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Still an uneven global recovery

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The World Economic Outlook (WEO) Update released last week by International Monetary Fund (IMF) brings no cheer.

In addition to slow recovery in advanced countries and less optimistic outlook in the emerging economies, there are heightened worries. The Ukraine crisis and Middle East tension would end up in sharp rise in oil price.

The IMF has lowered the April global forecast for 2014 to 3.4 percent from 3.7 percent. For advanced countries, the projected rate of growth of 2.2 percent has been reduced to 1.8 percent.

Thanks to Germany's growth projected higher by 0. 2 percent from 1.7 percent to 1.9 percent, Euro zone as a whole would grow at 1.1 percent without any revision. This is so, despite the forecasted decline in GDP growth rates of France and Italy. United Kingdom would grow at 3.2 percent, higher by 0.4 percent. So too Japan's projected growth has been raised by 0.3 percent to 1.6 percent.

US GDP

America's growth rate of 2.8 percent has been revised downwards by 1.1 per cent to 1.7 percent, due to severe winter and weak growth during January-March.

The latest news is US grew at an annual rate of 4 percent during April-June. Although central bank decided to reduce monetary stimulus by cutting its monthly bond purchases to US$25billion from U$35billion, it is expected the impact of severe winter would result in 2014 growth around 1.6 percent- less than in 2013.

In other advanced countries, including Australia and New Zealand (NZ), there is no change in the projected growth rate of 3 percent.

In regard to emerging economies, China's projected growth rate has been lowered to 7.4 percent from 7.7 percent. Brazil's growth rate is reduced from 1.3 percent to 0.7 percent in view of its declining business confidence. Russia's growth rate is slashed to just 0.2 percent from 1.3 percent, following the Ukraine crisis and sanctions imposed by USA and Germany. Reduction in South Africa's growth rate projection (from 1.7 percent to 1.1 percent) is due to a prolonged strike by miners. The growth rate projected for India at 5.4 percent remains unchanged.

Concerns to Pacific island countries

The growth rates of two countries are of importance to Pacific island countries (PICs). They are Australia and NZ, the crucial trading partners and sources of aid and remittance inflows.

Appreciation of their exchange rates creates favourable conditions for increased tourism to PICs, including Fiji. The kiwi dollar appreciated 7.7 percent over the past year mainly driven by the country's terms of trade (ratio of prices to import prices) and by reserve bank's action of increasing the official cash rate to 3.5 percent, the highest in five years.

The latest news of falling Chinese house prices is not good news for NZ. It would result in decreased demand for NZ exports, including milk. The result would be depreciation of the kiwi dollar. A big fall from the current rate (one NZ dollar = US$0.87) would mean less number of tourists to Fiji and other PICs.

Australian output growth is forecast at 3 percent. World prices of those minerals important to Australia from export earnings point of view have declined, affecting growth in the short term. Although domestic consumer demand has improved and there is strong expansion in housing construction, Reserve Bank of Australia (RBA) expects growth to be a little below trend over the year ahead. The exchange rate remains high by historical standards.

Exporters want RBA to cut interest rate. They would like a fall in exchange rate. However, exchange rate appears to be correct by Big Mac standard, an invention popularized by ***The Economist*** of London. If we go by its price at US$4.80 in USA, at the prevailing exchange rate, its Australian price in US currency is U$4.81. The overvaluation is negligible: just 0.4 percent.

There is no interest rate cut contemplated by RBA.

Strong Kiwi and Aussie dollars are good for PICs. That will make tourism to Fiji attractive.

Fiji situation

A high rate of domestic investment dominated by public sector investment and accompanied by strong tourism and remittance flows, helped the economy record positive growth rates. In percent they were 3 in 2010, 2.7 in 2011, 1.7 in 2012 and 3.6 in 2013. Fiji's growth rate forecast for 2014 is 3.8 percent.

Whether this trend would be kept up and whether private investment would rise from the current, subdued level depend upon the policies of the new government after the elections.