AN OVERVIEW OF THE FIJI ECONOMY

Deputy Governor | Ariff Ali

15 July 2015
How is the Fijian economy doing?

Does the latest key economic indicators validate our growth estimates?

Where is Government's Fiscal Policy heading?

What is happening to trade?

Is the financial sector indicators inline with our assessment of the economy?

What are the key risks and challenges?

Are the monetary policy objectives intact?

Summary
Economy poised for 6th consecutive year of economic growth

Sources: Fiji Bureau of Statistics and Macroeconomic Committee
2015 growth is broad based

2015 (f) : +4.0% → +4.3%

Source: Macroeconomic Committee
SECTORAL PERFORMANCE
Tourism is strong so far in 2015 and there is a positive turnaround in gold production

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>Visitor Arrivals: +5.3% to 692,630</td>
<td>Visitor Arrivals (Jan-May): +7.4% to 262,992</td>
</tr>
<tr>
<td></td>
<td>Tourism Earnings: +6.6% to $1.4 billion</td>
<td>Visitor Arrivals: +5.0% to 727,000*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tourism Earnings (Jan-Mar): +8.7% to $310.7 million</td>
</tr>
<tr>
<td>Gold</td>
<td>Production: -1.8% to 38,504 ounces</td>
<td>Production (Jan-May): +33.8% to 17,250 ounces</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015 forecast: +5.0% to 40,429 ounces*</td>
</tr>
<tr>
<td>Cement</td>
<td>Production: +9.6% to 277,624 tonnes</td>
<td>(Jan-June): +15.3% to 115,762 tonnes</td>
</tr>
<tr>
<td>Electricity</td>
<td>Production: +0.2% to 859,715 MWh</td>
<td>Production (Jan-May): +2.2% to 383,164 MWh</td>
</tr>
<tr>
<td></td>
<td>Consumption: +1.9% to 794,874 MWh</td>
<td>Consumption (Jan-May): +5.0% to 355,783 MWh</td>
</tr>
</tbody>
</table>

*Macroeconomic Committee forecast as at April 2015
**Other sectoral performances are generally positive**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timber</strong></td>
<td>• Pinewood Intake: +35.7%</td>
<td>• Pinewood Intake (Jan-May): -7.1%</td>
</tr>
<tr>
<td></td>
<td>• Woodchip Production: +22.9%</td>
<td>• Woodchip Production (Jan-May) +6.3%</td>
</tr>
<tr>
<td></td>
<td>• Woodchip Exports: +254.27% to $50.3m</td>
<td>• Mahogany Production (Jan-May): +1.5%</td>
</tr>
<tr>
<td></td>
<td>• Mahogany Production: -7.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Sugar cane</strong></td>
<td>• Production: +13.7% to 1,831,678 tonnes</td>
<td>• Production: +8.5% to 1,987,371 tonnes*</td>
</tr>
<tr>
<td><strong>Sugar</strong></td>
<td>• Production: +25.8% to 226,230 tonnes</td>
<td>• Production: +8.5% to 245,460 tonnes*</td>
</tr>
<tr>
<td></td>
<td>• TCTS: 8.1 compared to 9.0 in 2013</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Exports: +41.7% to $201.3m</td>
<td></td>
</tr>
<tr>
<td><strong>Fish</strong></td>
<td>• Fish Production : -9.1% to 9928.3 tonnes</td>
<td>• Production (Jan-Mar): +92.0% to 2,289.3 tonnes</td>
</tr>
<tr>
<td></td>
<td>• Total Fish Exports : +43.3% to $365.1m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Domestic Fish Exports : +28.7% to $108.7m</td>
<td></td>
</tr>
<tr>
<td><strong>Garment</strong></td>
<td>• Production : +4.2%</td>
<td>• Production: +5.0% *</td>
</tr>
</tbody>
</table>

*Macroeconomic Committee forecast as at April 2015*
Consumption spending remains strong

<table>
<thead>
<tr>
<th>Partial Indicators</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net VAT</td>
<td>+11.0%</td>
<td>+5.7%</td>
<td>+12.8% (Jan-May)</td>
</tr>
<tr>
<td>New Consumption Lending</td>
<td>+89.6%</td>
<td>+72.8%</td>
<td>+7.9% (Jan-May)</td>
</tr>
<tr>
<td>New Vehicle Registration</td>
<td>+13.9%</td>
<td>+15.8%</td>
<td>+5.1% (Jan-May)</td>
</tr>
<tr>
<td>Second Hand Vehicle Registration</td>
<td>+59.1%</td>
<td>+66.9%</td>
<td>+41.9% (Jan-May)</td>
</tr>
<tr>
<td>Electricity Consumption</td>
<td>+6.6%</td>
<td>+1.9%</td>
<td>+5.0% (Jan-May)</td>
</tr>
<tr>
<td>RBF Retail Sales Survey</td>
<td>+10.7%</td>
<td>+11.1%</td>
<td>+6.2% (f)</td>
</tr>
<tr>
<td>Imports of Consumption Goods</td>
<td>+5.1%</td>
<td>+5.8%</td>
<td>n.a</td>
</tr>
<tr>
<td>Personal Remittances</td>
<td>+10.9%</td>
<td>+13.0%</td>
<td>+31.9% (Jan-Mar)</td>
</tr>
<tr>
<td>PAYE Collections</td>
<td>+2.5%</td>
<td>+18.6%</td>
<td>+17.9% (Jan-May)</td>
</tr>
<tr>
<td>Job Advertisements (FT)</td>
<td>+9.3%</td>
<td>+12.8%</td>
<td>+14.4% (Jan-May)</td>
</tr>
</tbody>
</table>
Investment spending is also robust

<table>
<thead>
<tr>
<th>Partial Indicators</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Investment Lending</td>
<td>+108.8%</td>
<td>+11.3%</td>
<td>+73.5% (Jan-May)</td>
</tr>
<tr>
<td>Domestic Cement Sales</td>
<td>+19.8%</td>
<td>+17.6%</td>
<td>+40.2% (Jan-June)</td>
</tr>
<tr>
<td>Completion Certificates Issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value</td>
<td>-13.5%</td>
<td>+99.8%</td>
<td>(Q1) +39.0%</td>
</tr>
<tr>
<td>Number</td>
<td>-1.7%</td>
<td>+7.9%</td>
<td>-20.7%</td>
</tr>
<tr>
<td>Building Permits Issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value</td>
<td>-59.2%</td>
<td>+10.6%</td>
<td>(Q1) +3.0%</td>
</tr>
<tr>
<td>Number</td>
<td>+1.1%</td>
<td>+7.0%</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Value of Work Put-in-Place</td>
<td>+29.0%</td>
<td>+15.2%</td>
<td>(Q1) +8.4%</td>
</tr>
<tr>
<td>Imports of Investment Goods</td>
<td>+25.1%</td>
<td>+16.0%</td>
<td>n.a</td>
</tr>
<tr>
<td>Government Capex (F$M)</td>
<td>$586.3m</td>
<td>$841.6m (r)</td>
<td>$1,321.9m (b)</td>
</tr>
</tbody>
</table>
Investment/GDP is above 25% for the 3rd consecutive year

Private sector investment (excluding Govt. funded projects is 13.5% of GDP in 2015)

Sources: Fiji Bureau of Statistics and Reserve Bank of Fiji
BUSINESS EXPECTATIONS SURVEY
Outlook for Investment (Plant & Machinery)

Outlook for Investment (Buildings)

Source: Reserve Bank of Fiji
LABOUR MARKET
FISCAL SECTOR
Fiscal Policy: Underlying deficit higher in 2015

% of GDP

-10.0 -8.0 -6.0 -4.0 -2.0 0.0 2.0 4.0 6.0 8.0 10.0

2007 2009 2011 2013 2015b 2017f

Underlying Deficit (excluding assets sales)

Net Deficit

% of Exp

0.0 20.0 40.0 60.0 80.0 100.0


Capital Expenditure

Operating Expenditure

Source: Supplement to the 2015 National Budget Address
EXTERNAL SECTOR
**TOTAL EXPORTS**

**EXCHENTS**

**SECTORAL CONTRIBUTIONS**

- **Fish**
- **Gold**
- **Garments**
- **Fruits & Vegetables**
- **Molasses**
- **Coconut oil**
- **Yaqona**
- **Textile**
- **Timber**
- **Other DE**
- **Mineral water**
- **Sugar**

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*Accrual data excluding aircraft*

Sources: Fiji Bureau of Statistics
**TOTAL IMPORTS**

- **Sources:** Fiji Bureau of Statistics

- **IMPORTS**
  - **SECTORAL CONTRIBUTIONS**
    - Mineral Fuels: +11.1% (3.9% Intermediate)
    - Oil & Fats: +2.3% (0.1% Consumption)
    - Crude Material: -0.1% (4.9% Investment)
    - Food: +0.9% (0.1% Miscellaneous Transaction)
    - Manu. Goods: +0.4% (Beverages & Tobacco)
    - Mis Manu. Articles: +0.1% (Chemicals)

- **Accrual data excluding aircraft**

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* F$M

**Annual**

- 2000: 1,200
- 2002: 1,500
- 2004: 2,000
- 2006: 2,500
- 2008: 3,000
- 2010: 3,500
- 2012p: 4,000
- 2014r: 4,500

**Total Imports % of GDP**

- 2000: 0.0%
- 2002: 0.1%
- 2004: 0.4%
- 2006: 0.9%
- 2008: 1.0%
- 2010: 1.1%
- 2012p: 0.1%
- 2014r: 11.1%

**Sources:** Fiji Bureau of Statistics
TRADE BALANCE *

* Excluding aircraft

Sources: Fiji Bureau of Statistics and Macroeconomic Committee

10.7%
Tourism Earnings and Remittances continue to increase and perform better than expected

Tourism Earnings

Sources: Fiji Bureau of Statistics, RBF OET Report and Macroeconomic Committee

Personal Remittances

Sources: Fiji Bureau of Statistics, RBF OET Report and Macroeconomic Committee
FINANCIAL SECTOR DEVELOPMENTS
From March 2014 HFC lending is included in Commercial Banks lending,
COMMERCIAL BANKS’ NEW LENDING
Jan-May

From March 2014 HFC lending is included in Commercial Banks lending

Source: Reserve Bank of Fiji
ROLE OF RBF IN SUPPORTING ECONOMIC GROWTH
BANKS’ LIQUIDITY

F$M

As @ 7th July 2015
Source: Reserve Bank of Fiji
OTHER NON CORE CENTRAL BANK INITIATIVES

- Import Substitution & Export Finance Facility
- SME Credit Guarantee Scheme
- Natural Disaster Rehabilitation Facility
- Housing Facility
- Financial Inclusion initiatives
- Directed lending to Agriculture and Renewable Energy Sectors
RBF’s OBJECTIVES
FOREIGN RESERVES

Source: Reserve Bank of Fiji
COMMERCIAL BANKS’ PROBLEMATIC LOANS

By Sector

Continues to improve across all sectors

1. Others* include agriculture, mining & quarrying, electricity, gas & water, NBFIs and others sectors.
2. Problematic loans include special mention loans, which are loans that are at risk of being at default. Problematic loans has a much broader definition than nonperforming loans.
RISKS & CHALLENGES

- Natural disasters
- Uneven and weak growth in trading partner economies
- Rise in commodity prices
- Continuation of structural reform
- Need to maintain fiscal discipline
- Dependence on Australia & NZ visitors
- Improve our ranking on ease of doing business
The Fijian economy is poised for sixth year of consecutive growth;

2014 growth estimate and 2015 growth forecast has been revised upwards;

Consumption activity is strong;

Business confidence is high and is reflected in robust investment activity;

Economic activity is supported by expansionary fiscal policy and accommodative monetary policy;

Expectation that foreign direct investment will increase;

Growth outlook for the medium term is biased upwards

Monetary policy objectives are intact:

Foreign reserves are comfortable and expected to remain stable;

2015 inflation forecast will be around 3.0 percent.
THANK YOU
SPARES
## MOVEMENTS IN F$ AGAINST BASKET CURRENCIES

<table>
<thead>
<tr>
<th></th>
<th>CHANGE IN VALUE OF FJD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AUD</td>
</tr>
<tr>
<td>30th JUNE 2015</td>
<td>0.6225</td>
</tr>
<tr>
<td>1st JULY 2015</td>
<td>0.6197</td>
</tr>
<tr>
<td>MONTHLY % CHANGE</td>
<td>-1.0</td>
</tr>
<tr>
<td>ANNUAL % CHANGE</td>
<td>7.5</td>
</tr>
<tr>
<td>% CHANGE FROM 1 JAN TO JUNE 2015</td>
<td>1.4</td>
</tr>
<tr>
<td>% CHANGE FROM DEV TO JUNE 2015</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of Fiji
TRADE DEFICIT – FIJI VS SELECTED ECONOMIES

Average 2008-12

Mineral exporters

21.4  15.4

-11.5  -20.9  -23.1  -29.2  -33.0  -42.3  -43.1  -52.2

T&T   PNG  SolomonMauritius  Fiji  Jamaica Vanuatu  Tonga  Samoa  Maldives

Data excludes aircraft for Fiji. Source: Estimates based on latest Article IV reports
CURRENT ACCOUNT DEFICIT – FIJI VS SELECTED SIMILAR COUNTRIES

Average (2008-12)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP (2008-12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tonga</td>
<td>-5.6</td>
</tr>
<tr>
<td>Fiji</td>
<td>-6.0</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>-6.1</td>
</tr>
<tr>
<td>Samoa</td>
<td>-6.9</td>
</tr>
<tr>
<td>Mauritius</td>
<td>-10.1</td>
</tr>
<tr>
<td>PNG</td>
<td>-10.8</td>
</tr>
<tr>
<td>Jamaica</td>
<td>-12.1</td>
</tr>
<tr>
<td>Solomons</td>
<td>-16.9</td>
</tr>
<tr>
<td>Maldives</td>
<td>-20.1</td>
</tr>
</tbody>
</table>

Data excludes aircraft for Fiji. Source: Fiji Bureau of Statistics, IMF World Economic Outlook Database
Fall in liquidity is because RBF mopped it up by raising SRD and through the issue of RBF Notes.
OUTSTANDING BANK LENDING AND DEPOSIT RATES BANKS

- Outstanding Lending Rate
- RBF Policy Rate
- Time Deposit


PERCENT

Outstanding Lending Rate:
- 5.70

RBF Policy Rate:
- 0.50

Time Deposit:
- 2.46
MAJOR FOREIGN EXCHANGE EARNERS ($M)

2014

Tourism: 1,405
Remittances: 383
Fish: 302
Mineral Water: 186
Sugar: 201
Clothing & Footwear: 111
Gold: 91
Timber: 91

1993

Tourism: 364
Sugar: 231
Clothing & Footwear: 145
Gold: 67
Fish: 48
Remittances: 36
Timber: 36
FINANCIAL STABILITY IS SOUND

CAMEL

- Banking Sector Satisfactory
- Insurance Companies Satisfactory
- Credit Institutions Marginal
- AML/CFT Largely Compliant
- FNPF Acceptable

Sound Financial System

CAMELS

- Earnings
- CAPAD
- Asset Quality
- Insurance
- Capital
- Solvency Surplus
- Earning & Liquidity
- FNPF
- Solvency Surplus
- Net Contribution
- Investment Income

BANKS

CREDIT INST

- Earning
- CAPAD
OUTSTANDING BANK LENDING & DEPOSIT RATES

Source: Reserve Bank of Fiji
Favorable outlook in the medium term though not quite the 5% we are looking for.
RECAP 2014: GDP GROWTH FORECAST

PERCENTAGE

Sources: Macroeconomic Committee
GLOBAL ECONOMY
Recovery continues but slower-than-expected
What’s Happening to our Trading Partner Economies?

- Chart showing economic trends with a question: Can we turn the economy around?
- Cartoon of a cartoon character with a graph depicting economic growth.
- Cartoon of a pig labeled "Economy" and "Euro Zone Economy".
- Cartoon of Fonterra accounts for more than 25% of New Zealand's exports.
- Illustration of a cow labeled "Moo" with coal and a panda driving a car with a sign reading "7%".
GOVERNMENT DEFICIT & FOREIGN RESERVES

FR (lhs)
Net Deficit(rhs)

Source: Ministry of Finance & 2013 Budget Estimates
MONETARY POLICY TRANSMISSION

- OMO
  - OVERNIGHT POLICY RATE
    - BASE MONEY
      * SRD
      * CURRENCY IN CIRCULATION
      * BDD
  - INTER – BANK RATE
    - OTHER MARKET INTEREST RATES
      - BANK CREDIT
        - ECONOMIC ACTIVITY
          - INFLATION and FOREIGN RESERVES
- RBF WINDOW
  - OMO