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Saturday April 12 ,2014

# Global economy in low growth trap

T. K. JAYARAMAN

The World Bank and the International Monetary Fund (IMF) are holding their annual Spring Meeting for three days: April 11 to April 13.

Member countries will be discussing how to get out of what IMF chief, Christine Lagarde called, “the low growth trap” in which the world economy, especially the major economies, Eurozone, and USA got caught now for more than five years and Japan for the past two decades.

Noting the 2013 global growth rate was 3 percent, the IMF bi-annual publication, **World Economic Outlook** says economic conditions have broadly strengthened at the end of 2013. The estimated global growth rates for 2014 and 2015 are 3.6 percent and 3.9 percent respectively.

**Emerging markets**

IMF reduced its forecast for emerging economies from 5.2 percent to 4.9 percent. The scaling back of the previous growth rate is ascribed to two reasons: policy weakness in Asian economies and effects of tightening monetary stance in USA.

China will be growing at 7.5 percent in 2014 and 7.3 percent in 2015. However, IMF warns that China should rein in their “rapid credit growth”.

In 2013, among advanced countries, UK emerged as the best performer. The predicted growth rate of UK is 2.9 percent in 2014, higher than USA’s GDP (2.8 percent) and Germany (1.7 percent).

The WEO notes the adverse fallout of the Ukraine crisis, by referring to it as “geopolitical risks” in the list of three key risks. The other two key risks are: rise in emerging market risks and risks to activity from lower-than-expected inflation in advanced economies.

Growth in advanced economies is important in the long-run for world economic growth. Any slight increase in their imports provides impetus to growth to all developing countries and China too.

Falling prices in some Eurozone countries are causing concerns. Also known as deflation, falling prices as opposed to inflation, kills incentives for investment and decelerates growth.

**Fears of Deflation**

The IMF chief in a major speech last week referred to the damages that would be inflicted by deflation in Eurozone on the rest of the world. Christine Lagarde warned that the global economy could be heading for years of "sub-par growth". She wants "brave action", in the absence of which global economy would continue remaining in the "low growth trap."

The brave action indicated by IMF chief is accommodative monetary policy for tackling low inflation in the Eurozone. Outside Eurozone, UK is growing faster. IMF raised its growth forecast for 2014 to 2.9 percent from earlier 2.4 percent.

However, the advice is UK should continue to stay with accommodative monetary policy with record low policy rate at 0.5 percent and should continue its efforts to raise capital spending.

As this is written, the news is on hand that UK policy rate will remain unchanged at 0.5 percent for another month. Further, the Bank of England would continue its bond-buying stimulus programme unchanged at £375billion.

The European Central Bank for 18 Eurozone member nations is intensely aware of the need for such an accommodative policy. Its policy rate is at its lowest at 0.25 percent. However, the mode of adding to money supply through bond purchases is not possible.

Which government bonds to buy? Issued by Greece or Spain or any crisis hit member countries? That would amount to financing prodigal governments!

The ECB is exploring various new instruments.

**Fiji's monetary policy stance**

The Asian Development Bank's 2014 Development Outlook says Fiji grew at 3.6 percent in 2013. Fiji is the best performer, if we leave out PNG (5.1 percent). With the completion of huge natural gas project, PNG has great export earning potential. It is an outlier.

Vanuatu was the second best with 3.2 percent followed by Solomon Islands (2.9), Tonga (0.3), and Samoa (-0.5).

Fiji is expected to grow at 2.8 percent in 2014 and 3.0 percent in 2015. On the other hand, PNG's growth rates in 2014 will be 6 percent in 2014 and 21 percent in 2015!

The Reserve Bank of Fiji announced last week it would maintain accommodative monetary policy rate at 0.5 percent. Adopted since 2010, it has supported economic growth resulting in four years of consecutive growth. However RBF made it clear that it would be vigilant to re-align monetary policy if there are challenges to its twin objectives of adequate level of foreign reserves and low inflation.