

## **Fiji's Economic Growth Forecasts**

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It is spring time in the northern hemisphere. Additionally, Washington, D.C., USA, has just had the famous Cherry Blossom season, as in Japan. Tourists flock to see the most enchanting, annual natural phenomenon.

It is also the time for the hardworking bureaucrats in finance ministries and the central bank governors of 188 countries to travel to Washington D.C. As scheduled, they attended the Spring World Bank and International Monetary Fund (IMF) meetings last week, reviewing the past six months' developments, discussed the future and dispersed to their respective capitals.

Some of them, from Asia and the Pacific will soon get jet-set and fly to Baku in Azerbaijan for the 48<sup>th</sup> annual meeting hosted by the Manila-based Asian Development Bank, which is set from 2-5 May 2015.

### **Season for forecasts**

Just as it is the blooming Spring season for flowers, so too for economic reports with forecasts! "April 2015 World Bank Updates on East Asia and the Pacific", "IMF Economic Outlook 2015" and ADB's "Asian Development Outlook", all hit cyberspace almost simultaneously.

International organizations generally coordinate with each other.

They also undertake prior consultations with member governments and get their forecasts checked so that there is no deviation from the member countries' own forecasts. Discrepancies do occur: one agency's forecast might differ from the other.

They also know the highly paid figures-crunching and statistics-generating economists in the international funding institutions do get tired and fail to reconcile the differing forecasts, sometimes announced much too sooner than anticipated, leaving less time for cross checking.

These lapses are taken in good humour. They often get ignored, just as the forecasts of World Cup soccer or cricket.

One may recall the successful octopus forecasts for the last soccer World Cup and the failed kiwi bird forecast that Kiwis would win the final in the recently ended World Cup 2015 cricket matches.

If the forecasts by an international agency differ from those of the member governments, the media pounce on it.

### **Difference in forecasts**

That is what happened last week.

The World Bank in its latest update “Adjusting to a Changing World”, released on April 15 reported on page 110 that Fiji would grow by 2.5 percent. This estimate is lower than 4.3 per cent predicted by Reserve Bank of Fiji (RBF) in a press release on April 10. It was also announced that the growth estimate for 2014 was revised to 4.5 percent from 4.2 percent.

**Fiji’s broad-based growth in 2014 was supported by expansionary fiscal and monetary policies, as was reported during the launch of the Asian Development Outlook 2015. Accommodative policies increased consumption and investment, which in turn boosted the tourism and agriculture industry. (HT Media Limited)**

**• The Reserve Bank of Fiji (RBF) now expects stronger than expected growth in 2014 and 2015. Governor Barry Whiteside announced “the domestic economy is now forecast to expand 4.3% y/y in the 2015 National Budget”. The growth estimate for 2014 was revised higher to 4.5%, from 4.2% previously. (Reserve**

The reason for the difference between the two forecasts is short time lag. The World Bank forecast rate came after about five days.

The ADB’s latest “Asian Development Outlook 2015” released on April 20 says Fiji would grow by 4 percent in 2015. This rate of growth is the same as the growth rate forecast of 4.0 percent announced in the government’s 2015 budget, no change. It did not take into account RBF’s forecast into consideration.

Again one can explain the reason for two different forecasts: a brief time lag of ten days.

At least, ADB’s forecast is closer to RBF’s latest forecast.

It is however difficult to understand the huge difference between the 2015 growth rate forecasts by two different agencies: World Bank (2.5 percent) and ADB (4.0 percent)

The World Bank may come up with some explanation soon.

### **Six years of growth**

Both ADB and World Bank have however acknowledged Fiji’s economic progress and six years of positive growth. The ADB says “The economic expansion that began in 2010 has been one of the longest sustained periods of growth since independence in 1970”.

The World Bank states: “Fiji’s economy is benefitting from an ongoing program of public capital investment and recent transition to democracy.”

Both agencies’ reports happen to be unanimous in cautioning against rising expenditures and investment fuelled by low bank lending rates. They make it clear that policy makers should be aware of capacity constraints as the growth accelerates. These constraints are expected to be reflected in gaps in skills and shortages, until investments in infrastructure and human resources yield returns.

Specifically, both agencies stress the need to control fiscal and trade deficits.

The World Bank update refers, in particular, to the dangers to external balance and likely decline in international reserves if macroeconomic adjustments are not made. It also reminds the government of its repayment of the US\$ 250 million bond due in 2016.

The World Bank suggests monetary tightening since private sector credit growth would accelerate inflationary pressures. The assessment is not different from a private sector study.

The latest ANZ’s Pacific Quarterly Report says quarterly growth rate in domestic credit has been rising: 9.6 percent in March 2013 to 18.7 percent in Sep 2014. The report calls for tighter monetary policy to moderate credit growth.