REDUCING THE COST OF BORROWING

Lowering interest rates for borrowers

The high cost of finance is an impediment to investment for many people in the Cook Islands, reducing the opportunity for business to expand and diversify.

Currently the Cook Islands has an extremely high cost of finance – with interest rates on property and business commonly above 8 or even 10 per cent across the three domestic banks. This high cost of borrowing is a significant impediment to private investment in the Cook Islands, and lowering this will encourage a stronger recovery in investment – in turn driving both GDP immediately and in the future through increased capital and productivity.

A number of reviews have been completed in the past suggesting a range of factors lead the cost of borrowing to be so high. These factors include a lack of scale, higher risk profile, the impact of land tenure on the assessment of collateral and a relative lack of competition. Government is committed to exploring as many avenues as is necessary to lower these costs, to help reduce the impediments to private investment. By reducing the cost of finance for people and businesses, this will open up opportunities for greater entrepreneurship and expansion into potential new industries or models of business, as well as reducing the burden of debt.

One of the issues keeping costs higher in the banking sector is a lack of competition, with only three retail banks (2 privately owned, and the government-owned Bank of the Cook Islands). Encouraging greater competition could be a means to lowering costs – whether this is through more entrants to the market, or fostering a more competitive marketplace is something to investigate.

High rates of borrowing are not unusual across the Pacific, though the Cook Islands still appears to have a higher cost than some comparable countries. For example in Vanuatu, lending interest rates are available at 2 per cent, where in the Cooks this is over 5.6 percentage points higher.

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