Savenaca Narube: Fiji's economic performance and challenges ahead

Summary of a presentation by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, to the 2006 National Economic Summit, Suva, 28 September 2006.

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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:
  - a. Recipe 1: We need to set targets in our key resource sectors
  - b. Recipe 2: We need to raise investment to 25% of GDP, especially through private sector investment
  - c. Recipe 3:We need to accelerate reforms and not succumb to reform myths
  - d. 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