MEDIA STATEMENT

By

Minister of Finance, National Planning, Sugar Industry & Public Utilities
on the State of the Economy

I deem it necessary to respond to the negative assessment of the state of the Fiji economy and Government finances provided by speakers at the Fiji Update Seminar held at USP on Tuesday 22 July 2008. It was not an honest appraisal of the Interim Government's success in achieving financial stability and turning the economy around.

We all know that Fiji's economy started deteriorating from 2004 when exports began declining and our external position was put under pressure.

The SDL government propped up an ailing economy by borrowing indiscriminately to finance ballooning budget deficits. Our national debt had more than doubled from 1.2 billion in 2000 to 2.8 billion by 2006.

Much of that borrowing was for consumption, fuelling sharp increases in government's operating expenditure while capital works on infrastructure upgrade and improved service delivery were neglected.

As a result of a liberal monetary policy, our foreign reserves had depleted to a critical level. The Fiji dollar had also depreciated steadily against the currencies of our major trading partners, and for the first time in our recent history, our dollar ranked below the New Zealand dollar.

This liberal monetary policy also contributed to rapid capital outflow thus worsening the local liquidity situation to the extent that lending rates had escalated to around 14 – 15%. All this was clearly unsustainable and it was only a matter of time before the economy would have collapsed.

Let me now deal with my critics on the state of Fiji's economy today.

1. GDP Growth

Claim: That growth forecasts by the Reserve Bank have been off-track and even the modest 1.7% growth forecast for 2008 may be too optimistic.

Truth: Current improved trends in economic performance, in fact, indicate that growth is likely to exceed this earlier RBF forecast of 1.7% for 2008. This is demonstrated by:-

- **Sugar cane** production is up and the ratio of total cane to total sugar is expected to improve at least 15% in 2008 compared to 2007.
- **Fisheries and forestry** are showing good signs of growth, as are the transport and communication sectors.
- **The Vatukoula Gold Mine** is in operation again and exports of gold so far this year have totaled $3 million
- **Tourism** has made a strong comeback with visitor arrivals forecast to increase by 5.9% in 2008.

Exports: The export sector has seen steady growth and the economy is benefiting from its re-exports of mineral fuels given the dramatic increase in the global fuel price. Exports for the first 5 months of 2008 totalled $507 million - up **24.2%** over the same period in 2007, a much improved performance compared to 2005 and 2006 as illustrated below:-

		$	% Change
Exports	Jan – Dec 2005	1193m	
	Jan – Dec 2006	1202m	0.80
	Jan – Dec 2007	1210m	0.70
Exports	Jan – May 2005	431m	
	Jan – May 2006	394m	-9.0
	Jan – May 2007	408m	3.6
	Jan – May 2008	507m	24.2

Mineral water, coconut oil and timber are all expected to grow in 2008 as indicated by positive figures for the first 5 months of this year. This will receive a further boost with sugar exports resuming from this month.

2. Fiscal Stance

Claim: The Interim Government has failed to achieve its fiscal aims and contain government expenditure.

Truth: Provisional data shows that actual budget deficit for 2007 was 1.5% - an improvement on the target of 2%.

- Government's debt position has improved; total debt (domestic and external) fell by 4% as a result of reduced borrowing as well as the maturing of outstanding loans. Our debt now stands at around 48% of GDP, compared to 52% in 2006.

- Data up to June 2008 (provisional) show that Government achieved a **$77.4 million (1.3%) surplus** - a significant improvement on the targeted deficit.

While Government's operating expenditure has declined, total expenditure in the first six (6) months on public infrastructure upgrading and improvements went up **11%** to $134 million. Major projects that have benefited include:-

- the Suva-Nausori and Nadi-Lautoka Regional Water Supplies
- road upgrading Project 3
- upgrading of Outer Island jetties
- rural electrification schemes and
- upgrading of rural airstrips.

3. Employment

Claim: That unemployment has risen substantially since December 2006 because of a down-turn in the economy as a result of political instability.

Truth: FNPF statistics how that employment had fallen in 2006 compared to 2005 but rose sharply in 2007 as illustrated by the following figures:-

FNPF Active Accounts

	2005	2006	2007
Number	316,791	306,904	324,003
% Change		- 3.0	5.6

It is often the case that detractors of the interim government speak without facts and figures and the media is quick to give them prominence when the media should do its own research and provide correct information to the people.

So the truth is that there were 18,000 more people in employment at the end of 2007, compared to 2006.

Investment

Investment is expected to increase to around 18% of GDP from a forecast of 15%. This is due to the resumption of a number of stalled tourism projects and increased spending on public sector capital projects. The $200 million FEA Nadarivatu Hydro Power Project is to commence construction in the 4th quarter of this year.

The Reserve Bank had granted special loan approvals valued at $228.6 million up to May 2008 – 52% of this went to the building and construction sector.

This shows that the credit ceiling imposed by the RBF, crucial for the protection of our foreign reserves and control of domestic inflation, is not constraining investment. Commercial banks are allowed to exceed their ceiling to lend to priority sectors, particularly, those related to investment and small and micro enterprises.

Furthermore, the credit ceiling has allowed liquidity to build up, which has led to a general fall in interest rates – down to around 7% from a high of 14-15% in 2005/2006.

Inflation and Reserves

Foreign Reserves have stabilized at around $878 million to cover 3.8 months of imports (May 2008) - an increase of 8% over the same period last year. This is a significant achievement in itself given that the value of mineral fuel imports went up 34.3% in the first five months of 2008, compared to the same period in 2007.

However, the government is carefully monitoring the continuing increases in the global price of food products and fuel which can put at risk a number of our macroeconomic objectives, including the domestic inflation rate and our official foreign reserves position. So far we have managed well under trying circumstances.

Attempts have been made to shield the economy as much as possible from these price increases, through the Prices and Incomes Board price control mechanism. As a result of positive government measures, the rate of inflation has fallen to 5.8% from 7.6% in April.

The Fiji dollar has remained stable despite the economic slowdown experienced last year and external inflationary pressures currently affecting our economy.

Standard and Poor's, the world's foremost provider of independent credit ratings and risk evaluation, have affirmed their 'B' short-term foreign currency and local currency ratings on Fiji, stating that the outlook remains stable. They have also affirmed their long-term ratings on Fiji with 'B' for foreign currency and a 'B+' for local currency.

Pro-poor Policies

The Interim Government has put in place policies at a cost of **$25 million annually** to cushion the disproportionate effect of rising food and fuel prices on the poor and low-income earners in our society.

Policies in response to the current situation have included:-

- raising the income tax threshold from $9,000 to $15,000
- removal of duty and the zero rating of VAT on basic food items
- holding increases to bus fares through state subsidy payments

Government's total allocation towards poverty alleviation programmes rose from **$54.5 million in 2007 to approximately $65 million in 2008.**

Government also funds programmes that aim to create sustainable employment and income opportunities in the medium to long term, i.e. the Northern Development Programme, and the annual rent subsidy to indigenous landowners on the Unimproved Capital Value of agricultural land leases.

Conclusion

All in all, it should be obvious to any fair minded person that the economy is well on the way to recovery and that the threat to its total collapse under the SDL government was removed as a result of timely intervention.

As a small open economy, Fiji is vulnerable to shocks that affect global markets as evident from the recent continuing hike in fuel and food prices. Despite such setbacks, the Interim Government has made significant headway in the past 18 months in stabilizing the economy and State finances through prudent fiscal and management policies. It is only fair that its achievements be honestly acknowledged by academics and other analysts.

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