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What Asian Development Bank report on Fiji means

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Early this week, Asian Development Bank (ADB) released two reports of interest.

They are: *Asian Development Outlook Supplement* 2012 and *Pacific Economic Monitor (PEM)*, December 2012. The latter was launched in Suva on Monday.

Neither of the two reports was enthusiastic about the immediate future.

The *Outlook Supplement* warns: "Enduring debt problems and economic weakness in Europe and the looming fiscal cliff in the United States remain very real threats to developing Asia next year."

The gloomy background has had apparent dampening influences on the forecasts.

Weak growth prospects

The ADB's PEM, while stating that Pacific island countries (PICs) face weak growth prospects independent of global economic conditions, advises policy makers that short-term measures have to be supplemented by long term structural reforms.

The short-term measures comprise fiscal policy and monetary policy changes.

Fiscal policy measures include tax incentives: reduction in tax rates for individual and companies; and higher income tax threshold; tax exemptions for specific industries in specific corridors or zone; and government expenditures on infrastructure such as roads and ports.

The monetary policy measures are applicable only to countries with independent currencies, such as Fiji. They include maintaining low interest rate for encouraging business investment in physical capital and in consumer durables, including housing.

Expansionary fiscal policies are constrained by availability of enough fiscal space built in through past years of budget surpluses. There is also the likelihood of debt level rising in the event of fiscal deficits. As regards monetary policy, its effectiveness is limited by weak transmission mechanisms due to lack of competition in the financial sector and other impediments such as absence of collaterals which are sought by lending institutions.

In the external sector, the range of PICs' exports is narrow. So, PICs which have their own currencies have to monitor their exchange rate and take timely action of adjustments for preventing their exchange rates from getting overvalued, which would reduce their competitiveness.

Structural reforms

The suggested reforms are not new.

They are reiterated from time to time. They include: doing away with cumbersome investment regulations; improving infrastructure; promoting political stability; improving competition in financial markets; better land tenure system and protection of property rights for assuring collaterals for improving credit flows.

Aside from suggesting long term structural reforms in the light of future weak growth prospects, ADB's PEM has reviewed Fiji's economic performance.

Tourism has been singled out as the major export performer topping $600 million, more than combined earnings from exports of fish, water, garments, timber and gold.

Reconciling the figures

Referring to the projected budget deficit of 2.8 percent of GDP for 2013, ADB has raised the concern that financing the deficits by domestic and external borrowing from the respective Export-Import Banks of China and Malaysia, might raise the debt levels.

The ADB's PEM noted that Fiji's recurrent expenditures in 2013 budget were dominated by wages and salaries and hence the ratio of recurrent to capital expenditures at 80:20 was high.

This was disputed by Fiji's Ministry of Finance (MoF) permanent secretary (PS), Filimone Waqabaca during the discussion following the launch. According to PS, the ratio was 71 to 29. He informed the audience at the PEM launch that a larger proportion of the budget has been earmarked for capital expenditures.

Recurrent expenditures are for housekeeping purposes. Aside from wages and salaries, maintenance expenditures are part of recurrent expenditures. Maintenance expenditures relate to upkeep of public assets including buildings, roads, bridges and ports.

Poor maintenance would result in faster deterioration of public assets, which have to be replaced much before their expected life.

"A stitch in time saves nine in the future" is also applicable to public finances.

Keeping the wage and salary component low and a higher maintenance expenditure on public assets would be more desirable.

Another point of difference between ADB and MoF related to fiscal deficit ratio figures.

So, there is some concern that government was not apprised of the contents of PEM prior to its release for public consumption. Prior consultation would be ideal.

In regard to Article IV Mission Consultation Report, IMF follows a healthy convention of consulting the MoF and RBF prior to finalisation of the Report.

Such a procedure would provide yet another forum for policy dialogue, facilitating appreciation of each other’s points of view and reconciling facts and figures.

The earlier PEM report of July 2012 did not agree with government forecast. Consequently, the government had announced it would seek a joint IMF and ADB review of growth rate forecasting procedures for ensuring consistency between them.

It is not known whether there was any progress in this regard.