Reviving Growth in the Fiji Islands: Is the economy swimming or sinking?

Biman Prasad and Paresh Narayan

Presented by Sunil Kumar (with some extensions)
Outline of Presentation

• Introduction
• Economic performance since the end of 2006
• Sectoral growth prospects
• Recent Political Developments
• Major policy actions
• Concluding comments
Introduction

• Growth forecasts have been revised a number of times (represented in next slide)
• Political uncertainty remains
• Key Government policies remain inconsistent on a number of fronts
• 2009 National Budget- Gives some regional incentives for investments (tax holiday)
• The results from policy actions laid down by the Interim government since the 2006 coup are mixed
2007 initial forecast was -2.5 then revised to -4.4 percent
The July 2008 FIBOS release (Release no. 31) states that the economy declined by 6.6% in 2007

2008 Budget forecast
2.2% - 2008
1.1% -2009
1.6%- 2010

2008 revised to 1.7 percent

These figures are revised yet again in 2009 National Budget
## Growth Projections

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<tbody>
<tr>
<td>Agri., For., Fish &amp; Subs.</td>
<td>0.8</td>
<td>-0.5</td>
<td>-5.7</td>
<td>1.2</td>
<td>4.6</td>
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<td>Mining and Quarrying</td>
<td>-30.7</td>
<td>-49.8</td>
<td>-97.9</td>
<td>2045.9</td>
<td>80.0</td>
<td>38.9</td>
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<td>Electricity &amp; Water</td>
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<td>6.7</td>
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<td>-0.5</td>
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<tr>
<td>Building &amp; Construction</td>
<td>26.2</td>
<td>8.0</td>
<td>-20.6</td>
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<td>Wholesale &amp; Retail Trade,</td>
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<td>Transport &amp; Comm.</td>
<td>7.1</td>
<td>-3.3</td>
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<td>3.2</td>
<td>3.6</td>
<td>3.1</td>
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<td>0.0</td>
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<td>Comm., Social and Pers. Serv.</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>0.6</strong></td>
<td><strong>3.4</strong></td>
<td><strong>-6.6</strong></td>
<td><strong>1.2</strong></td>
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Economic Performance after the 2006 Coup

- The revised 2007 and 2008 budgets have been touted as the budgets to save Fiji from the economic collapse looming for the last five years, and to create financial stability.

This economic assessment was based on the country’s weak export performance, dwindling foreign reserves, and an economy driven by consumption expenditure under SDL government.
Historically the growth performance has been erratic and unpredictable.
Economic Growth in Pacific Island Countries

- Fiji: -4.4, 0.8
- Tonga: -3.5, 1.7
- Palau: 4.8, 5.5
- Solomon Islands: 4.2, 5.4
- Vanuatu: 2.7, 3.0
- Samoa: 3.5, 4.6
- Cook Islands: 2.5, 3.5
- Tuvalu: 2.5, 2.7
- Kiribati: 1.0, 1.0
- Papua New Guinea: 6.6, 6.2

2007: blue bars
2008: orange bars
Fiscal and Monetary Policies

- Deficit of 1.5% for 2008 - Is a bit on the lower side for a depressed economy like Fiji. But 2009 budget has 3% deficit. This seems to be about the right level. But capital versus operating expenditure mix is low at 22/78.
- Poor policy stance (some new approaches have been taken through 2009 budget) – for instance regional development
- Revenue raising seems to have been a preoccupation. The approach seems more cool-headed now.
- Sectoral approach to income tax policies
- RBF’s response to poor Economic performance and consumption driven economy has been to raise interest rates. However, the interest rate pressure is easing off now.
Increase in military expenditure is very worrying. This seems to be done at the expense of important social sectors such as health and education.
Historically inflation has continued to decline in Fiji.
Investment

- Total value of investments - upward trend
- Investment as a share of GDP has been unstable
- Average is about 18% of GDP but private investment is about 5%
- Recent changes to the investment act to remove barriers from certain sectors
Sectoral Performances

- Sugar production declined in 2007 compared to 2006 and a further decline is expected for 2008
- Non-sugar crop sectors (depends largely on climatic conditions) – policy inputs are normally weak
- Tourism (huge increase for support and marketing) – the result may largely depend on global economy. Australian and the US economies are the key external determinants
- Garment (continues to decline due to competition)
- Construction Industry
Summary of Sectoral Performance in 2007 (see next slide for 2008 and 2009)

- Agr, Forestry, Fishing and subsistence: -5.7%
- Mining and Quarrying: -97.9%
- Manufacturing sector: -0.2%
- Electricity and water sector: +0.4%
- Construction sector: -20.6%
- Wholesale, retail trade, hotels, restaurants: -5%
- Transport and communication: -4%
- Finance, Ins., R-estate and Bus. Services: -1.8%
- Community, social and personal services: +1.9%
### Growth Projections (See for 2008 and 2009)

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Sugar Exports as a Percent of GDP

Years

Percent

Tax holiday may help – No specific policy

Garment Exports as a Percent of GDP

- Percentage: 0, 2, 4, 6, 8, 10, 12
• New Building and Capital Repairs

The total estimated value of work put-in-place for New Building and Capital Repairs during Quarter 2 of 2008 was $45.9 million, an increase of $2.2 million or 5.1 per cent from the previous quarter and an increase of $3.6 million or 8.6 per cent from the previous corresponding quarter. Of the $45.9 million, $5.5 million were for Residential Buildings and $40.4 million were for Non-Residential Buildings. New Building and Capital Repairs accounted for 79.3 per cent of the total estimated value of work put-in-place, of which, 12.1 per cent were for Residential Buildings and 87.9 per cent were for Non-Residential Buildings. Hotels and educational institutions contributed significantly towards Non-Residential Buildings.
Tourism (huge increase for marketing and support)

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<td>Visitors (000)</td>
<td>549.9</td>
<td>545.2</td>
<td>539.3</td>
<td>580.0</td>
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<td>o/w Business</td>
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<td>37.7</td>
<td>40.6</td>
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<tr>
<td>o/w Personal</td>
<td>510,499</td>
<td>506,107</td>
<td>501,507</td>
<td>539,400</td>
<td>557,814</td>
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<td>Average length of stay (days)</td>
<td>8.9</td>
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<td>8.9</td>
<td>8.9</td>
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<tr>
<td>Business</td>
<td>6.8</td>
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<tr>
<td>Personal</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>(tourism purposes)</td>
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<tr>
<td>Visitors days (millions)</td>
<td>4.8</td>
<td>4.9</td>
<td>4.8</td>
<td>5.1</td>
<td>5.3</td>
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<tr>
<td>o/w Business</td>
<td>0.3</td>
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<tr>
<td>o/w Personal</td>
<td>4.6</td>
<td>4.6</td>
<td>4.5</td>
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<td>5.0</td>
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<tr>
<td>Earnings (Smillion)</td>
<td>733.2</td>
<td>741.7</td>
<td>682.6</td>
<td>753.7</td>
<td>791.9</td>
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<tr>
<td>o/w Business</td>
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<tr>
<td>o/w Personal</td>
<td>684.8</td>
<td>692.6</td>
<td>638.3</td>
<td>705.0</td>
<td>740.9</td>
</tr>
</tbody>
</table>

Source: FIBOS, Macro Policy Committee; f = forecast, p = provisional
Visitor arrivals in 2007 reached a record of 539,881

**Strongly dependent on Australian and New Zealand tourists**

Australia visitors for the highest number with 207,001 representing 38.3% and New Zealand second highest with 99,744 representing 18.5%. The rest are from the US, UK, Continental Europe, Japan, China and the Pacific Island countries.
Balance of Payments

- $Million

2001 | 2003 | 2005 | 2007(e) | 2009(f) | 2011(f)

Source: Fiji Islands Bureau of Statistics & Macroeconomic Policy Committee
How will Fiji fare in the current global crisis?

FIJI’S FINANCIAL SECTOR

• Largely insulated from the global crisis
• Domestic financial system:
  – Flush with liquidity (+ exchange controls)
  – Prudently managed – keeps confidence high in Fiji’s financial system
  – Largely domestic funding and lending
• Insurance industry
  – Largely sheltered from the crisis
The Charter Process and the Role of the National Council for Building a Better Fiji (NCBBF)

- Noble intentions
- National consensus?
- Several issues raised in the charter have been ongoing issues
Major Policy Issues

- Resolving land lease problems (no resolution so far)
- Building and Improving Infrastructure
- Estimated shortfall in capital expenditure for the last 20 years is about $3.42 billion
- Managing Natural Resource Production
- Regional Development
- Income Tax reform (pro-poor approach is commendable)
Concluding Comments

- Economy was in decline before the coup in 2006 but coup has made it worse- added to this is the global food and fuel price rise
- Record in achieving policy changes is mixed
- Public sector policies - not on par as promised
- Corruption and maintenance of rule of law
- Poverty on the rise
- Political consensus and settlement is the key for the future
ARE WE SWIMMING OR SINKING?