

## Barry Whiteside: Recent developments and outlook for the Fijian economy

Address by Mr Barry Whiteside, Governor of the Reserve Bank of Fiji, at the Asco Motors Appreciation Luncheon, Suva, 13 July 2016.

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The Chief Executive Officer of Asco Motors, Mr Jai Kumar

Distinguished Guests

Staff of Asco Motors

Ladies and Gentlemen

### Introductory comments

Bula vinaka and warm greetings to you all! I wish to thank Mr Kumar for his kind invitation. It is a pleasure to be here this afternoon to share with you some recent developments and our outlook for the Fijian economy.

But before I do so, I understand that this is Asco Motors' 27th year of operations under its current trading name, and that it has been 53 years since the first Toyota passenger vehicle was shipped to Fiji in 1963. I still have visions of those early box-like models (and yes I do go back that far!). I distinctively remember that it was a time when anything Japanese was notably cheaper, with the connotation of being qualitatively inferior than models imported from Australia and other parts of the world. This is definitely not the case now, when anything manufactured in Japan seems to attract quite a high premium price! This clearly is a reflection of the drive to quality and efficiency over the years and the philosophy to be the best!

Akio Toyoda, the Chief Executive Officer of Toyota Motor Corporation, famously said, "*When consumers purchase a Toyota, they are not simply purchasing a car, truck or van. They are placing their trust in our company.*"

Today's event, while labelled a customer appreciation day, can just as easily mark the many milestones achieved by Asco Motors over the years. The company has become an important cog in our automotive industry which, as a whole, has contributed immensely to the Fijian economy and continues to play an important role towards lifting our growth potential.

### The Fijian economy

My brief indicated that I should say a few words on the Fijian economy. Over the past three years (from 2013–2015) Fiji has grown, on average, by 4.7 percent. This easily exceeds the historical trend and is something I feel we should all be quite proud of, given the global trend has been moving in the opposite direction.

Recently we have seen Fiji flourish in an environment of *consistent and accommodative fiscal and monetary policies, strong credit growth, improved investor and consumer confidence* and, with the return to parliamentary democracy – *political stability and re-engagement of our development partners*.

As a result, consumption and investment activity have been very robust. This is confirmed by trends in the various partial indicators. Improved *disposable household incomes* from lower taxes, *government financial support* and *remittance inflows from Fijians abroad* continue to underpin consumer spending. The vehicle industry has clearly benefitted under this climate and this has been further supported by favourable labour market conditions, as reflected in growing numbers of newly *registered members with the Fiji National Provident Fund* and *job advertisements* placed in the daily newspapers.

Investment activity has expanded and continues to grow with momentum from both the private sector and Government. In recent years the Government has allocated sizeable budgets for infrastructure development, which benefit both the public and private sectors and which will gradually unlock previously untapped resources across our major islands as our local entrepreneurs begin to play their part to develop their businesses.

This year, despite Tropical Cyclone (TC) Winston and the April floods brought on by TC Zena, the Fijian economy is still forecast to grow by 2.4 percent. This growth reflects expected strong activity in our tourism-related industries, including transport, wholesale, retail, accommodation & food services, which were relatively unscathed by the cyclones. In addition, with the on-going reconstruction and recovery efforts, construction activity is expected to remain strong, further boosting retail sales activity.

Ladies and gentlemen, we know that imports of investment and consumption goods are projected to pick up as the domestic economy strengthens and reconstruction efforts post-cyclones continue. When we couple this with expected lower exports of agricultural products as a result of the natural disasters, it is possible that we will see a small dent in our foreign reserves towards the end of this year. Nonetheless, at the moment, our official reserves continue to remain comfortable, at just under \$2.0 billion, or enough to pay for 5.5 months of retained imports.

Inflation, another key macro-economic indicator which we monitor closely, spiked in June to 5.3 percent on the back of price hikes in local agricultural market items following the cyclones. This effect will be temporary, and in the near-to-medium term, we forecast inflation to be stabilised by the existing low world commodity prices. Our end-year number for inflation is closer to 3 percent.

The medium term outlook for the Fiji economy is expected to remain positive. Notwithstanding any further adverse shocks, our current forecasts put growth at 3.6 percent for 2017 and 3.2 percent for 2018. Future growth is expected to result from ongoing *rebuilding efforts*, as well as the *faster pace of government capital spending*, *strong tourist numbers* and *good remittance inflows*.

## **The automotive industry**

Ladies and gentlemen we are here for Asco Motors so let me share a little on Fiji's automotive industry. I must acknowledge that our analysis depends primarily on the data we receive from the industry and I am sure the industry would probably be able to provide far better insight than I could.

It goes without saying that the automotive industry plays a critical role in Fijian economic life. It has deep linkages that impact the growth of every sector of the economy.

Strong growth in lending to this sector in the past three years (from 2013–2015) reflects the enormous opportunities from which the sector has benefited as a result of improved policies and the up-beat business environment. New bank loans to the *transport and storage sector* and to *private individuals* for the purchase of vehicles averaged an annual growth of 67 percent (\$53 million) and 165 percent (\$21 million), respectively. In addition to this, new loans by Credit Institutions (the other major lenders to the two sectors) grew by an average of 12 percent (\$28 million) and 19 percent (\$14 million) over the same three-year period.

Data on vehicle sales and vehicle registrations received from the Fiji Motors Traders Association and the Fiji Land Transport Authority confirm these developments. From just over 1,200 units in 2010, new vehicle registrations grew to 4,264 in 2014 before falling slightly in 2015 to 3,860 units. Meanwhile second hand vehicle registrations have had a phenomenal rise from 766 units in 2010 to 9,414 units last year (many of these, no doubt, being the Prius hybrids!). In the last three years to 2015, 11,806 new vehicles and 19,939 second hand vehicles have been added to our roads! A LTA number I saw just recently puts

105,000 registered vehicles on our roads this year (we of course have no idea about the unregistered vehicles!).

We must acknowledge the role of Government in facilitating growth in this industry. Apart from significant Budget allocations for infrastructure development in recent years, the Government has put in place a number of policies to ensure a sustainable, more environment-friendly and safer automobile industry. Specific policies related to the passenger car industry include compliance with Euro 4 fuel standards and lower duties on both new vehicles and fuel efficient cars, including hybrids. This is important, especially when we need to look critically at reducing our fuel imports bill, which stands at nearly 30 percent of our total imports bill each year.

Looking ahead, I can see immense opportunity for the industry. Fiji's growing economy has resulted in a wider consumer base and, importantly, today's automobile industry needs to strike the right balance between meeting customer product demands, minimizing costs and their impact on the economy and protecting environmental standards. I understand that Asco Motors and Fiji's automobile industry have moved towards introducing new models which are fuel efficient, affordable and have higher reliability and essentially transforming the future of mobility – which is timely for Fiji especially in the event that global fuel prices begin to turn around sharply.

The benefits from Government's higher capital spending are now clearly seen in our improved roads and other infrastructure. However, an unintended consequence of more affordable automobiles is increased congestion on our roads, as I have highlighted earlier with the growing number of registrations. I am sure we have all been a little frustrated, some more so than others, when caught in the morning and afternoon traffic jams in and around Suva. While the scale is no way near the level I have experienced in Manila or Bangkok we are slowly getting there and *it will be critical that the future effectiveness and efficiency of our road systems are addressed in a timely manner.*

The recent experiences we have been facing with our bridges and overloading of heavy trucks not only exacerbates the delays and travel times, but has a significant economic impact for businesses in general. Therefore, in order to keep up with the growing economy and rising vehicle demand, the continued successful implementation of quality and adequate infrastructure as well as adherence to road standard requirements, are essential.

### **Concluding remarks**

Ladies and gentlemen, in closing, let me just say that the economy has come a long way in recent years. Despite the cyclones this year, there is still a great sense of confidence when we talk with the private sector and when we analyse the consumption and investment data. This year Fiji will register its seventh consecutive year of growth. We have not had a similar period of sustained growth since the early 1970s. Looking into the future, the near and medium term outlook for the Fijian economy remains positive.

As for the Reserve Bank's twin monetary policy objectives, we see inflation and foreign reserves as within acceptable and comfortable ranges. We also have a competitive and stable financial system with ample liquidity to assist us on our growth path.

The challenge for us all going forward is to continue our efforts towards enhancing a conducive business environment that will bring about more business and investment opportunities while boosting the country's growth potential.

On that final note, I again thank Mr Kumar and his team for inviting me here today and congratulate Asco Motors for its ongoing success in Fiji and wish you all another successful year ahead.

Vinaka Vakalevu.