



FIJI TIMES

Hope for growth in 2010

Tk Jayaraman

Saturday, January 30, 2010

The latest World Bank's annual report, "Global Economic Prospects" says the world economy will grow at a rate of 2.7 per cent in 2010.

This is after the global decline by 2.2 per cent in 2009.

Hopeful Indications

Aside from the great leap forward by the Chinese economy, the good news is that the United Kingdom (UK) might come out of recession. The latest figures show that it had grown by 0.1 per cent in the last three months of 2009, after contracting in six consecutive quarters since early 2008. Further, the UK unemployment fell for the first time in 18 months.

Europe's two biggest economies Germany and France are already out of recession. Nearer home, Australia is now more worried about inflation, as its mining sector is booming because of a surge in import demand by China for coal and iron ore.

Not to lag behind, there is another bit of good news from Japan.

Japan's exports rose by 12.1 per cent in December from a year earlier. It is the first increase in 15 months, since the global financial crisis in 2008,

It reflects rise in demand for Japanese goods in Asia.

Exports to Asia, which account for more than half the total Japanese exports, registered a rise of 31.2 per cent from a year earlier. China, growing at 8.7 per cent in 2009 and 10.7 per cent in the last quarter of 2009, is undoubtedly the engine of world growth and was responsible for a surge in Japanese exports to China of 42.8 per cent.

On the other hand, Japanese exports to the USA fell 7.6 per cent, a sign that improvements in the global economy remained uneven.

Consequently, the World Bank Report warns that the recovery process would be slow and fragile if the impact of fiscal stimulus in the USA in particular and in the world in general wears away

in the event of its discontinuance. If the current recovery efforts in terms of public spending are boosted by revival of exports in developed countries, the growth in 2011 would be 3.2 per cent.

Fiji's prospects

The World Bank Report says Fiji, which contracted in 2009 by a negative 2.5 per cent growth in its GDP, is expected to grow by 2.0 per cent in 2010; and 2.5 per cent in 2011.

It may be recalled the IMF Mission visited Fiji in November 2009. The IMF executive board held its meeting to discuss the Article IV Consultation Report on January 25 and issued the Public Information Notice (PIN), as per standard practice. The PIN lists the 'ifs and buts'.

The IMF in its PIN has commended Fiji's efforts to put the economy on the growth path. Noting Fiji's economic performance in recent years had been negatively affected by natural disasters and the global crisis, PIN says the government made commendable efforts to restrain current spending and limit the overall fiscal deficit in 2009. Additionally, the devaluation of the Fijian dollar helped reverse the sharp decline in foreign exchange reserves.

The IMF cautions that the present uncertain world situation calls for decisive actions to restore macroeconomic stability and implement structural reforms needed to lift growth. Infrastructure rebuilding needs should be offset by expenditure measures, including civil service reform, while revenue could be strengthened by rationalising tax incentives, improving tax administration and raising excise taxes.

The IMF notes that Fiji has targeted reducing debt to 45 per cent of GDP by 2014 from its current level of about 53 percent.

Fiji has also taken notable policy changes to ensure that inflation returns to low levels and to protect foreign exchange reserves. The IMF welcomed the recent increase in the statutory reserve deposit ratio and the removal of ceilings on bank lending rates and spreads.

IMF wants Fiji to adopt a more flexible exchange rate enabling faster and easier absorption of external shocks towards protecting its reserve position.

That is easier said than done, as unexpected exchange rate fluctuations will be more harmful in the present volatile situation, compounded by fuel and food price changes.

Dr TK Jayaraman teaches economics at the University of the South Pacific. Views expressed are his own.