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## **A period of waiting**

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The Eurozone crisis is still continuing, despite comforting assurances from leaders to the member countries in distress. The world is also awaiting the outcome of the US Presidential elections in November.

The usual October annual meetings of IMF and World Bank were over. Expressing growing concerns, the IMF Chief and the World Bank President wanted the industrial countries to act and save the world from another recession.

The IMF World Economic Outlook forecasts a lower world growth rate of 3.3% from previous estimate of 3.5%. Except for Vanuatu, growth estimates have been revised upwards for Fiji (to 2% from 1.6%) and other Pacific islands.

### ***Two threats***

Commending the efforts of European Central bank to buy government bonds, IMF's Global Financial Stability Report urged the Eurozone countries to take more action to step up market confidence.

The two governments, Spain and Italy in dire straits, fearing electoral defeats have not made a formal request for bailout funds. The IMF warns: "If they do not, the result will be an acceleration in deleveraging, which raises the risk of a credit crunch as banks make fewer loans and an ensuing economic recession."

The other threat is the stand-off between the US Congress and Administration. If no compromise is reached between them by December, the so called "fiscal cliff" will eventuate. There will be tax increases and spending cuts, equivalent to US\$7 trillion. It will plunge America into huge contraction.

The IMF Chief Economist, Olivier Blanchard is worried: "God knows what would happen to the world."

The Chinese economy is cooling off consequent to the Eurozone crisis. The mineral exports-dependent Australia reacted. On October 2, its central bank cut its benchmark interest rate to 3.25% from 3.5% for promoting domestic consumption. It is also for arresting the rise in the Aussie dollar, which is hurting its exports. On October 11, also hit by fall in exports, South Korea cut its interest rate to 2.75% from 3%. The cut is the second time in a four month period.

### ***Another bad news***

Singapore contracted by 1.5% in the July-September quarter. It has sent shivers to its neighbours. If the contraction continues for another quarter, it will be a technical recession and migrant labour working in Singapore would have to leave and remittance support would grind to a halt. The Monetary Authority of Singapore chose not to react.

Nearer home, in September the resource rich and mineral exports- dependent, PNG eased its monetary policy stance. As external demand decreased and commodity prices fell, the Bank of PNG reduced its benchmark rate, the Kina Facility Rate by 100 basis points, from 7.75% to 6.75%. The decision was supported by low inflation outlook and high levels of liquidity caused by mineral tax receipts and foreign direct investment, including US\$16 billion liquid natural gas project. The foreign exchange reserves are high at US\$4.3 billion, sufficient to pay for 6.6 months of total imports.

In Fiji, for encouraging private sector investment, Reserve Bank of Fiji (RBF) has been following an easy monetary policy since October 2011. The benchmark interest remains historically low at 0.5%, since then. Given the low inflation outlook, the monetary policy stance was found to be appropriate by IMF in its Article IV Consultative Mission Report of February 2012. The liquidity defined as the ratio of adjusted liquidity assets, excluding vault cash (deposits kept with RBF and securities) to deposits and other liabilities held by commercial banks rose from 7.8% in 2010 to 9.8% in 2011. It hovered around 12.0% in mid 2012 and in July it came down to 10.2%.

Lending to private sector (ratio of loans and advances as a ratio of deposits) fell from 85.9% in 2009 to 80.8% in 2011. In July 2012, it declined further to 77.1%. In order to encourage greater lending, RBF has been persuading banks to increase lending to small and medium enterprises. Banks are also required to set aside 5% and 2% of their deposits for loans for the agriculture and renewable energy sectors. These helped domestic credit to grow by 5% in August. Investment Fiji reports on new foreign investment projects worth US\$600 million and hopes to reach US\$700 million by year end.

At the recent USP's *Fiji Update*, speakers referred to the rising optimism as the constitutional commission consultations and preparations for elections are underway.

It is a waiting period for all.

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