddings, sports, eco and adrenaline (surfing, sky diving, shark diving, white water rafting etc) tourism. Plans are also in the pipeline to attract investors in medical "tourism" and offshoot segments such as retirement villages. So people will hopefully soon be able to plan their medical operations and cosmetic surgery with a recuperation package out in the islands!

While Australia and New Zealand epitomize the importance of short haul travel, our national airline, Fiji Airways, has been steadily increasing its footprint into the longer haul markets like Hong Kong/China, the USA west coast and just last month to Singapore. In June, they will open with twice weekly flights into San Francisco to add to the daily Los Angeles flights. The airline has invested in four brand new Airbus 330's in what has been an effective and efficient transition to grow our market.

Ladies and gentlemen, monetary, financial and fiscal policies will continue to target macroeconomic and financial stability while further structural reforms by the Government and its agencies are set to raise potential growth and make it more inclusive. Specifically, the Reserve Bank's own policies aim at ensuring a low interest rate environment that is conducive for private investment, maintaining a strong and sound financial system and supporting the development of key sectors in the economy that may need a little assistance. One such sector is the Micro, Small and Medium Enterprises.

In support of the positive growth in the economy over the past 6 years, (growth which averaged above 3.5 percent over this period), the Reserve Bank has maintained its overnight policy interest rate at 0.5 percent. Consistent with this, lending rates of banks have remained low while money and credit conditions have stayed favorable. This accommodative monetary policy stance has resulted in the recovery in credit to the private sector. Average growth in private sector credit increased from a little under 4 percent in 2011 to over 14 percent in 2015, and was a little above 13 percent for the first 4 months of this year. Expansion in bank lending continues to reflect the robust consumption and strong investment in the economy. Cumulative data for the first 4 months, showed an average growth in new lending by banks of above 60 percent over the last 5 years. In fact, this masks much higher 3-digit growth rates in both consumption and investment related lending especially to the wholesale & retail, private individuals, real estate and building and construction sectors.

Aggregate demand in Fiji, as noted in the recent trends in the various partial indicators for consumption and investment, remain positive. On the consumption side, vehicle registrations continued to exhibit strength through the March quarter. Improved incomes from low taxes, government financial support and remittance inflows from Fijians abroad continue to boost consumer spending. Prospects for consumption growth also remain encouraging. The latest RBF Retail Sales survey showed positive sentiments by retailers for higher sales expected in 2016. This is supported by the number of newly registered members with the Fiji National Provident Fund and the number of job advertisements which have continued to grow.

In terms of investment and in line with the strong construction activity expected this year, domestic cement sales are recording double digit growth. Investment imports are forecast to pick up as the domestic economy strengthens and the reconstruction efforts post-cyclones continue. The timely implementation of both public and private sector projects is critical to raising our investment levels and strengthening the platform for further growth. Foreign direct investment totaled just over $700 million in 2015 and is anticipated to rise further this year. In the first four months to April new project registrations with Investment Fiji from abroad have risen 194 percent in value terms, the bulk being in the tourism and services sectors. In regard to investment, I must admit that in the past Fiji had been hit with concerns on the ease of doing business here. A lot of this was to do with excess red tape and the multiple approvals required from multiple authorities, which inevitably took time. While we haven't qute got there yet, it is pleasing to note the recent efforts by Government and the relevant authorities to address the issues and turn this around.

Ladies and gentlemen, the strength and soundness of our financial institutions and markets is an important ingredient for growth in the economy. As such, our Reserve Bank policies continue to aim at further developing the financial sector to ensure the effective intermediation of funds towards growing priority sectors while maintaining financial stability. The latest quarterly assessment by the Reserve Bank showed the overall condition of banks trading in Fiji remains satisfactory as capital and liquidity positions along with earnings and asset quality remain acceptable. This is critical given the reliance on bank financing by domestic borrowers.

Moreover, the financial sector continues to grow with the entry of Bred Bank (a subsidiary of Banque Populaire, France's 2nd largest bank) in 2012, the licensing of Kontiki Finance Limited in 2015, and the recent listing of Vision Investments Limited (VIL) on our South Pacific Stock Exchange. In particular, Vision's entry into the stock market last February notably boosted market capitalization and augurs well for improved optimism and participation by potential investors. We now have 17 companies listed on the SPSE with market capitalization of just over $1 billion. A key reform in the pipeline is the implementation of the Financial Sector Development Plan 2016-25 which will bring together all key stakeholders to further develop and deepen the sector.

Closing

Ladies and gentlemen, just a few final comments before I close.

In our role, the Reserve Bank coordinates closely with other stakeholders including the Government, its agencies and the private sector, to ensure that macroeconomic policy considerations are consistent and aim towards achieving macroeconomic stability and inclusive growth. At the same time we will ensure that our financial sector remains strong and stable.

Fiji's favorable macroeconomic performance in recent years has bode well for Fiji's country rating by both Standard & Poors and Moody's, which recently affirmed a "B+" and stable outlook and a "B1" and positive outlook, respectively.

I thank you for listening and wish you the very best for the remainder of your annual conference and encourage you to get out in the sun and see what Fiji has to offer.

Vinaka vaka-levu.