

# **The Economies of Fiji and the Pacific Region**



**Mr. Savenaca Narube**  
**Governor of the Reserve Bank of Fiji**

**Fiji-New Zealand Business Council**  
**Joint Conference**  
**2 June 2006**

# OUTLINE

- **ECONOMIC PERFORMANCES**
- **INFLATION**
- **BUDGET DEFICIT**
- **DEBT**
- **CHALLENGES**
- **SUMMARY**

# FACTORS AFFECTING ECONOMIC PERFORMANCE

- **Smallness / Isolation**
- **Globalisation**
- **Loss of preferential markets**
- **Weather / Environment**
- **Lack of capacity**
- **Political instability**

# TWO FUNDAMENTAL CONCERNS

1. GROWTH IS VOLATILE

2. GROWTH IS LOW

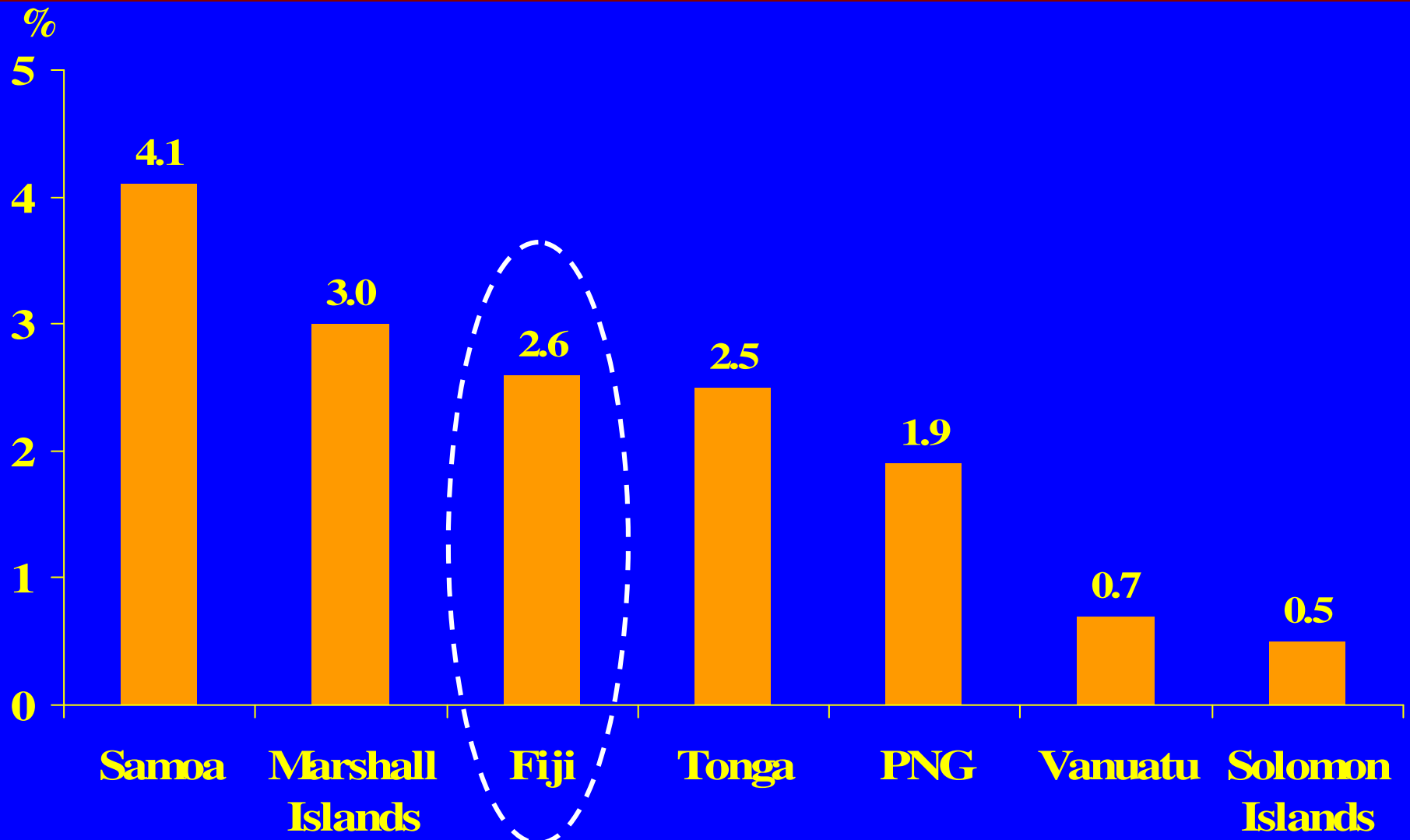
# ECONOMIC GROWTH

*Volatile growth*



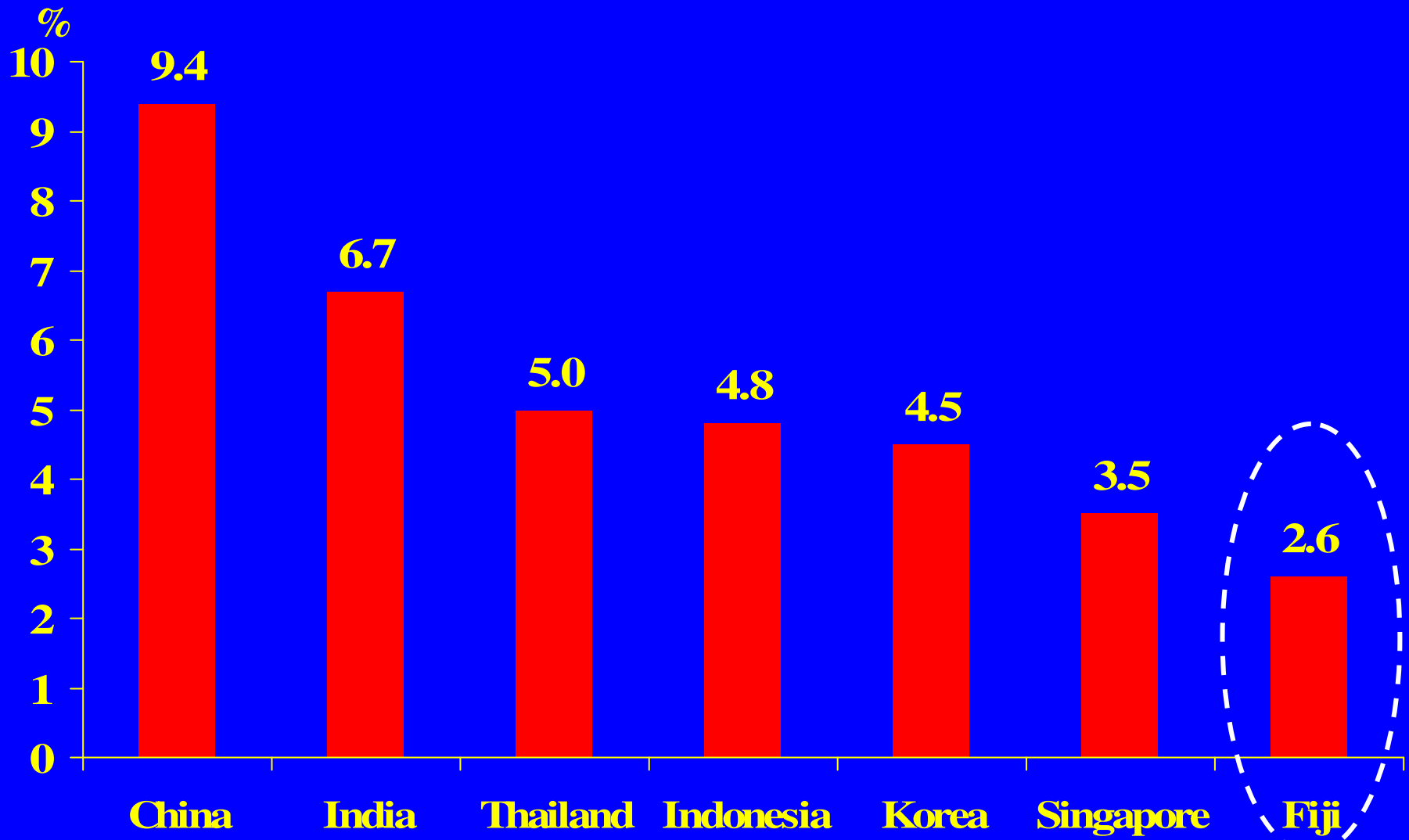
# ECONOMIC GROWTH

*5 year average (2001-2005)*

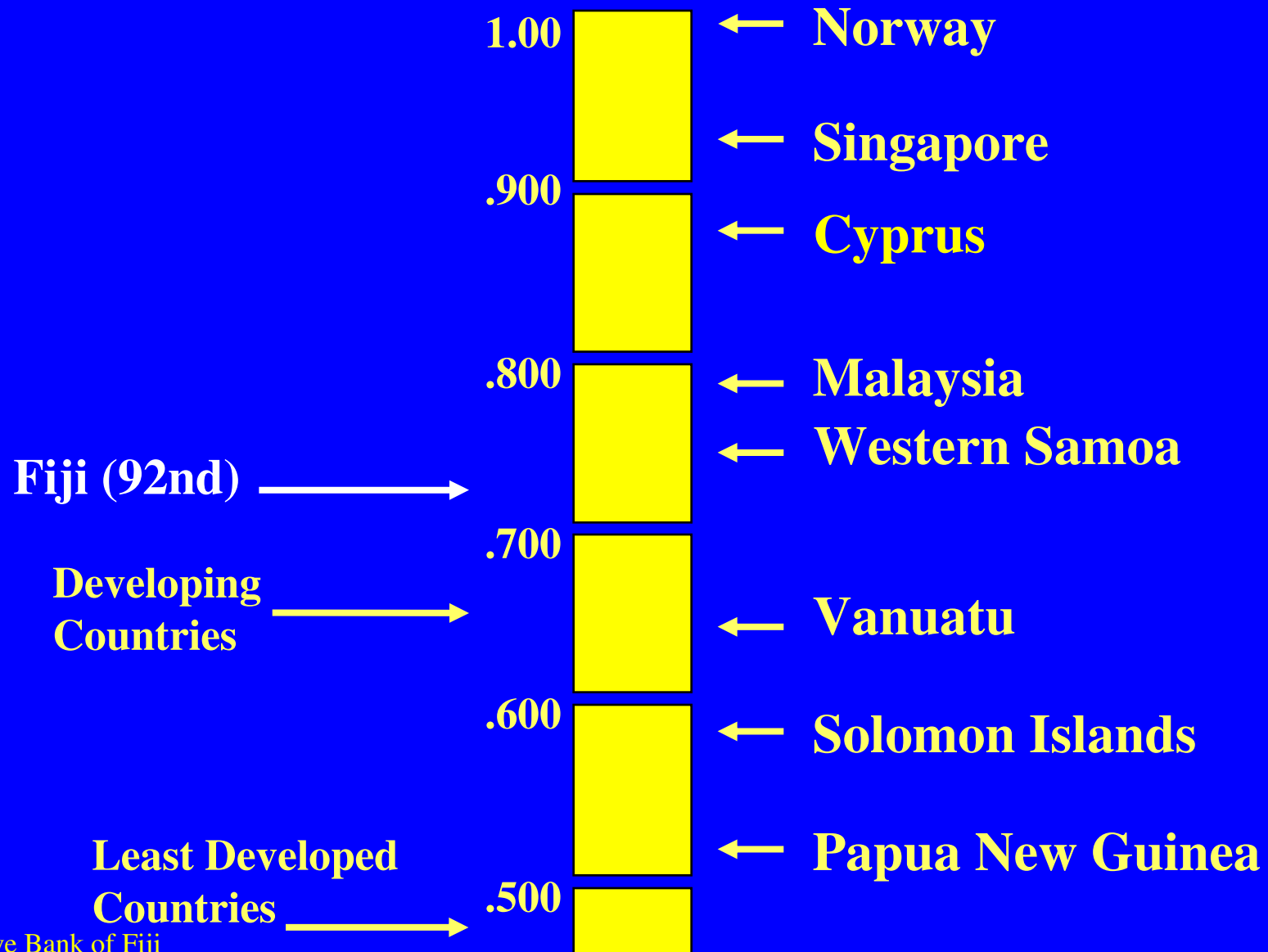


# ECONOMIC GROWTH

*5 year average (2001-2005)*



# 2003 HUMAN DEVELOPMENT INDEX





# ANNUAL AVERAGE INFLATION

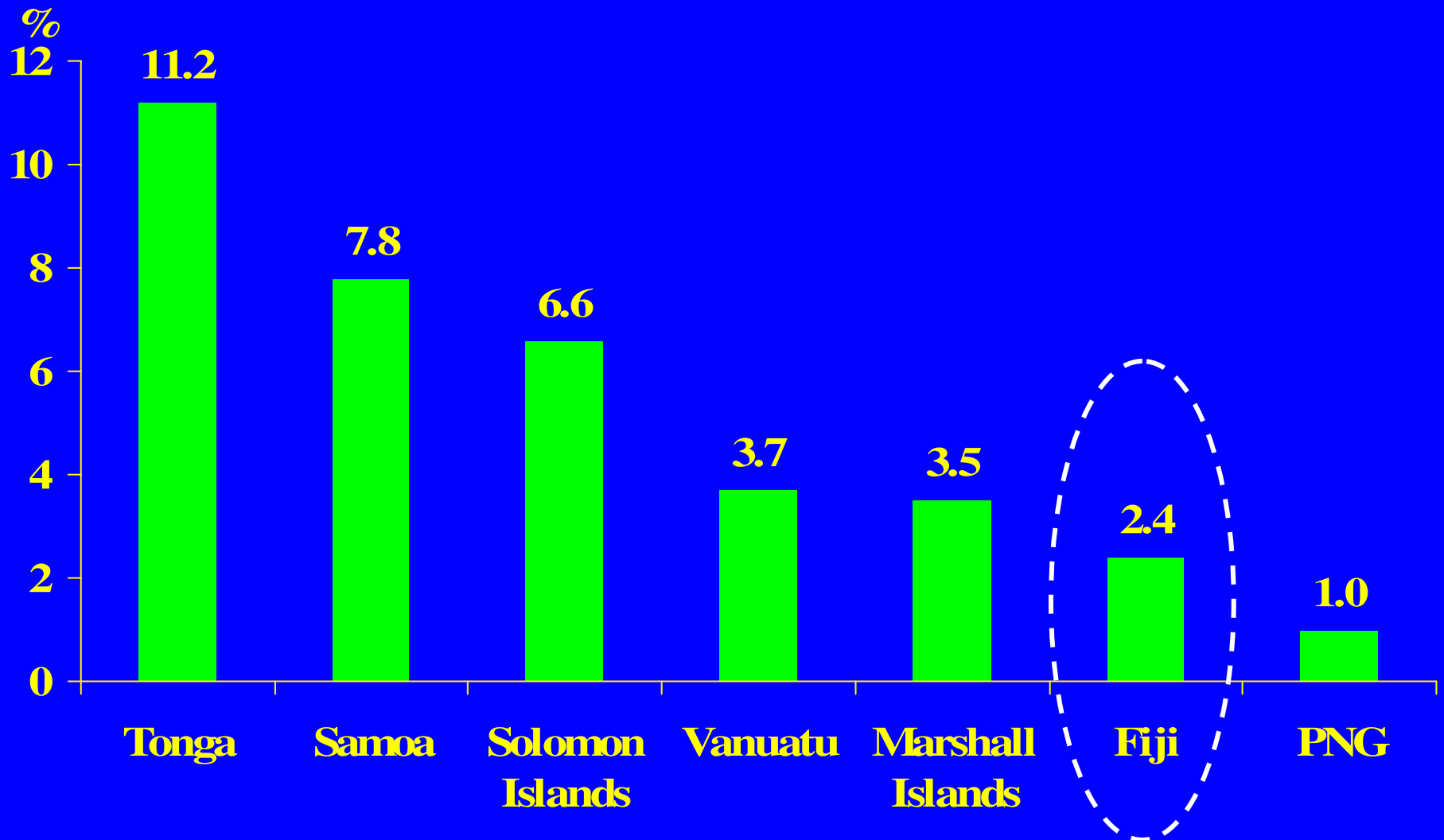
*Generally low rates*



*Source: International Finance Statistics, IMF Article IV Reports and central banks' quarterlies*

# 2005 ANNUAL AVERAGE INFLATION

*Generally moderate to low inflation*



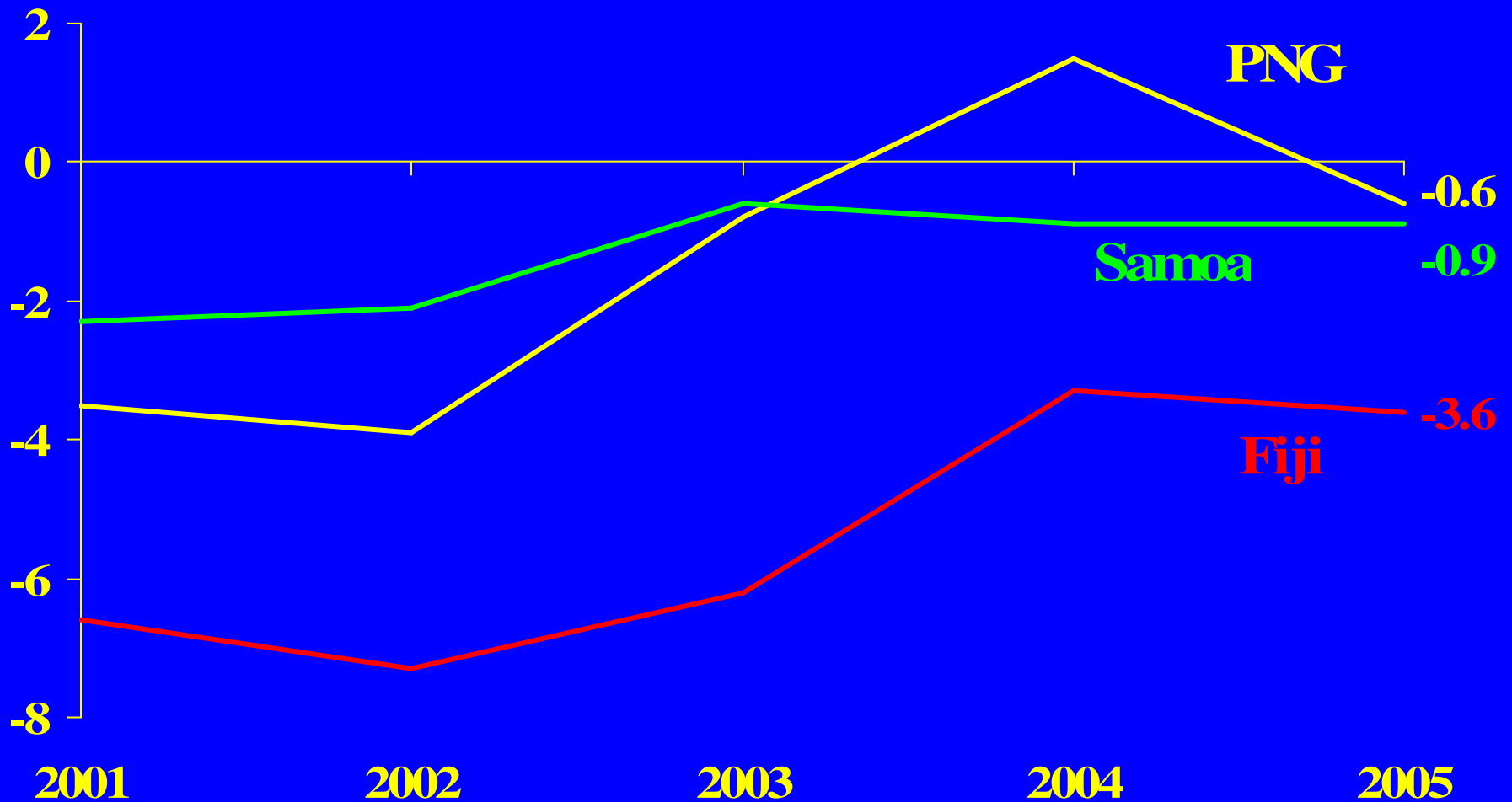
# **BUDGET PERFORMANCE IN THE PACIFIC**

- **PREDOMINANTLY IN DEFICIT**
- **SOME IMPROVEMENT NOTED**
- **NATIONAL DEBT IS HIGH**

# 2005 GOVERNMENT BALANCE

*Recent attempts to reign in deficits*

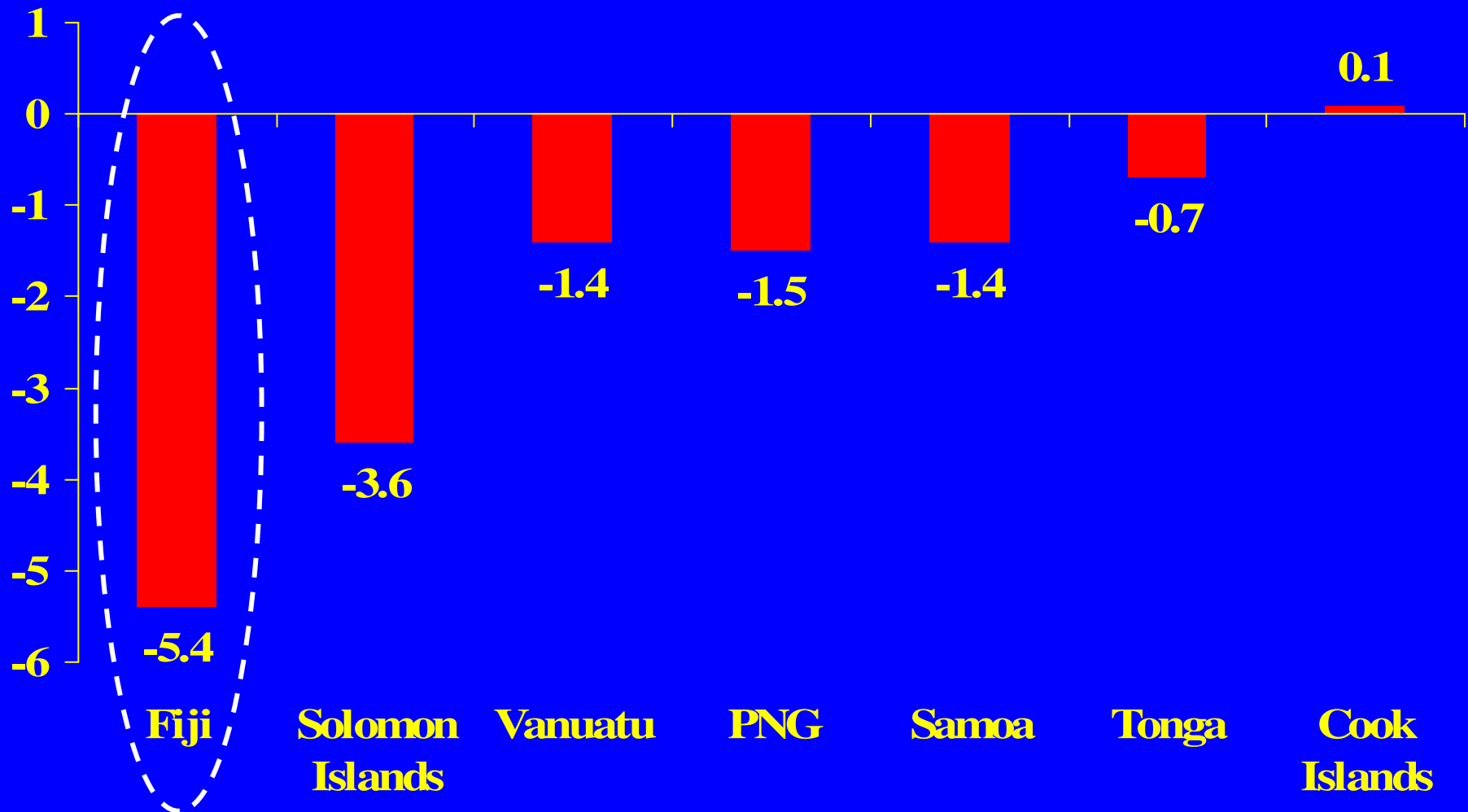
% of GDP



# GOVERNMENT BALANCE

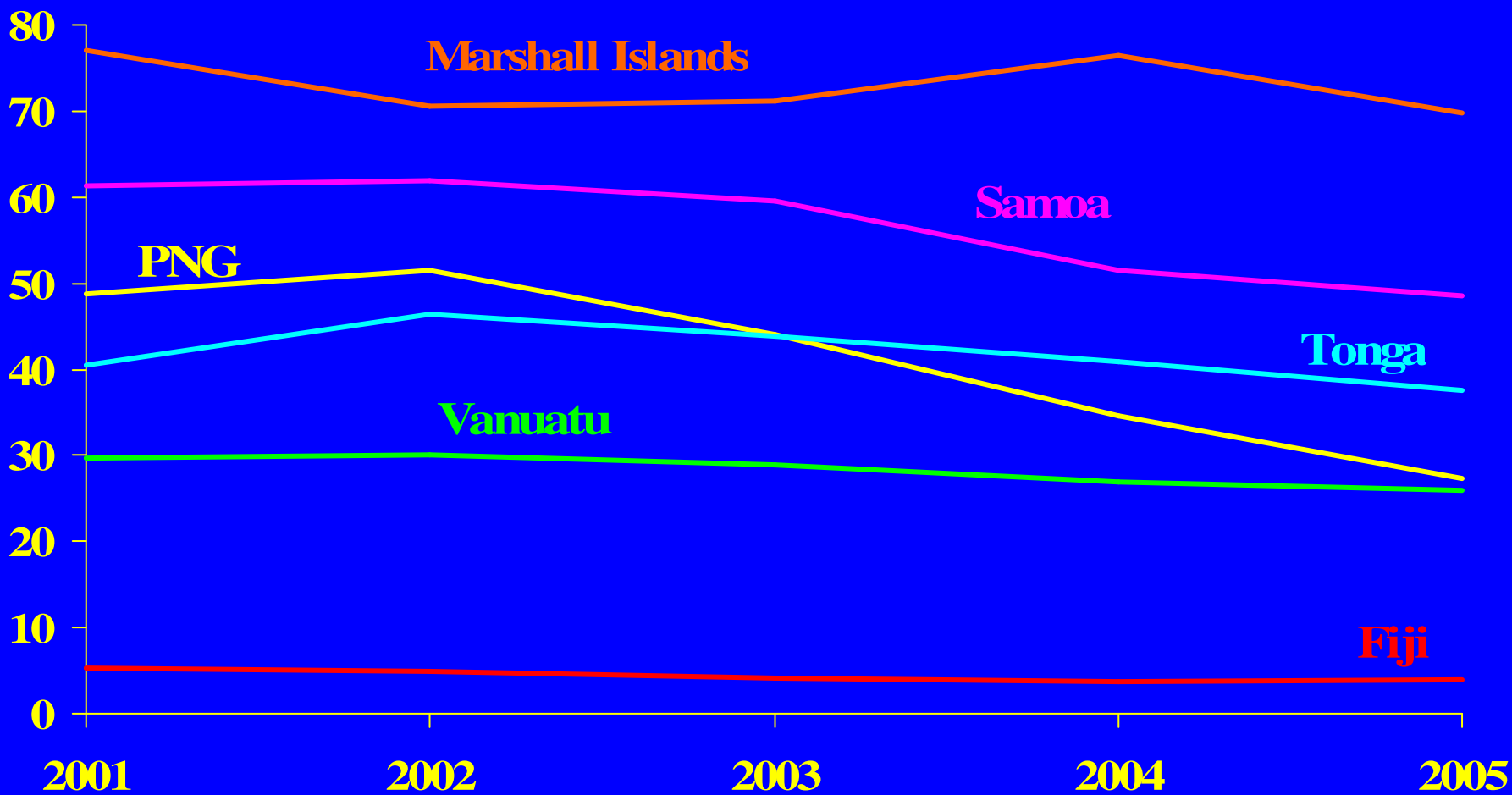
*5 year average (2001-2005)*

% of GDP



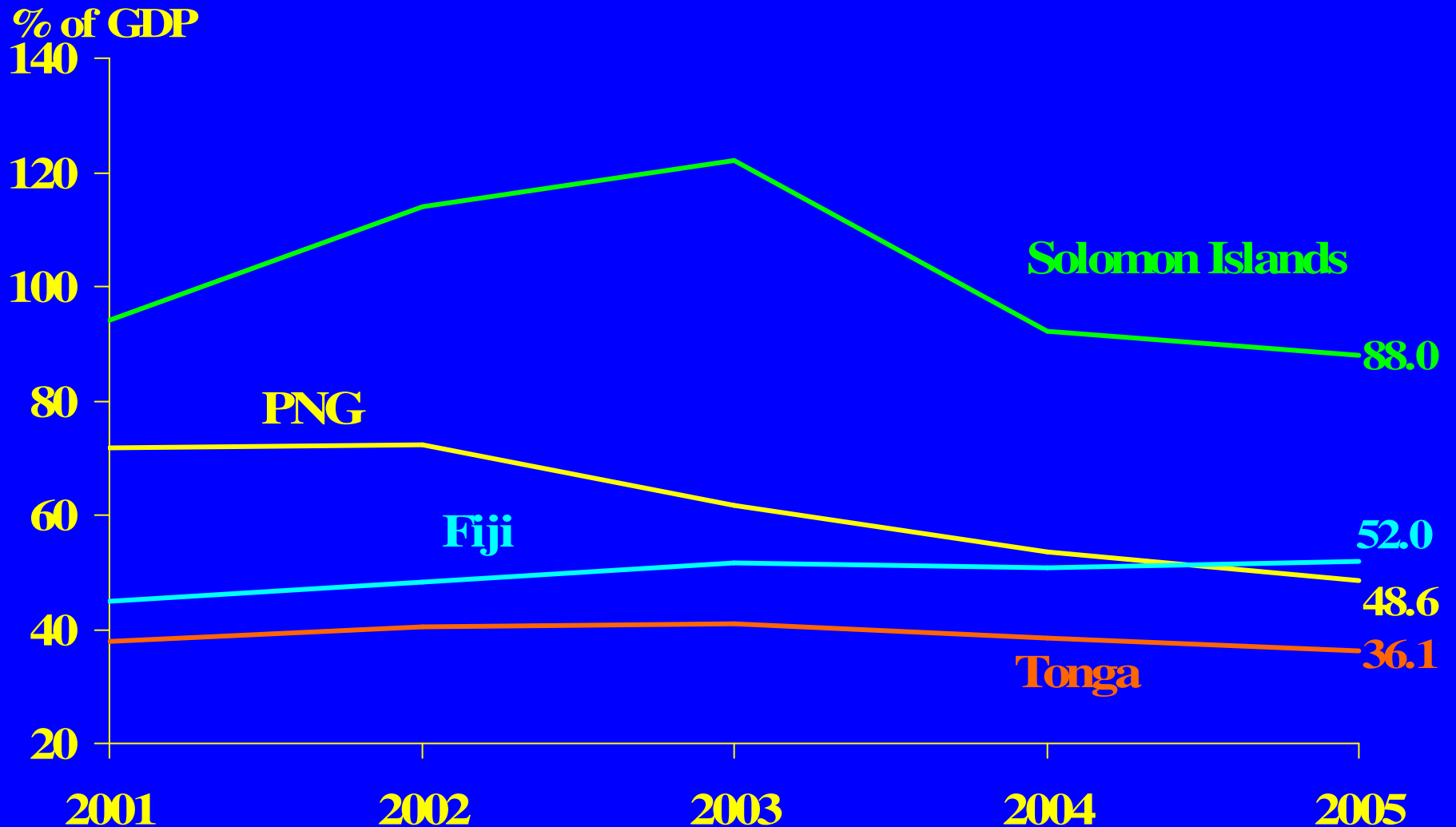
# EXTERNAL DEBT

% of GDP



Source: International Finance Statistics, IMF Article IV Reports and central banks' quarterlies

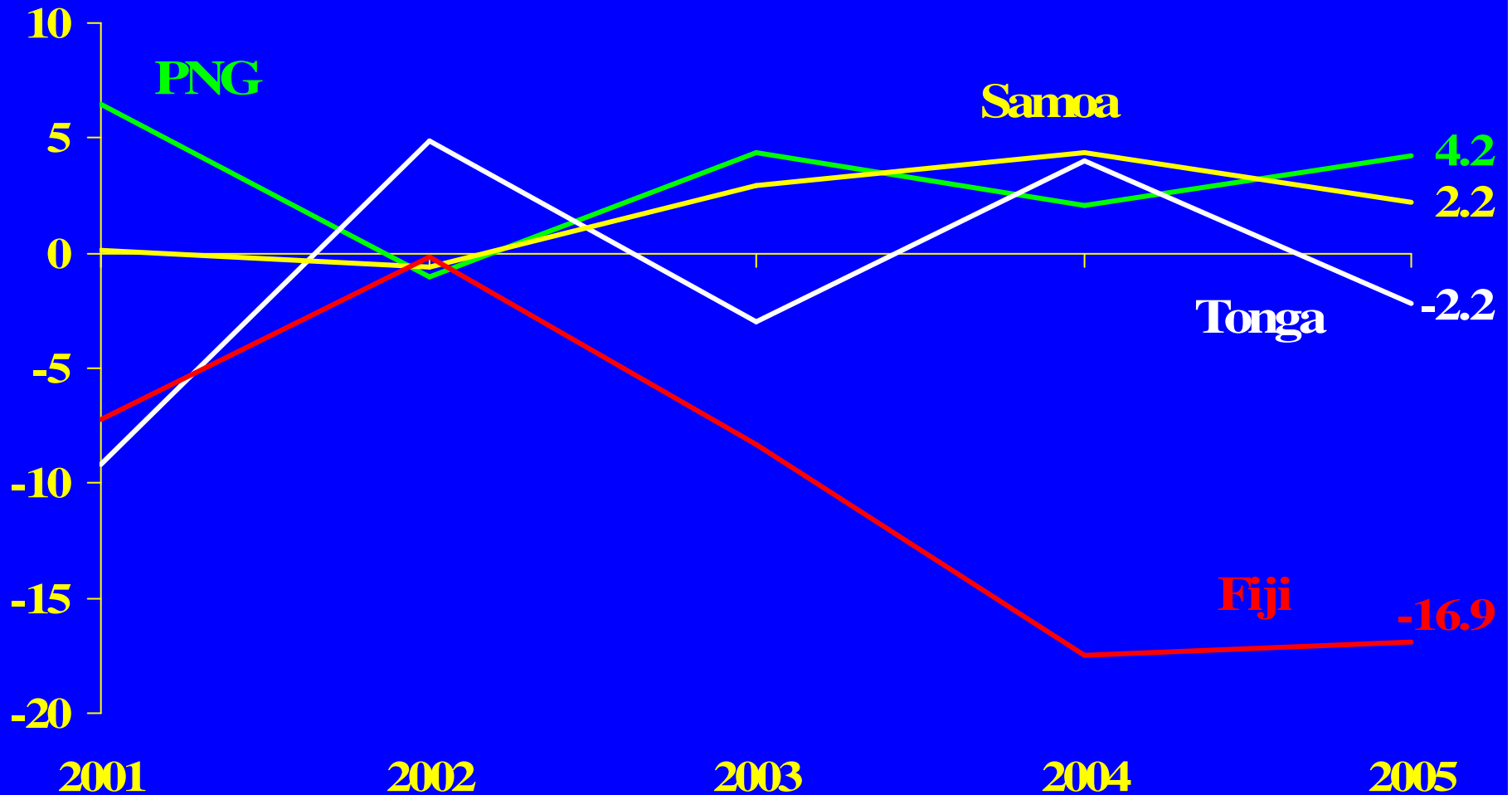
# TOTAL GOVERNMENT DEBT



Source: International Finance Statistics, IMF Article IV Reports and central banks' quarterlies

# CURRENT ACCOUNT BALANCE

% of GDP







# MAJOR CHALLENGES

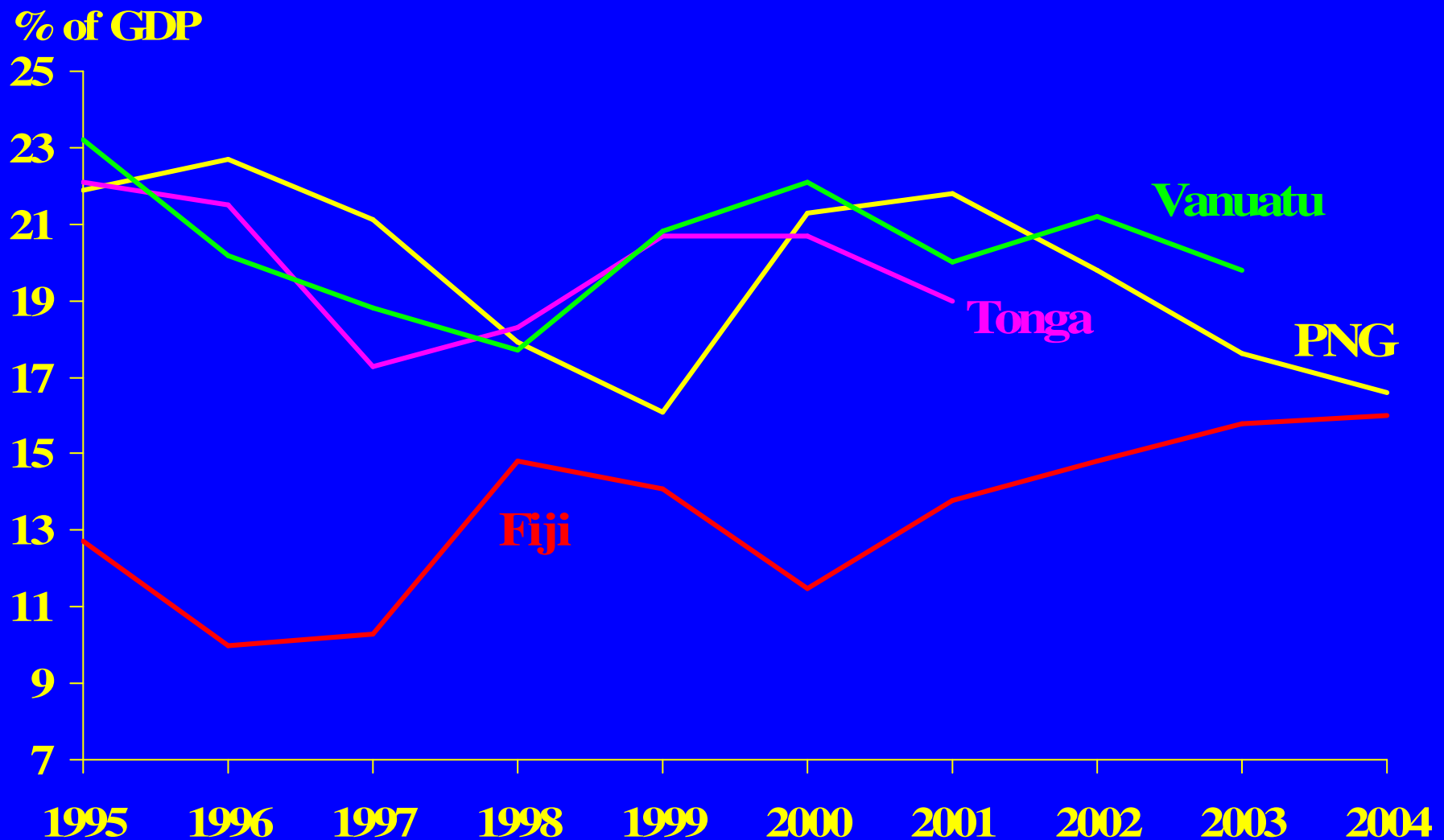
# MAJOR CHALLENGES

- **Maintain Political Stability**
- **Maintain Macroeconomic Stability**
- **Promote Private Sector Development**
- **Raise Investment**
- **Implement Reforms**
- **Raise Productivity**
- **Promote SME's**

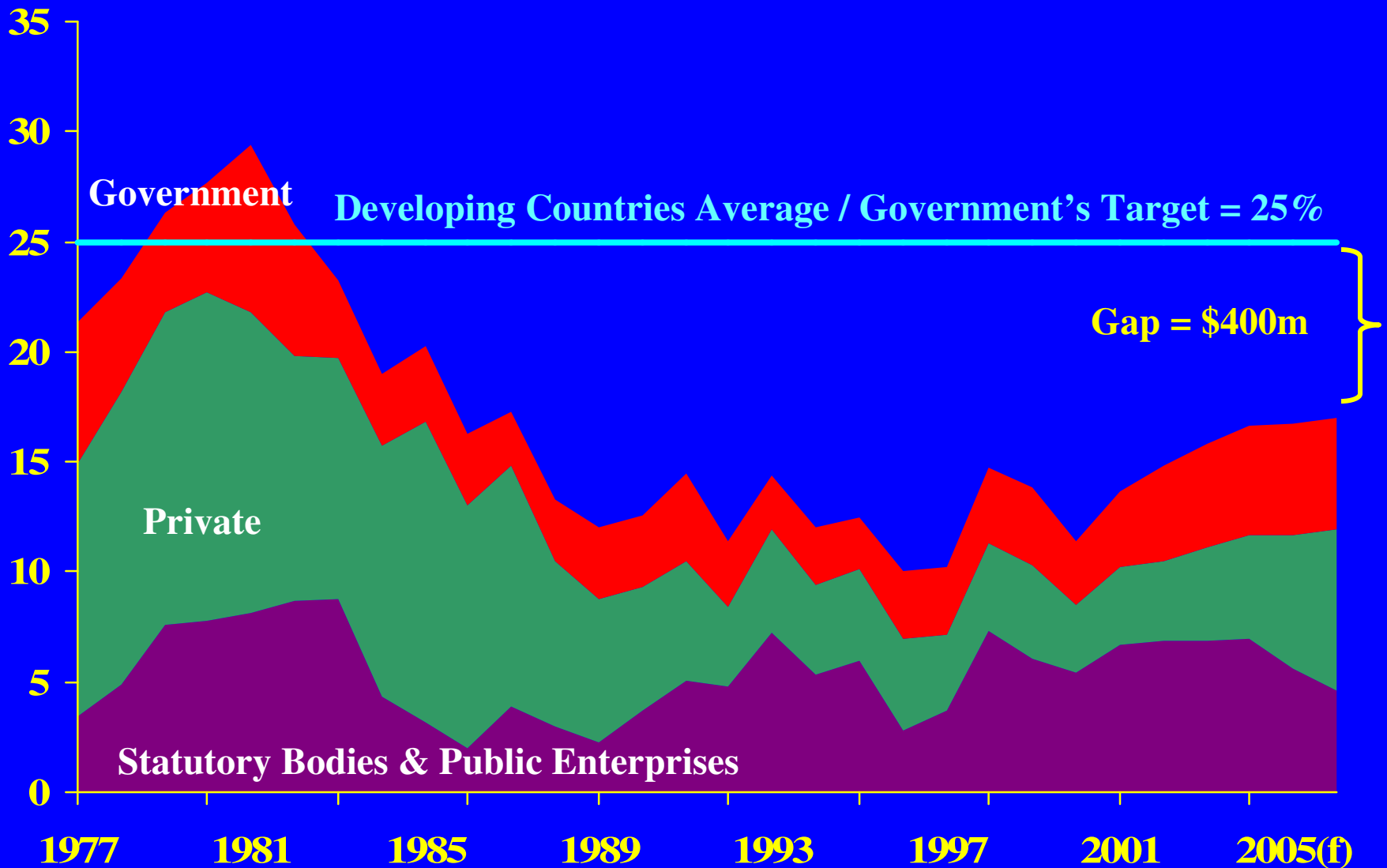
# PRIVATE SECTOR DEVELOPMENT

- **Governance**
- **Certainty / Consistency in Policy**
- **Infrastructure**
- **Law and Order**

# PACIFIC ISLANDS INVESTMENT RATES



# INVESTMENT FOR FIJI



# REFORM MYTHS

- **Too small**
- **Pacific is too unique**
- **Take away jobs**
- **Too costly**
- **Too painful**
- **Only for the public sector**
- **Can grow without reforms**

# MACROECONOMIC STABILITY IN FIJI

- **Bouyant Consumption**
- **Exports Struggling**
- **High Oil Prices**
- **Widening Trade Balance**

# WHAT HAVE WE DONE IN RBF ?

- **Closely monitored developments on domestic and international front**
- **Shifted policy to sustainability**
- **Raised interest rates three times**
- **Tightened local borrowing by non-residents**



# WHAT HAVE WE DONE IN RBF?

- Tightened liquidity further – increased SRD
- Increased the Minimum Lending Rate
- Issued general guidelines on priority areas of credit to promote investment

# WHAT WAS THE RESPONSE?

## Commercial banks began to raise rates

### Colonial puts up interest rates

Stories By SARIKA CHAND

THE Colonial National Bank yesterday announced an increase in interest rates for its savings and lending products.

Colonial's general manager banking Ross Munn said the decision followed the increase in the official interest rate by the Reserve Bank of Fiji.

"The increase in lending rates is inevitable since the Reserve Bank began tightening their monetary policy," Mr Munn said.

He said Colonial's fixed rate housing loans, floating rate housing loans and business banking base rate would all rise from between 0.5 per cent and 1 per cent.

The increase in rates will be effective from Saturday.

"Despite the increase in lending rates, CNB has created an opportunity for customers to invest on very competitive terms with our increased deposit rates," Mr Munn said.

Colonial National Bank's 12-month term deposit will earn up to 3.90 per cent per annum, 24-month term up to 3.50 per cent and the 36-month term up to 4.00 per annum.

"Customers can now earn up to 2.50 per cent per annum on their classic saver account and passbook savings account holders up to 1.50 per cent per annum."

Mr Munn said they were aware of the need to maintain a competitive position and would continually review their products and services.

### ANZ increases interest rates

Reports by TIMOCI VULA

AUSTRALIAN New Zealand Bank (ANZ) Fiji customers should expect a few changes in their next bank statement from yesterday following the Bank's move to raise its interest rates on a range of its products.

The Bank on Thursday announced the increase in response to the increased official interest rates by one per cent from the Reserve Bank of Fiji (RBF).

The RBF raised its official interest rate from 2.25 per cent to 3.25 per cent last month (February 24, 2006) - a measure the Bank found necessary to reign in the credit expenditure to protect Fiji's macroeconomic stability.

This increase in interest rates by ANZ Fiji will apply to a range of savings products including consumer and business loans.

ANZ Fiji general manager, John Velegrinis said via a statement to the media said the Bank had to respond to the increase due to three consecutive interest rates hike by the RBF.

"This increase is unavoidable and is a direct result of the third successive in interest rates by the Reserve Bank of Fiji, with two prior increases of 0.5 per cent each," Mr Velegrinis said.

"The banks have been able to absorb the first 1.00 per cent prior to this one but this latest increase of 1.00 per cent cannot be absorbed and will need to be passed on," he added.

He said while borrowing costs would rise, the increase in interest rates would be positive for savings with improved returns of up to 3.25 per cent available for consumers.

He added wholesale deposit rates have also increased sharply in recent times.

Based on the Reserve Bank's economic analysis, consumer demand remained buoyant and had been supported by strong credit growth, which had been of concern to the RBF.

"The current outlook for investment remains sound but future policy changes will be monitored closely," Mr Velegrinis said.

All rate increases became effective yesterday.

### Rates bad for investment

ANZ increase in the interest rates of commercial banks will drive investors away, says the Fiji Chamber of Commerce.

However, chamber president Taita Warad said the measure was a good way of controlling consumer spending.

"Looking at it generally, it is a good measure in terms of containing the increasing consumer spending which is affecting economic growth," Mr Warad said.

"With lower interest rates, we are able to get loans easily and spent it on daily expenses and entertainment. This is not allowing the economy to grow," he said.

"The concern here is that if interest rates rise, it would affect investment in the country. According to the Reserve Bank of Fiji, in 2005, exports were declining and the investment was increasing but only slightly. If interest rates rise, then investment will take a dip."

After the decision by the Reserve Bank of Fiji to tighten liquidity by taking loan of millions of dollars out of the banking system to curb the increase in consumer credit, some commercial banks decided to raise their interest rates.

On Friday, the Westpac Banking Corporation announced a broad range of increases to its interest rates.

The bank said the increases were a flow-on effect of last month's hike in the official interest rate by the RBF and come into effect on Monday.

Mr Warad said an increased interest rate would also help narrow the gap between exports and imports.

"With a decreasing export and rising imports, an increase in the interest rate will tend to decrease the imports, therefore, the balance of payments will increase."

### Interest rise to hit poor: Chaudhry

THE increase in interest rate by the Reserve Bank would have a major impact on vulnerable low-income earners and the poor, says Labour and Opposition leader, Mervyn Chaudhry.

The Reserve Bank last week made announcements of increase in borrowing rates after the official interest rate was raised by one per cent.

The rise comes as the bank warned that current consumer spending patterns were unsustainable.

"One per cent hike in interest rates will fuel inflation and all the benefits of the year as increased costs will simply be passed on to the consumer," Mr Chaudhry said in a statement yesterday.

"The increase in interest rates will bring up the cost of doing business."

"As a result we will see an increase in the price of everything from basic food items, 2005 was household goods to luxury products because retailers and manufacturers will simply pass on the higher cost of borrowing to the consumer."

He said the Reserve Bank hoped the increase in interest rate would curtail high consumer spending at a time when major exports are declining.

Mr Chaudhry said the move was counter-productive and would not serve the needed purpose.

"There is a growing need to increase exports and attract consumer spending. Our key exports have shown a major decline in the past four years under government that has failed to boost agricultural production and deal effectively with the crisis facing the garment and shoe industries."

"These rising gap measures will not fix the ailing economy. We need 2006 term measures that will improve exports and create investment," Mr Chaudhry said.

The bank on Friday raised the official interest rate by 1 per cent to 3.25 per cent from four months after it had increased the 2005.

# IMPACT OF MONETARY POLICY TIGHTENING

- Liquidity has tightened
- Interest rates have increased
- **Dampen demand for credit**
- **Reduce domestic demand (consumption)**
- **Narrow trade deficit**
- **Promote more inflow of foreign reserves**

# IMPACT ON INVESTMENT

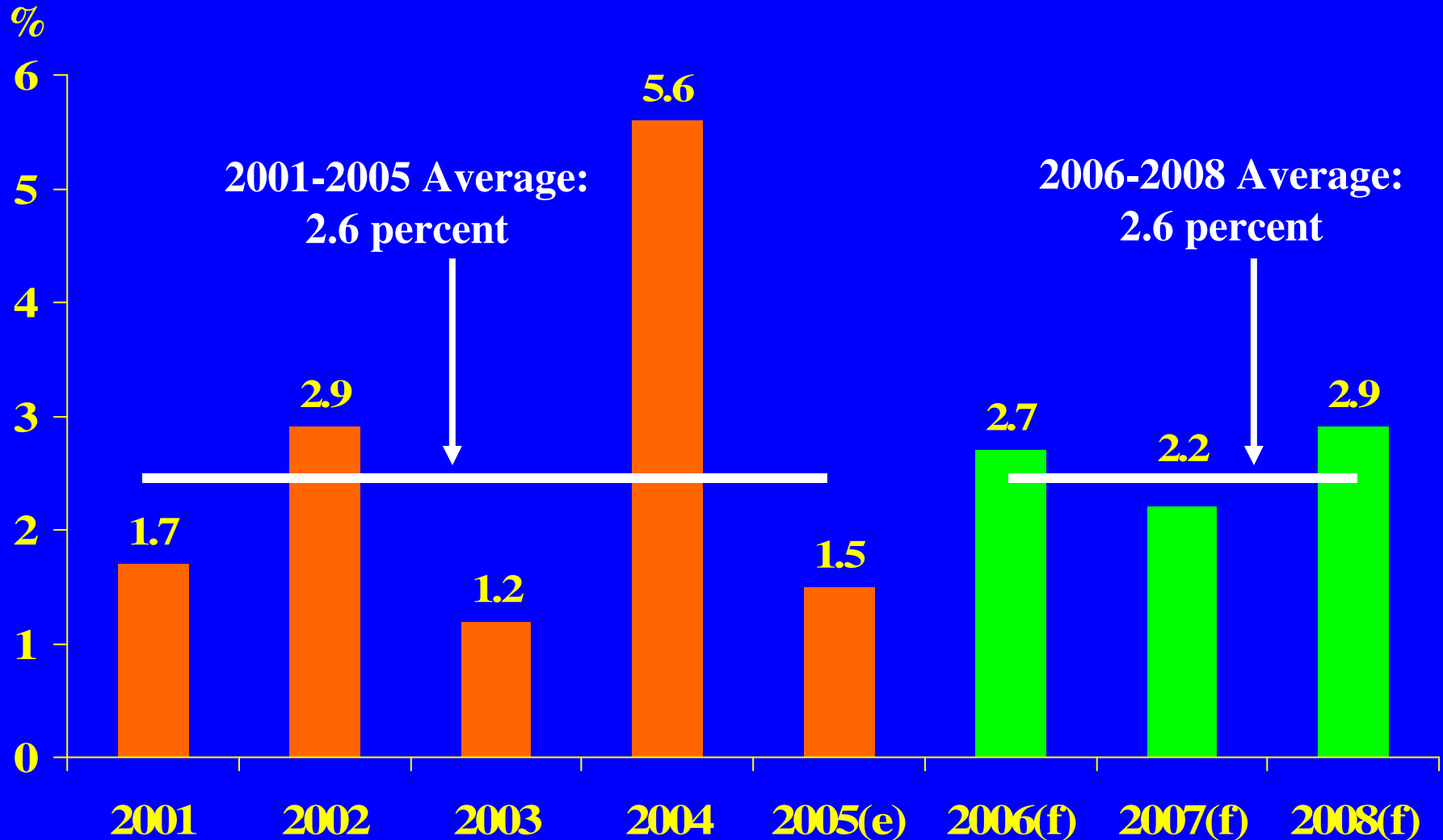
- Guidelines to financial institutions
- Interest rate differential still favours Fiji
- Confidence on future economic stability
- Non-interest factors may predominate

# IMPACT ON THE GENERAL PUBLIC

- **INTEREST RATES AFFECTS BORROWERS AND SAVERS**
- **COSTS AND BENEFITS**
  - **FOR BORROWERS:**
    - **Access to credit for consumption less easier**
    - **Higher loan servicing**
    - **Spending priorities will need to change**
    - **Less spending on consumption**
  - **FOR SAVERS:**
    - **Promote more savings**
    - **Savings available to investors**
- **THE COST OF MACROECONOMIC INSTABILITY WILL BE MORE PAINFUL**

# WHAT CAN WE LOOK FORWARD TO?

## *Economic Growth Projections For Fiji*



# POTENTIAL GROWTH SECTORS

- **Micro and SMEs**
- **Agriculture**
- **Forestry**
- **Mineral Water**
- **ICT**
- **Tourism**

# SUMMARY

- **Economy continues to grow**
- **Growth is relatively low**
- **We need to lift growth into the future**
- **Promote private sector development**
- **Raise investment/productivity**
- **Realise sectoral potential**
- **Maintain macroeconomic stability**





**THANK YOU**