Fiji's Economic Prospects

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Growth rate of Fijian economy

Growth Projections

Institutions	2017 Growth	Projected 2018
IMF	4.0%	3.9%
ADB	3.9%	3.6%
RBF	4.2%	3.2%
MoF	4.2%	3.2%
SoE	3.2%	3.3%

- Elections – no change of government, growth would persist with real policy certainty. Changes will lower growth (conservative approach)

- External shocks and climatic events can lower growth rate substantially to about 2%

- Sustaining strong growth will depend on maintaining fiscal-finance stability and private sector development

Major economic outcome

Fiji economy is poised to grow - welfare of average Fijians are expected to raise

- Per capita income in 2017 was F$9,072(WB, 2018). If GDP grew by 4% persistently, it would be F$11,492(2025)

- Fiji per capita income INT$8703(2017) @ 4% GDP will be INT$11,025(2025)

- Implies an average Fijian will be richer by 27% - great outcome in next 7 years!

Growth outlook

Government forecast 3.4%(2019) and 3.2%(2020)

Agriculture incl. sugar, mining, manufacturing, construction, tourism related sectors and ICT

Our estimates are for 3.6% (2019) and 3.5% (2020)

Three key questions

We intend to investigate

1. Is short-term (2018-2020) growth sustainable?

2. Trends and issues in Govt. expenditure

3. Can Fiji excel agriculture productivity by linking it to tourism?

Growth sustainability

Is SR growth sustainable?

In the range of 3%-4% for Fiji - yes!

1. Manage government debt against > dozen of development/social assistance

2. Adequately manage inflation expectations

3. Create employment through small and medium enterprises

4. Boost investments ratio (I/Y) to over 30%

5. Get real sectors perform strongly

Policy framework

Govt intends to develop sustainability

1. Govt would fund its expenditure using primary revenue and strengthen state of government finance

   ➢ Re-configure tax base (better compliance and tax evasion/avoidance)

   ➢ Rationalise borrowing at lowest cost to finance debt and deficit

   ➢ Re-allocate spending to high priority sectors if need arise

2. RBF to manage inflation and inflations expectations

   ➢ RBF is keeping tabs on financial market developments.

   ➢ Has announced 3% year-end inflation to manage inflation exp.

   ➢ Govt could consider duty concessions and price controls on selected household goods

   Direct control of inflation in Fiji is hard

Policy framework

Develop resilience…

3. National Budget (2018-2019) has incentives for SME development - is an ongoing policy initiative

4. With accommodative policies, stable economic environment and policy certainty, private investment is likely to grow.

5. Completion of Government capital projects will boost I/Y as well – need (I/Y) increased over 30%

6. Fiji needs to consider cost of doing business <space rental cost, duty rates, labour rates, interest cost, exchange rate, internet cost, cyber security>
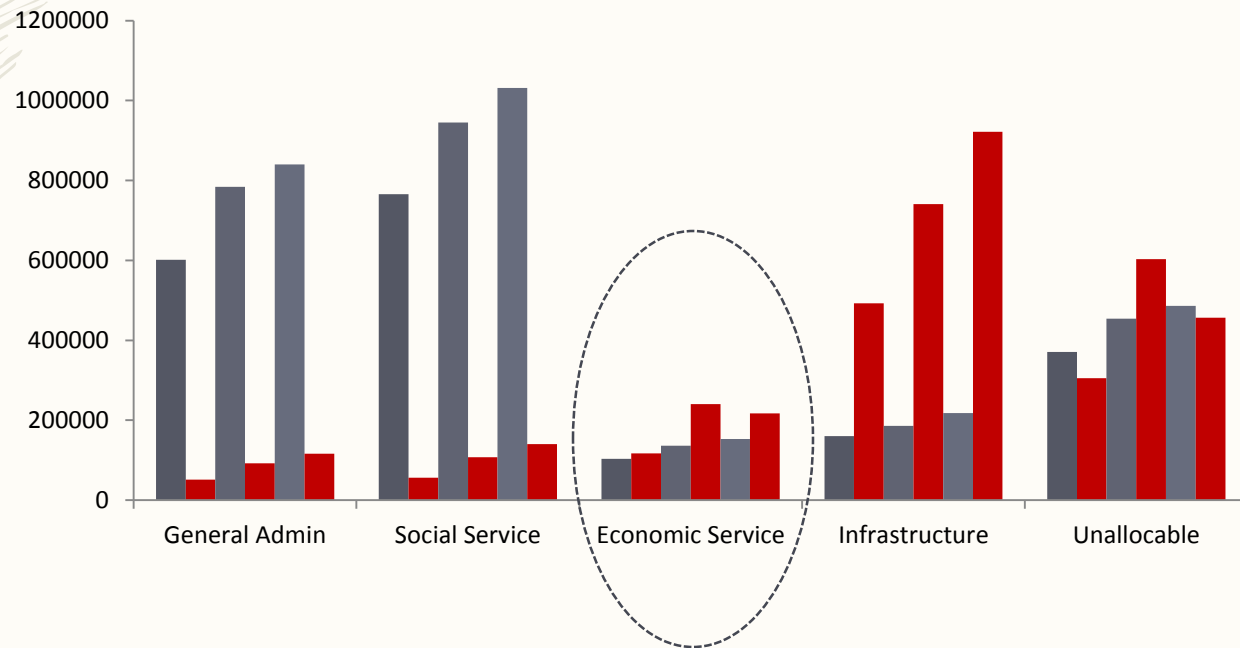
Doing Business in Fiji

Distance from frontier @ 100
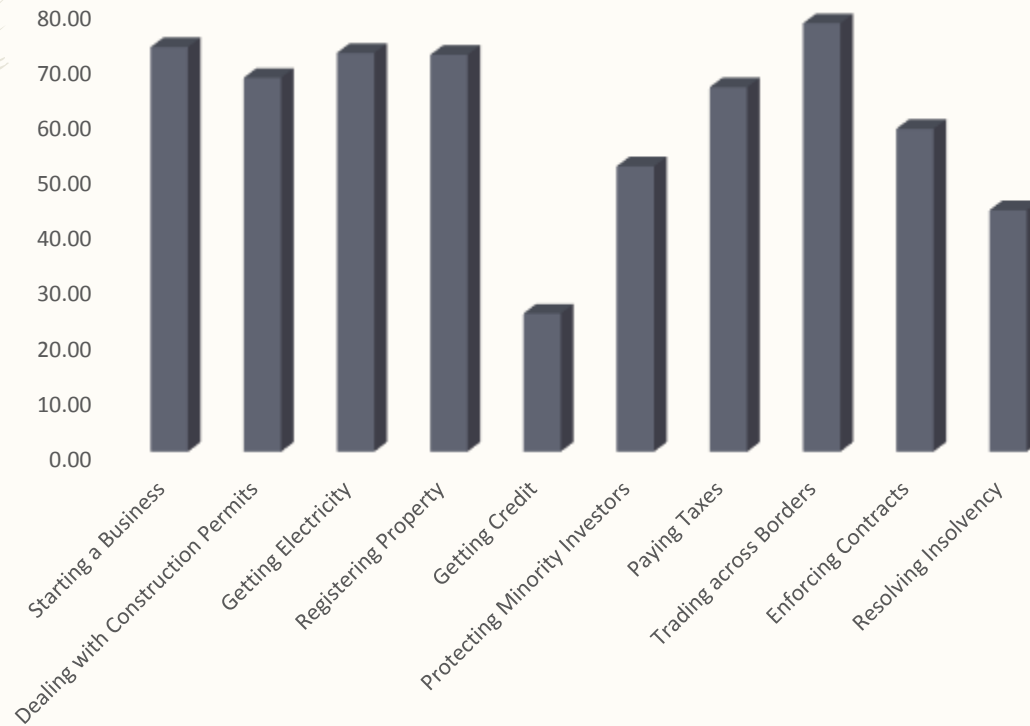
Budget Allocations

Broad categories (2016-2019)

Real Growth of "Economic Services" (2017-2018) 29.3%, 102.3% (2018-2019) 8.9%, -12.5%

Social/development assistance

Social Support

1. Home care (after flood), farm care (fertiliser, weedicides etc), sugar care (provision for drainage, implements and grants for mechanical harvester, leasehold care (native lease payment), mother/child care, school lunch

2. E-ticketing double-up in addition to free bus fare (children, disabled, elderly)

3. Food voucher & increase in welfare assistance

4. Micro-finance and small business grants for new entrepreneurs

5. Assistance for renovation, new homes and land grant

6. TELS and toppers schemes

7. Grant for technical and academic institutions

8. RBF exchange control relaxations

9. Free utilities for incomes below $30000

10. Medical and pharmaceutical support

11. Lower VAT and higher tax threshold

12. Expansionary budget since 2006

Fiscal stability

Some ways of achieving fiscal stability

1. Tighten accountability for financial assistance disbursements

2. Accelerate reforms to allow markets to determine economic outcomes

3. Reallocate from non-performing to high-yield spending projects

4. Re-finance debt where possible and shop for lower cost financing within and outside

5. Develop partnerships with private sector

6. Move away from creating dependency to developing economic productivity

The 2018-19 National Budget

Some issues – minimum wage award

1. Some scope to re-consider minimum wage - determination of "equilibrium base" (X) which sets the new wage rate $X^* = X(1+g)$

2. In absence of g, used inflation – not equitable

3. Might be useful to quantify the social wage rate – uptake rates are different

4. If wages are to increase further, business support initiatives/subsidies to be provided

The 2018-19 National Budget

Some issues - Inflation

➢ Price of certain necessity goods could be managed through reduced duty rates

➢ Consider reduced rates on super foods and selected high nutrient goods

➢ Consider increase in rates for junk food

➢ Re-consider the basket of "basic items" under zero-rated VAT

➢ Mitigate erective price volatility through producer support systems
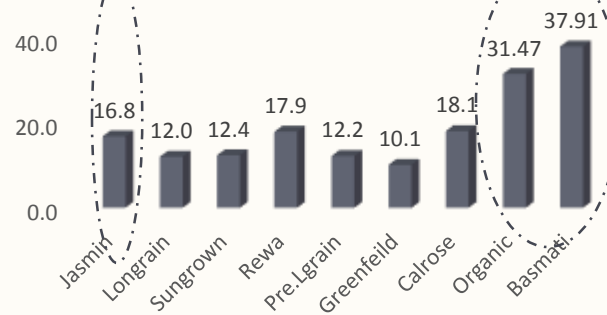
The 2018-19 National Budget

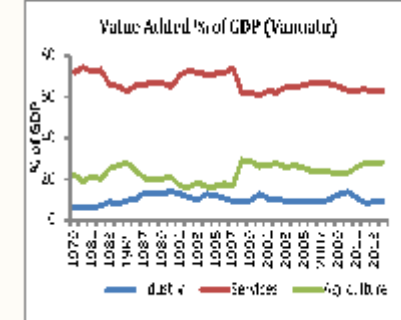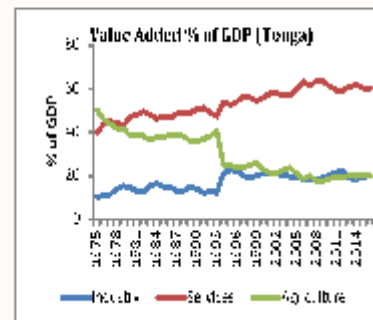## Some issues – Price of rice (basic good)

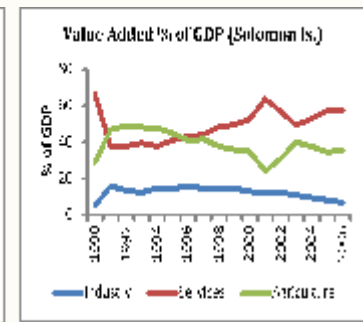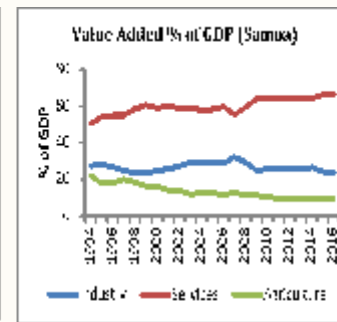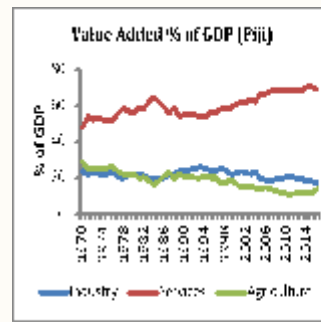Consumer price of rice ($)
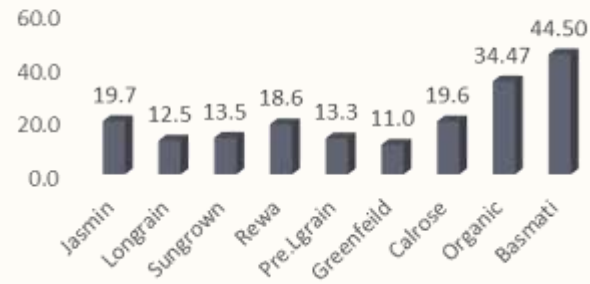
Consumer price of rice ($)

Structural change in PICs

Performance of Economic Sectors

Linking Tourism to Agriculture

Any synergy in connecting them?

Tourism, seems to have replaced agriculture in Fiji - obvious questions are:

1. Can we arrest the decline in agriculture partially through growth in tourism?

2. Can we use agriculture and reduce income leakage from tourism?

3. Can we leverage inter-sectorial connections to promote development of alternative sectors cheaply, amplifying multiplier effects?

What does the theory say?

Stages of development

1. The pace of development of stage II depends on sustainability of development of Stage I....

2. In PICs, agriculture will continue to be a natural buffer against poverty, climate events and provide incomes, employment and livelihoods

3. We empirically investigate the connection between agriculture and services in Fiji and test if there is any scope for agriculture in tourism

Econometric modeling

Sectorial productivity functions

This can be complicated – but I will simplify as much as possible, brining key findings to table

Estimate productivity functions of two sectors (agriculture & services)

These show factors that determines productivity of these sectors

Productivity functions

Using production theory

$$Y_{ARG} = f(x_1, x_2 ... e_{ARG})$$

$$Y_{TOU} = f(z_1, z_2 ... e_{TOU})$$

Determinants of TRC sub-sector productivity

Empirical estimates (PH-Method 1970-2015)

Agriculture - weather conditions, sugar efficiency, availability of land & labour, investment in agriculture, wage and exchange rates and international income

Tourism - political disturbance, exchange rate, international income, connectivity, quality of tourism services

Is there any feed-back effects?

Test shocks to each system

Variable	$\Delta \ln Q_{TOU}$	$\Delta \ln Q_{ARG}$
e_{TOU}	-0.732(0.01)**	+0.037(0.24)
e_{ARG}	0.34(0.04)*	-0.44(0.02)**

What do we find?

There is potential for inter-sectorial synergy

1. Agriculture feeds into tourism growth, reverse is not true

2. Need to better link agriculture to tourism through developing productivity of agriculture

3. Crop insurance (adverse weather), farm productivity for consistent supply, boost resources flow (land, labour and investment) and meaningfuly connect to markets

Conclusion

Fiji needs to raise a level-up

1. Economic, business and Government's confidences are high and SR-MT economic outlook is promising

2. Fiji needs to develop economic capacity and strategically move away from dependency

3. We need to re-think sustainability of government finance, inflation and on wage awards

4. Fiji needs to better link agriculture with tourism - develop productivity of agriculture

5. Must revamp real sector growth policies to focus on productivity, resources flow, investment and connectivity