Saturday

April report on Fiji's economy

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In the midst of not-so encouraging forecasts about world's economic growth, which would naturally affect growth prospects of Pacific island countries (PICs) in the region, including Fiji, we have some comforting news on the domestic front. The PICs have now come to terms with the realities and have realised the need for stepping up domestic aggregate demand for promoting growth: Turn to domestic consumption and domestic investment and create conditions for domestic growth.

That is the key to growth.

World prospects

Last week, the International Monetary Fund (IMF) revised its October 2012 forecasts for 2013 downwards growth for all regions and countries except Japan. Japan is now shifting for the first time in its two decade old recession to a more aggressive, unusual monetary policy similar to the American easy money policy. This stems straight from "Abenomics", initiated by Prime Minister Shinzo Abe since his assumption of office in late 2012.

The world economy is now expected to grow only at 3.3 percent instead of the earlier forecast rate of 3.5 percent. China and India, which have been growing impressively earlier, will not be able to repeat their performances. Their combined growth will slow down at 5.3 percent. However, it is far better much less impressive growth rate of advanced countries: 1.2 percent, as against the previous forecast rate of 1.4 percent. The reasons are obvious: the political squabbles and opposition to fiscal stimulus policies in the United States (US) and the debt crisis in Europe have been a drag.

The gross domestic product of US is expected to grow at 1.9 percent, whereas the eurozone with its 17 member nations would decline by 0.3 percent. Japan due to its new monetary policy departure from the previous conservative low inflation target is expected to grow at 1.6 percent as against the earlier forecast of 1.2 percent made in October 2012.

Already, the impact of the yen depreciation due to expansion of money supply in Japan has created jitters in the export dependent economies in Asia, including Korea. Added to depreciation, due to declining interest rates all over the world, Asian economies are now experiencing capital inflows in search of higher returns. The hot money inflows are the most disturbing category of all capital inflows, pushing up real exchange rates hurting their export competitiveness.

The fear is the world is increasingly conscious that currency wars would be the undesirable outcome of the so called excessive reliance on monetary policies. If governments do not want to incur fiscal deficits for pushing domestic demand to promote employment and domestic output, they will be exporting unemployment to other countries.

So, the news is bad on all fronts.

Fiji's growth

The latest economic review report for April released by Reserve Bank of Fiji (RBF) says Fiji's tourism was hurt by decline in the visitor arrivals by 7.9 percent in January. Most of the decline is attributed to less number of visitors from Australia, New Zealand, China and Europe. In the year ending January 2013, visitor arrivals declined by 3.0 percent compared to a year ago.

In the domestic economy, gold production went down, as lower quality ore was extracted and there has been a greater focus on capital work. However, electricity production increased by 4.7 percent in the first quarter of the year compared to the same period last year.

Domestic demand, especially consumer spending went up as indicated by rise in net value added tax (VAT) collections. Gross VAT collections registered a strong growth of 24.1 percent on an annual basis, led by increases in both domestic (25.1%) as well as customs collections (23.2%). Further, growth in consumption lending more than doubled to $132.5 million in the first three months of this year compared to the same period last year.

There has been a notable rise in investment activity. One of the indicators is domestic construction activity, which is reflected in domestic cement sales by 50.3 percent while cement production increased by 29.2 percent in the year to February.

The new bank lending for investment purposes more than doubled in the first three months to $86.5million, mainly on account of a surge in lending to the building & construction sector which rose to $56.6 million.

As a result of rise in net domestic credit, broad money rose by 7.0 percent. Additionally, both the outstanding and new lending rates declined considerably over the month and reached a new record low in March. Bank's outstanding lending rate decreased to 6.27 percent, while the new weighted average fell to 5.30 percent over the month to March.

Liquidity decreased by 17.9 percent to $471.3 due to decline in foreign reserves, which was due to offshore investments by nonbank financial institutions and refinancing of certain expensive external loans. As broad categories of imports noted increases, foreign reserves were around $1,458.8 million. However, the level is reported to be at a comfortable level, sufficient, as of 26 April to cover 4.2 months of imports of goods and services.