Savenaca Narube: Fiji’s economic performance and challenges ahead


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1. How have we performed

- Economic growth has been volatile over the past decades. However, there have been pockets of years where sustained high economic growth has been achieved.
- When benchmarked against Pacific economies and selected Asian economies, Fiji can do much better.
- Factors that contribute to this lacklustre performance are:
  - Smallness/isolation
  - Natural disasters
  - Loss of preferential access
  - Slow reforms
  - Low productivity and efficiency
  - Slow policy implementation
  - Political instability
- Nevertheless, investment is growing
- However, economic growth in recent years is being driven by consumption causing some imbalances:
  - Strong consumption demand is feeding through to our imports
  - Unfortunately, at the same time our exports have not been performing well, thus widening our trade gap
  - Services account is growing and is providing some relief to these imbalances
  - However, it is still not enough to counter the increasing current account deficit and overall pressure on the balance of payments account
- Expansionary fiscal policy has supported economic growth in past years
- Inflow remains low

2. Risks to sustainable growth

- Fiji faces several risks to sustainable economic growth
- Risk 1: Political instability
- Risk 2: Unsustainable debt levels
  - This could be a short-term risk if the government reduces its deficit and we undertake reforms
- Risk 3: Stagnating exports and escalating imports is unsustainable
  - This could also be a short-term risk if we act now to remove the barriers to exports, look for import substitution where relevant and put in place policy measures now to dampen demand
3. **What policies are available to reduce these short term risks?**

- The two major pillars of policy are:
  - Fiscal – Government
  - Monetary – Reserve Bank of Fiji

- **What has the RBF done?**
  - Raised interest rates
  - Tightened liquidity
  - Issued credit guidelines
  - Tightened borrowing limits by non-residents

- However, monetary policy is not enough because:
  - Heavy reliance on monetary policy will result in further interest rate increases
  - The full effect of interest rates on demand takes a long time
  - Further interest rate hikes could slow and dampen investment

- Hence, monetary and fiscal policies must work together and share the burden of sustainability

- Fiscal policy has a greater influence on the economy:
  - Fiscal decisions have an immediate impact
  - The impact is also greater than monetary policy

- While, the higher fiscal deficits in the past worked well to raise economic growth, we now need to relook at our strategy to secure sustainability

4. **What can we do to raise economic growth?**

- We must have a consensus on growth and set ourselves as a nation an economic growth target

- Several recipes of achieving a 5 percent average growth are:
  - **Recipe 1:** We need to set targets in our key resource sectors
  - **Recipe 2:** We need to raise investment to 25% of GDP, especially through private sector investment
  - **Recipe 3:** We need to accelerate reforms and not succumb to reform myths
  - **Recipe 4:** We need to lift productivity

- This policy mix will:
  - Sustain future prosperity
  - Still raise growth to even higher level
  - Create jobs
  - Help us address social issues