

**PRESENTATION TO THE
FIJI EMPLOYERS FEDERATION**

**IMPACT OF THE GLOBAL
CRISIS ON FIJI'S ECONOMY**



**Mr Sada Reddy
Deputy Governor, Reserve Bank of Fiji
12 November 2008**

OUTLINE

- **GLOBAL ECONOMIC CONDITIONS**
- **IMPACT OF THE FINANCIAL CRISIS ON FIJI'S ECONOMY**
- **SUMMARY**



GLOBAL ECONOMIC CONDITIONS

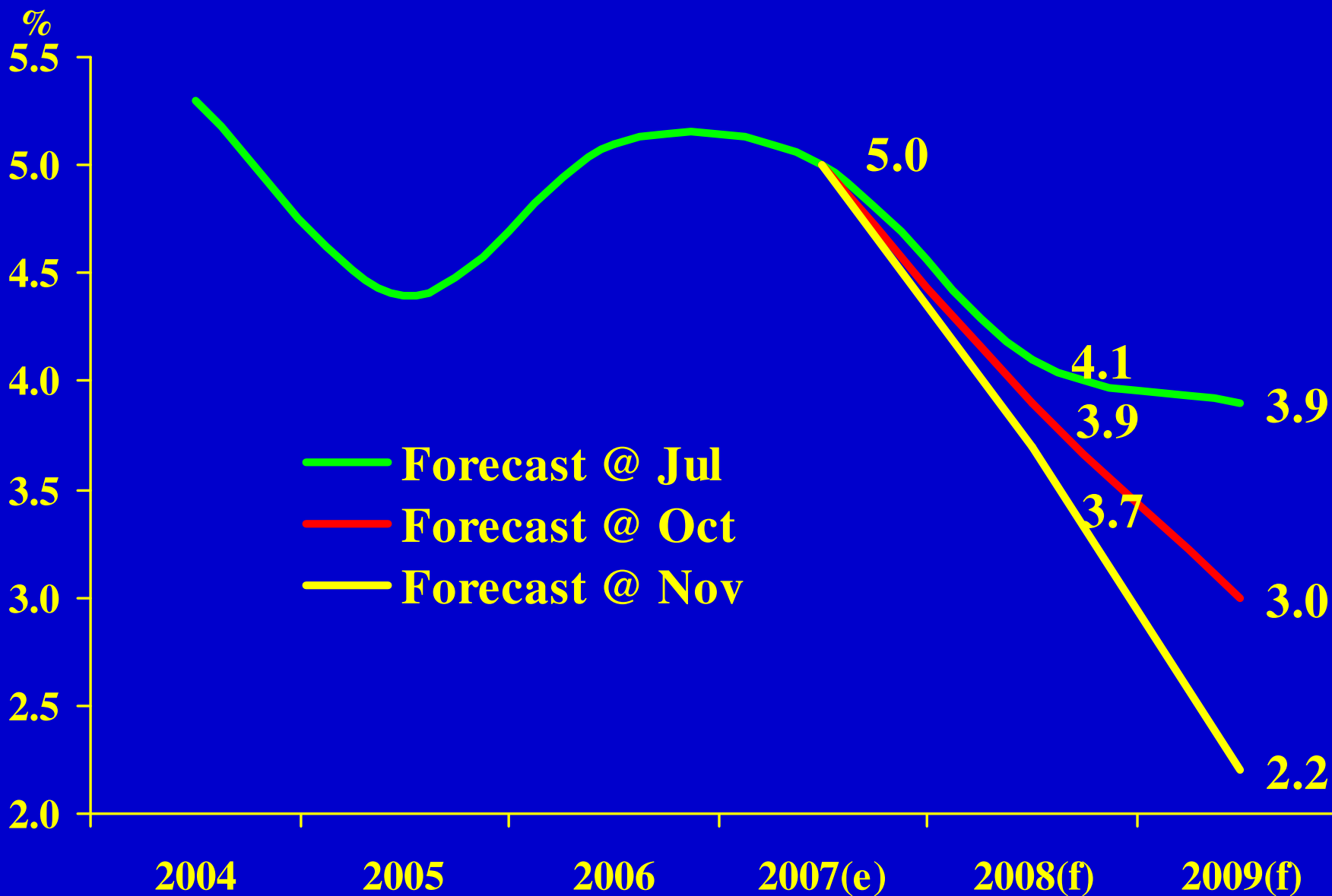
GLOBAL FINANCIAL CRISIS

- **Crisis erupted with the US sub-prime mortgage collapse in mid-2007**
- **Entered a new troubled phase in recent months**
- **Intensifying solvency concerns → shaken confidence**
- **Severe stress in financial systems → failure of several large financial institutions**
- **Most severe shock since the Great Depression of the 1930s**

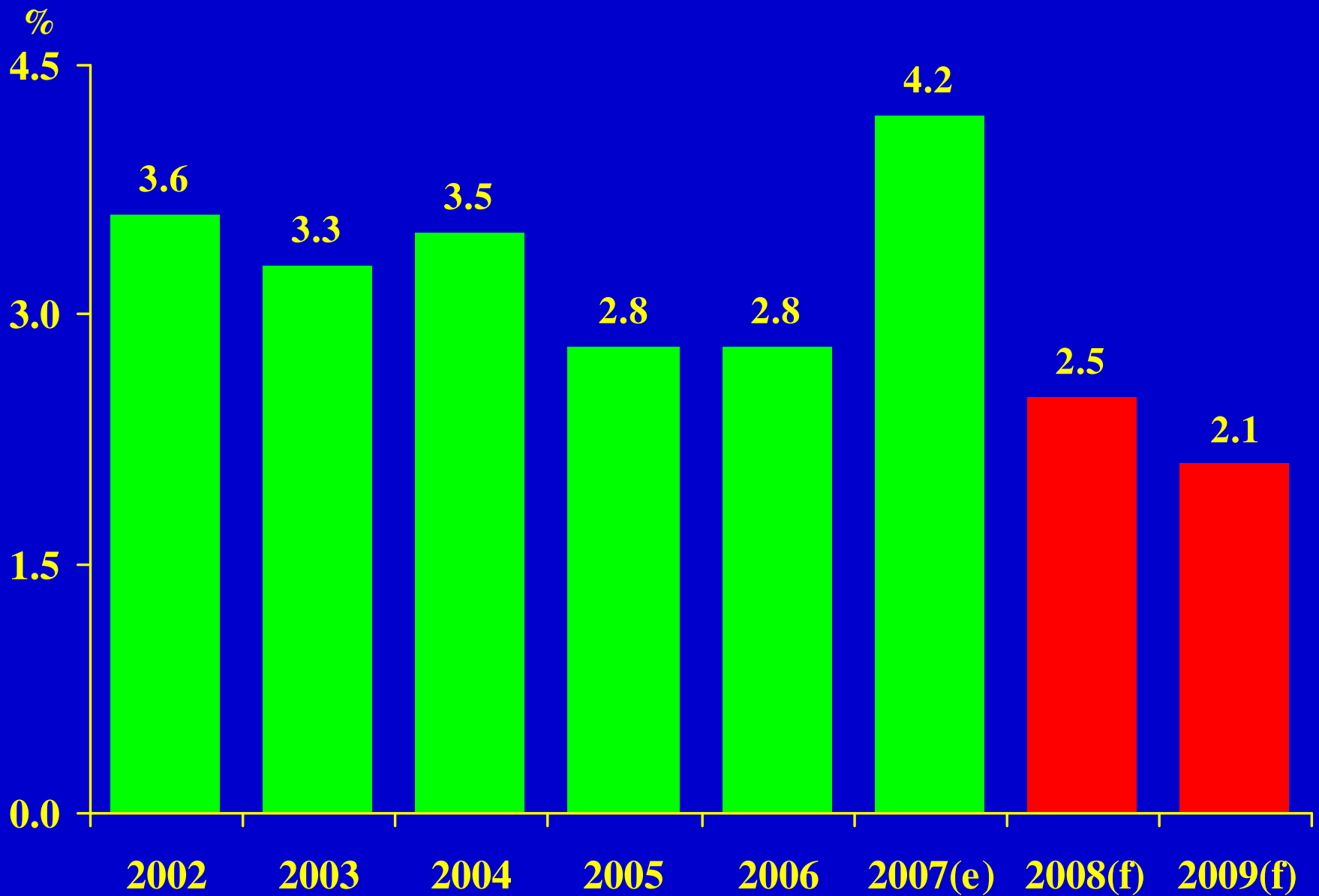
GLOBAL FINANCIAL CRISIS

- **Concerted effort to mitigate the crisis**
 - Central banks cuts rates and injected liquidity
 - Governments announced large rescue packages, including guarantee for deposits
 - These measures have, to a large extent, stabilised financial institutions around the globe
- **Stock markets badly hit, 30-50% decline, markets still very volatile**
- **Crude oil and commodity prices have fallen**
- **Fears of recession**

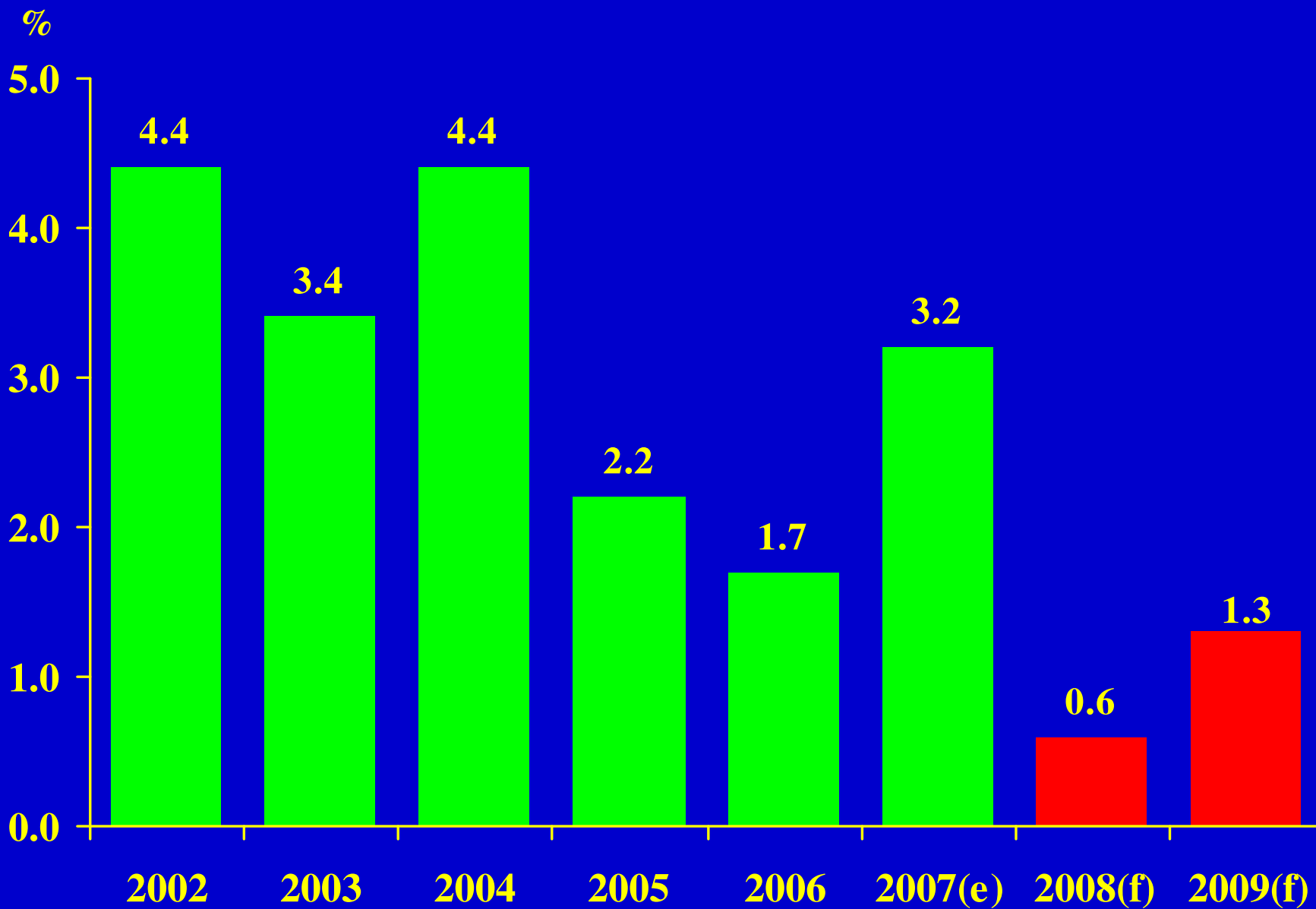
WORLD GDP GROWTH



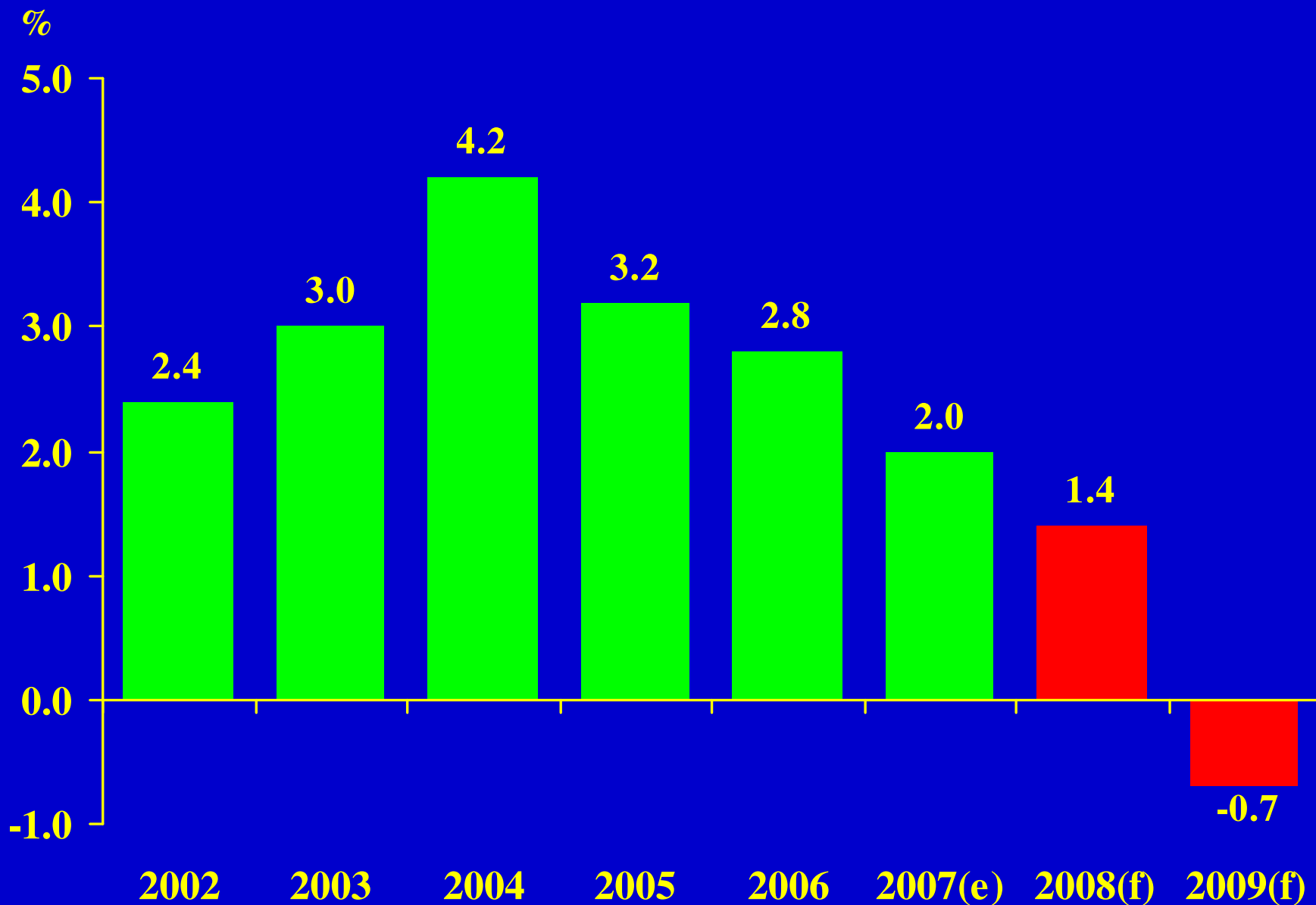
AUSTRALIA: GROWTH & OUTLOOK



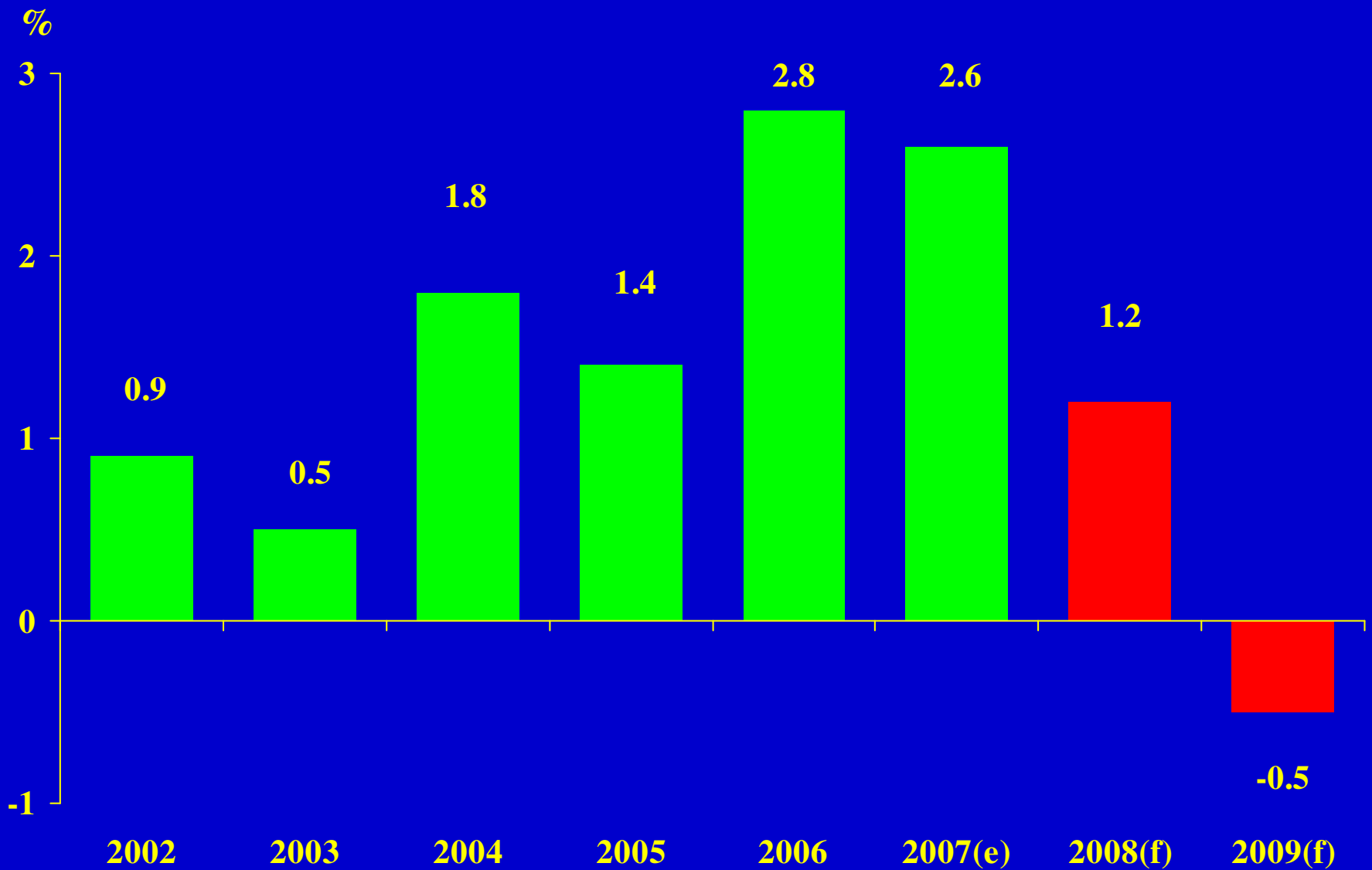
NEW ZEALAND: GROWTH & OUTLOOK



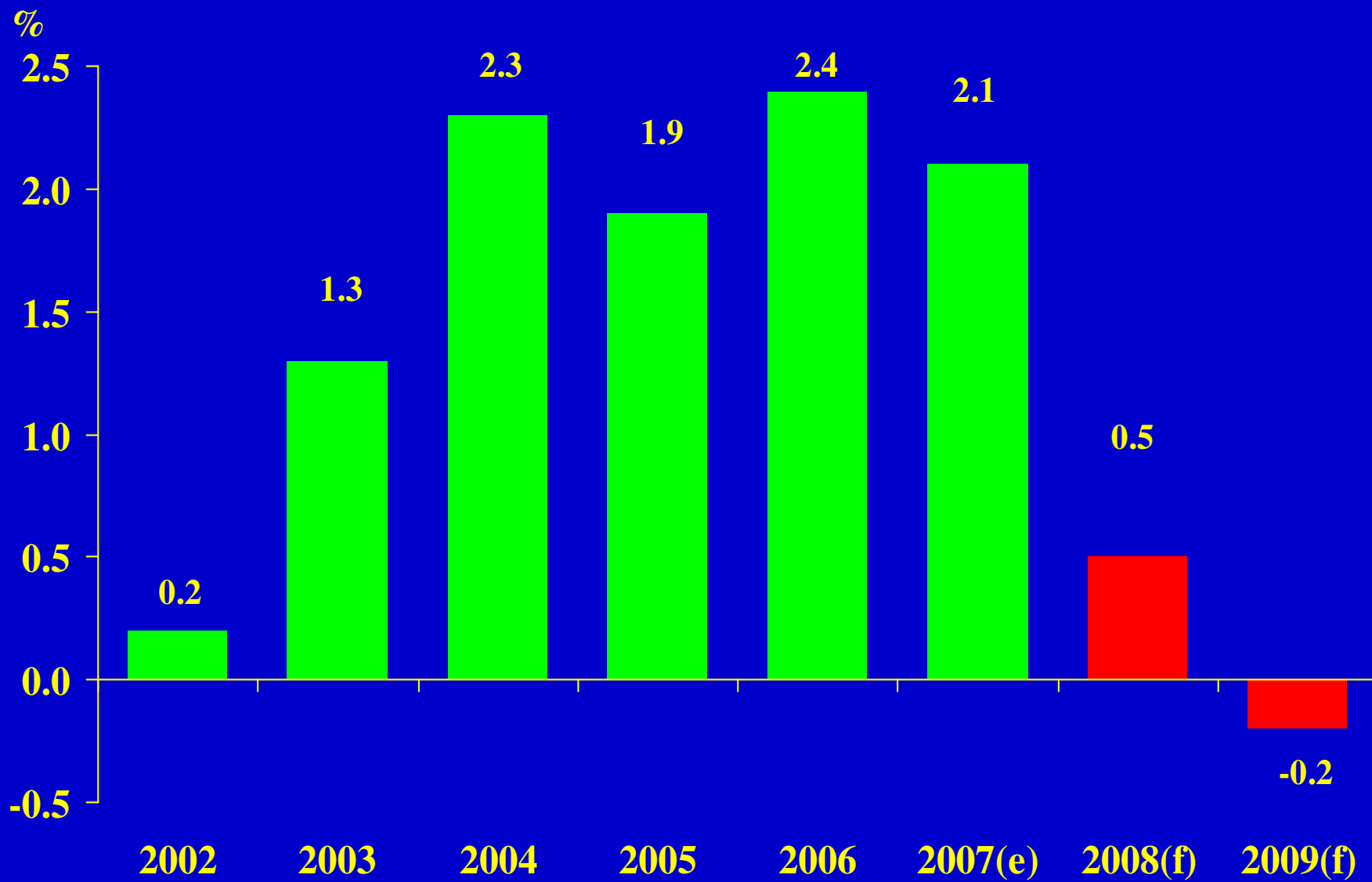
US: GROWTH & OUTLOOK



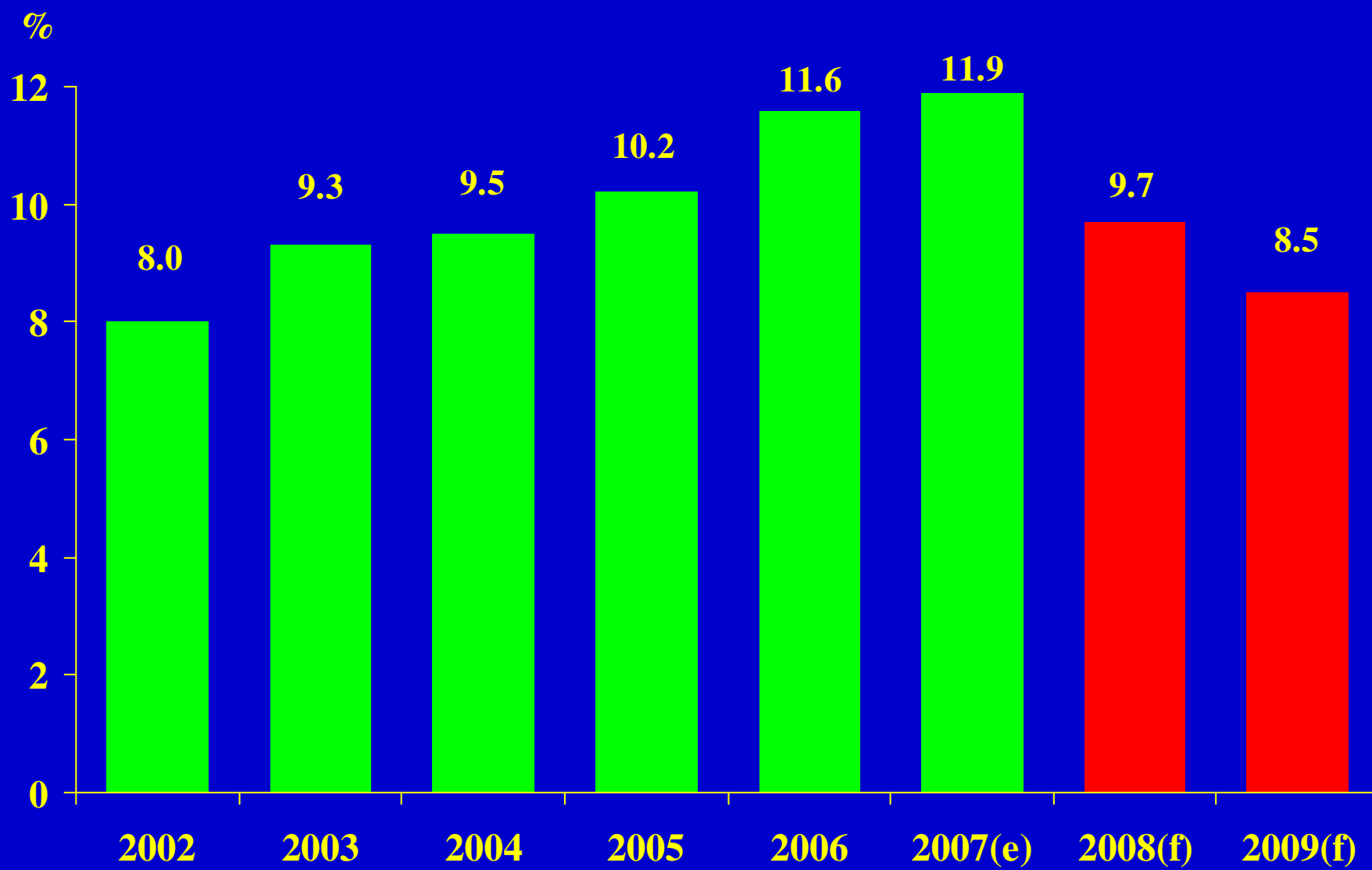
EUROZONE: GROWTH & OUTLOOK



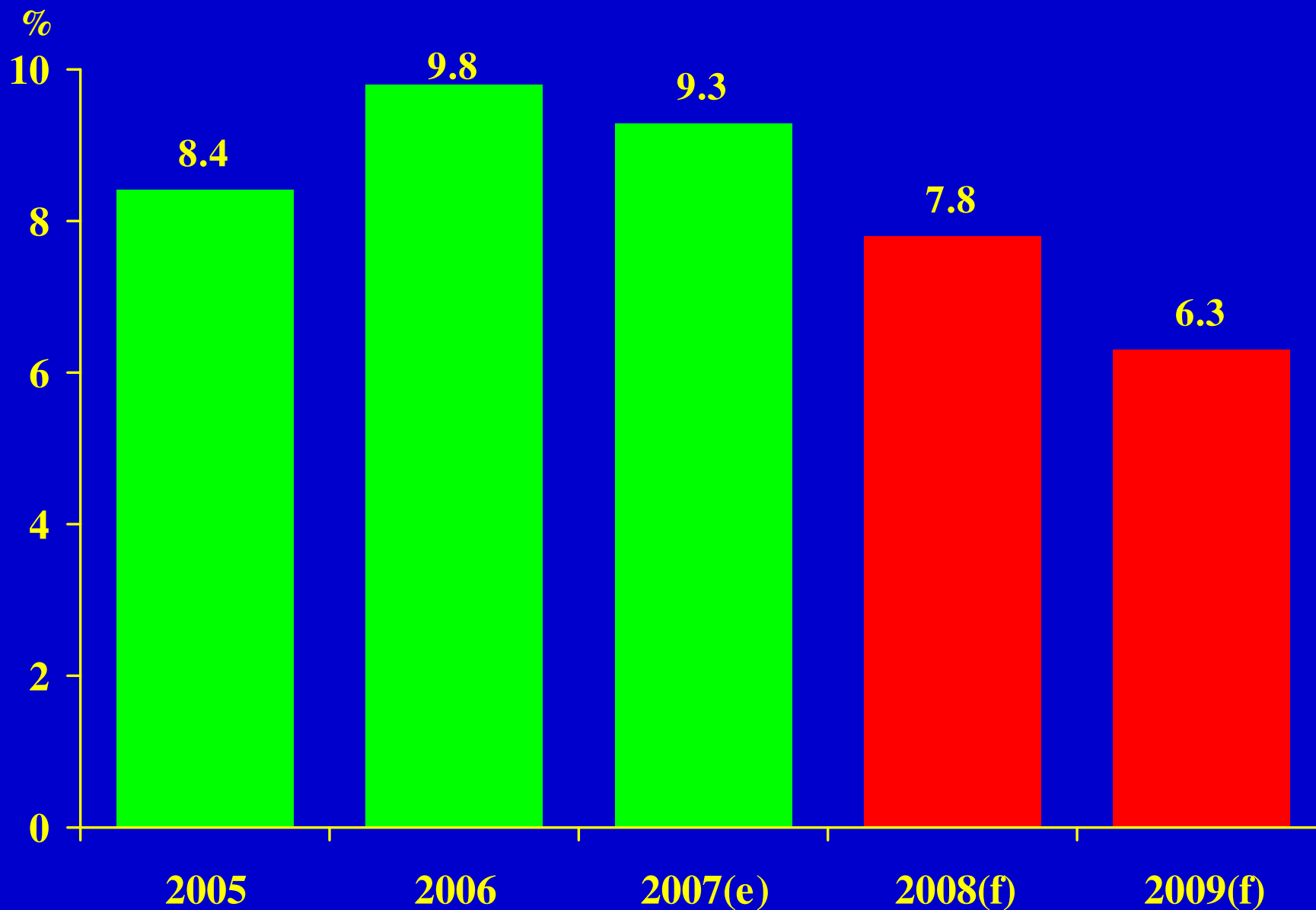
JAPAN: GROWTH & OUTLOOK



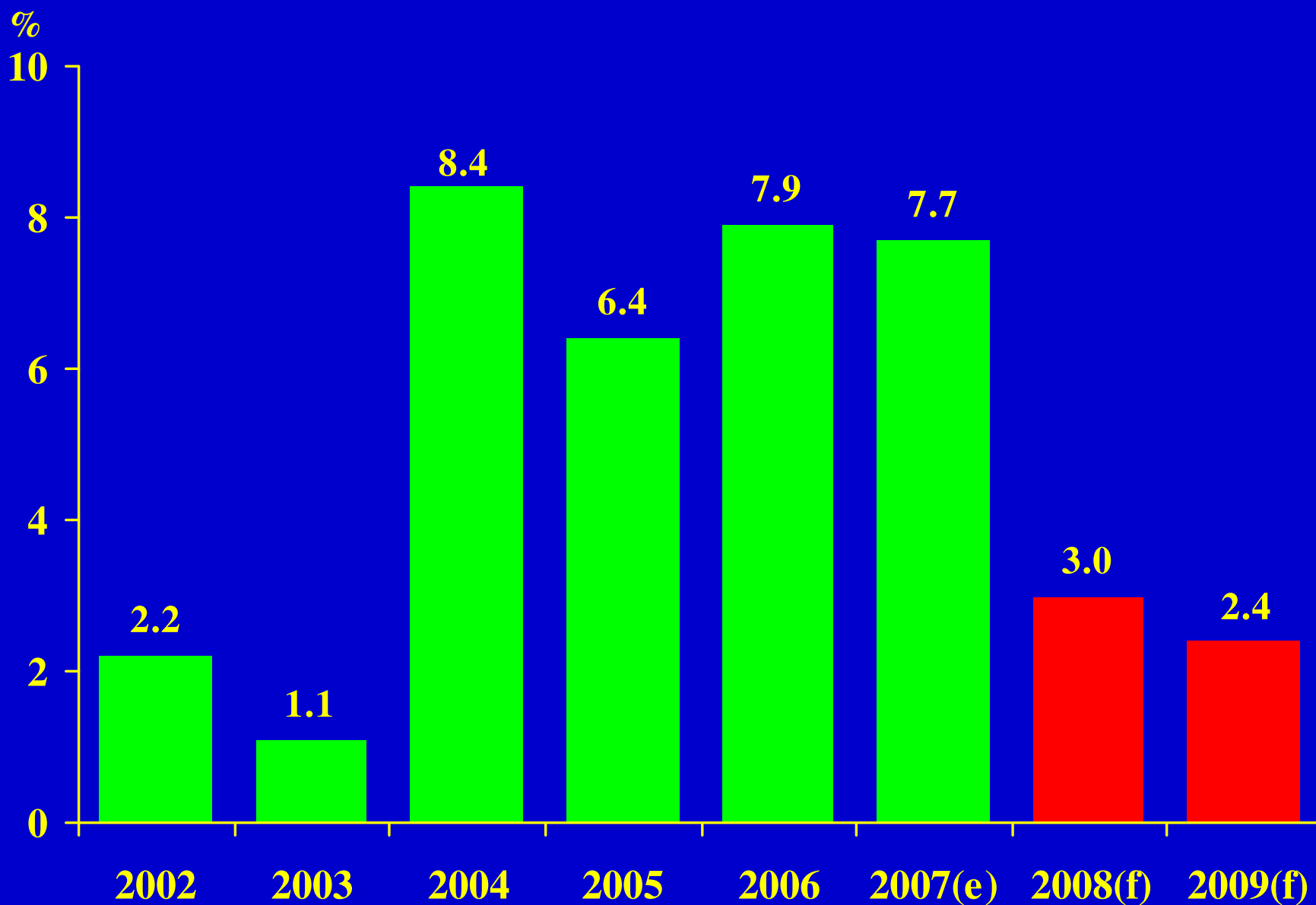
CHINA: GROWTH & OUTLOOK



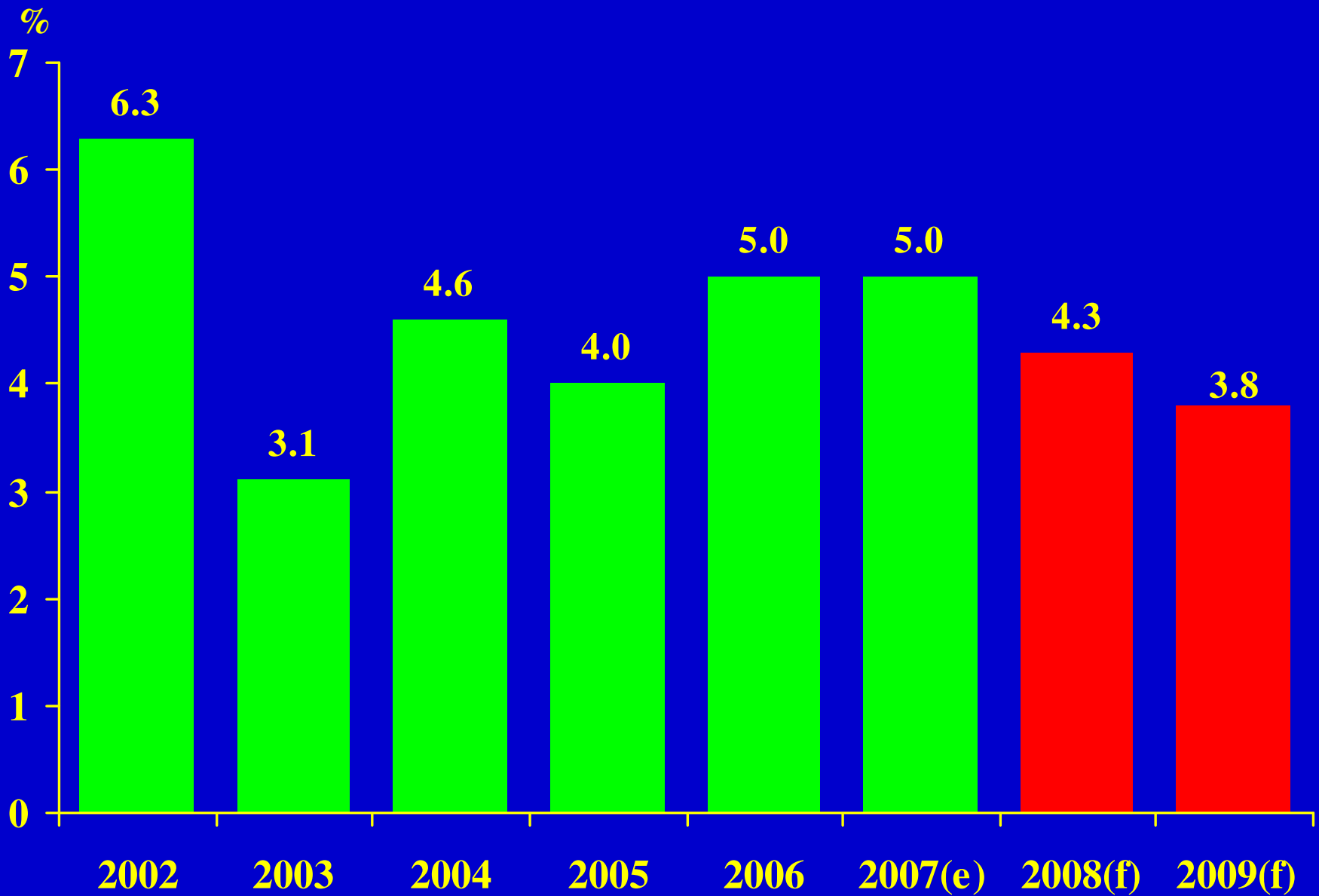
INDIA: GROWTH & OUTLOOK



SINGAPORE: GROWTH & OUTLOOK



SOUTH KOREA: GROWTH & OUTLOOK





IMPACT OF THE FINANCIAL CRISIS ON FIJI'S ECONOMY

FIJI'S FINANCIAL SECTOR

- Largely insulated from the global crisis
- Domestic financial system:
 - Flush with liquidity (+ exchange controls)
 - Prudently managed – keeps confidence high in Fiji's financial system
 - Largely domestic funding and lending
- Insurance industry
 - Largely sheltered from the crisis

MACROECONOMIC IMPACT

- Effects of the financial crisis may dampen domestic economic activity

IMPACT ON EXPORTS

- External demand may be affected → fish, mineral water and garments, textiles & footwear
- Overall, weaker export growth is envisaged

IMPACT ON IMPORTS

- **Weaker domestic economy may also weaken import growth**
- **Expected declines → intermediate (especially oil) & other investment goods**
- **Lower prices of commodities will help lower import bill**

CRUDE OIL PRICES

Daily

US\$/barrel

165

150

135

120

105

90

75

60

45

Futures

Peak: 3 July

US\$146

10 November

US\$58

Jan-07

Feb-07

Apr-07

Jun-07

Aug-07

Oct-07

Dec-07

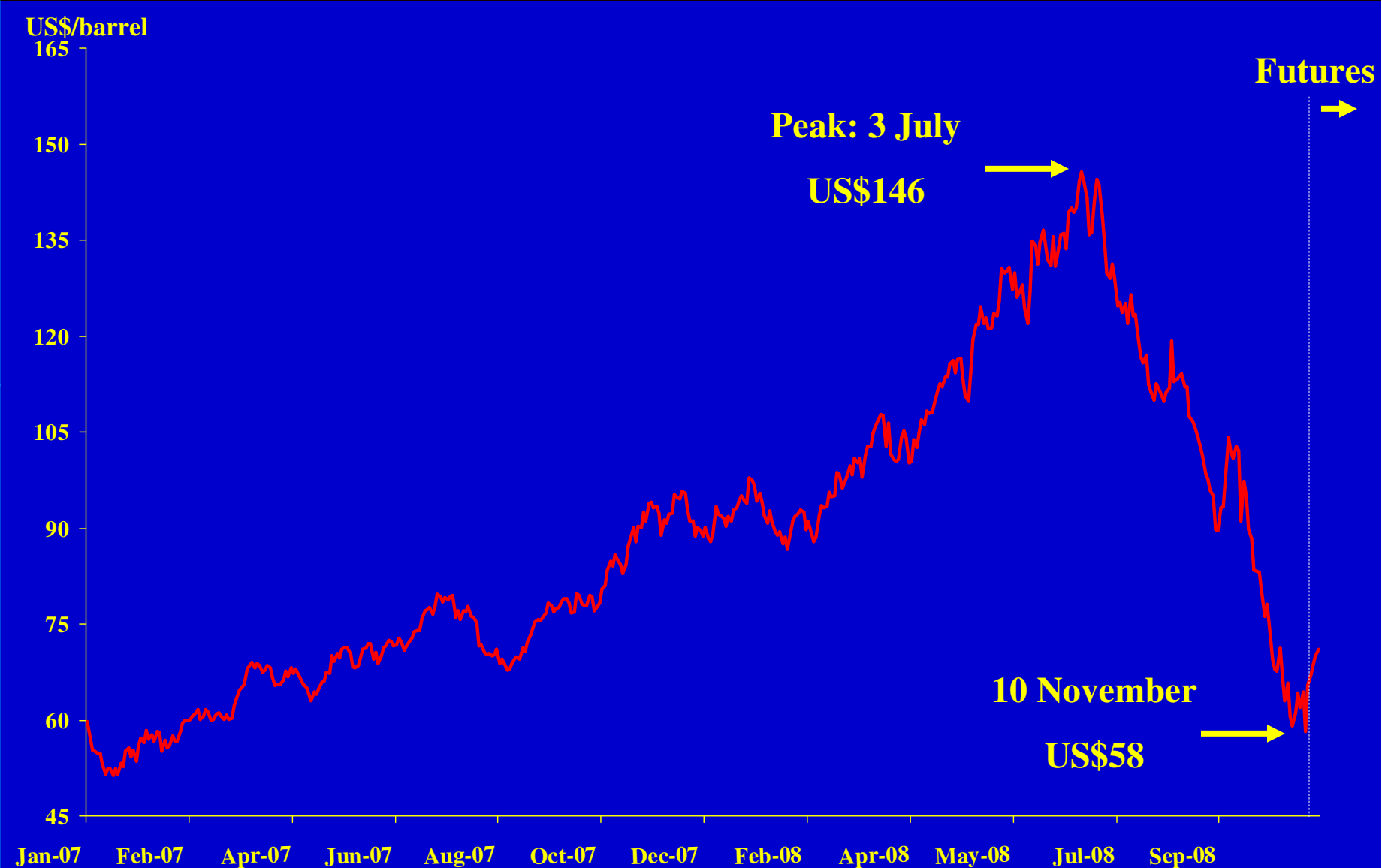
Feb-08

Apr-08

May-08

Jul-08

Sep-08

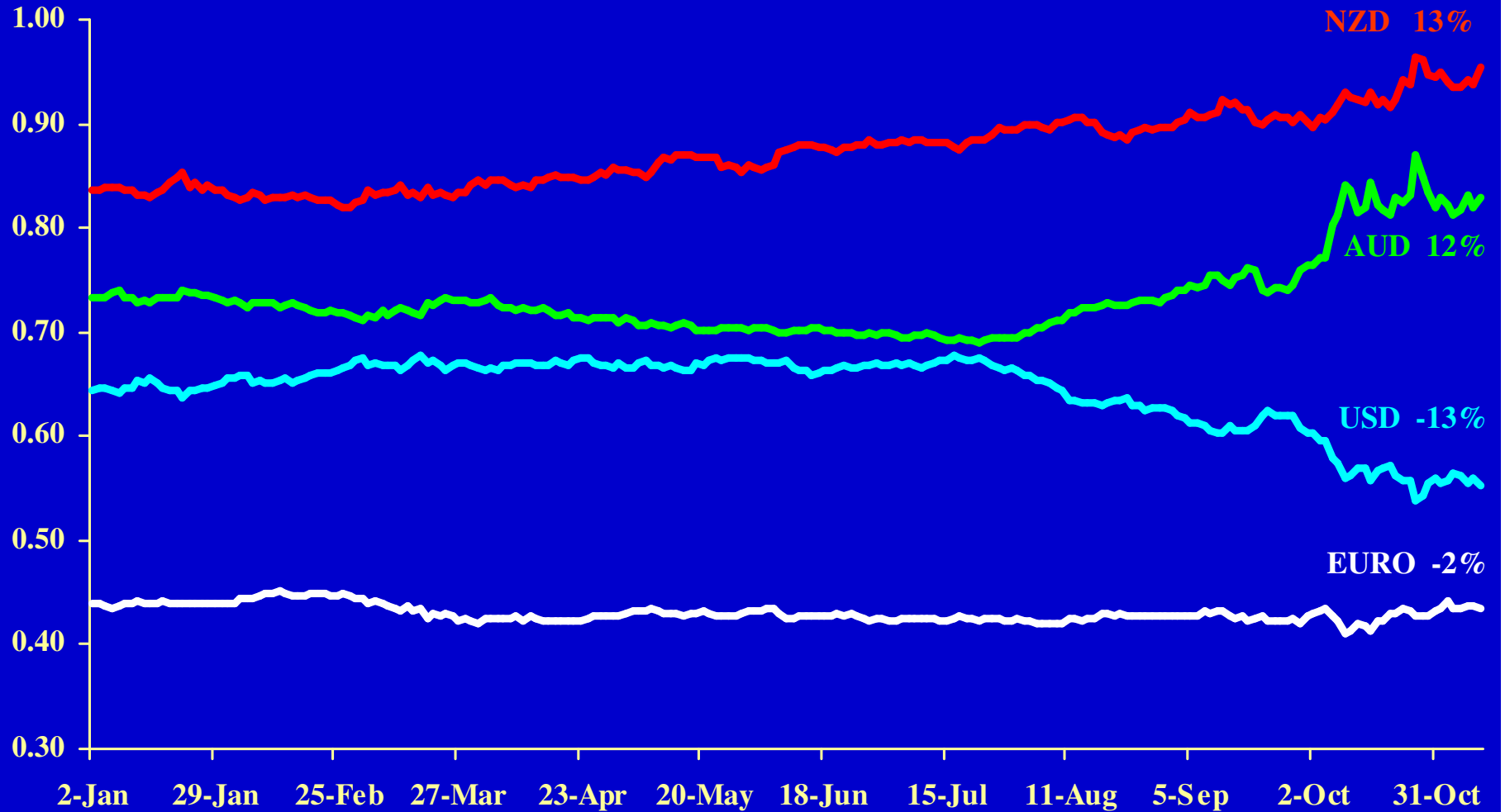


IMPACT ON EXCHANGE RATE & EXTERNAL COMPETITIVENESS

- **Fiji dollar is expected to weaken against the US dollar but strengthen against AUD/NZD/Euro**
- **External competitiveness could be affected by competition from Asian economies**

EXCHANGE RATES OF SELECTED CURRENCIES AGAINST FJD

NZD/AUD/EUR/USD



EXCHANGE RATES OF SELECTED CURRENCIES AGAINST FJD

	02-Jan-08	30-Sep-08	31-Oct-08	Monthly % Change	Year to date % Change
Australian Dollar (AUD)	0.7336	0.7591	0.8197	8.0	11.7
New Zealand Dollar (NZD)	0.8375	0.9077	0.9447	4.1	12.8
Euro (EUR)	0.4405	0.4214	0.4329	2.7	-1.7
Japanese Yen (JPY)	71.70	63.49	55.24	-13.0	-23.0
US Dollar (USD)	0.6428	0.6088	0.5600	-8.0	-12.9

EXCHANGE RATES OF SELECTED CURRENCIES AGAINST USD

	02-Jan-08	30-Sep-08	31-Oct-08	Monthly % Change	Year to date % Change
Australian Dollar (AUD)	1.1412	1.2470	1.4638	17.4	28.3
New Zealand Dollar (NZD)	1.3029	1.4910	1.6871	13.2	29.5
Euro (EUR)	0.6854	0.6922	0.7731	11.7	12.8
Japanese Yen (JPY)	111.55	104.29	98.64	-5.4	-11.6
Fiji Dollar (FJD)	1.5557	1.6426	1.7857	8.7	14.8

IMPACT ON TOURISM & REMITTANCES

- **Mixed views on visitor arrivals → possibility of slower growth next year**
- **Lower tourism earnings (without any compensatory ↑ in per diem); Competition driven discounts may affect yield.**
- **Remittances ↓ given that the labour market conditions in the advanced economies is likely to be affected**

IMPACT ON FOREIGN DIRECT INVESTMENT

- **FDI financed loans from external banks and other institutions**
- **Tight global liquidity conditions → restrain foreign borrowing**
- **Non-residents → withdraw their existing investment & re-invested earnings to meet their offshore financial and liquidity needs**

IMPACT ON ECONOMIC GROWTH

- Risk to the Fiji economy is on the downside
- Expected negative effects → trade and financial channel
- ↓ exports for mineral water, fish, garments, textiles & footwear and other domestic exports
- Slowdown in tourism → ↓ wholesale & retail trade, hotels and restaurants sectors & air transport and services allied

IMPACT ON ECONOMIC GROWTH

- **Reduction in remittances flows → consumption expenditure and sluggish domestic demand**
- **Lower financial flows (especially, FDI) could lead to declines in building & construction sector**
- **Likely to erode growth somewhat in 2009**

IMPACT ON FIJI'S MONETARY POLICY OBJECTIVES

- **Inflation**
 - Global slowdown will ease inflationary pressures
 - Oil prices have fallen and other commodity prices may also ease
- **Foreign Reserves**
 - Although imports may weaken somewhat,
 - Lower exports, services and FDI will put additional pressure on the BoP
- RBF will maintain tight money & credit policies

SUMMARY

- **The impact of the financial crisis on Fiji will be via the impact on its major trading partner economies**
- **Financial sector assessment reinforces the soundness of the banking, insurance and other financial institutions**
- **Macroeconomic threats are firmly on the downside**



THANK YOU