

FIJI INSTITUTE OF ACCOUNTANTS SEMINAR

FIJI: CURRENT ECONOMIC CONDITIONS & OUTLOOK

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Governor, Reserve Bank of Fiji

18 September, 2018

ROLE OF CENTRAL BANKS?

“Central Banking is a high impact organization. It’s decisions or indecisions, it’s actions or inactions will have major and far reaching repercussions and consequences on the economic well being of the public at large and the entire spectrum of businesses. The responsibility and accountability is therefore immense.....

Central banking is therefore not for the faint of heart.”

Zeti Akhtar Aziz

Former Governor, Bank Negara Malaysia





Why is the Role of RBF so Important?

Loan Amount	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
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Interest Rate	5.00%	7.50%	10.00%	12.50%	15.00%
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Term	25 years	25 years	25 years	25 years	25 years
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Total Repayment	\$350,754	\$443,394	\$545,220	\$654,212	\$768,498
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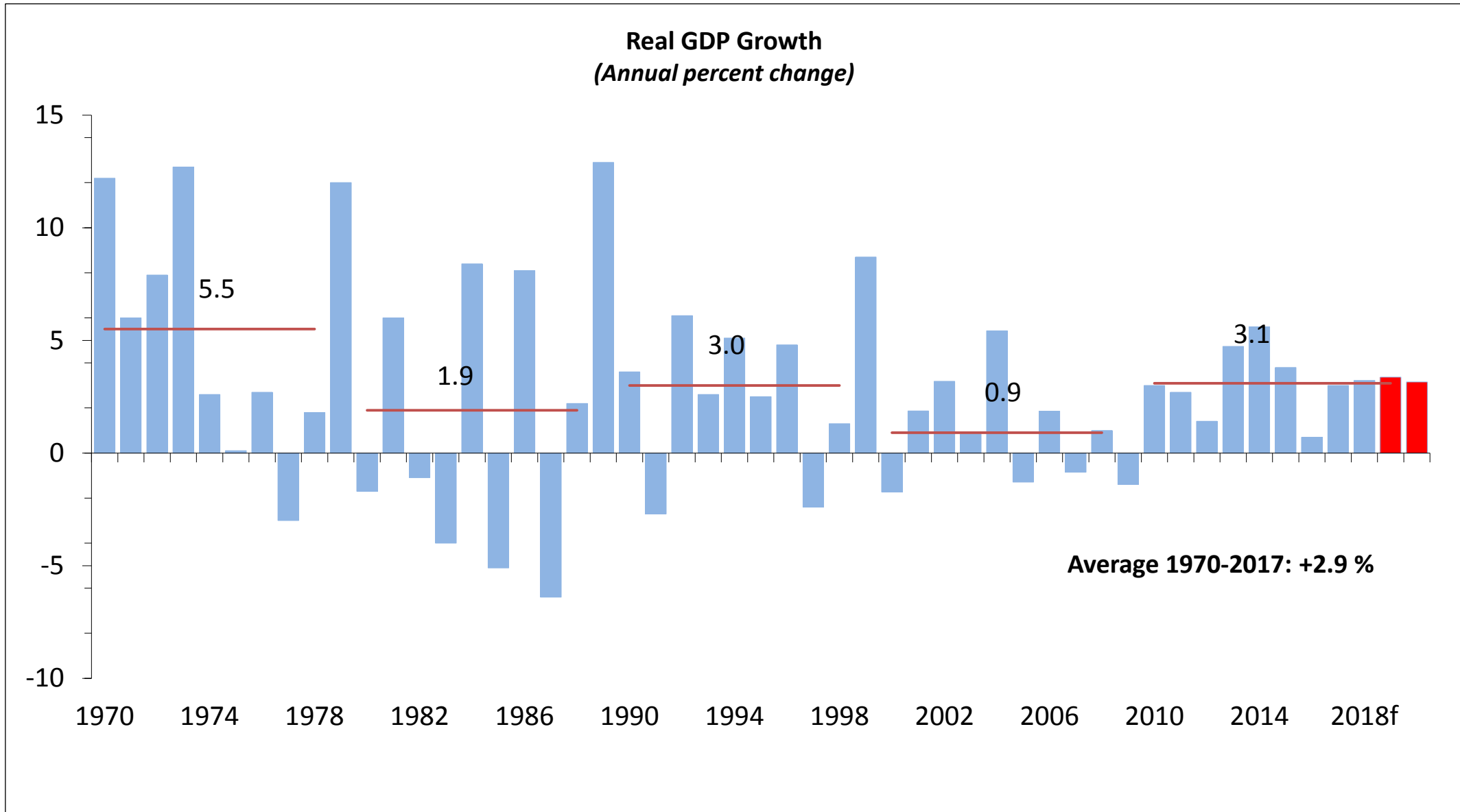
Interest Repayment	\$150,754	\$243,394	\$345,220	\$454,212	\$568,498
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Ratio of Interest/Loan	75%	122%	173%	227%	284%
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Illustrative example only

GDP GROWTH

How has the Fiji economy fared so far?

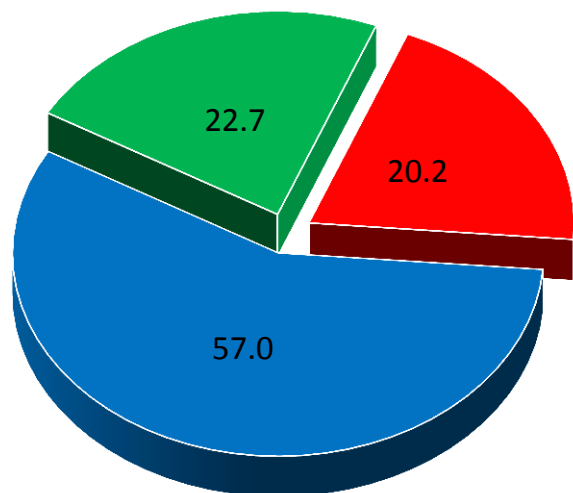


FIJI ECONOMY

How have we transformed since independence?

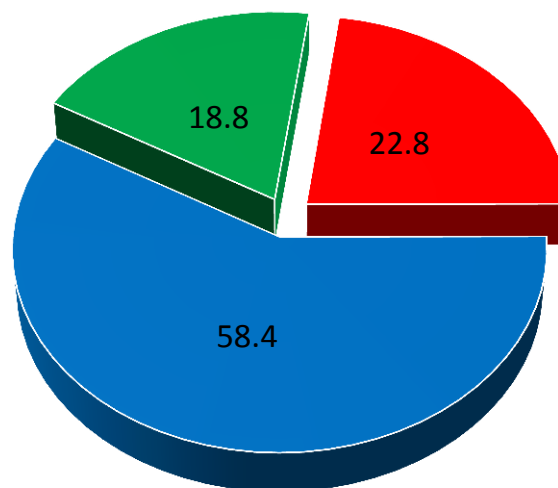
1977 Base

■ Primary ■ Industry ■ Services



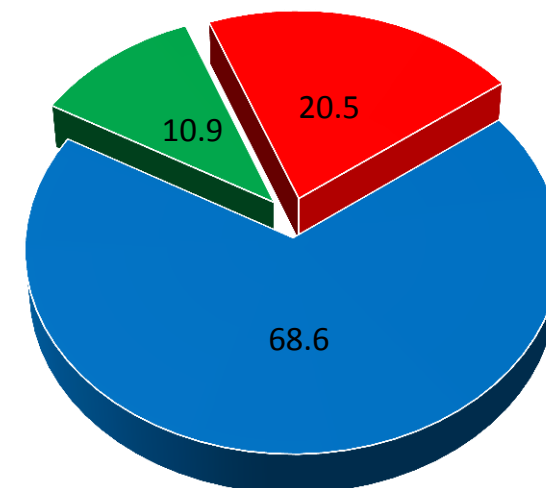
1995 Base

■ Primary ■ Industry ■ Services



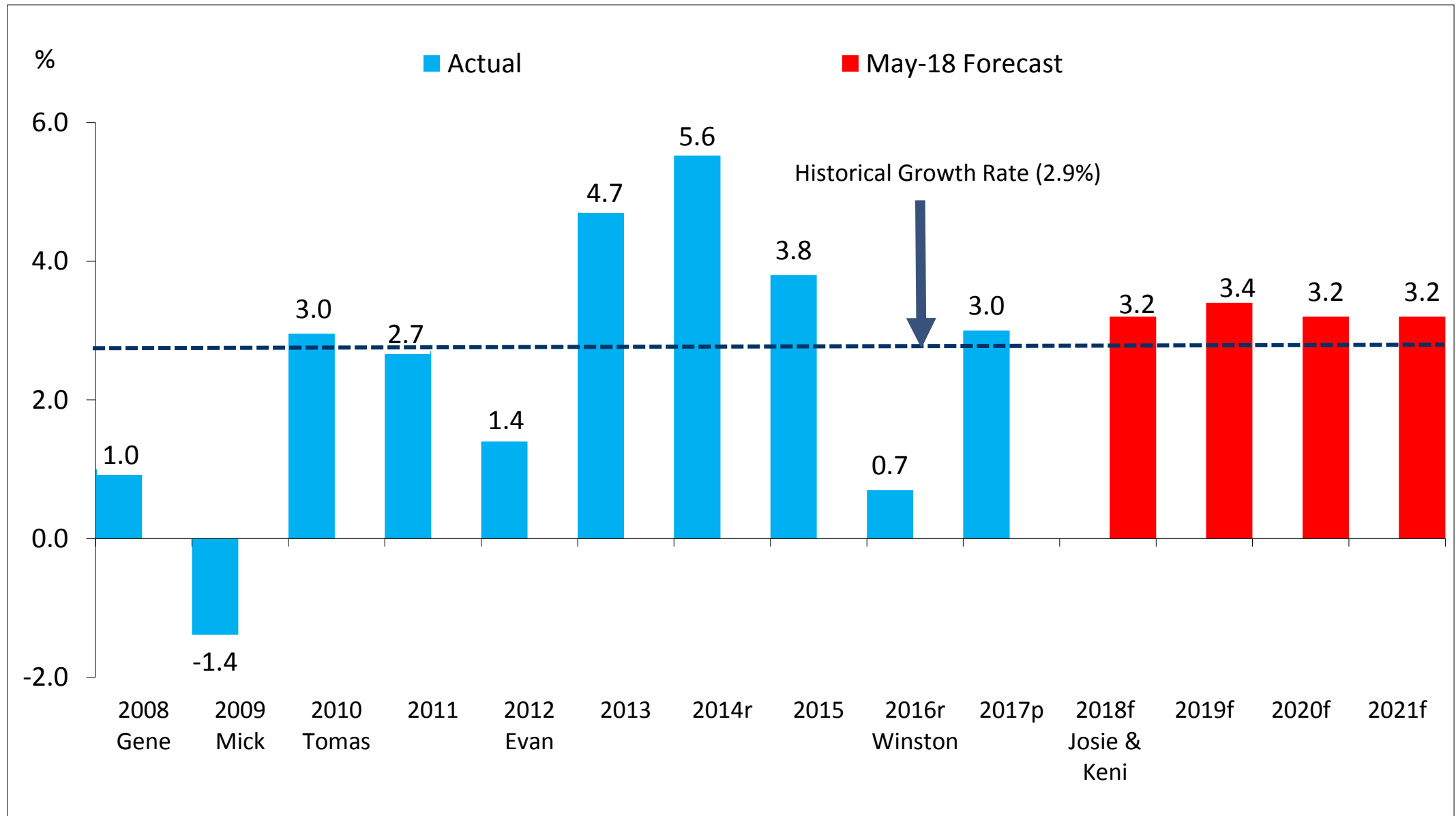
2011 Base

■ Primary ■ Industry ■ Services



GDP GROWTH

How have we performed against our historical growth rate?



GDP GROWTH

Is our forecast in line with others?

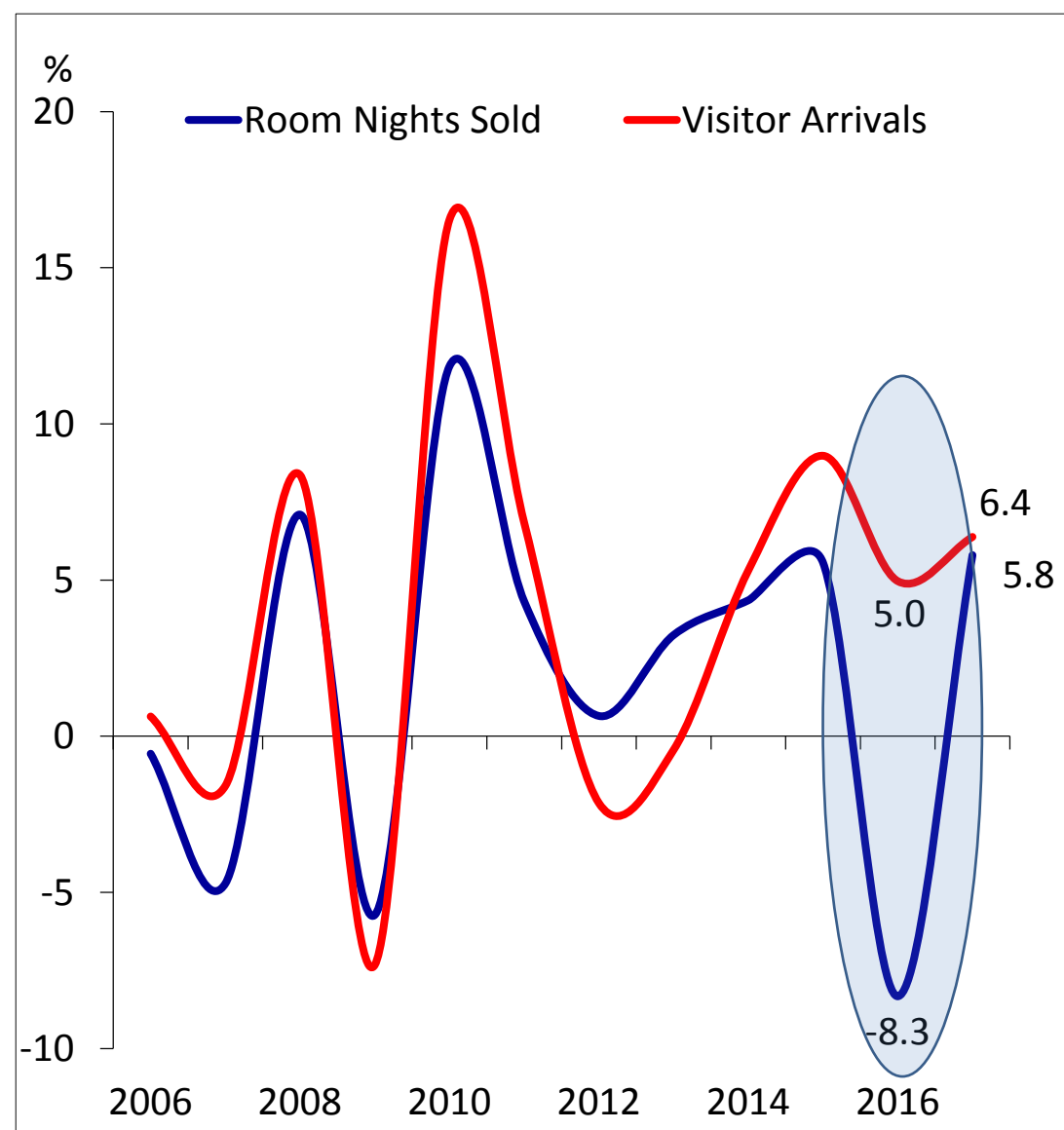
	2013	2014	2015	2016	2017f	2018f
MACRO	3.6	4.5	4.2	2.0	4.2	3.2
IMF	3.0	3.8	4.3	3.7	3.8	3.5
ADB					3.9	3.6
MOODY						3.2
ANZ						3.3
FBOS (Actuals)	4.7	5.6	3.8	0.7	3.0	

IMF's forecast for 2016 derived from estimates done for 2015 Article IV. There was no visit in 2016. The 2016 projections were done before TC Winston.

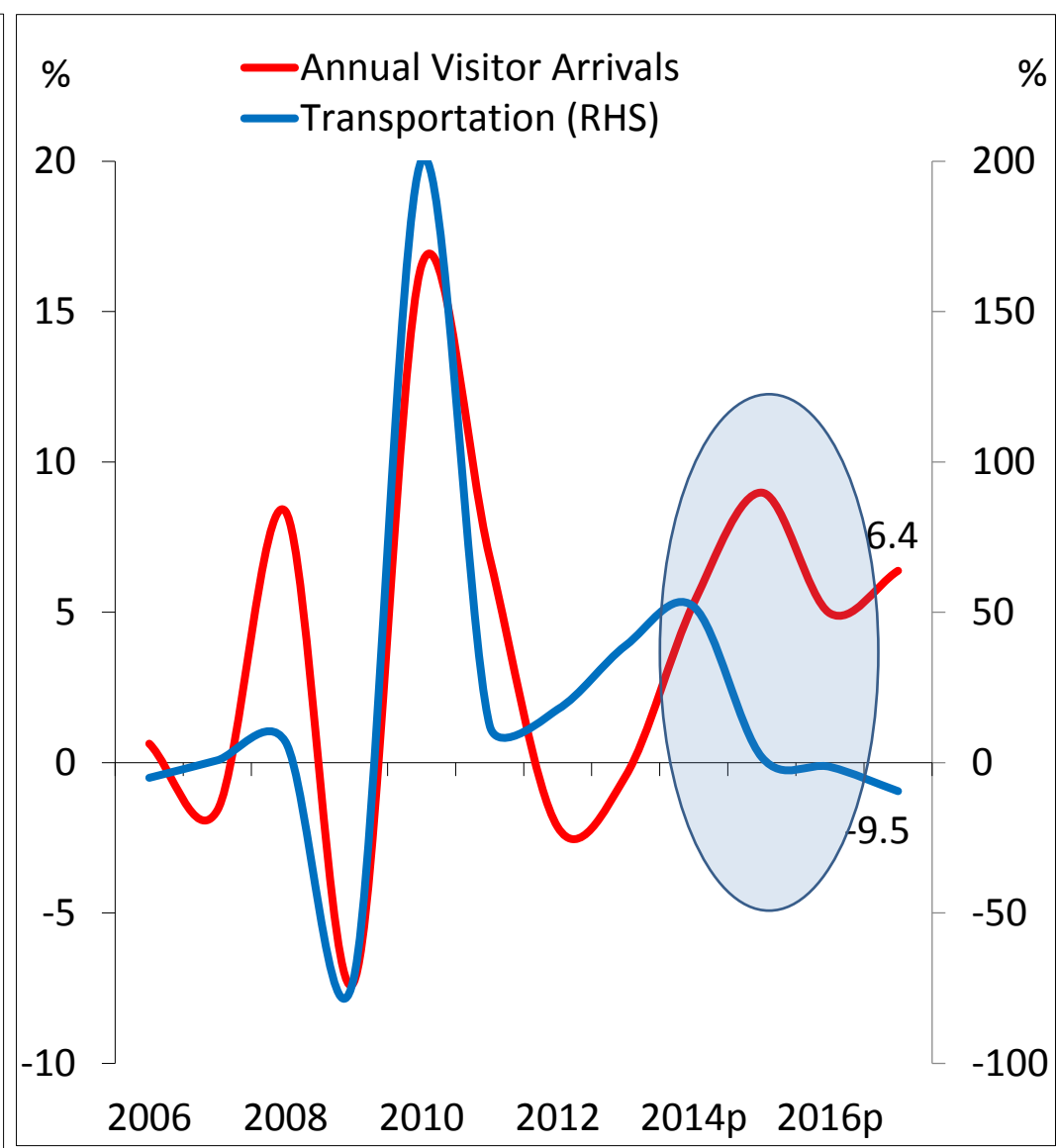
IMF and ADB's forecasts for 2018 were done prior to the natural disasters in April 2018.

2016 and 2017 GDP Growth are below Macroeconomic Committee Forecast

Accommodation



Transportation



SECTORAL PERFORMANCES

Mixed but generally positive in major sectors

Annual percent change (*unless otherwise specified*)

Partial Indicators	GDP Weights	2015	2016	2017	2018 (latest)
Cane	1.2	+0.7 1,844,524 tonnes	-24.8 1,387,034 tonnes	+17.6 1,631,301 tonnes	0.0* 1,631,301 tonnes -3.6** 779,247 tonnes
Sugar	1.0	-2.2 221,934 tonnes	-37.1 139,502 tonnes	+29.3 180,372 tonnes	-5.0* 171,353 tonnes -6.2** 81,602 tonnes
Visitor Arrivals	5.6	+9.0 754,835	+5.0 792,320	+6.4 842,884	Jan-Jul: +3.5 479,043
Mahogany	0.4	-5.4 52,003m ³	-33.3 34,709m ³	-94.3 1,987m ³	Jan-Jul: +1,765 7,397m ³
Pine		-25.3 395,733 tonnes	-35.9 253,655 tonnes	-32.1 172,183 tonnes	Jan-Aug: +192.9 288,470 tonnes

* May 2018 MC forecast ** As at 10 September Direct weight of cement, gold, pine, woodchips and mahogany in GDP is around 2.5%.

Source: Industry contacts

SECTORAL PERFORMANCES

Mixed but generally positive in major sectors

Annual percent change (*unless otherwise specified*)

Partial Indicators	GDP Weights	2015	2016	2017	2018 (latest)
Woodchip	0.5	-11.2 336,021 tonnes	-43.5 189,850 tonnes	-6.4 177,619 tonnes	Jan-Aug: +199.3 234,298 tonnes
Sawn timber		-17.4 14,221m ³	+1.4 14,424m ³	+48.2 21,379m ³	Jan-Aug: +75.6 20,597m ³
Cement	0.4	+18.1 327,826t	+10.9 363,661t	-19.8 291,813t	Jan-Aug: -21.7 176,082 tonnes (*PCL +6.4%)
Gold	1.3	+9.5 42,162 oz	+13.7 47,921 oz	-6.0 45,029 oz	Jan-Aug +0.9 28,835 oz
Electricity	1.9	+3.8 892,747 Mwh	+3.5 923,580 Mwh	+6.5 983,725 Mwh	Jan-Aug: +0.2 656,915 Mwh
Fish	0.5	+0.7	-12.6	+26.2	Jan-June: -15.9

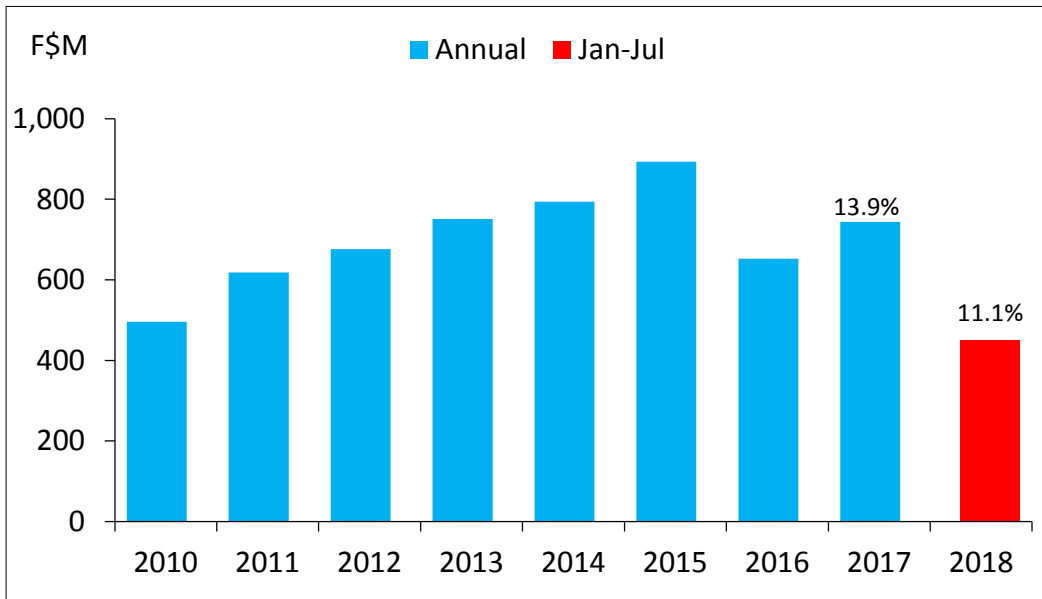
Direct weight of cement, gold, pine, woodchips and mahogany in GDP is around 2.5%.

Source: Industry contacts

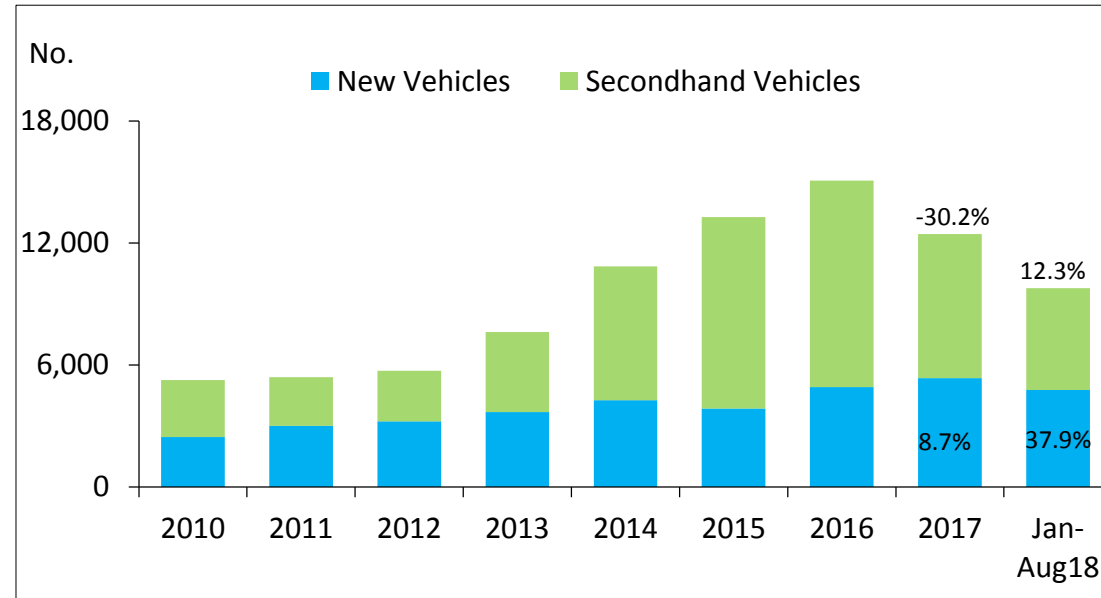
CONSUMPTION SPENDING

What do the key indicators reveal?

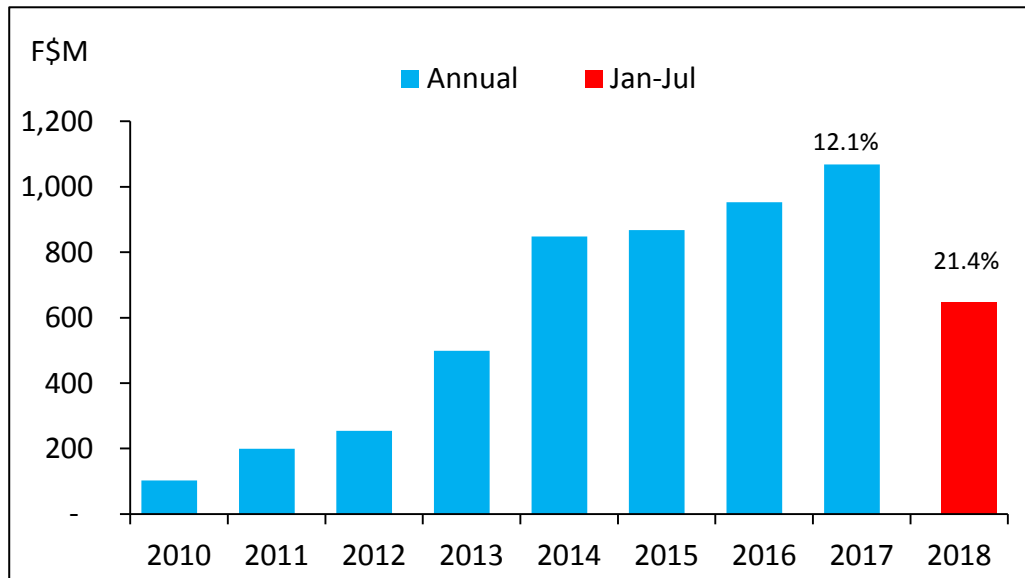
Net VAT Collections



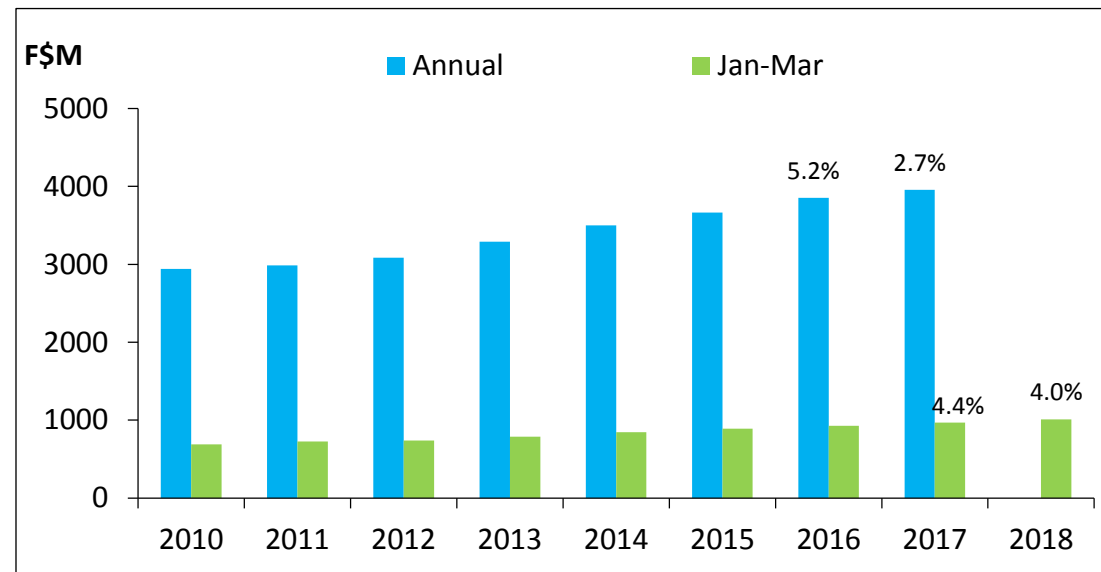
Vehicle Registrations



Commercial Banks' New Consumption Lending



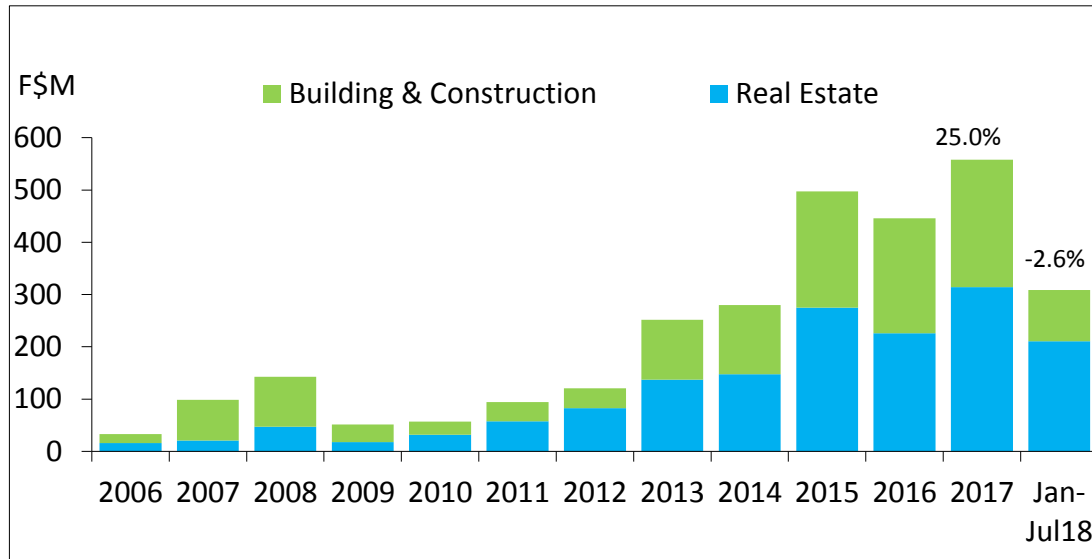
Wholesale & Retail Trade Survey



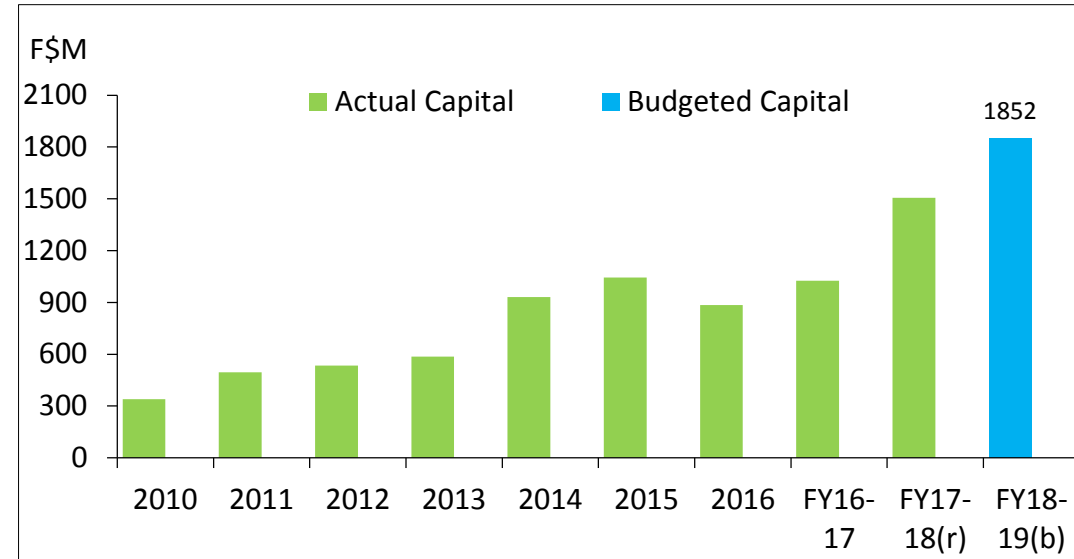
INVESTMENT

Are the indicators consistent with our assessment of the economy?

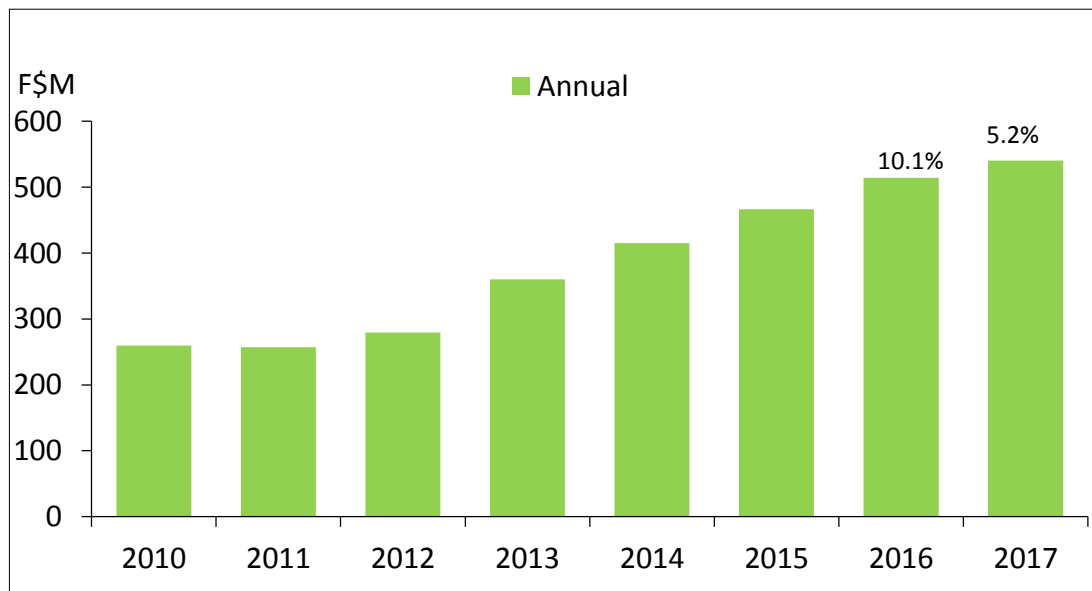
Commercial Banks' New Investment Lending



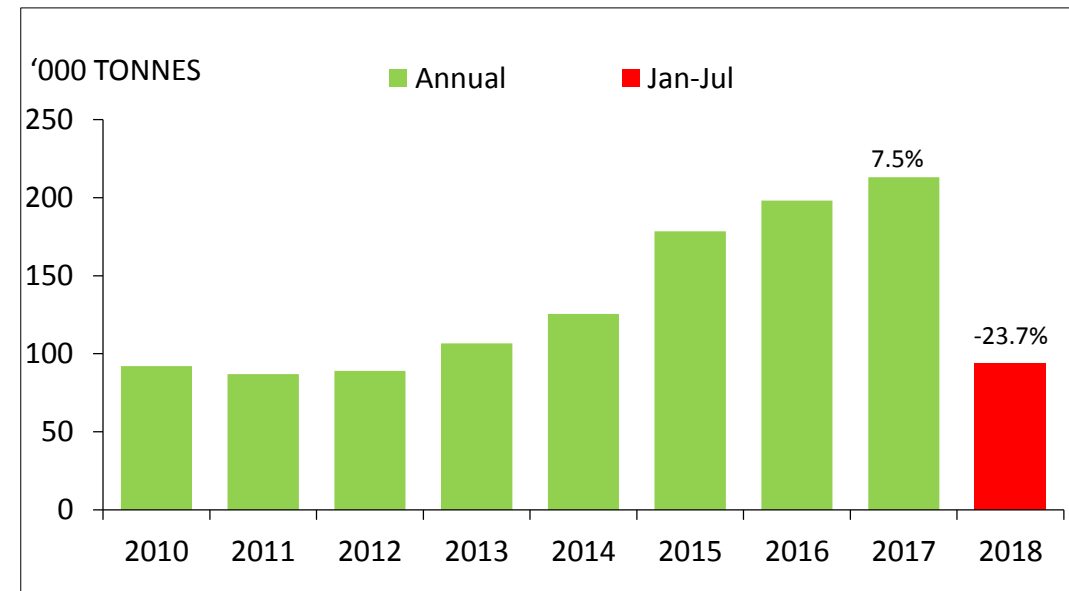
Government's Actual Capital Expenditure



Value of Work Put in Place

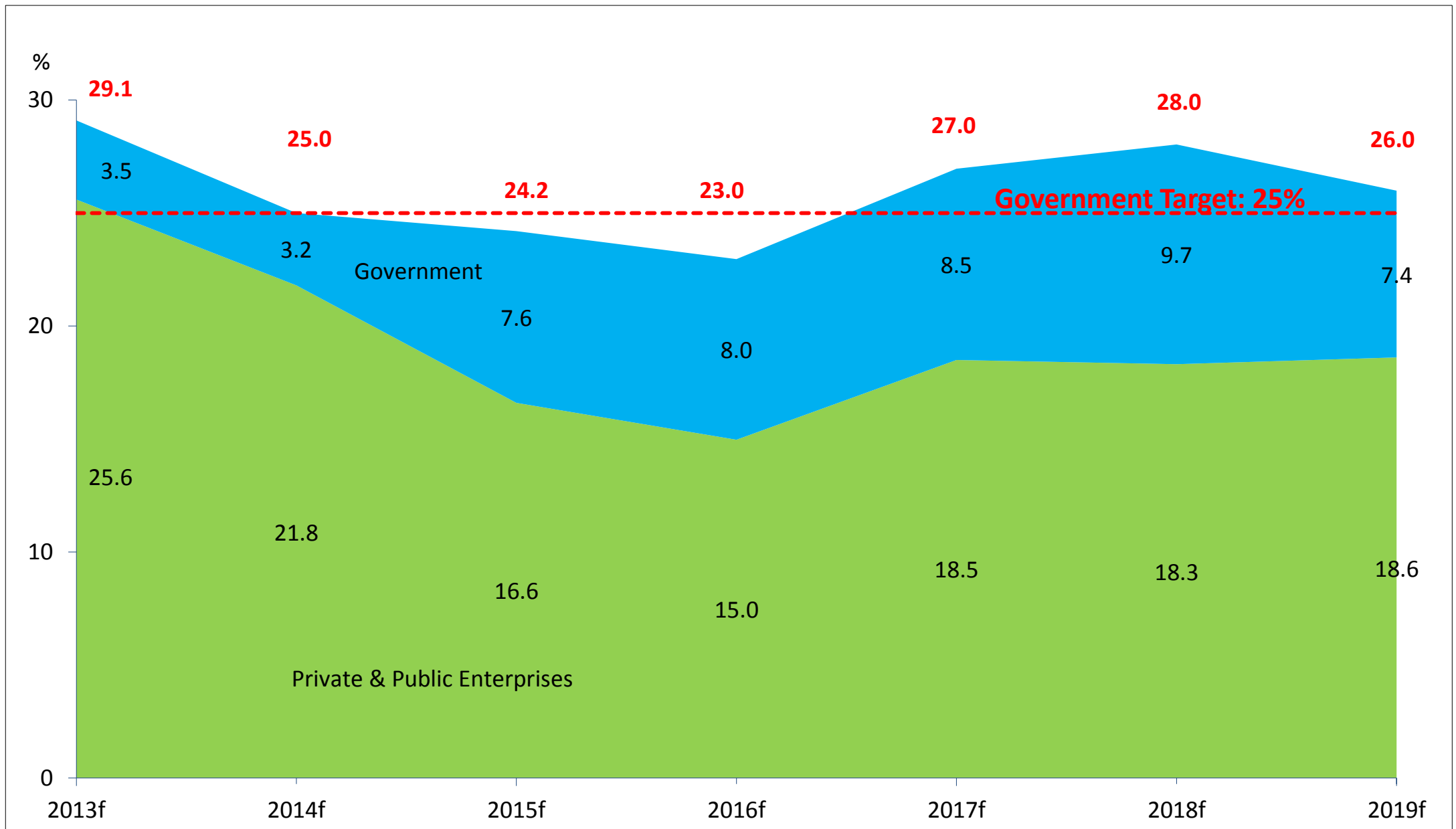


Domestic Cement Sales



RBF INVESTMENT FORECAST

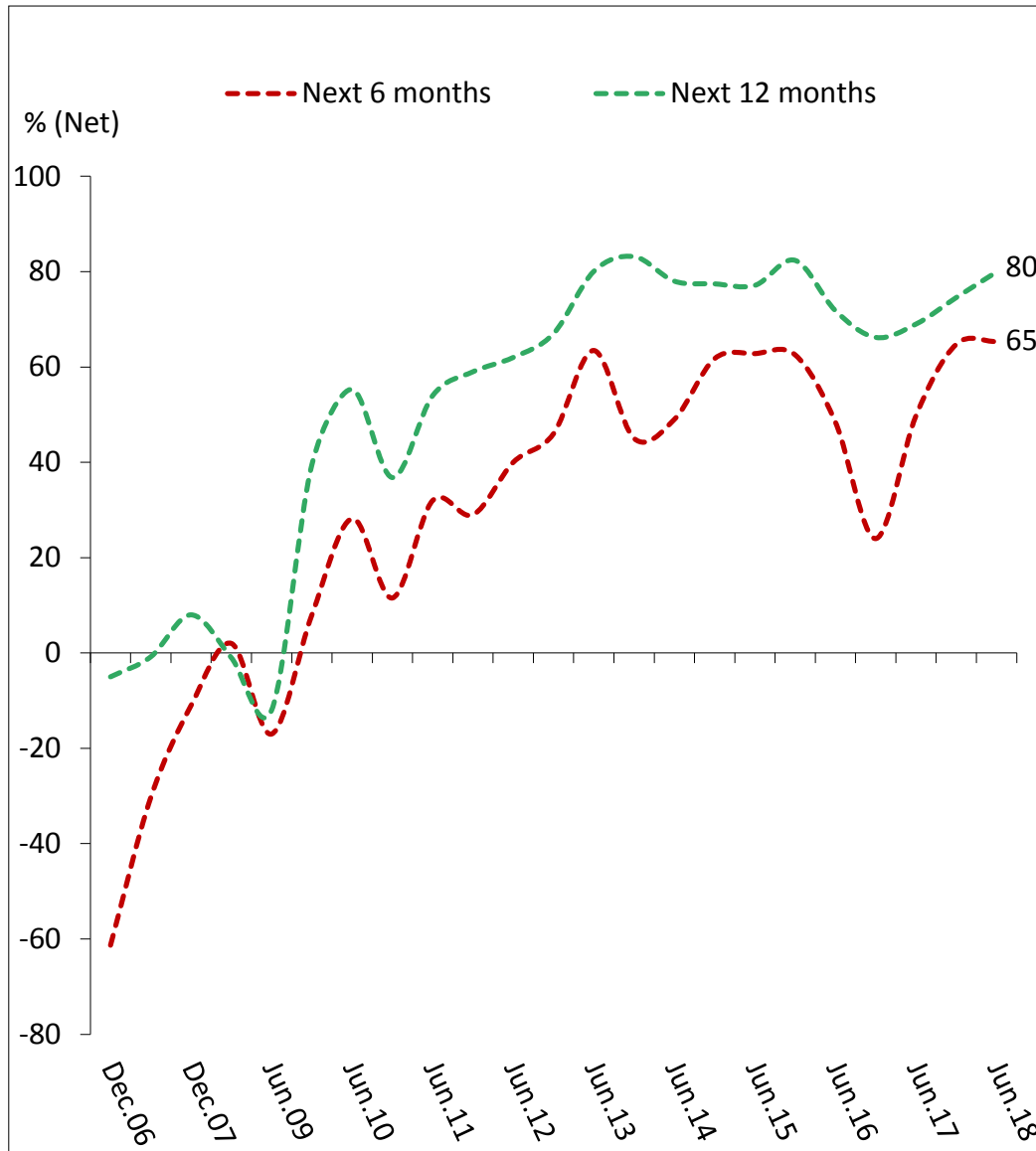
Share of Nominal GDP



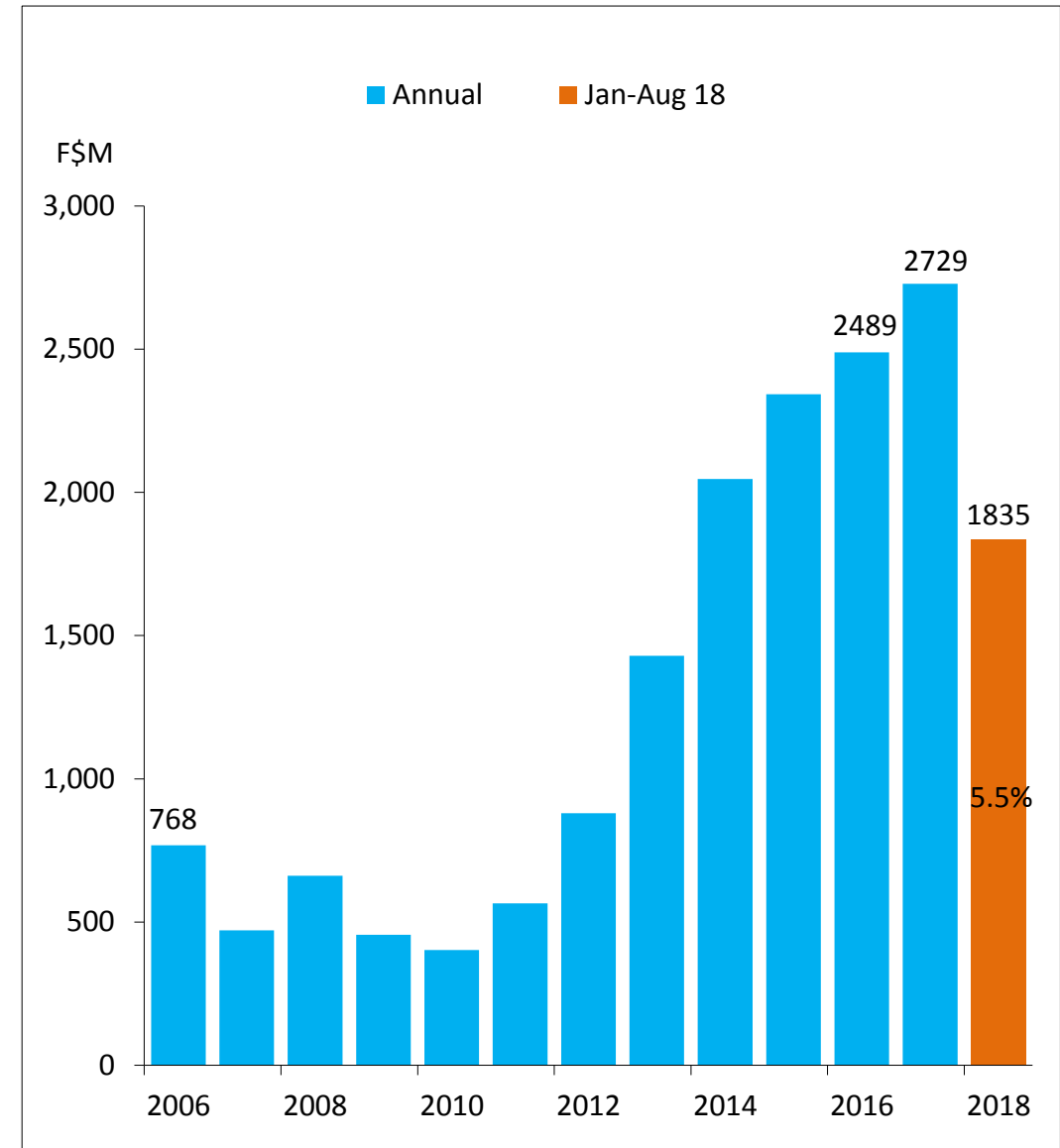
BUSINESS SENTIMENTS

Do real and financial data validate sentiments?

Overall Business Confidence
(Net %)



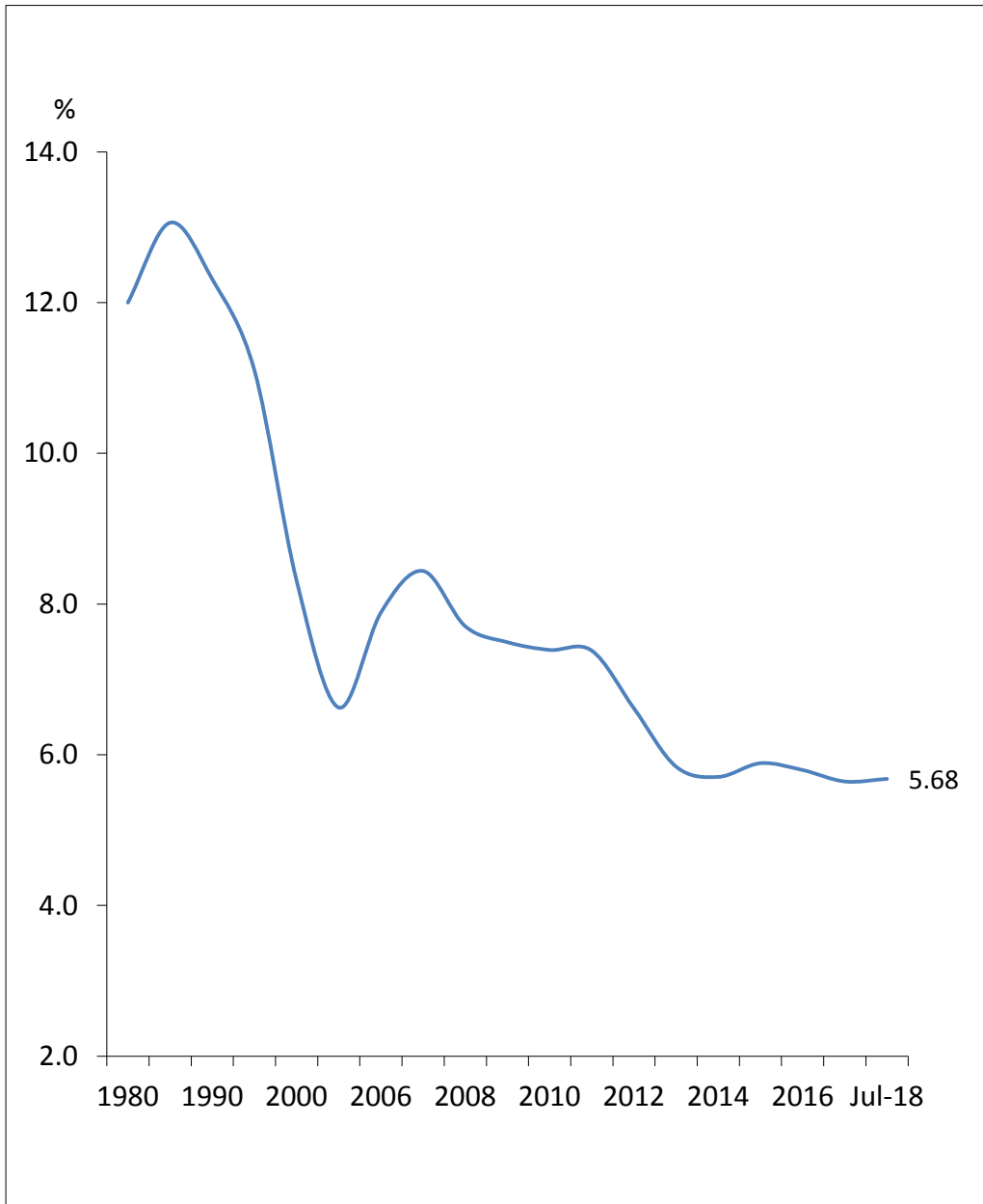
Commercial Banks' New Lending



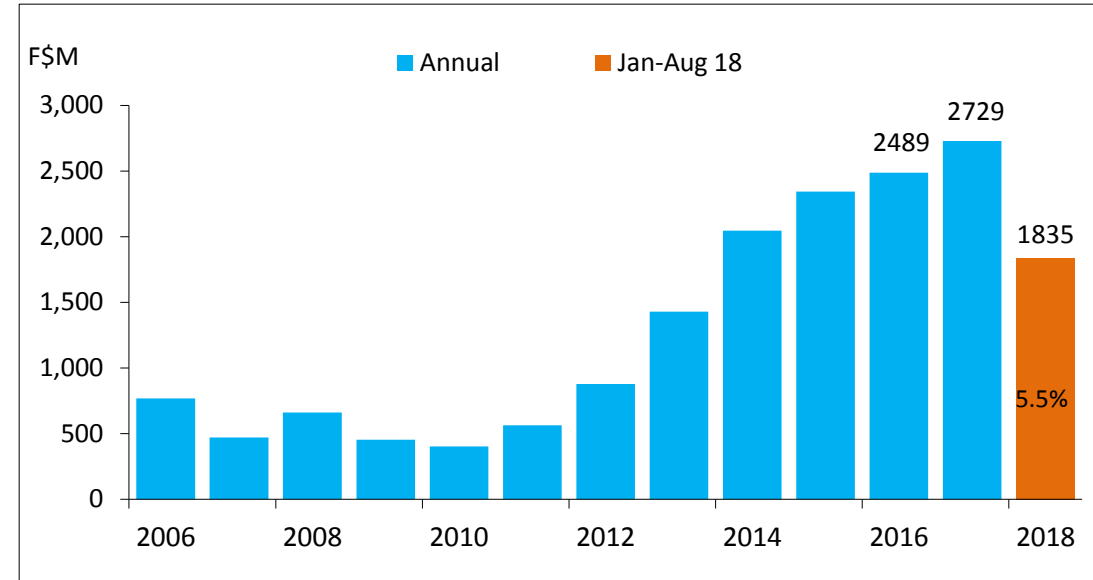
MONETARY POLICY

Is it supportive of Growth?

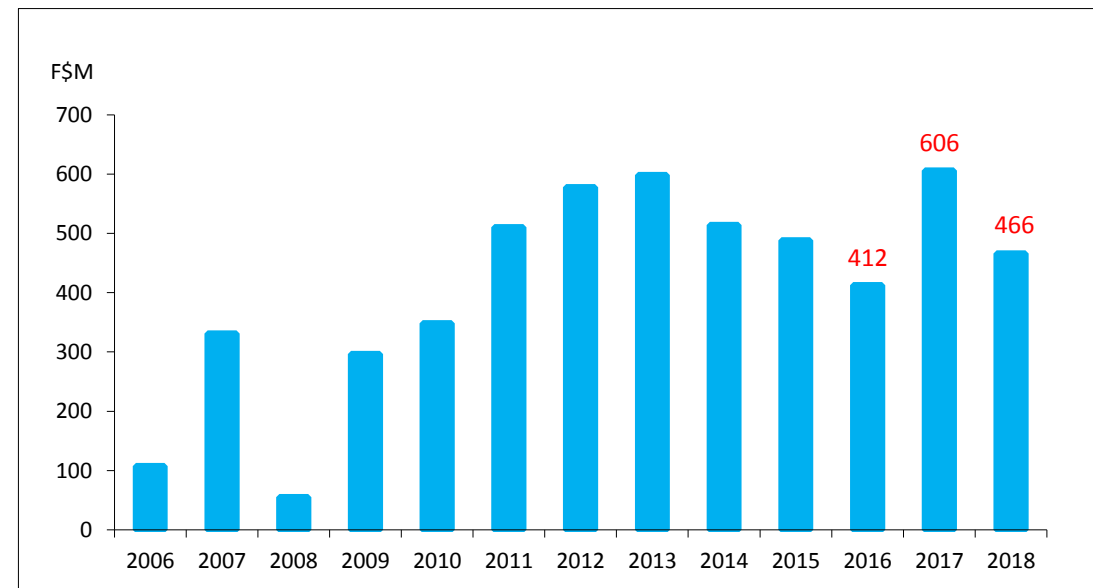
Outstanding Lending Rate



New Loans & Advances



Banks' Liquidity



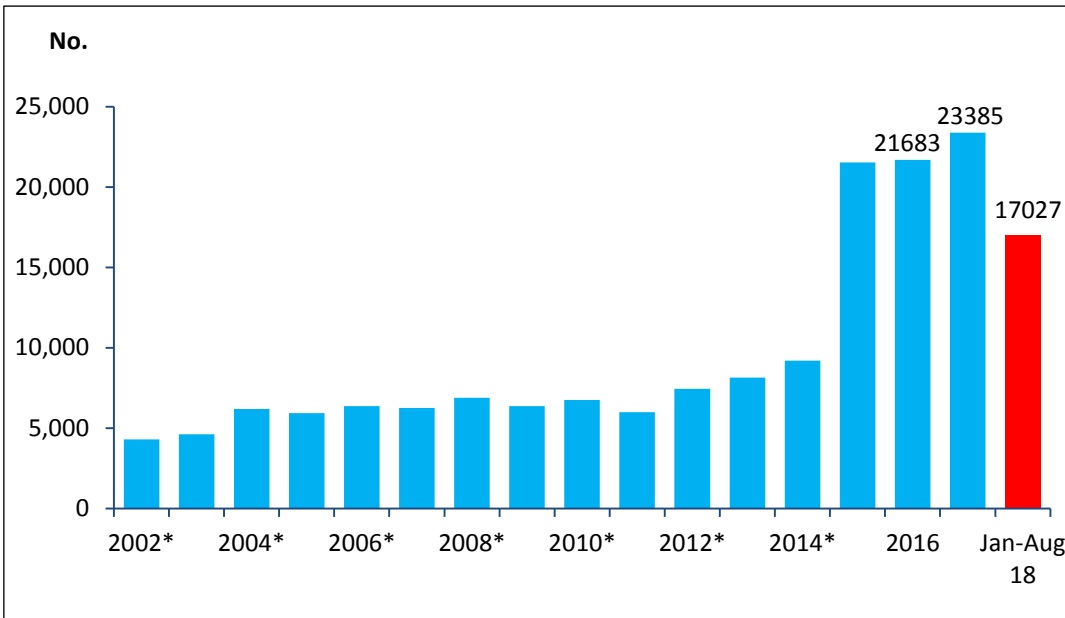
As at 13 September, 2018

Source: RBF

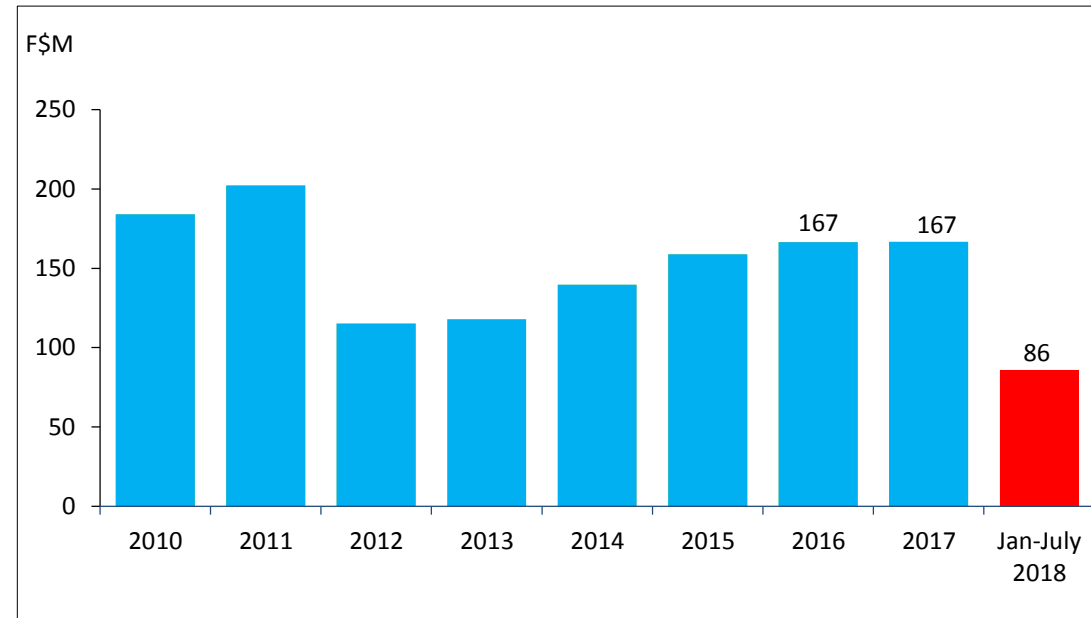
LABOUR MARKET

Is GDP growth translating into more jobs?

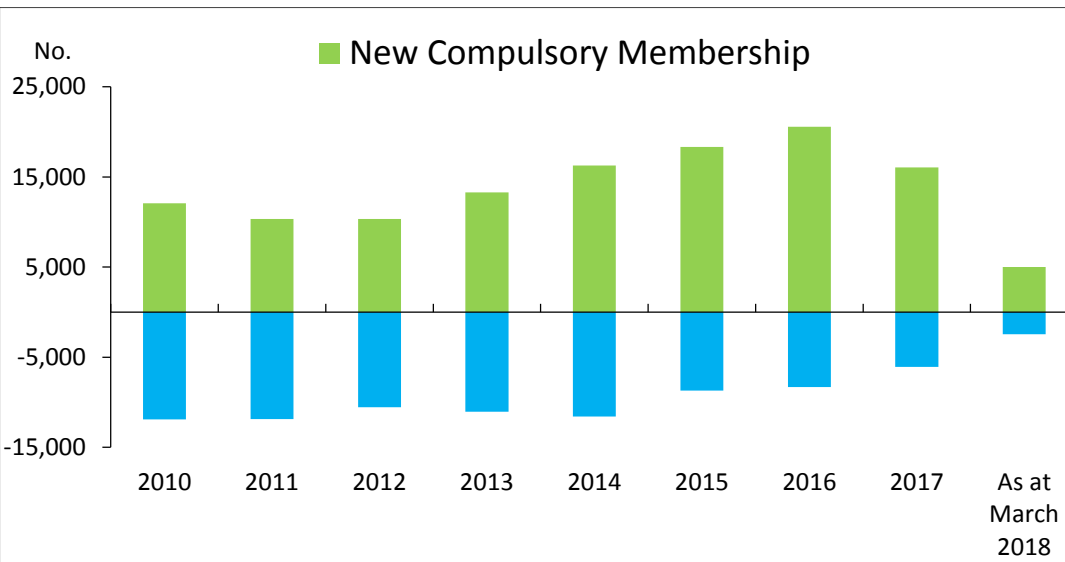
RBF Jobs Ads Survey



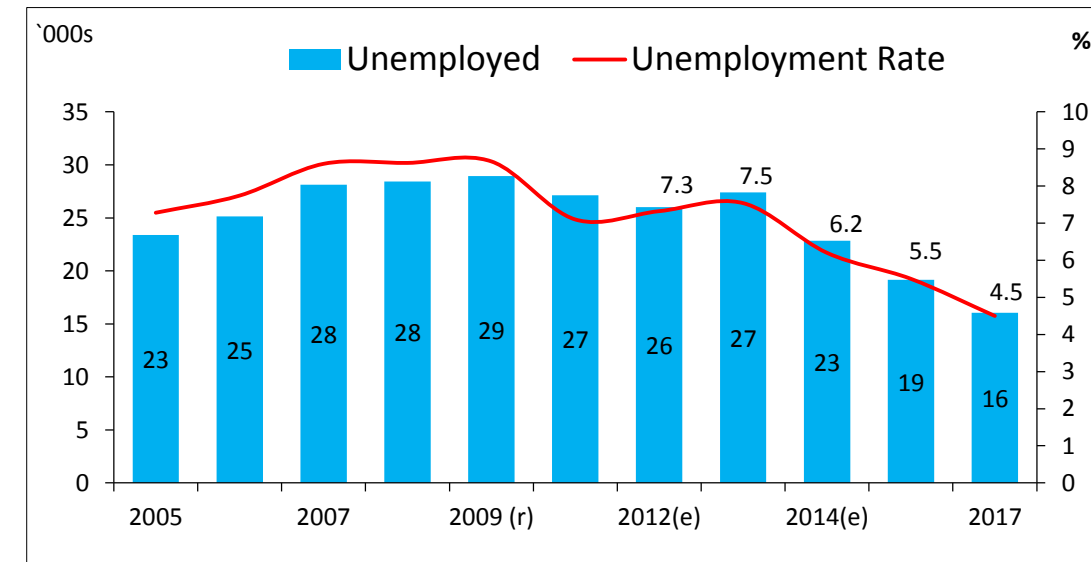
PAYE Collections



FNPF Compulsory Membership and Withdrawals



Unemployment has Declined



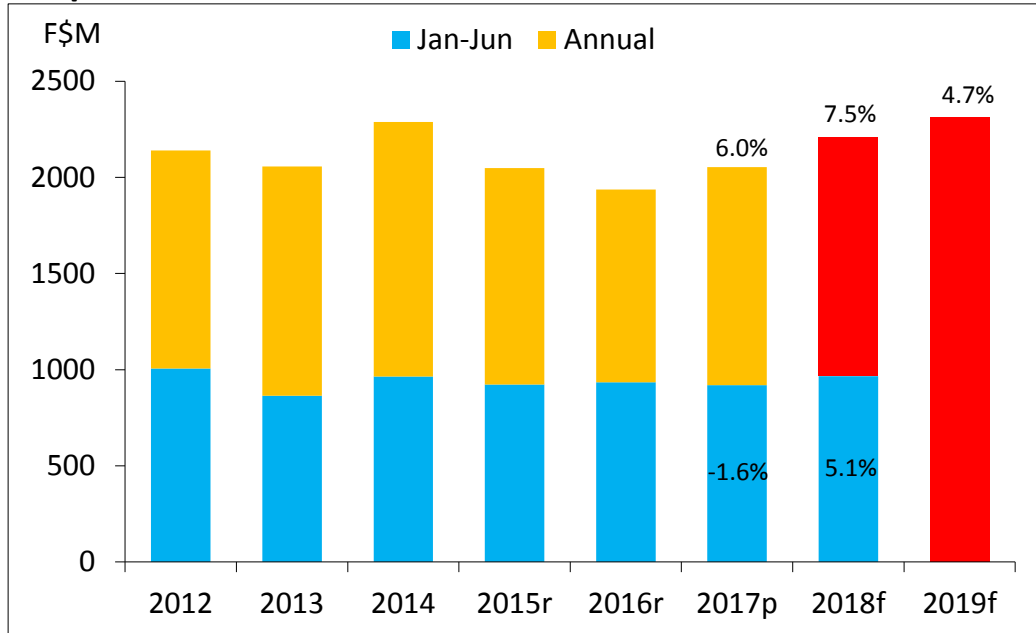
**Job Ads – Fiji Times only from 2001-2014*

Source: RBF

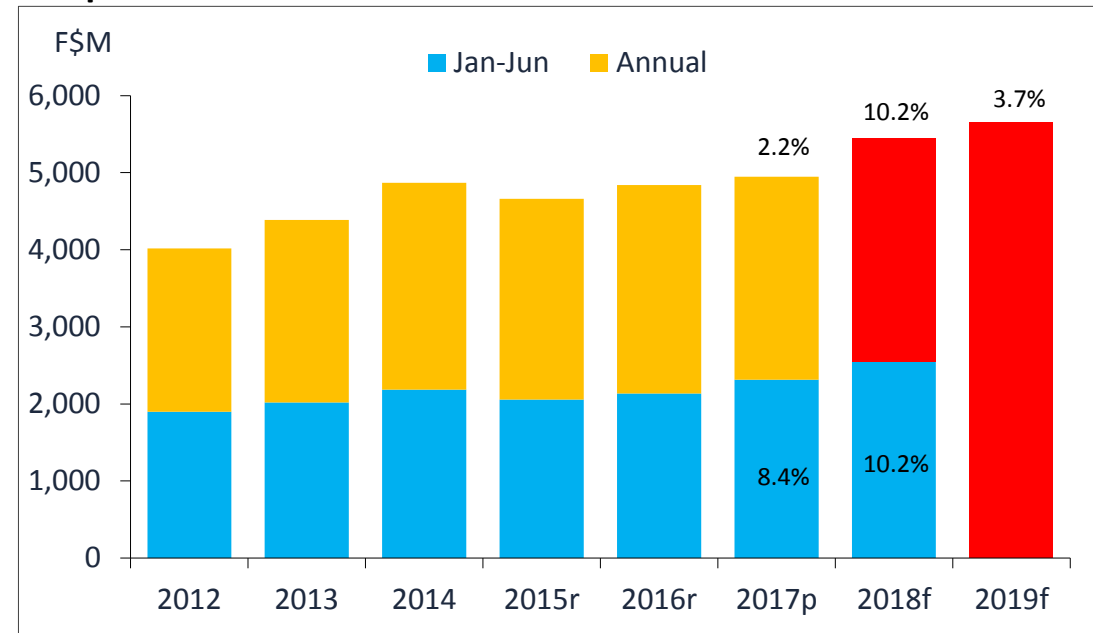
BALANCE OF PAYMENTS

Why are tourism and remittances important for Fiji?

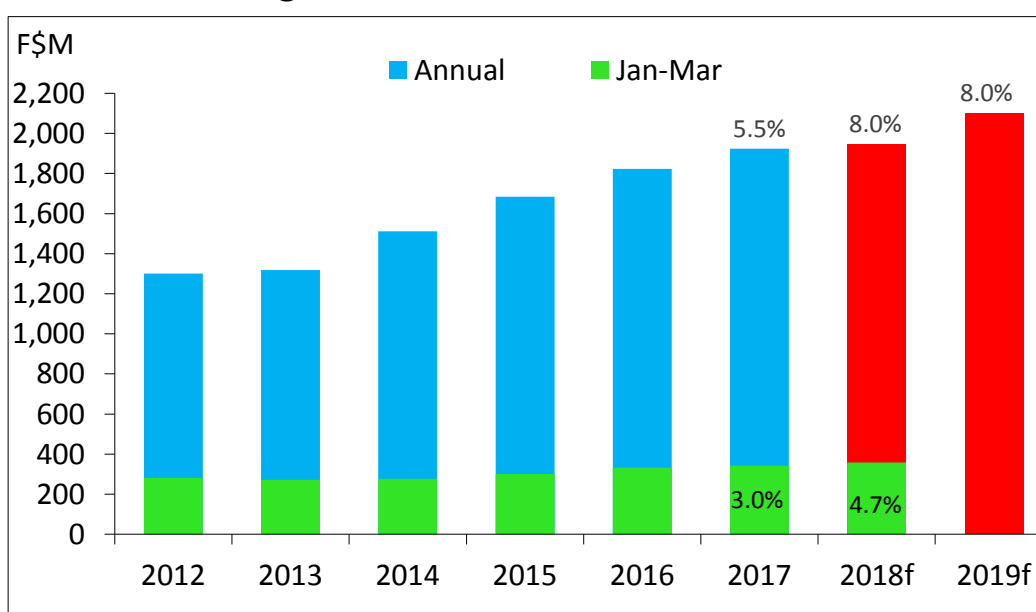
Exports



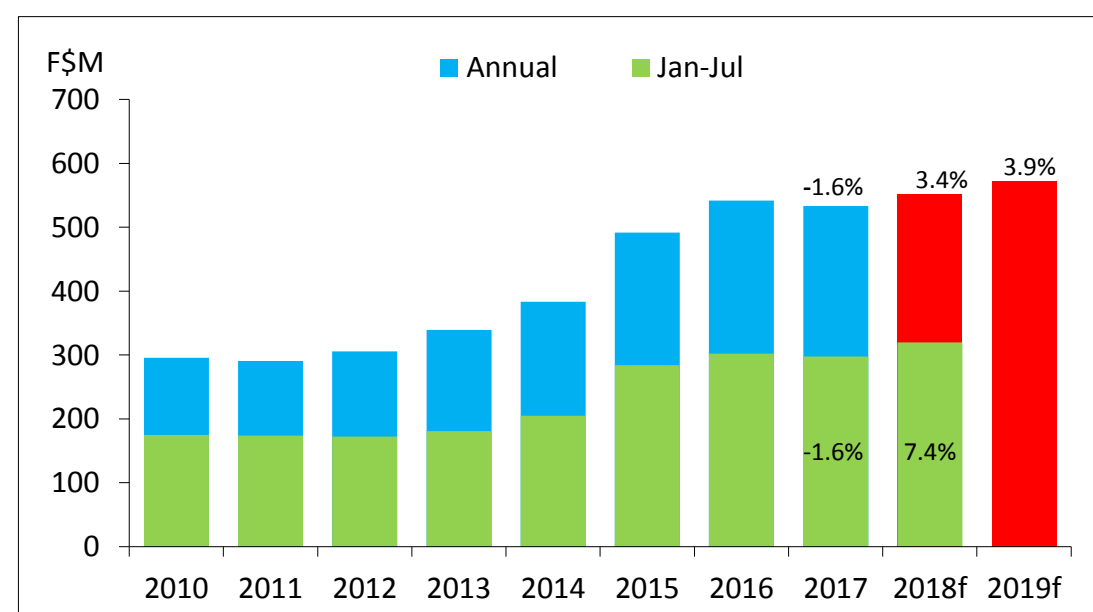
Imports



Tourism Earnings



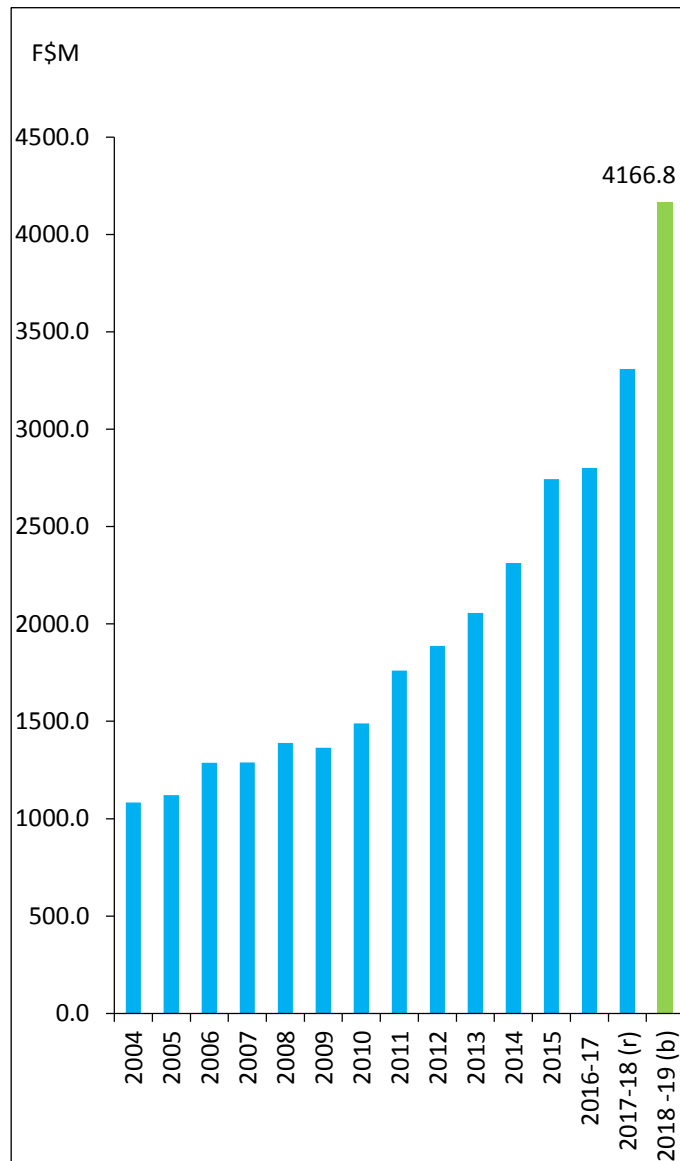
Personal Remittances



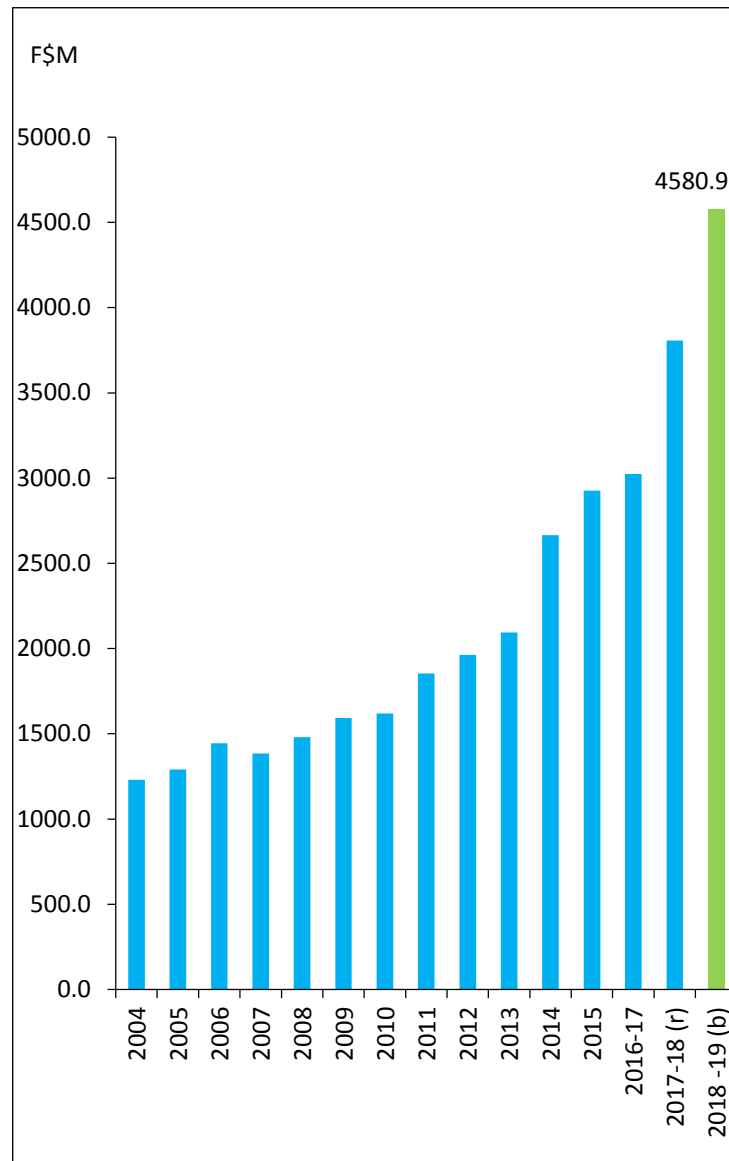
GOVERNMENT EXPENDITURE

Where is the rise in expenditure diverted to?

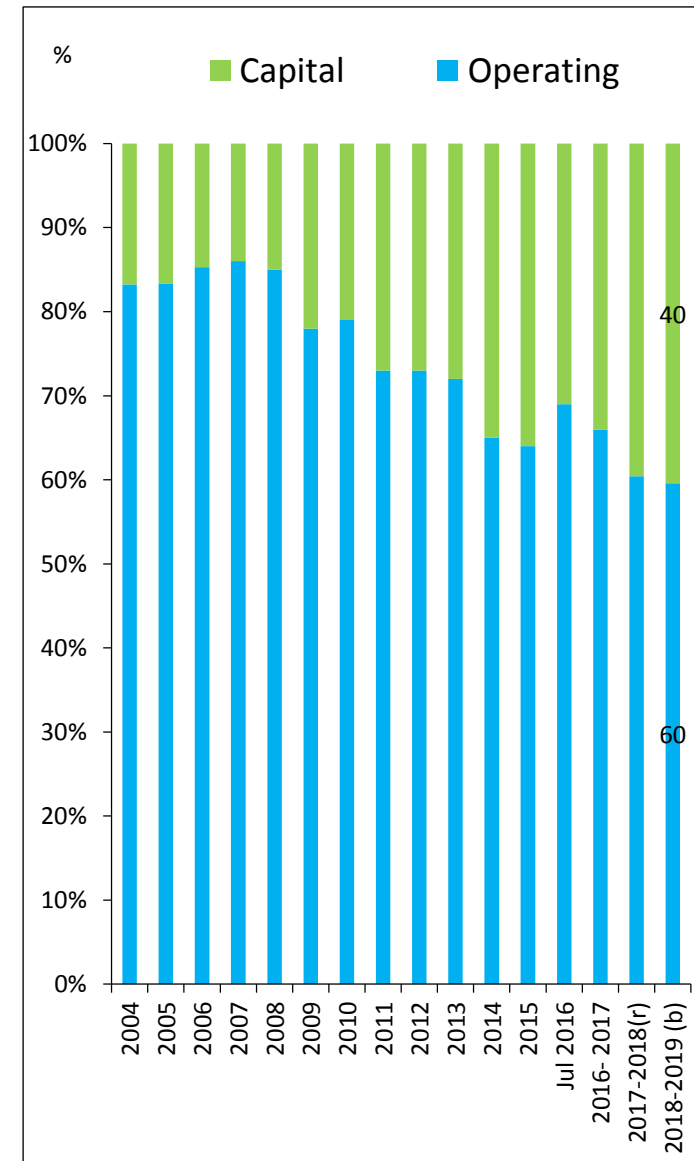
Revenue



Expenditure



Expenditure Mix



*Revenue for FY2018-19 includes asset sales.

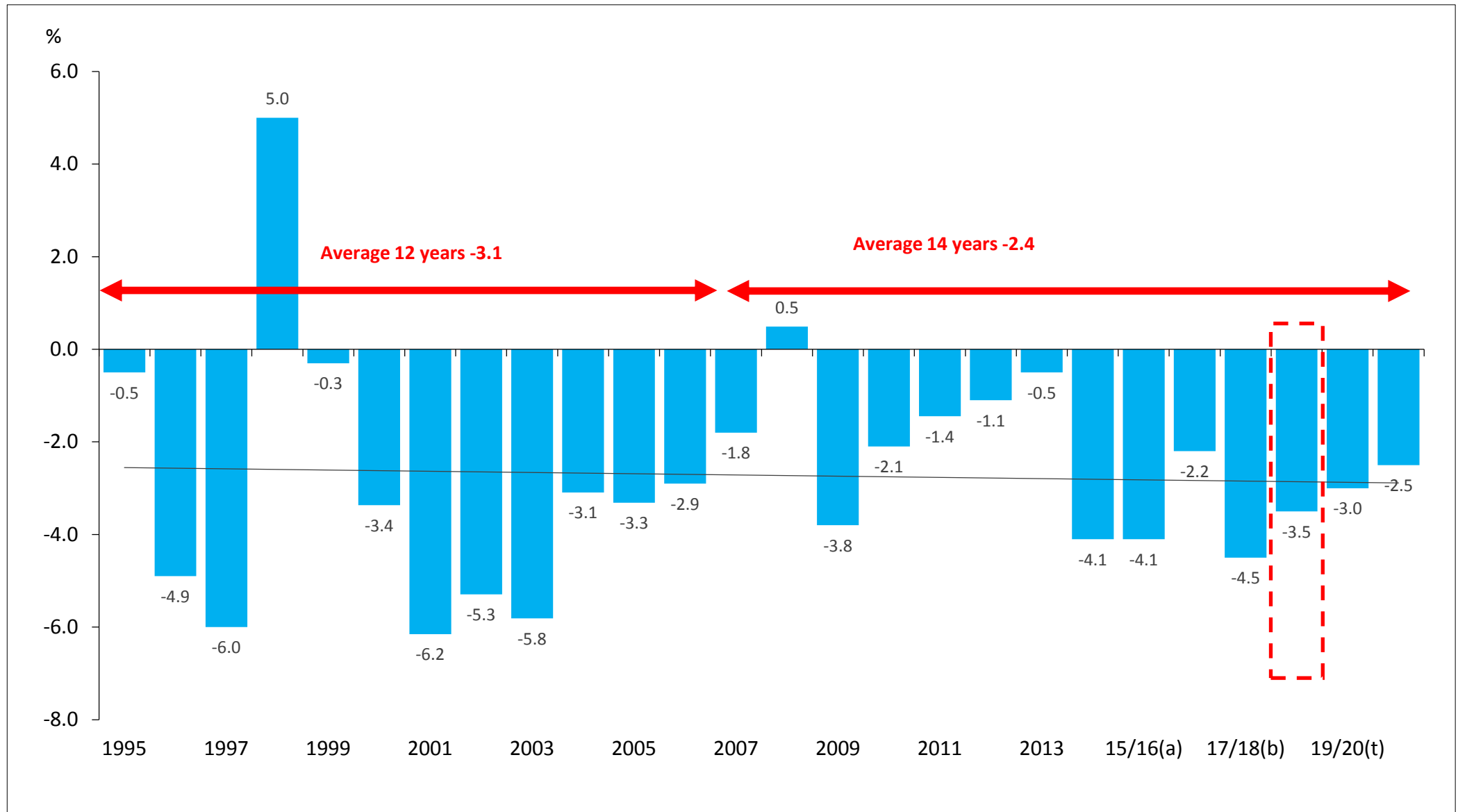
Source: National Budget Supplement 2018-2019

BUDGET DEFICIT

Is it heading in the right direction?

Net Deficit

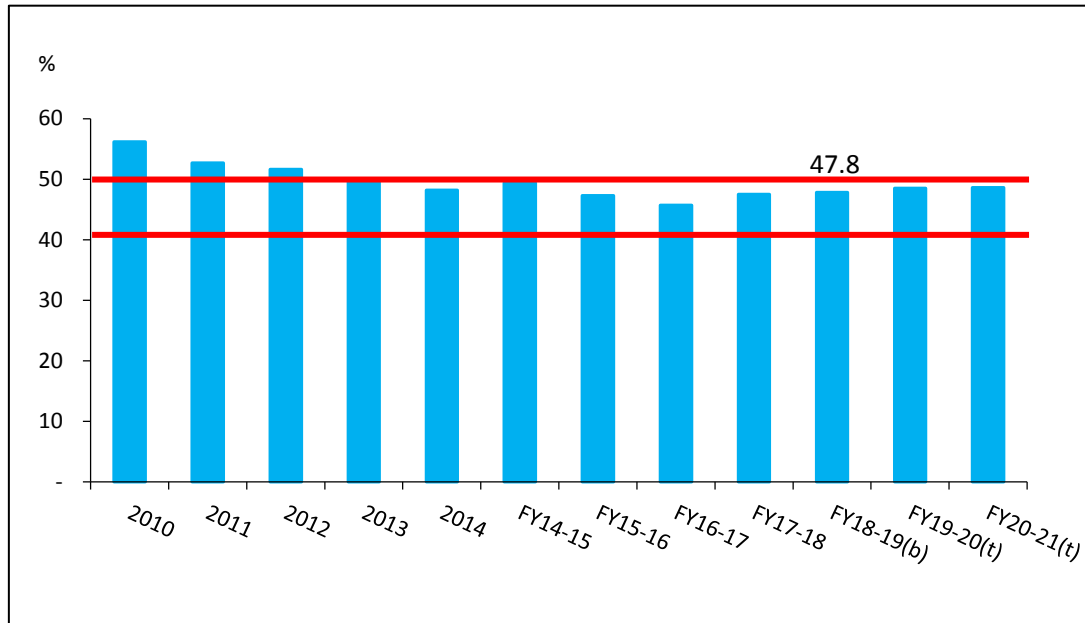
(Percent of Calendar & Fiscal Year GDP)



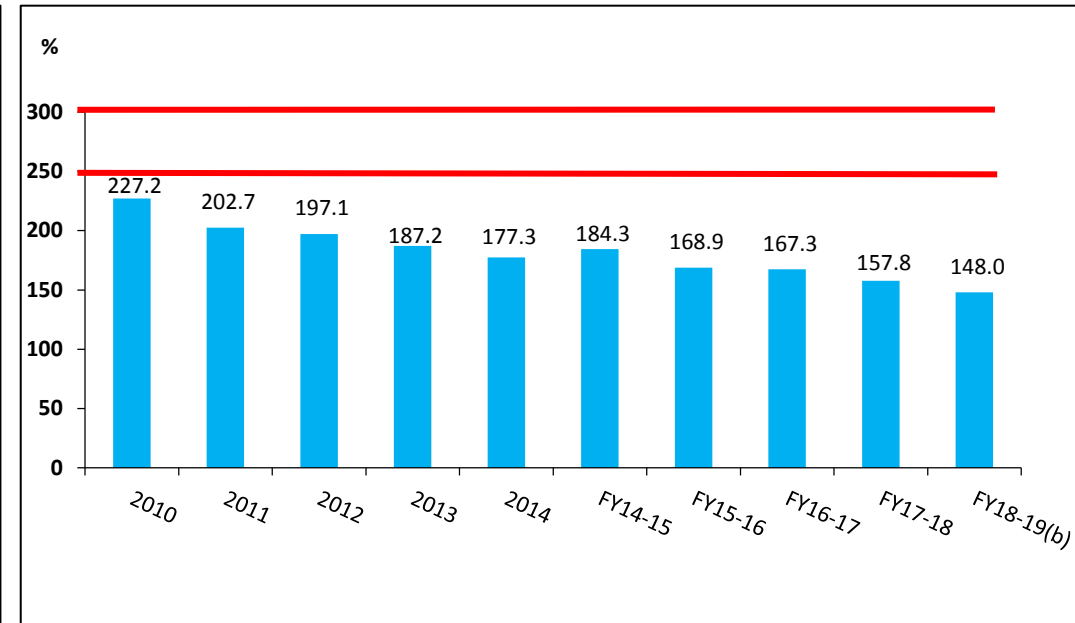
FIJI'S DEBT SUSTAINABILITY

How do we fare against the IMF/WB Benchmarks?

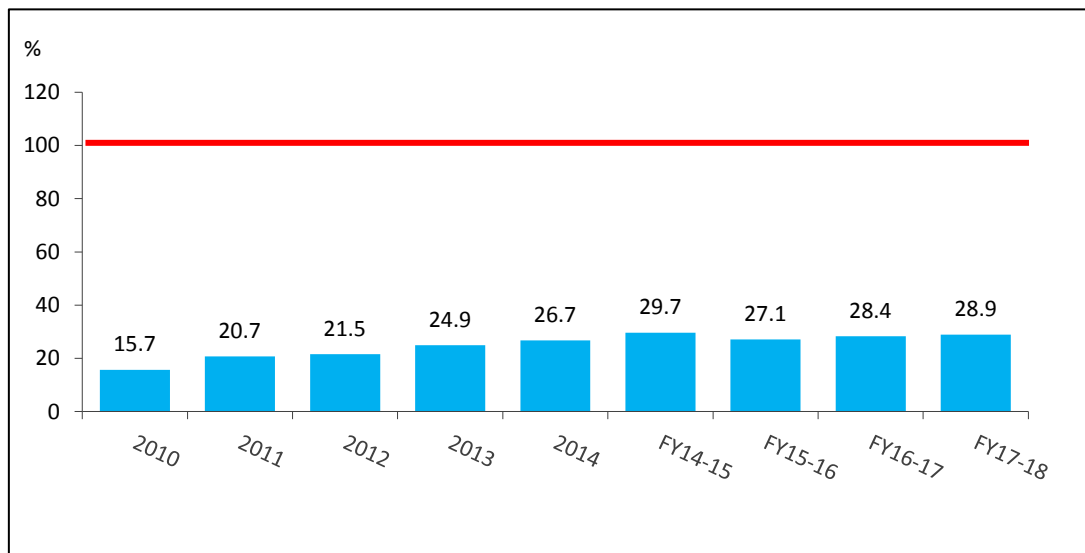
Debt as a percent of GDP



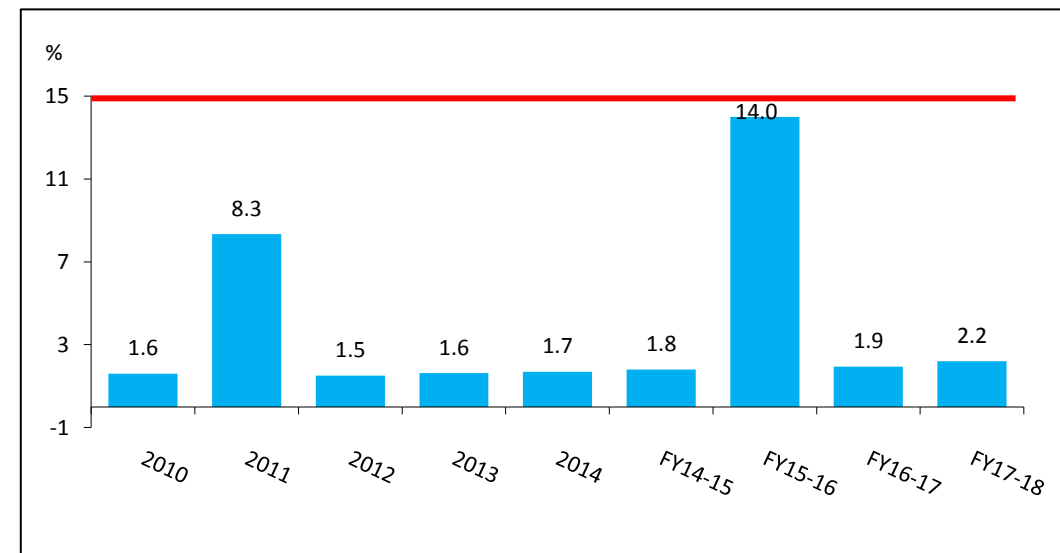
Debt as a percent of Revenue



External debt as a percent of Exports of Goods & Services



External Debt Servicing as a percent of Exports



* Excluding asset sales

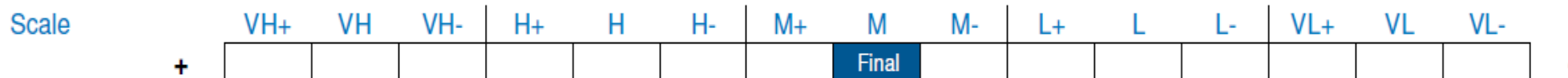
Sources: MOE & RBF

FIJI'S DEBT SUSTAINABILITY

How do we fare against our peers?

Fiscal strength: Moderate

Factor 3: Overall score



Factor 3: Sub-scores

Fiji

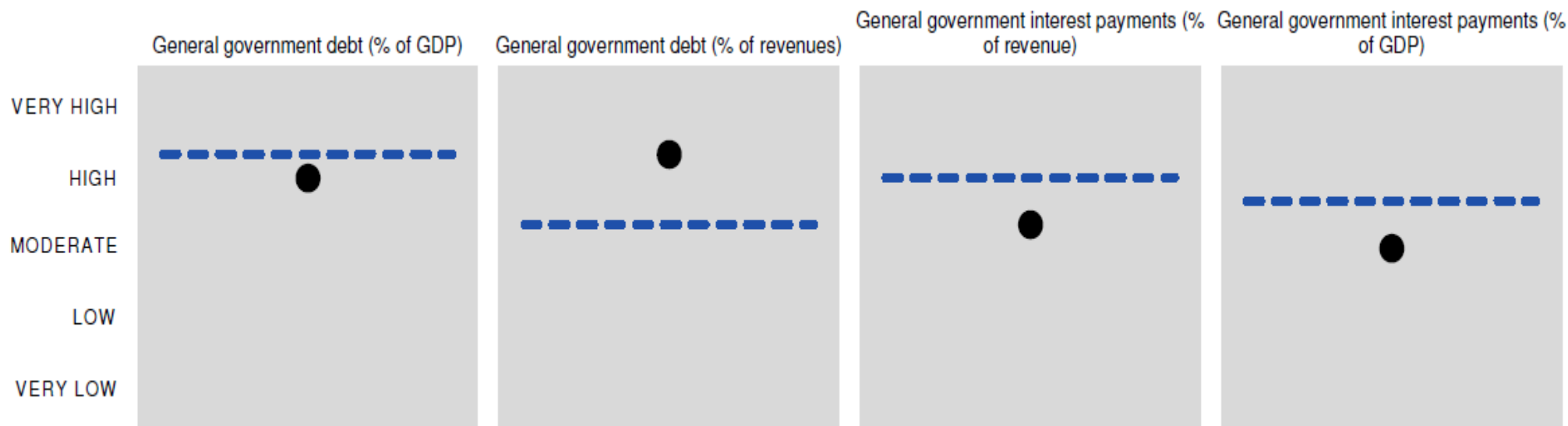
Moderate

● Score for Fiji

— Median of countries with Ba3 rating

DEBT BURDEN
weight 50%

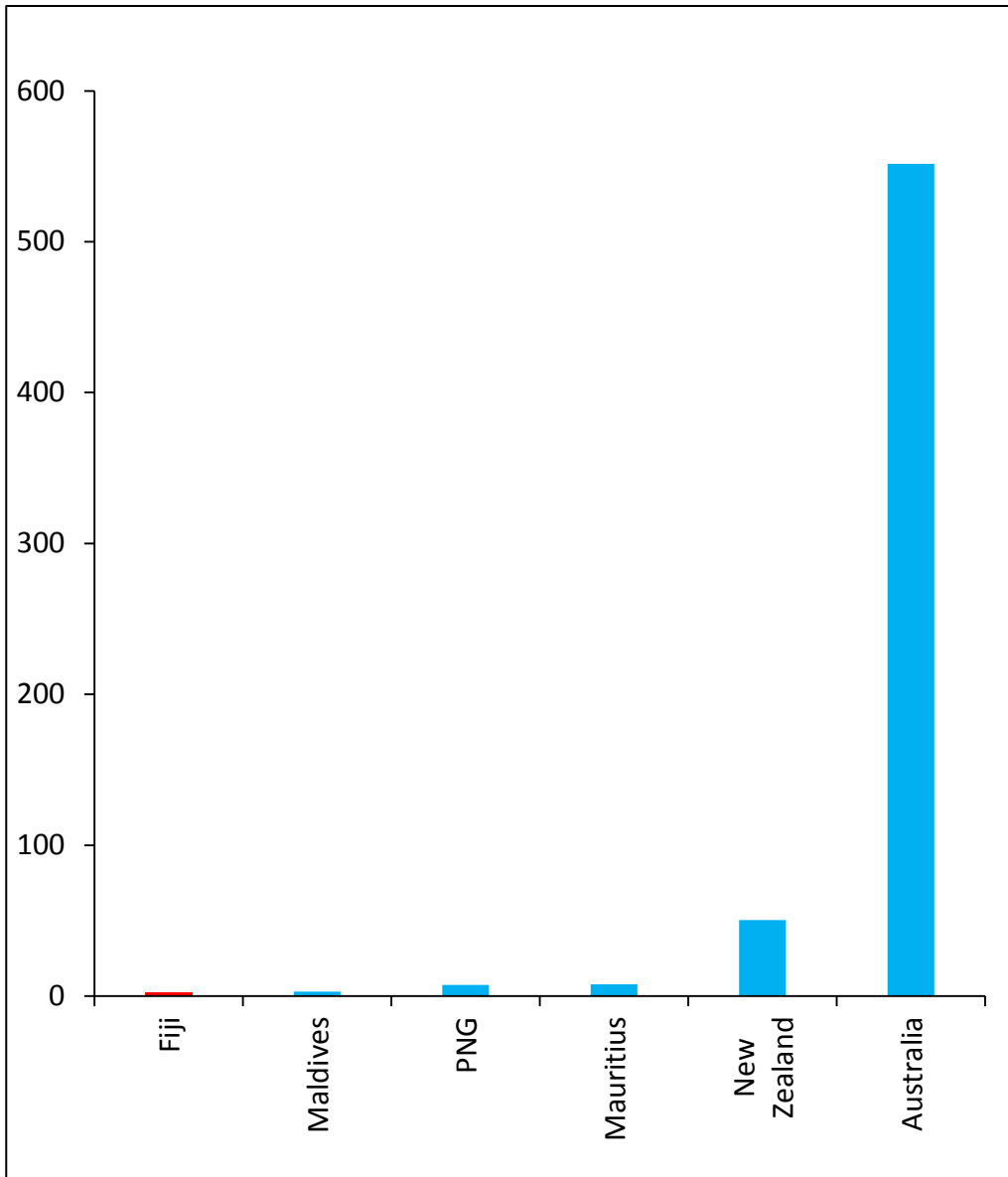
DEBT AFFORDABILITY
weight 50%



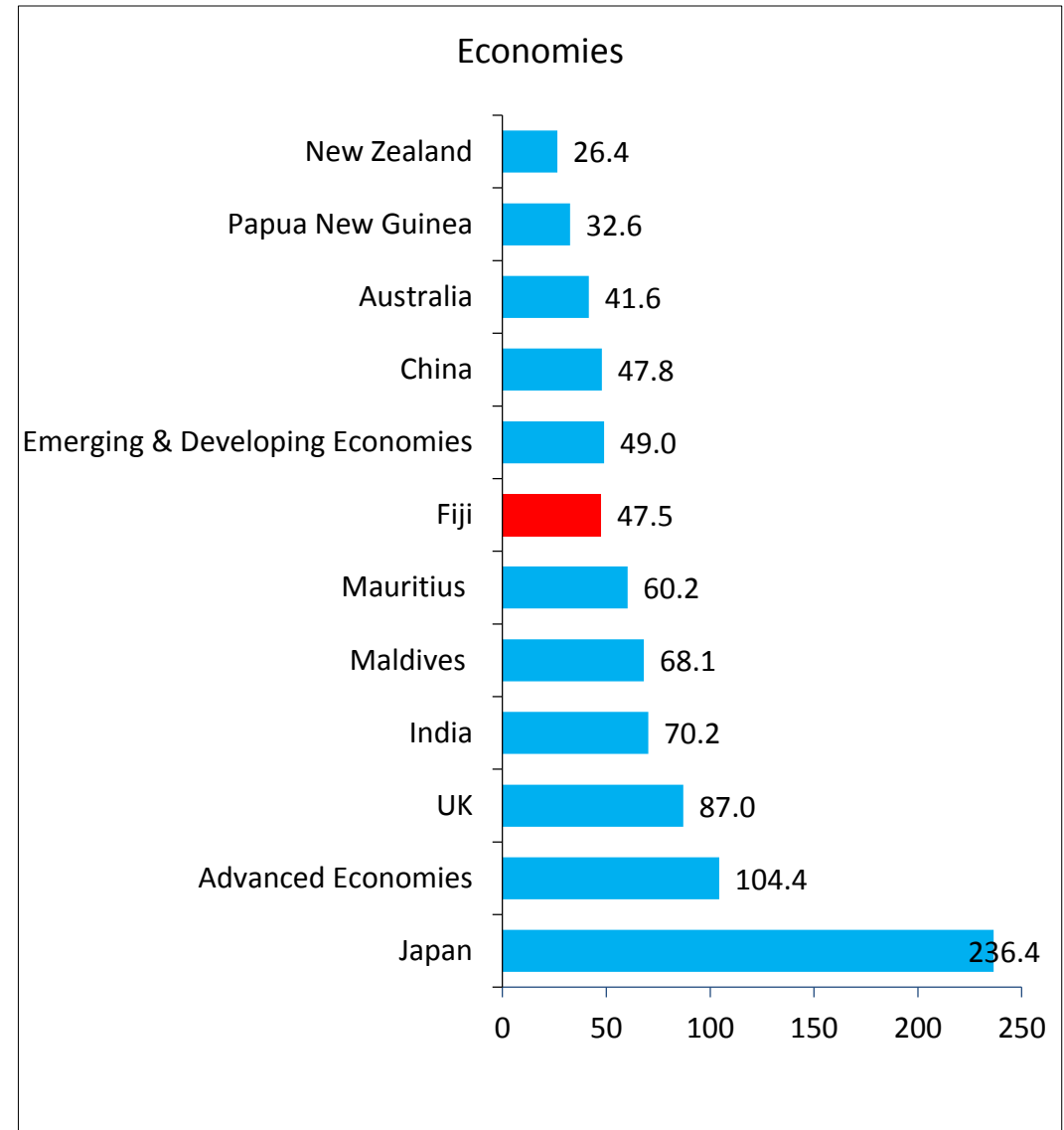
GOVERNMENT DEBT

Why debt to GDP ratio and not absolute values?

Central Government Debt - 2017
(Debt US\$ billions)



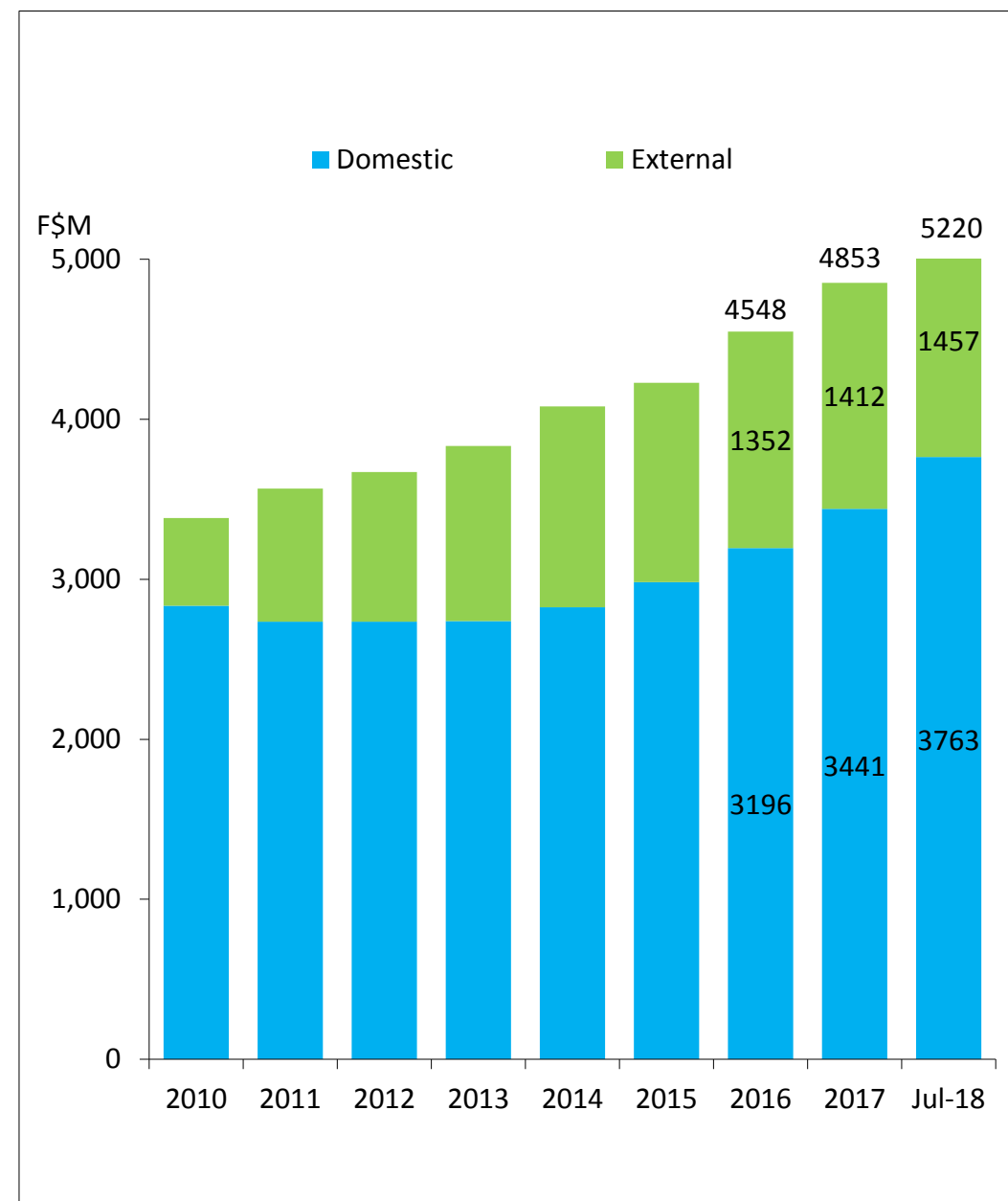
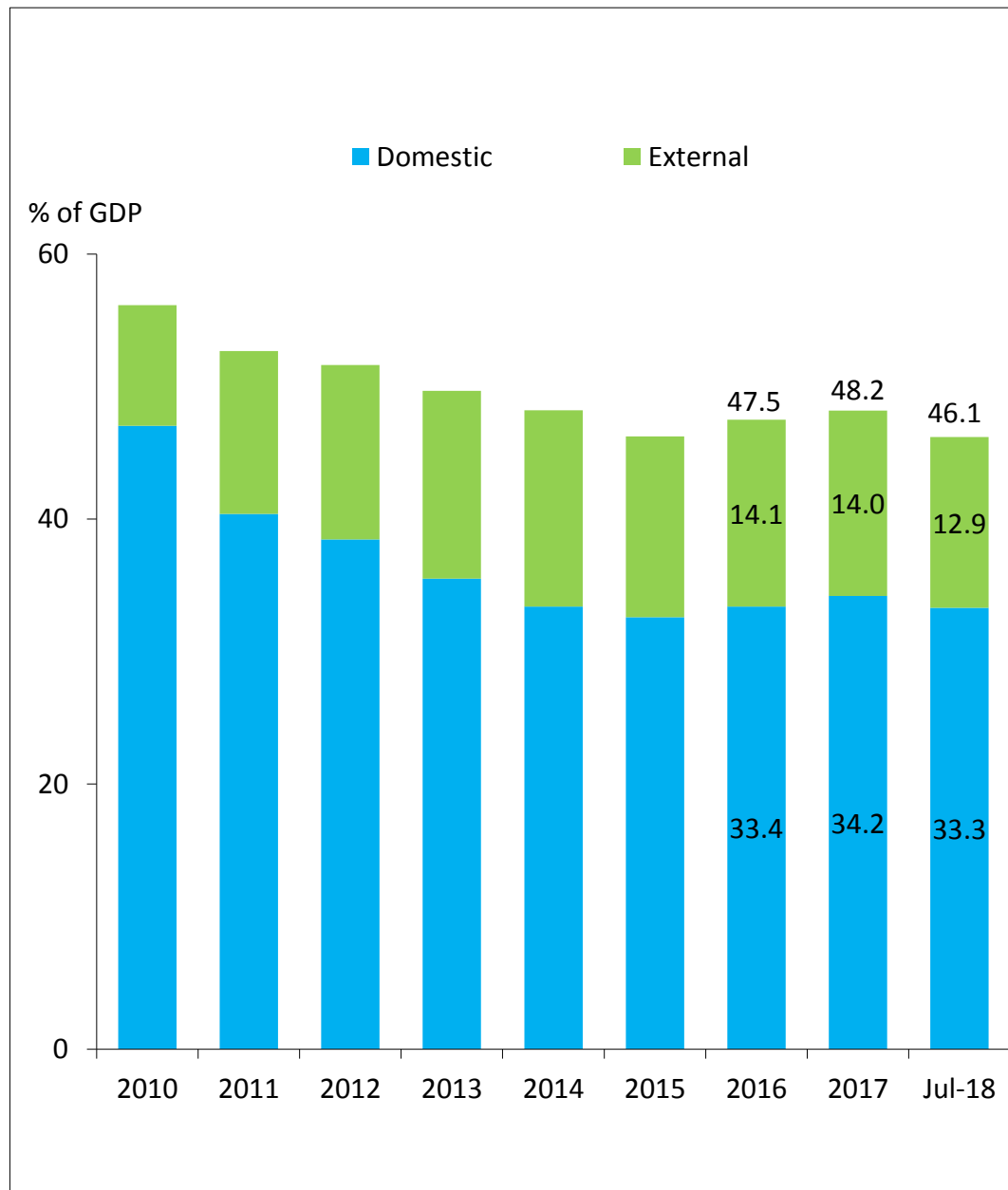
Central Government Debt - 2017
(Percent of GDP)



Sources: 2017-2018 National Budget Supplement and International Monetary Fund

GOVERNMENT DEBT

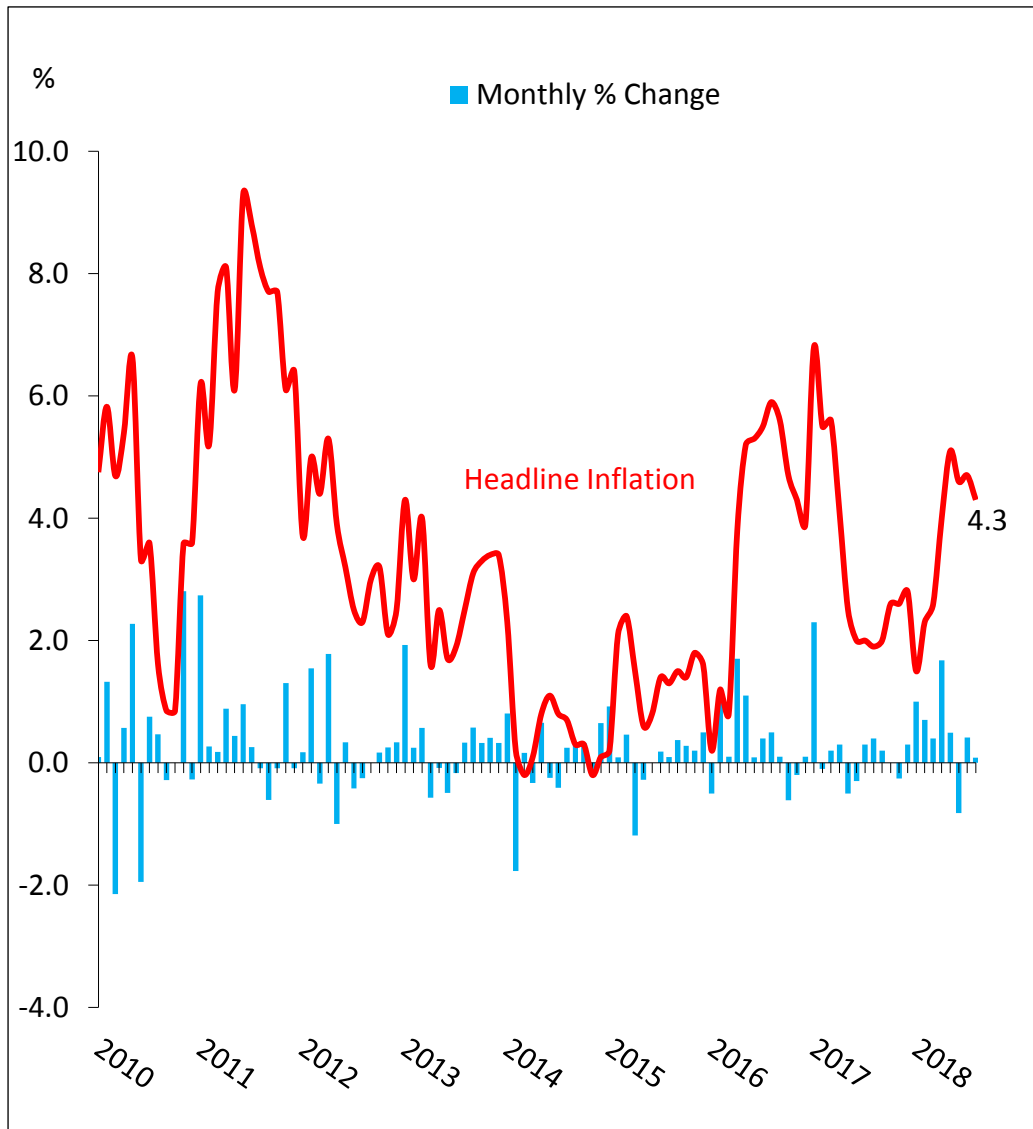
Why are they going in the opposite direction?



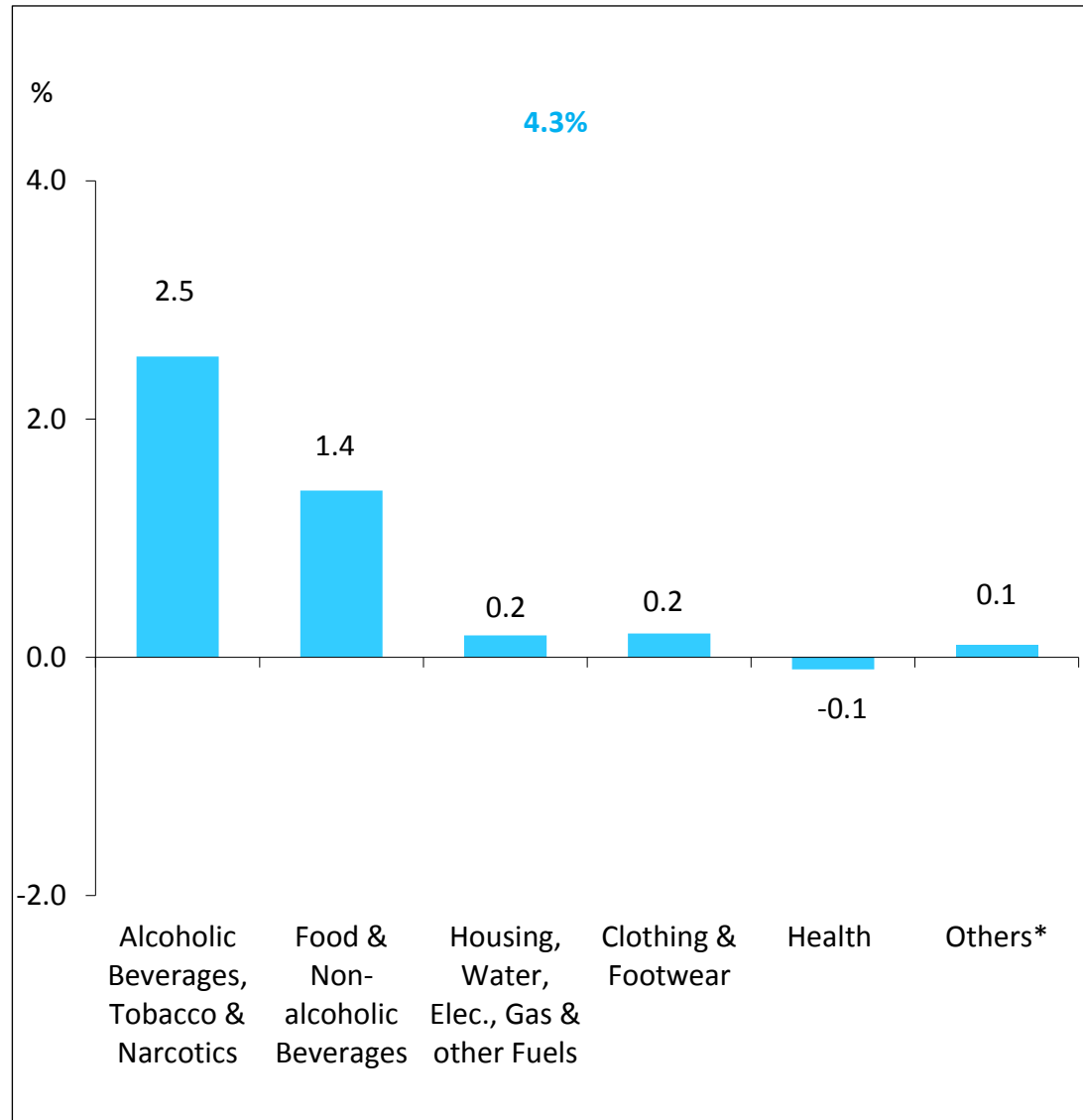
INFLATION

What's driving prices?

HEADLINE INFLATION – AUGUST



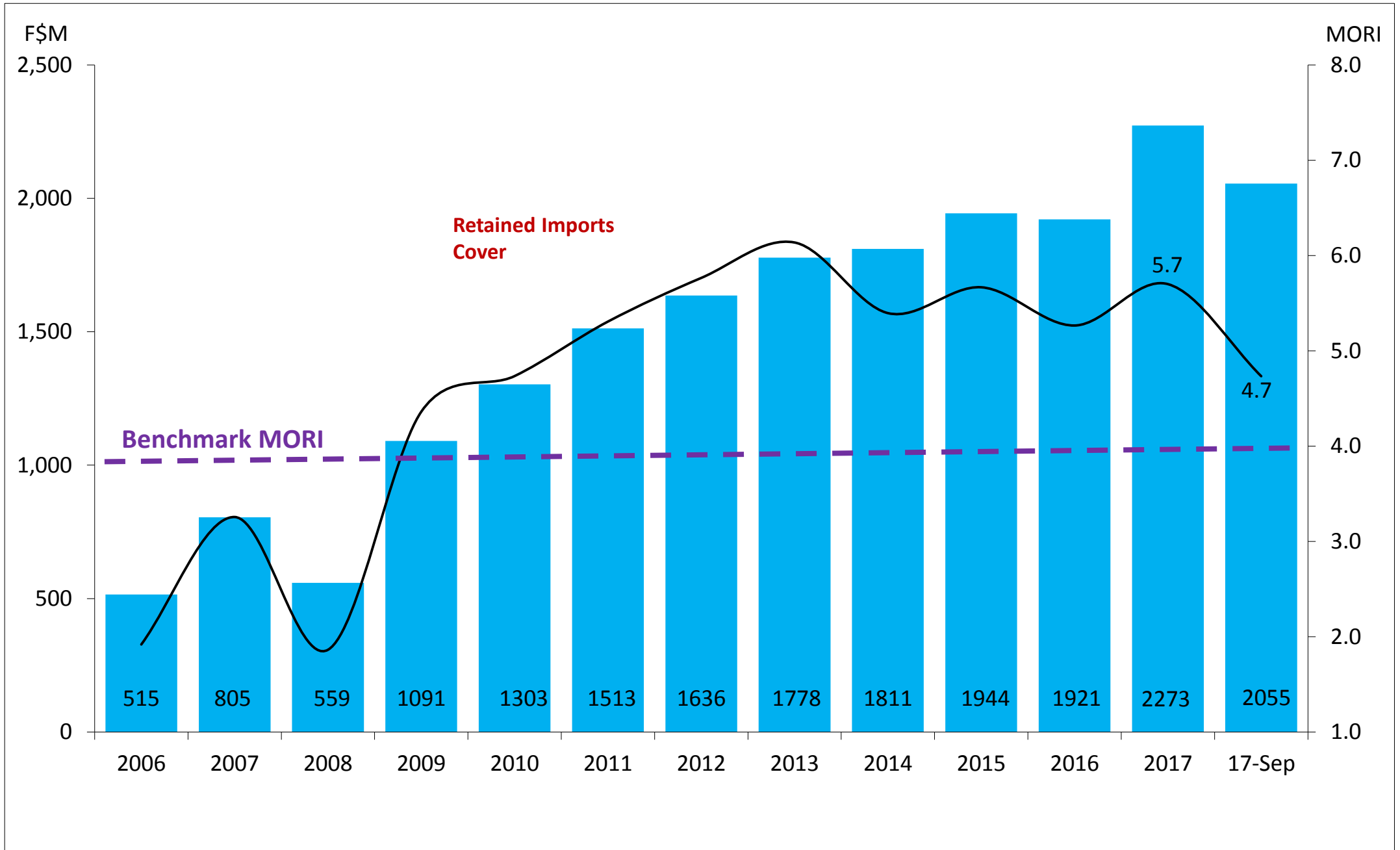
CONTRIBUTION TO INFLATION– AUGUST



*Others include Health, Communication, Furnishings, Hhld., Equip. Routine Hhld. Maintenance, Recreation & Culture, Clothing & Footwear and Misc.

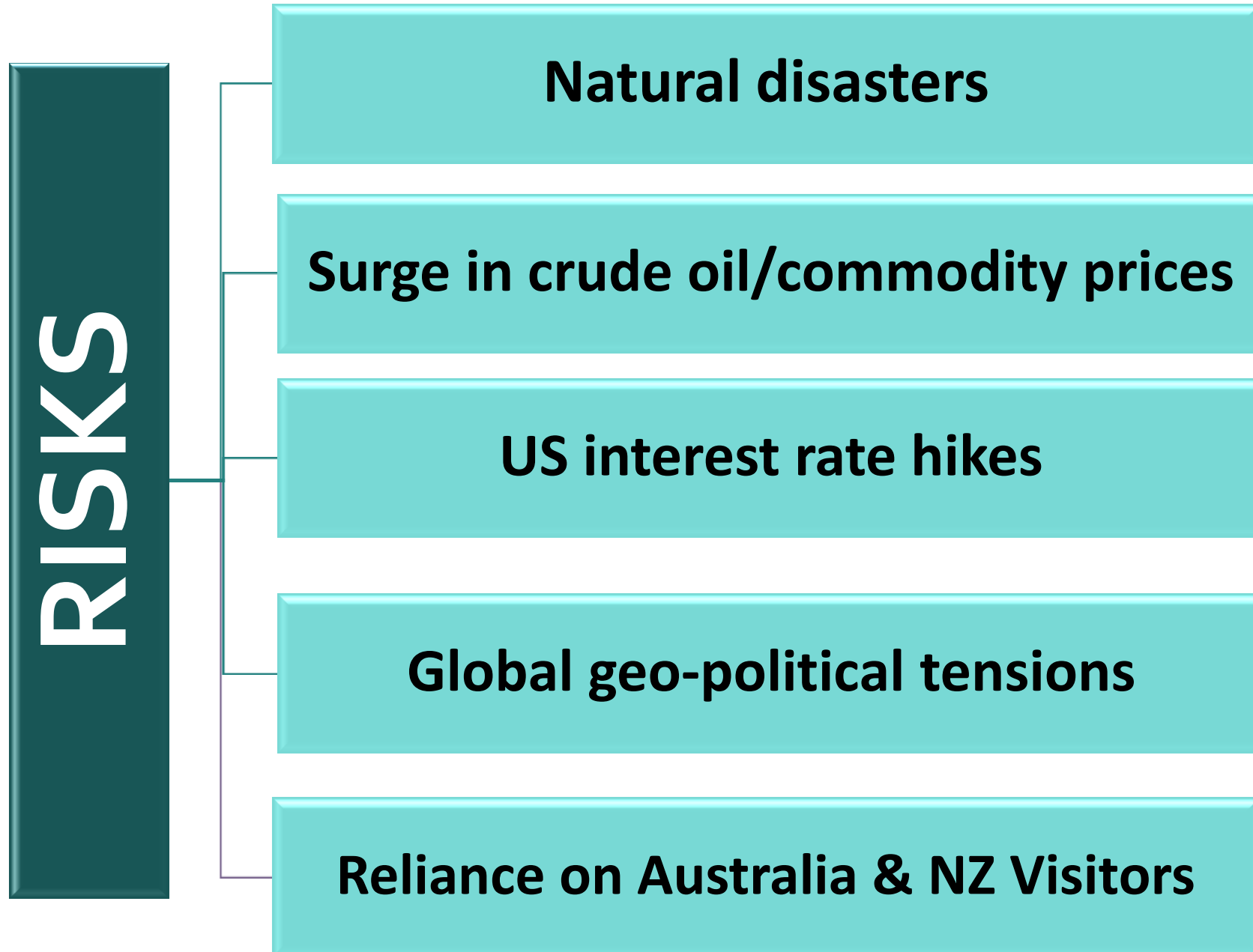
FOREIGN RESERVES

Do we have buffers?



RISKS

They are always out there



SUMMARY

- 9 years of consecutive growth has resulted in almost doubling of Fiji's GDP and above trend growth is forecast for the next 3 years
- Macroeconomic fundamentals are strong:
 - Business confidence is high
 - Public debt is sustainable and fiscal policy is supportive of growth
 - Financial system is sound and low level of interest rates is supportive of the private sector investment
 - External sector is stable with foreign reserves at comfortable levels
 - Core inflation is below 3%, however recent spike is driven by supply side shocks due to natural disasters
- Overall prospects for domestic economy remain favourable but baseline forecast is just above 3.0%
- Raising potential growth requires fast tracking reforms and climate proofing infrastructure and communities
- Opportunity to raise future growth to above 5 percent. Need everyone including private sector to rally behind a common goal.

THANK YOU