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Continuing uncertainties in world economies

T. K. JAYARAMAN

As this column is resumed after three weeks, the reader would notice that there is nothing that has changed on the economic horizon.

He/she would only recall the French proverb: *“plus ça change, plus c'est la même”*

When translated, it means: 'The more things change, the more they remain the same'.

The world has been witnessing political changes, including the change in Australian government. But, on the economic front there is no change.

The Reserve Bank of Fiji (RBF) economic review for June 2013 notes world growth prospects are dim. Growth rates are trending below average for many advanced economies, including the United States (US) although there were some signs of strength in the housing and job markets. The US June jobs report card is expected on Saturday.

The Euro zone is still reeling under recession with high unemployment. Portugal has just joined the list of sick economies. The world's second largest economy, China which has been instrumental for the growth for mineral resource endowed economies, including Australia is slowing down.

A premature remark

Late May, US Federal Reserve (the Fed) chairman Bernanke, unlike his predecessor, known for vague statements, rattled world markets with a straightforward remark that the Fed would be tapering quantitative easing (additions to money supply at the rate of US\$ 85 billion per month), as the housing and job outlook was getting more positive.

The stock markets which were used to be “happy about bad news on the real economy” and the resultant expansionary monetary policy stance of keeping interest rates low at near zero rate, did not like it. The steady rise of stocks was suddenly reversed.

The rise in stock prices until then was the result of people turning to stocks, as the investor guru Warren Buffett, was advising savers to shift to stocks instead of gold. Gold may bring safety but no return unlike stocks. Low interest rates were responsible for savers looking to alternative assets, turning away from bonds to equities.

Subsequent clarifications by Fed officials that the immediate discontinuance of monetary easing was not likely since the US unemployment rate was still high did assuage the stock markets in June.

But that is only for a while. The prevailing world growth uncertainties continued to afflict the stock market. Late last week, after steadying for a few days, the stock index fell as the US first quarter growth was revised downwards from annualized rate of 2.4 percent to 1.8 percent.

Our region

In Fiji, in the first quarter of 2013, visitor arrivals in Fiji declined by 5.0 percent on an annual basis. However, short term departures to Fiji from Australia and New Zealand in April were higher over the year by 30.3 percent. Foreign trade deficit widened by 23.7 percent compared to a 12.9 percent narrowing in the same period last year. Export earnings fell by a sizable 15.8 percent against a 2.1 percent growth in imports. As remittances were growing by 25 percent during January-May 2013, the current account does not look bad.

Foreign reserves by end of June are F\$1,684.4 million, which are adequate to finance 4.8 months of imports of goods and non-factor services.

Since the inflation outlook was benign, RBF decided not to make any change in its monetary policy stance. The objective is clear: promote growth in light of the weakness in the global economy. The RBF benchmark interest rate, known as overnight policy rate, which was fixed at 0.5 percent in October 2011 continues unchanged.

On July 2, the Reserve Bank of Australia decided to leave its benchmark interest rate unchanged at 2.75 per cent. Maintenance of the historically low rate since May 2013 would help the economy adjust to lower levels of mining investment, since the commodity export boom was over, consequent to slowing down of Chinese economy.

Further depreciation of the Australian dollar, which has already weakened by 10 per cent since April, would help rebalancing growth in the economy. As inflationary outlook was favorable, RBA decided to maintain the same rate.

As I write this on July 5, besides the US Fed, the Bank of England (BOE) too decided to hold interest rate at 0.5 percent and announced no change in QE. It surprised the markets. They expected a policy change from the new governor, Mark Carney who replaced Mervin King. Two hours after BOE decision, European Central Bank also declared to keep interest rates at record lows of 0.5 percent for an extended period.

So in an uncertain world, central banks have taken the position: “No Change is better than any change!”