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Saturday

Our economic health: what two reports mean

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Last week, there were two reports on Fiji's economic health: one by the Reserve Bank of Fiji (RBF); and the other by Asian Development Bank (ADB).

The RBF report is part of monthly series of economic review on Fiji. The report by ADB is part of its annual development outlook study for its developing member countries from Asia and the Pacific, which is issued in April each year and followed by an update six months later in October.

The RBF's economic review for March 2013 notes weak performances in the foreign exchange earning export sector. The declines were in sugar, timber and gold. While gold production declined by a close 20 percent due to lower quality grade ore, tourism was hit by the impact of Cyclone Evan of late 2012.

Positive trends

However, there were some positive trends. These include increases in domestic consumption, as reflected in 8.8 percent rise in total VAT collections in 2012. The domestic consumption was supported by inward remittances which grew by 5.3 percent and by rise in domestic credit for consumption purposes by $109.9milion.

In addition to rise in domestic consumption, there was notable growth in investment activities which are reflected in increases in cement sales by 85 percent and post-cyclone Evan rehabilitation and other construction activities. Fresh bank credit to the building and construction activities also rose. The total bank lending for consumption and investment went up by 86 percent during the past one year period.

The monetary policy stance has been since October 2011 on an expansionary path with the overnight policy rate (OPR) at the historically low rate 0.5 percent. Added to this, moral suasion measures and entry of a new bank have brought down the outstanding and lending rates. The outstanding lending rate fell to 6.36 percent in February 2013 from 7.17 percent in March 2012, while the new lending rate decreased to 5.90 percent.

Decline in foreign exchange earnings was accompanied by rise in import of mineral fuels and decrease in imports of food & beverages, machinery and transport equipment and raw materials. Foreign reserves are however still at a healthy level: F$1494.8 million, sufficient to cover 4.3 months of imports.

Prospects in 2013

The ADB development outlook for Fiji 2013 is an assessment of prospects on the basis of perceived trends.

Focusing on public finances, ADB notes Fiji's net budget deficit in 2012 was estimated to be equivalent to 1.6 percent of GDP, larger than 2011 figure of 1.4 percent of GDP. As budget deficits and current account deficits in external accounts are connected, ADB report expresses some concerns. Current account deficit is the difference between outgoings and incomings in the external accounts. Higher trade deficit, which is a component of current account deficit, is due to lower sugar and gold export earnings. For 2012, exports grew by only 5.1 percent, far short of the forecast of 12.3 percent, whereas import growth estimates were revised upward to 5.4 percent from 4.7 percent.

Impact on public finances

It is anticipated that public capital expenditure would increase in 2013. It is expected to be 32 percent of total spending as against 29 percent in 2012. Most of it will be on new transport infrastructure ($225 million) and infrastructure rehabilitation. Further, investment to GDP ratio is likely to exceed 25 percent of GDP. Added to increase in investment, there is expected rise in consumption expenditure consequent to increase in household disposable income resulting from lower personal income tax rates, and the implementation of a 10% wage increase for public employees earning below F$10,000 per annum, With these expected increases in total aggregate demand, ADB report says the current account deficit might widen.

Furthermore, the addition of three new Airbus 330 planes and the likely deterioration in ratio of prices of exports to prices of imports of Fiji, known as terms of trade, would result in the widening of current account deficit to be around 22 percent in 2013.

While the budget deficit would be funded by domestic borrowing, current account deficit would be funded by loans from the export–import banks of China and Malaysia. This is likely to result in addition to current stock of public debt, which is estimated at 50.4 percent of GDP. About three-fourth of public debt is held in the form of government bonds purchased by FNPF. External debt stock would also increase.

In these circumstances, the policy implications are clear. They are also familiar.

The ADB report lays stress on better investment climate and business regulatory environment; removal of all barriers to higher growth; improvements to fiscal flexibility; and implementation of structural reforms, particularly in the sugar sector.