

**PRESENTATION TO THE  
FIJI AUSTRALIA BUSINESS COUNCIL**

**THE FIJI ECONOMY:  
FACING THE GLOBAL CRISIS**



**Mr Savenaca Narube  
Governor, Reserve Bank of Fiji  
2 December 2008**

# OUTLINE

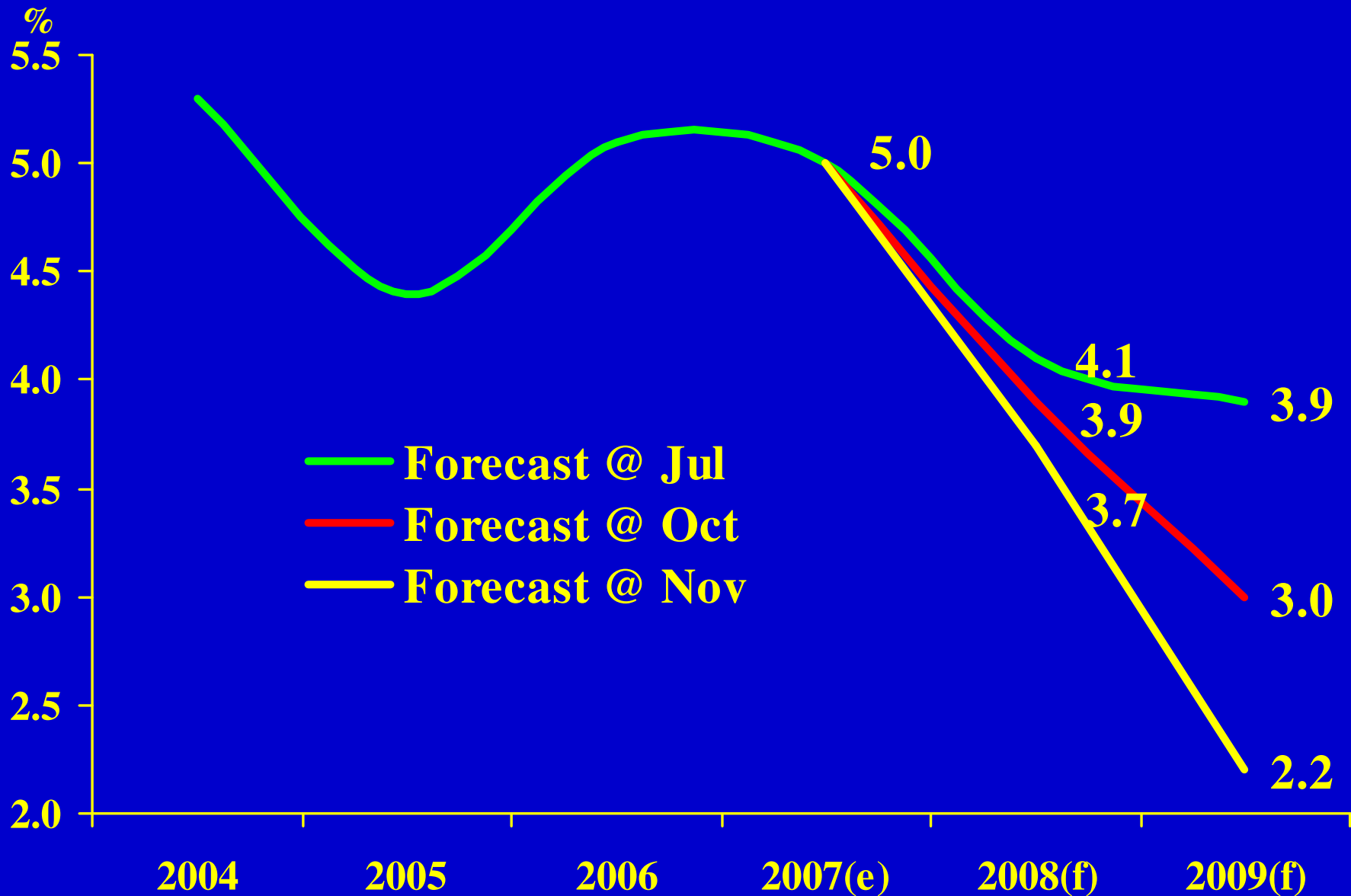
- **GLOBAL CRISIS**
- **EXPOSURE TO TRADE IN GOODS & SERVICES**
- **GROWTH OUTLOOK**
- **KEY CHALLENGES AND POLICY RESPONSES**
- **SUMMARY**

# **SNAPSHOT OF THE FIJI ECONOMY**

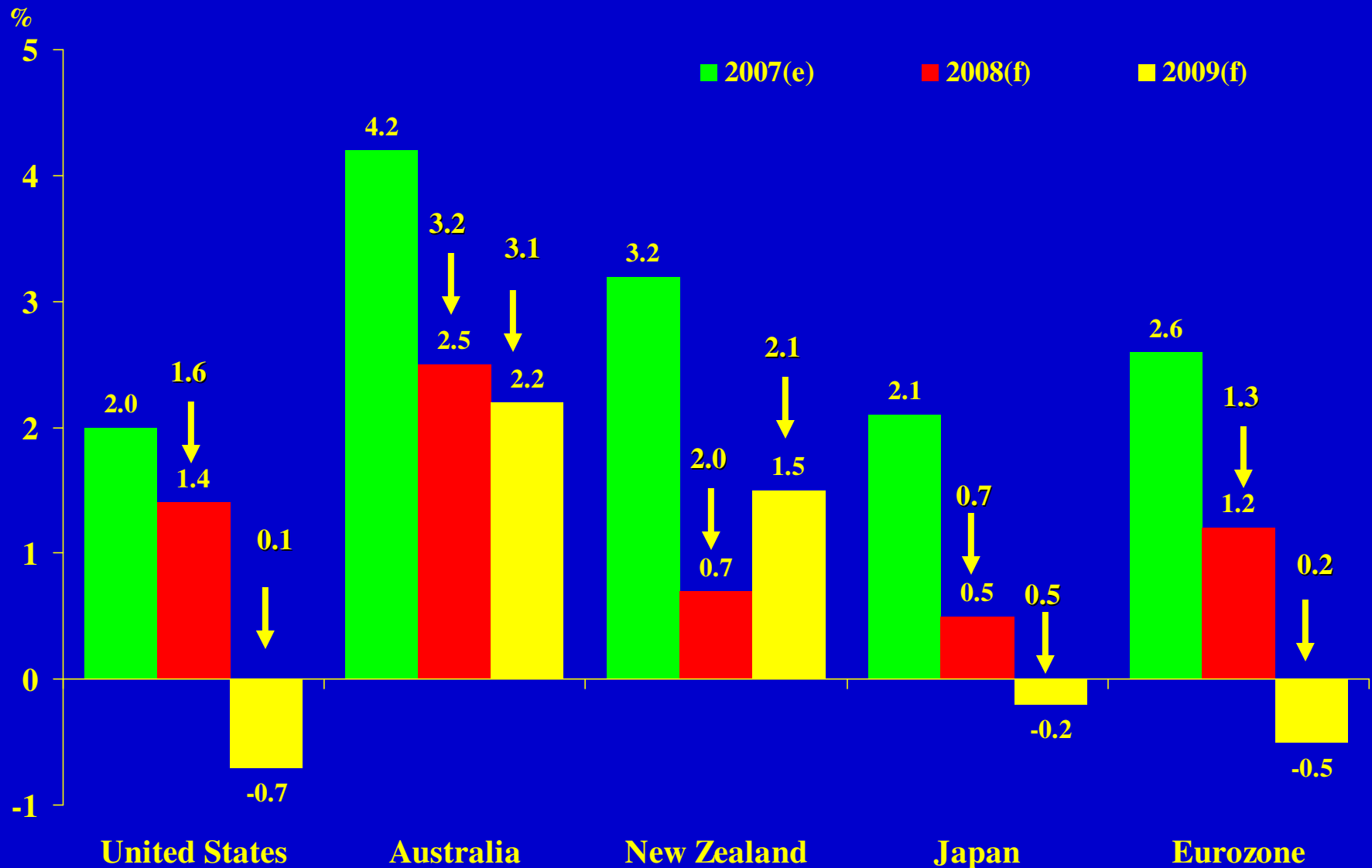
- **Economy declined heavily in 2007**
- **Recovery to begin this year but low growth**
- **The trade deficit is widening and exerting pressure on foreign reserves**
- **Inflation has risen to a 20-year high but to decline to a moderate level in 2009**
- **Investment has fallen**
- **Unemployment is rising**
- **Poverty is worsening**

**NOW COMES THE GLOBAL FINANCIAL CRISIS**

# WORLD GDP GROWTH



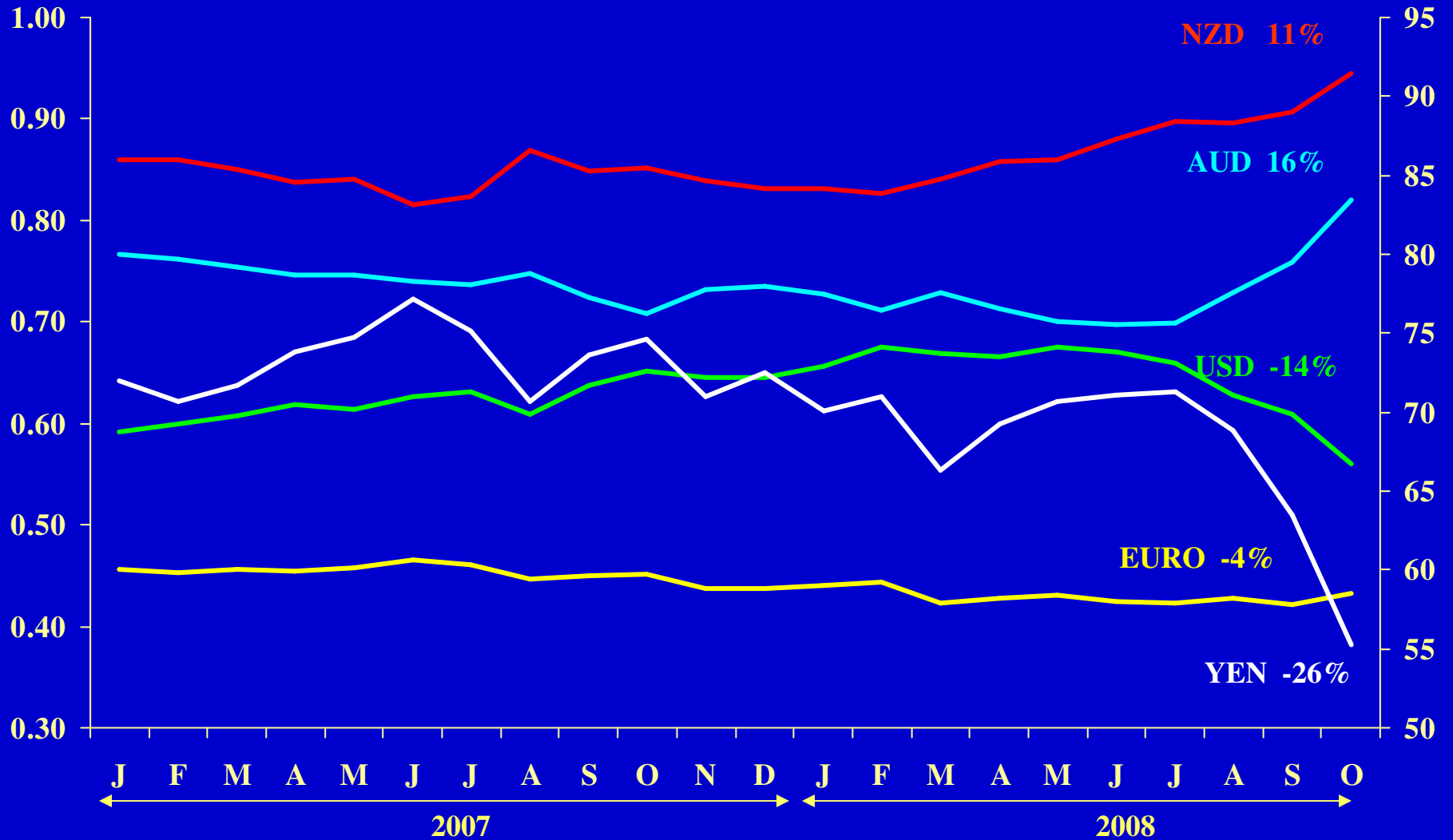
# TRADING PARTNERS' OUTLOOK



# EXCHANGE RATES OF SELECTED CURRENCIES AGAINST FJD

NZD/AUD/EUR/USD

YEN

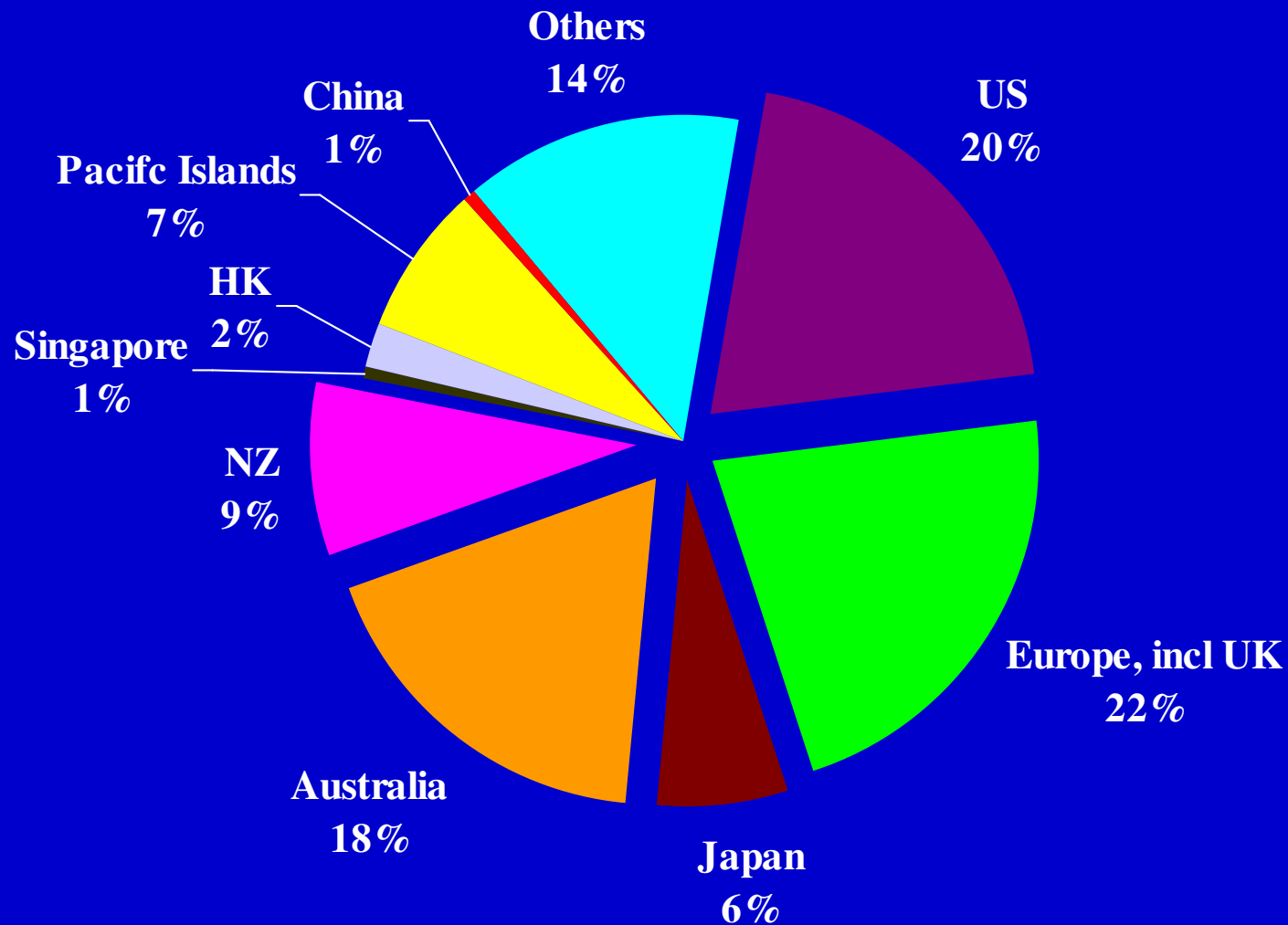






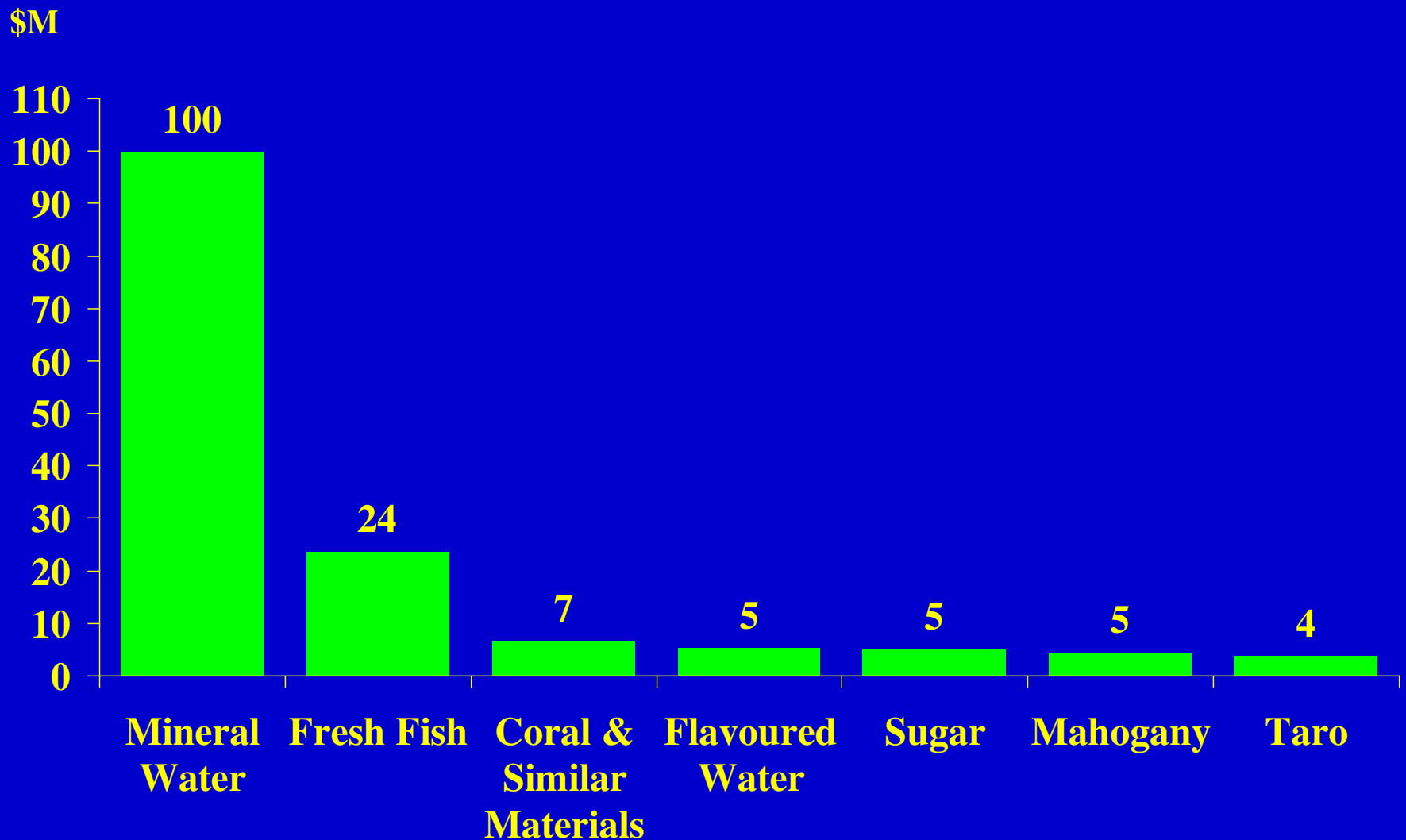
# **EXPOSURE TO TRADE IN GOODS & SERVICES**

# FIJI'S COMMODITY EXPORT\* DESTINATIONS



# MAJOR EXPORTS\* TO US

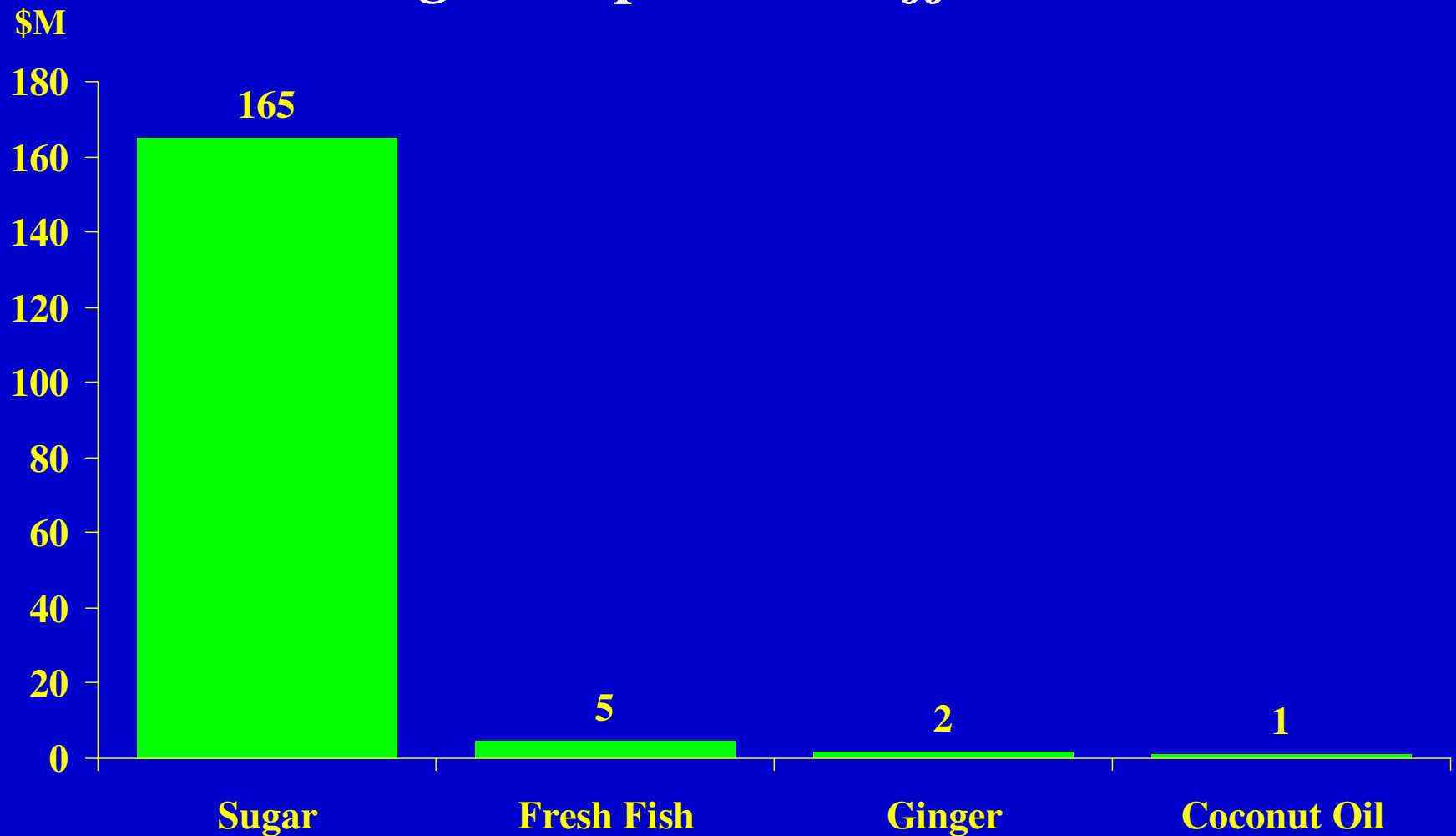
*Demand Will Slow Down*



\*Represents 84% of total commodity exports to the US in 2007

# MAJOR EXPORTS\* TO EUROPE

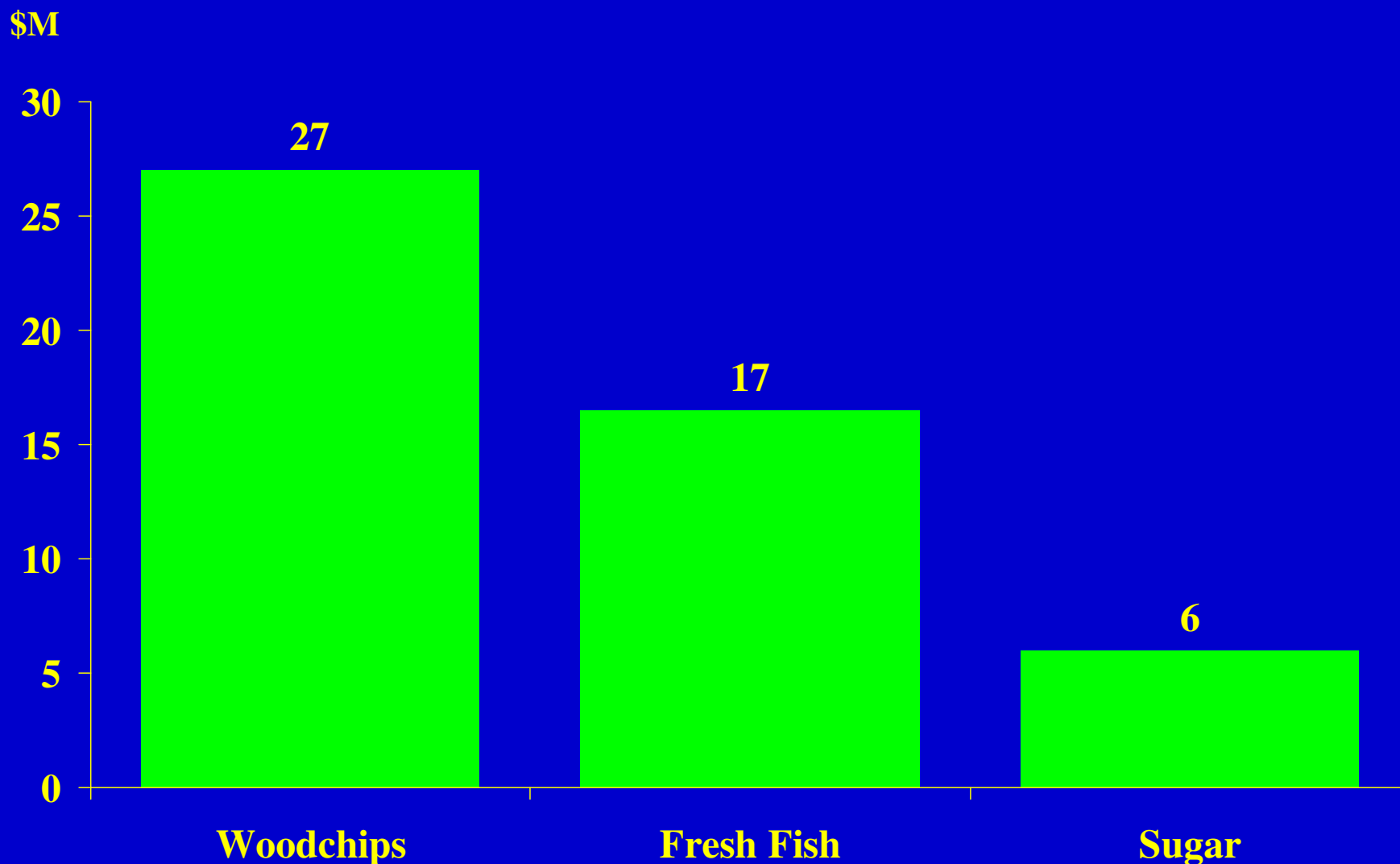
## *Sugar Exports Unaffected*



\*Represents 83% of total commodity exports to the UK, Germany, France & Italy in 2007

# MAJOR EXPORTS\* TO JAPAN

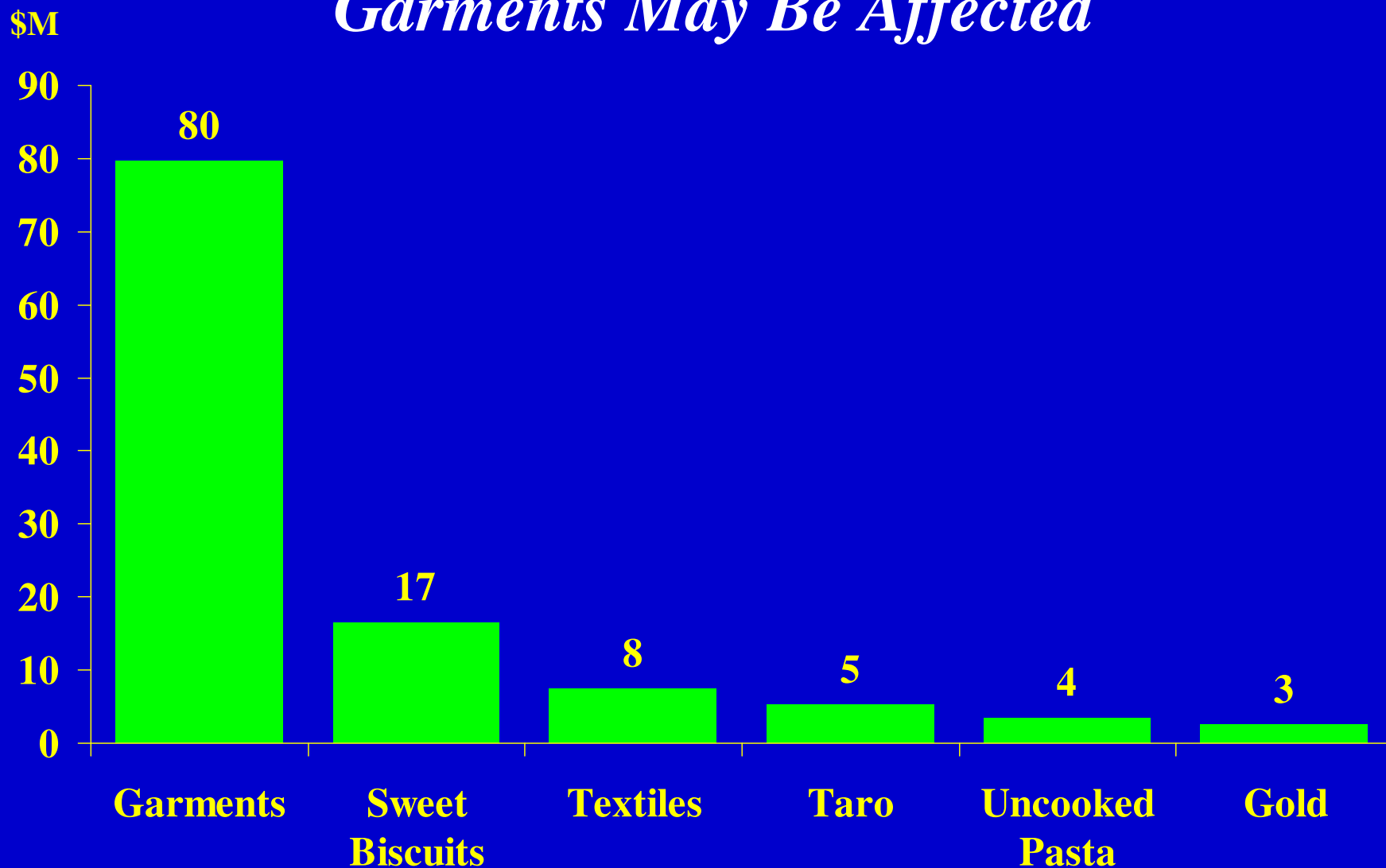
*Demand Will Slow Down*



\*Represents 88% of total commodity exports to Japan in 2007

# MAJOR EXPORTS\* TO AUS

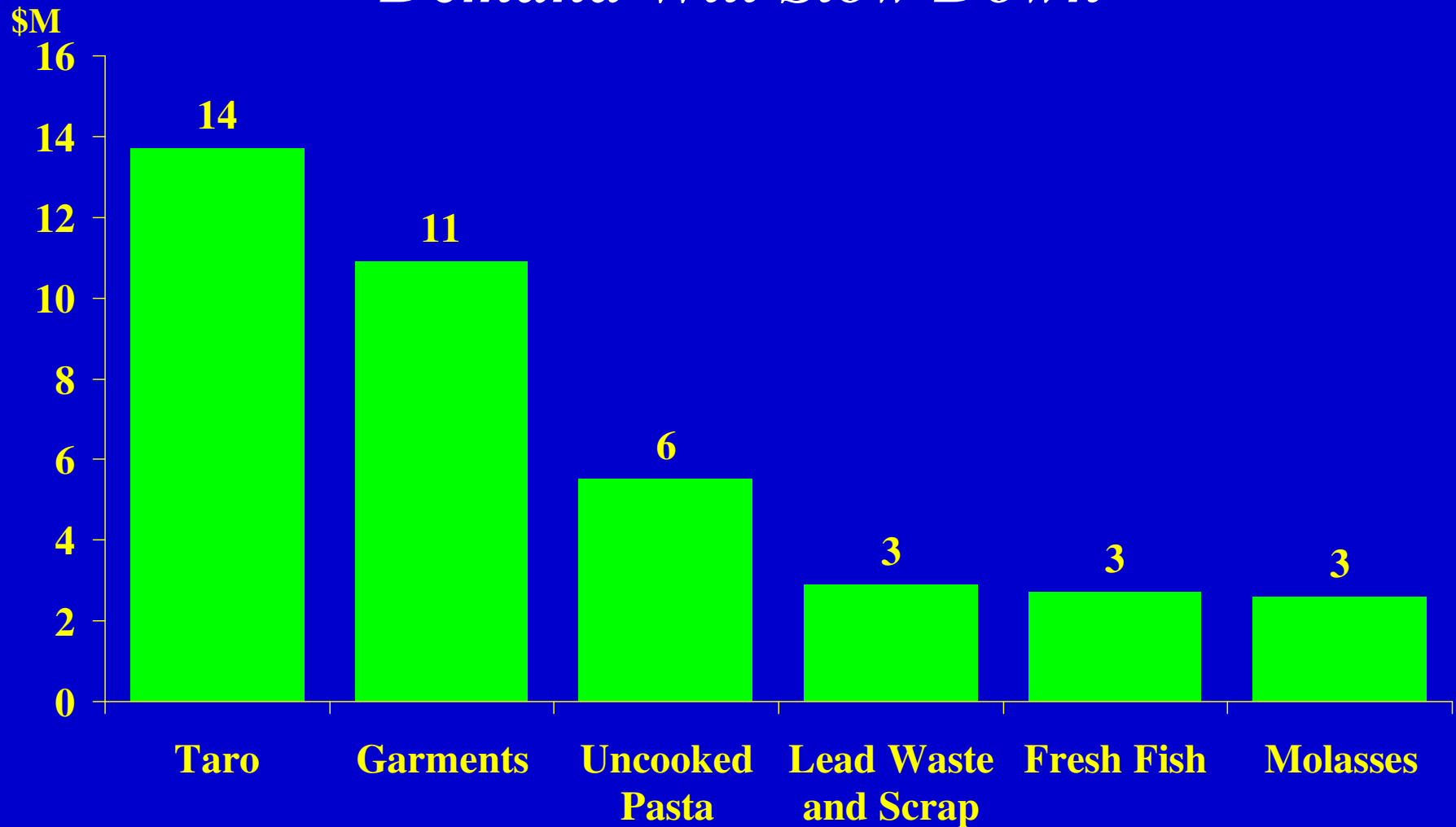
*Garments May Be Affected*



\*Represents 73% of total commodity exports to Australia in 2007

# MAJOR EXPORTS\* TO NZ

*Demand Will Slow Down*

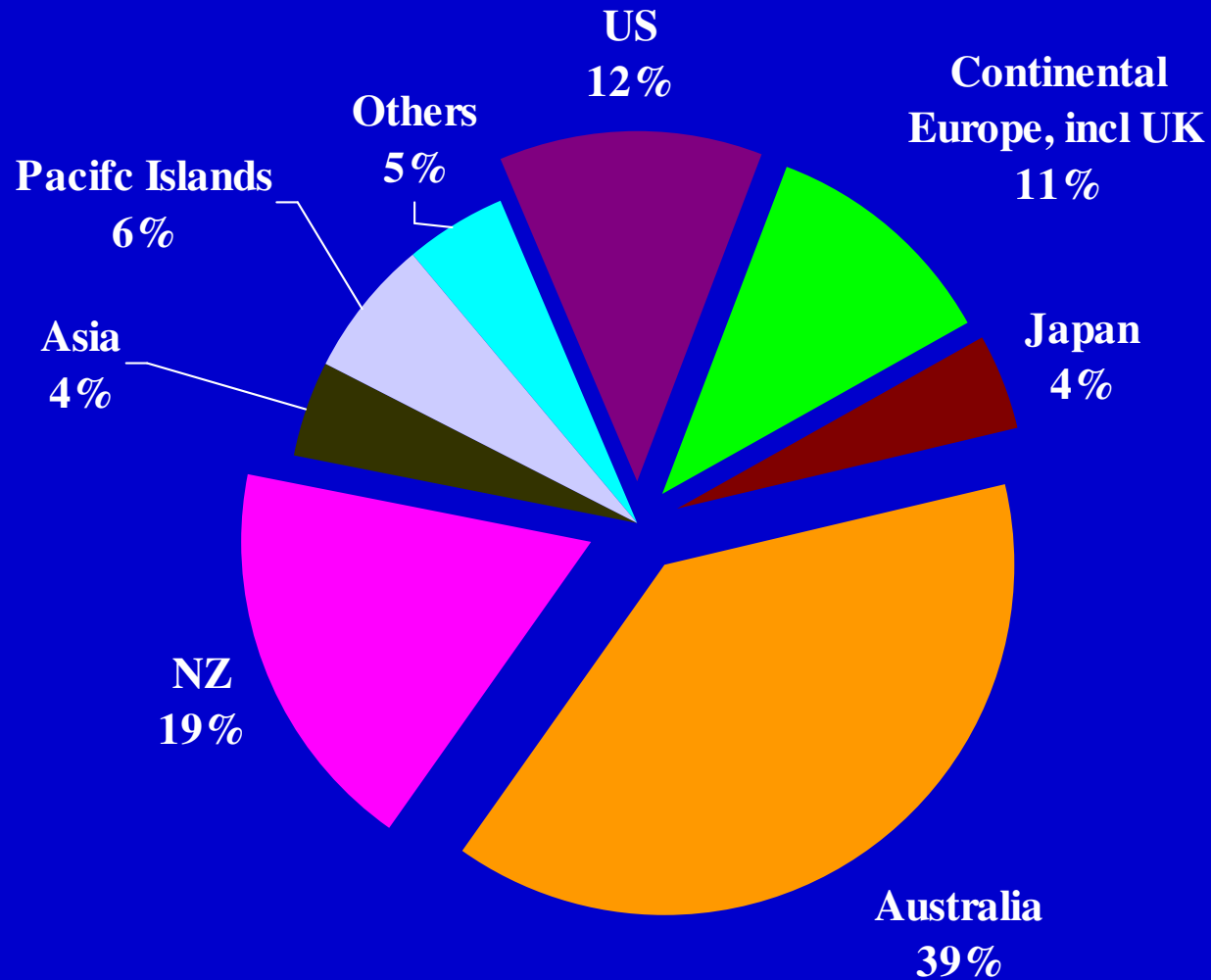


\*Represents 48% of total commodity exports to New Zealand in 2007

# IMPACT ON EXPORTS

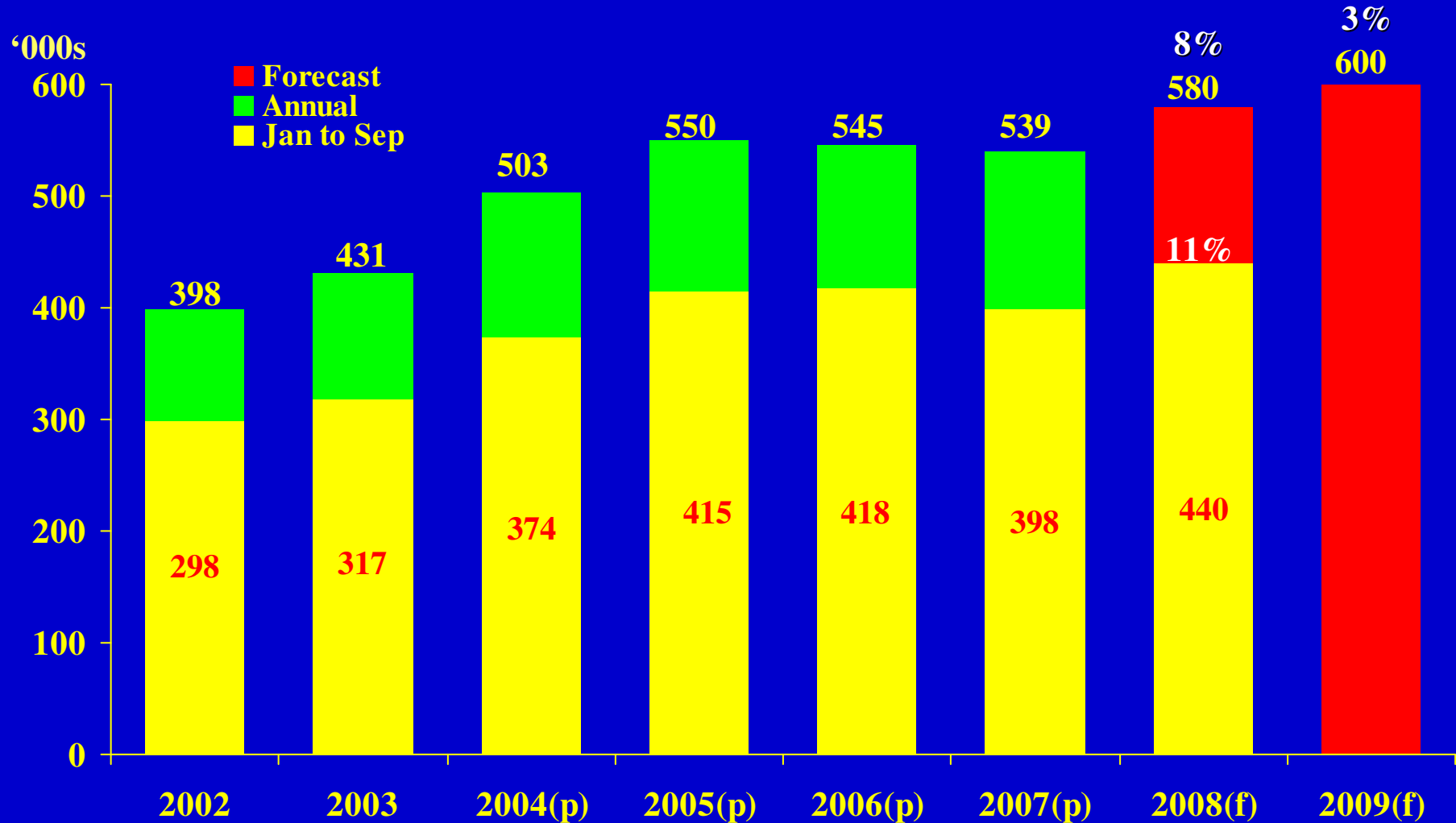
- **Slowdown in exports which are demand driven**
  - **Tourism**
  - **Water**
  - **Garments**
- **Supply driven exports – structural constraints binding**
- **Slowdown in growth of total exports**

# VISITOR ARRIVALS\* BY COUNTRY



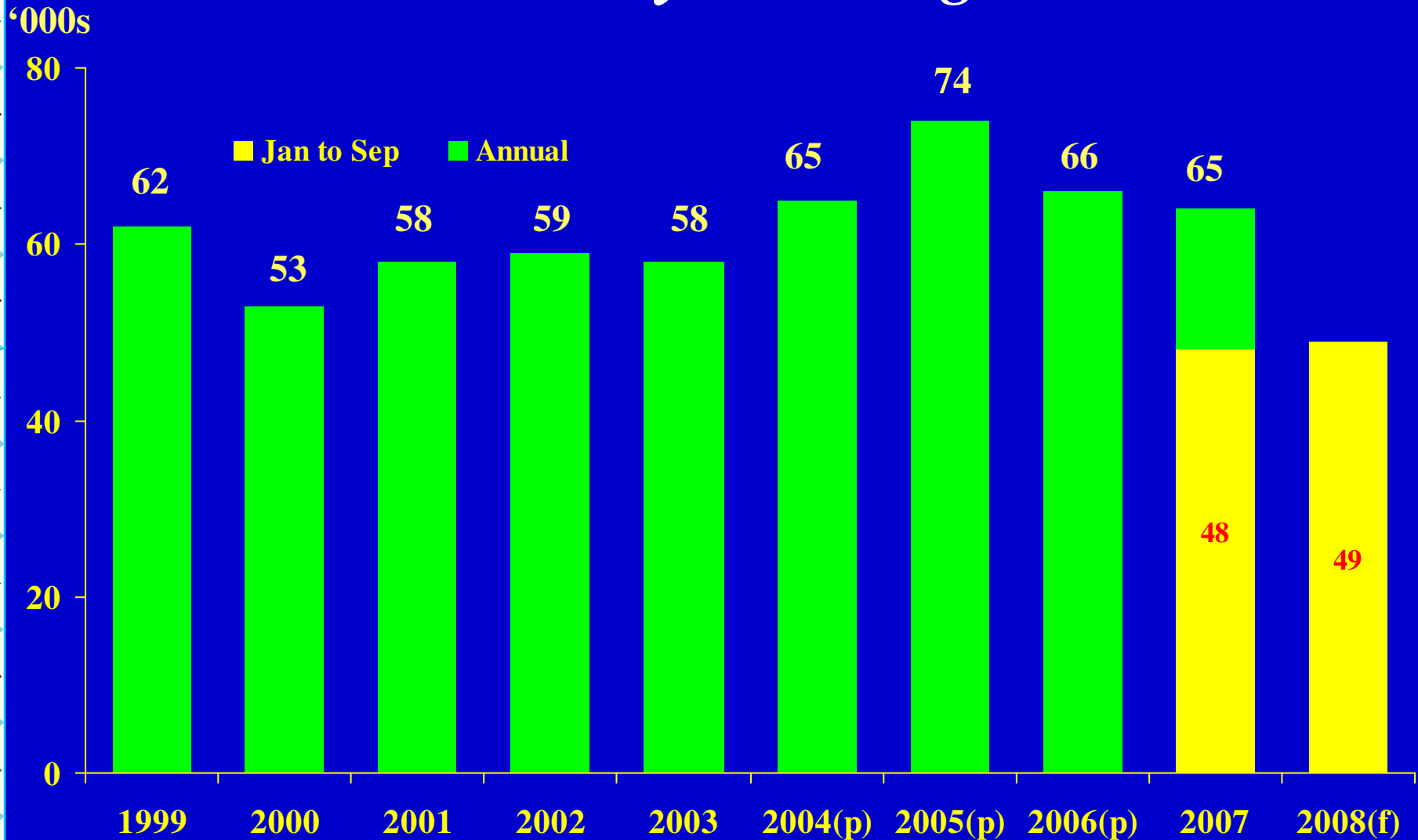
# VISITOR ARRIVALS

## *Growth Under Threat*



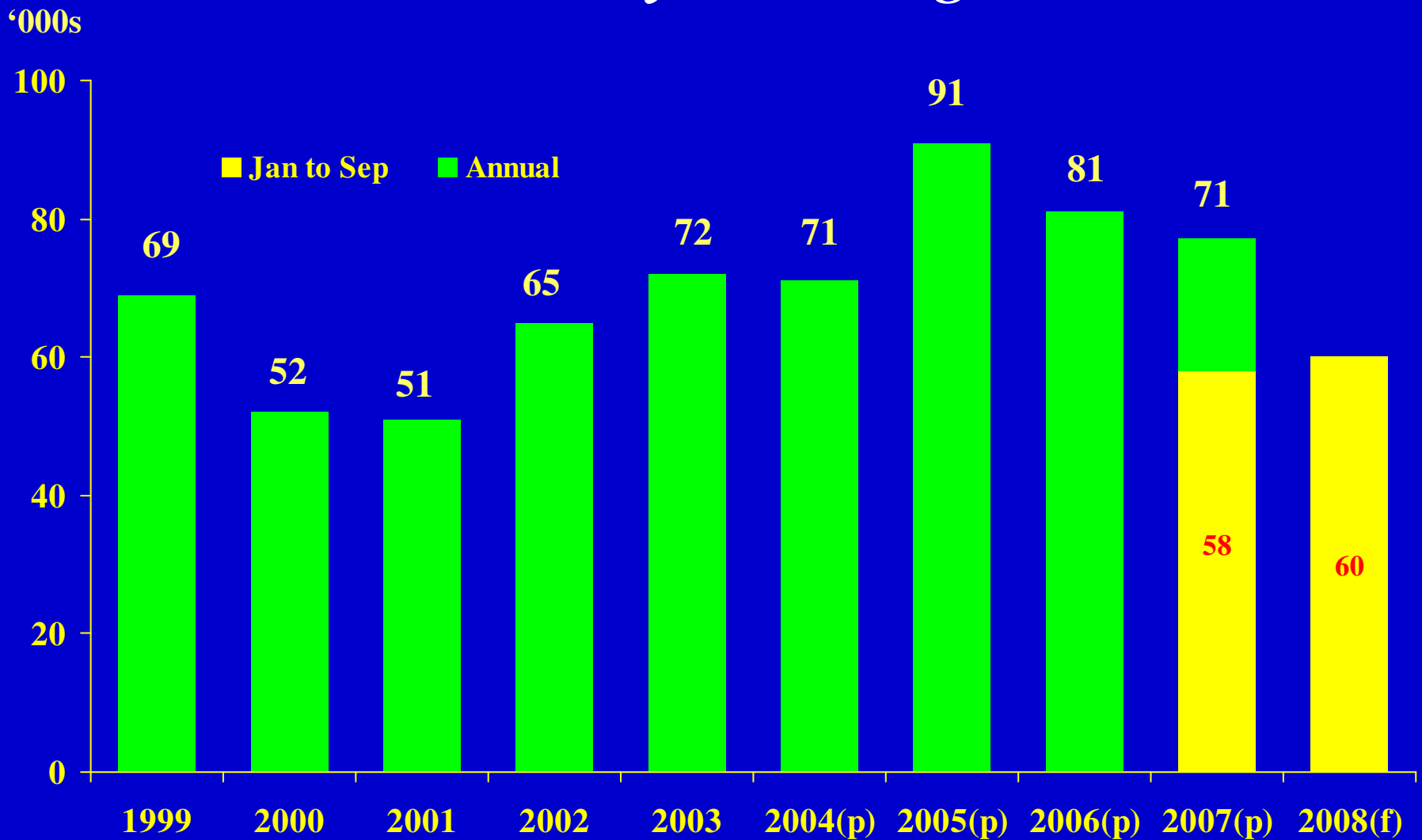
# VISITOR ARRIVALS - USA

*Already Declining*



# VISITOR ARRIVALS - EUROPE

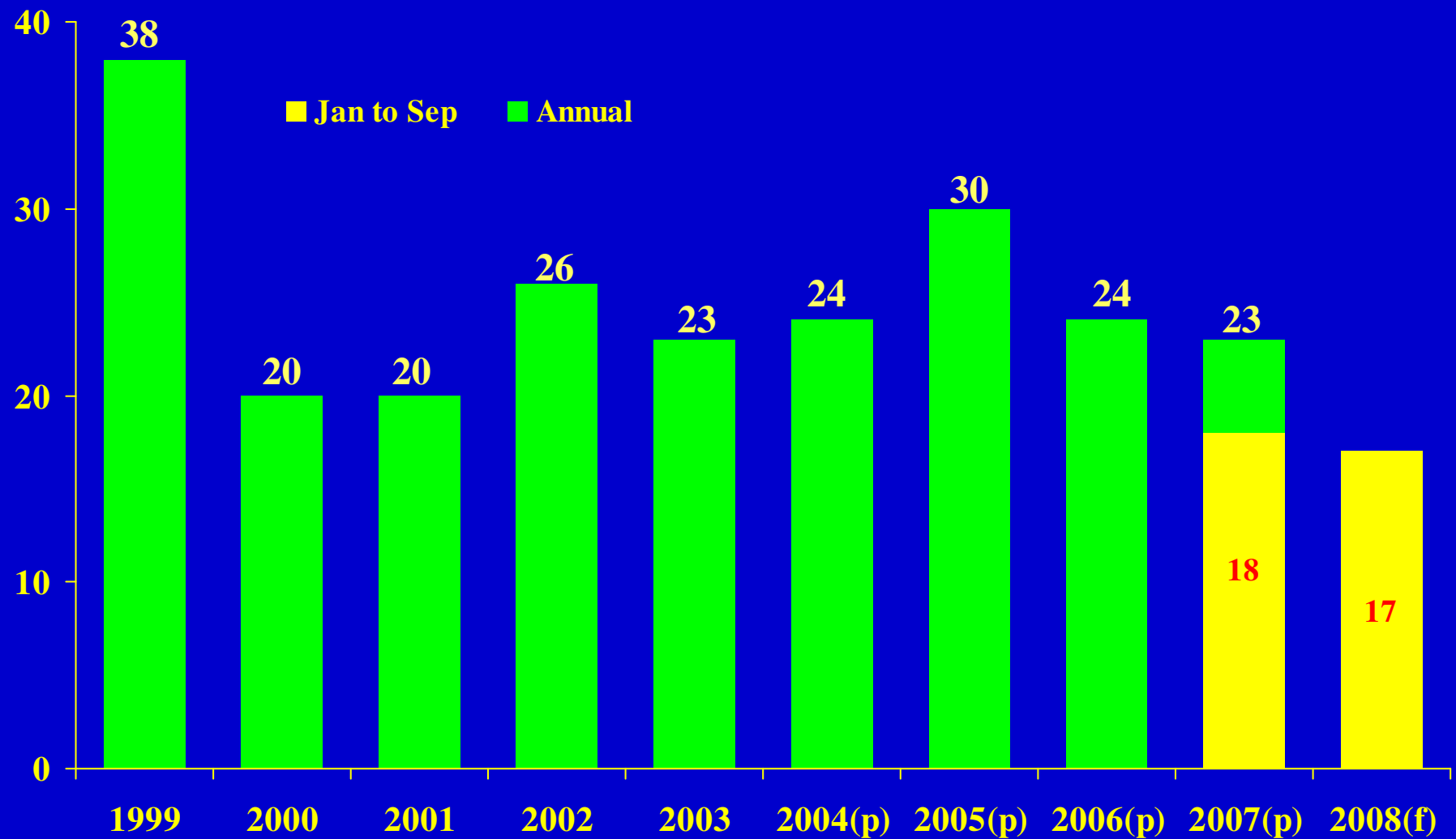
*Already Declining*



# VISITOR ARRIVALS - JAPAN

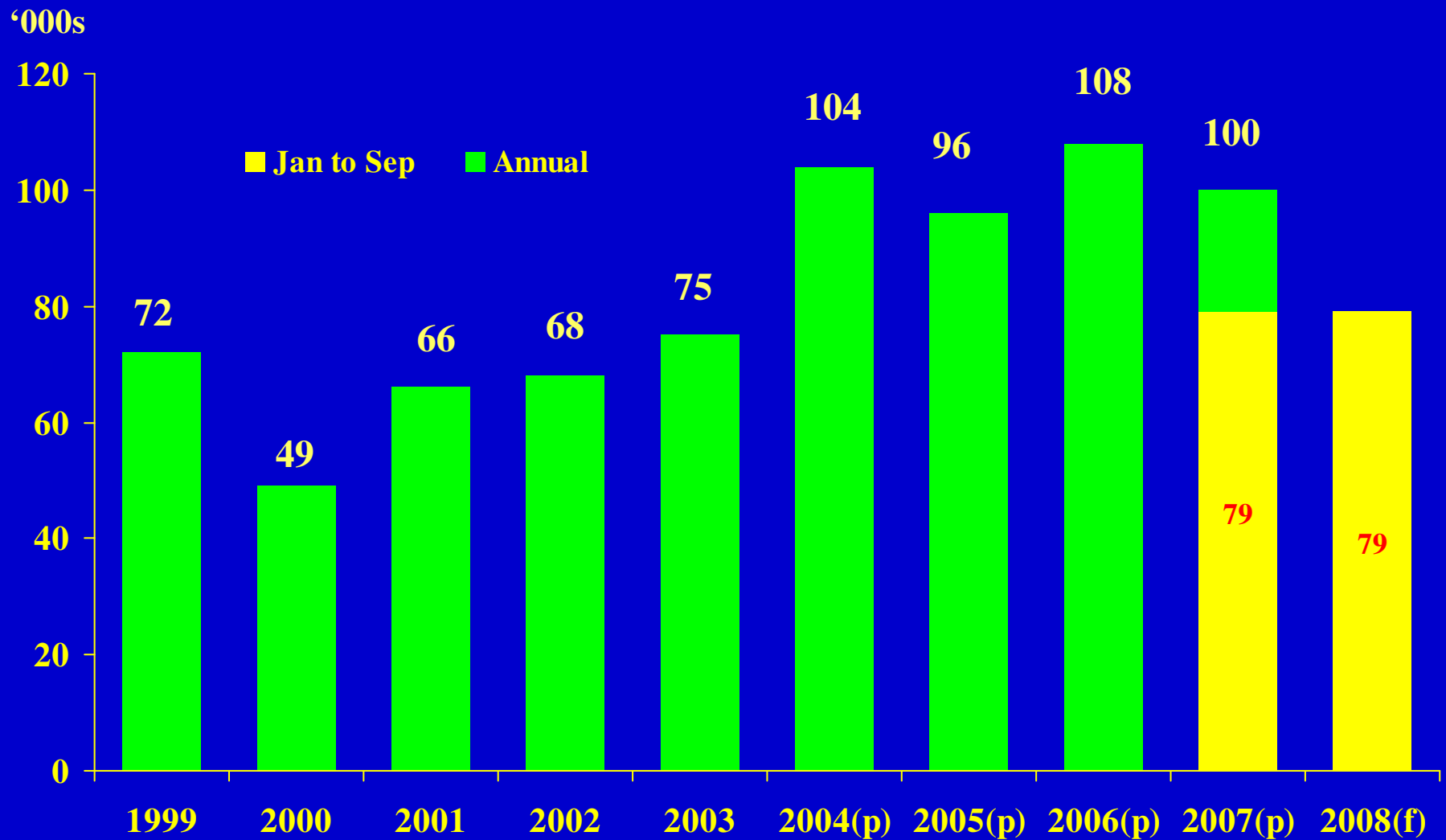
*Already Declining*

'000s



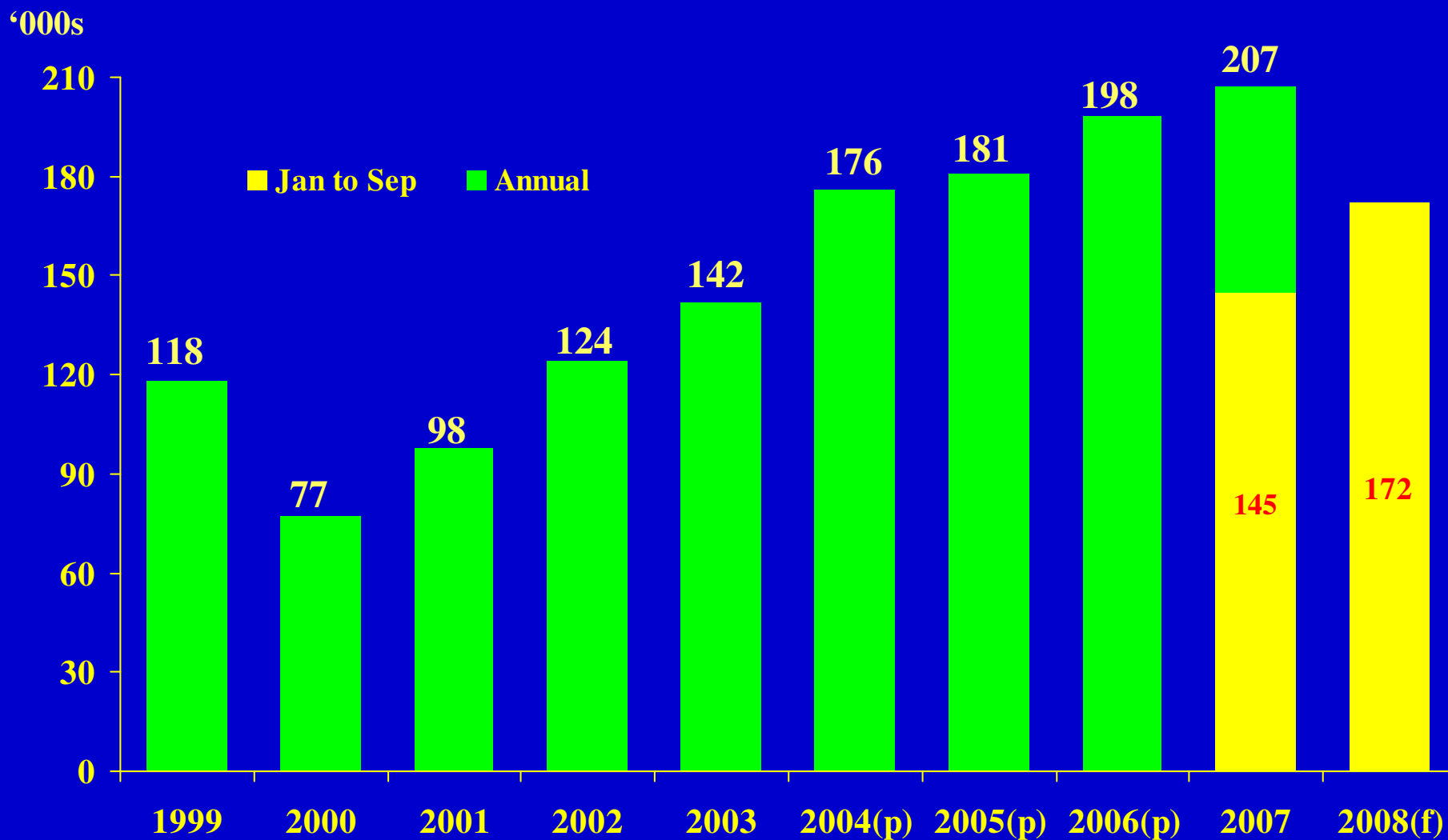
# VISITOR ARRIVALS - NZ

*Already Flat*

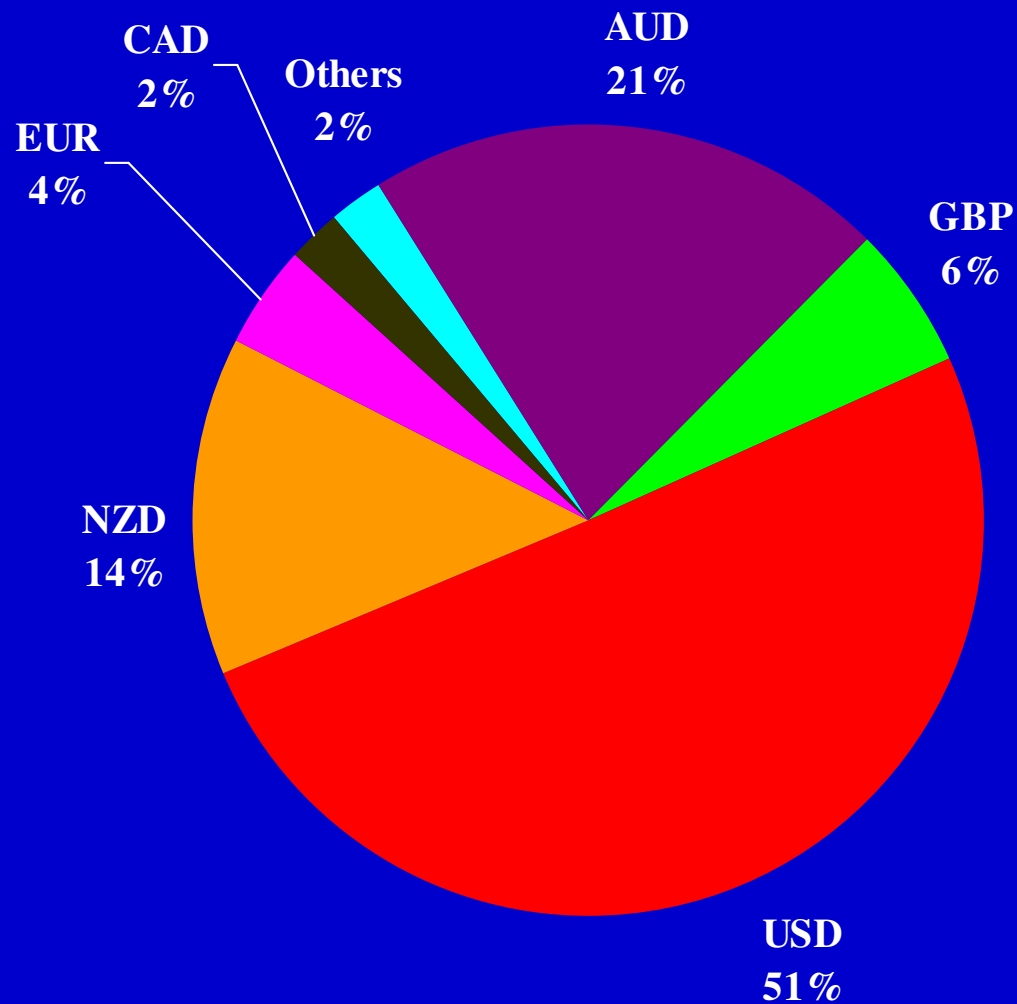


# VISITOR ARRIVALS - AUSTRALIA

## *Key Source of Growth*



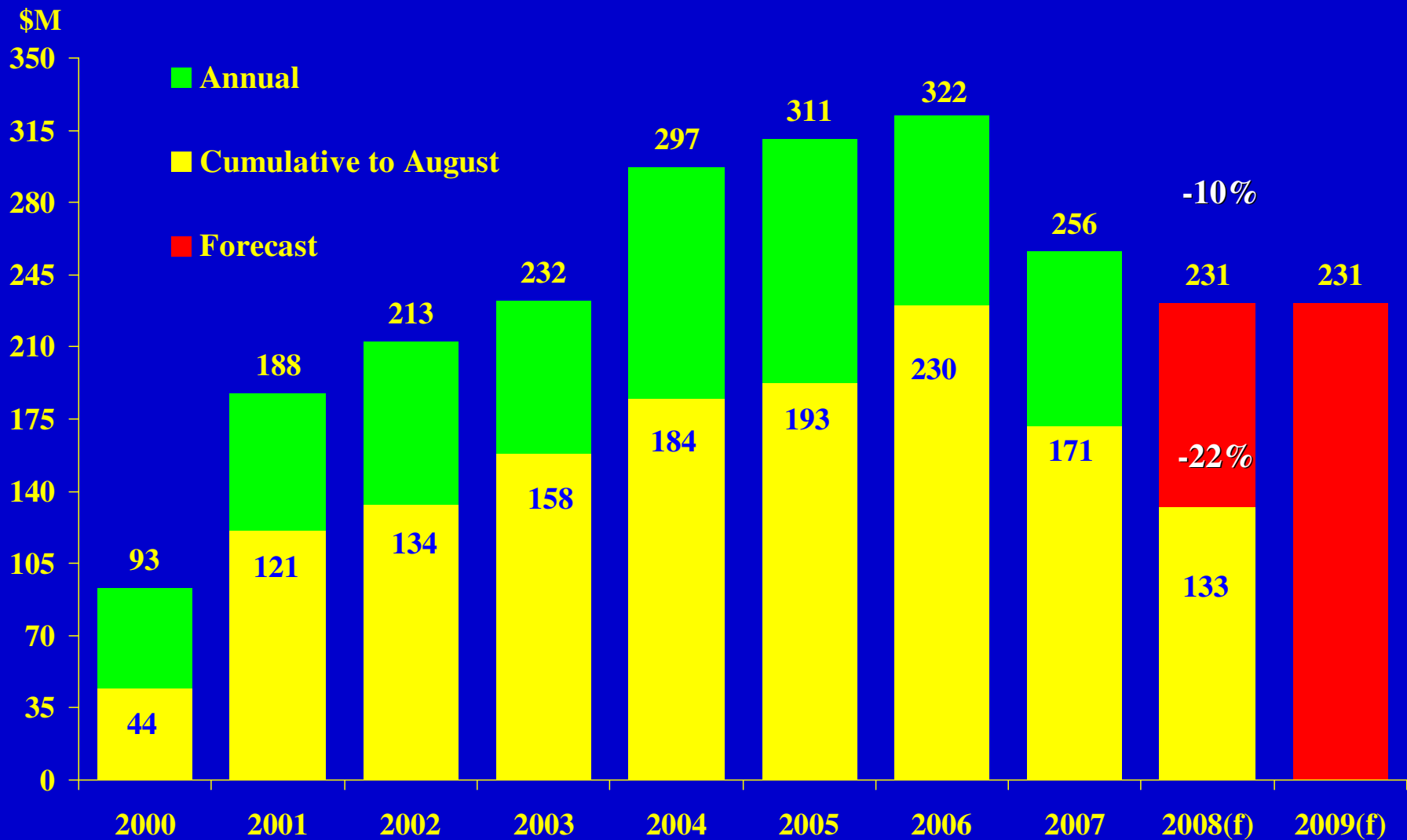
# REMITTANCES\* BY CURRENCY



\*Cumulative for the period Sep-07 to Jun-08, excluding remittances received in FJD

# PERSONAL REMITTANCES

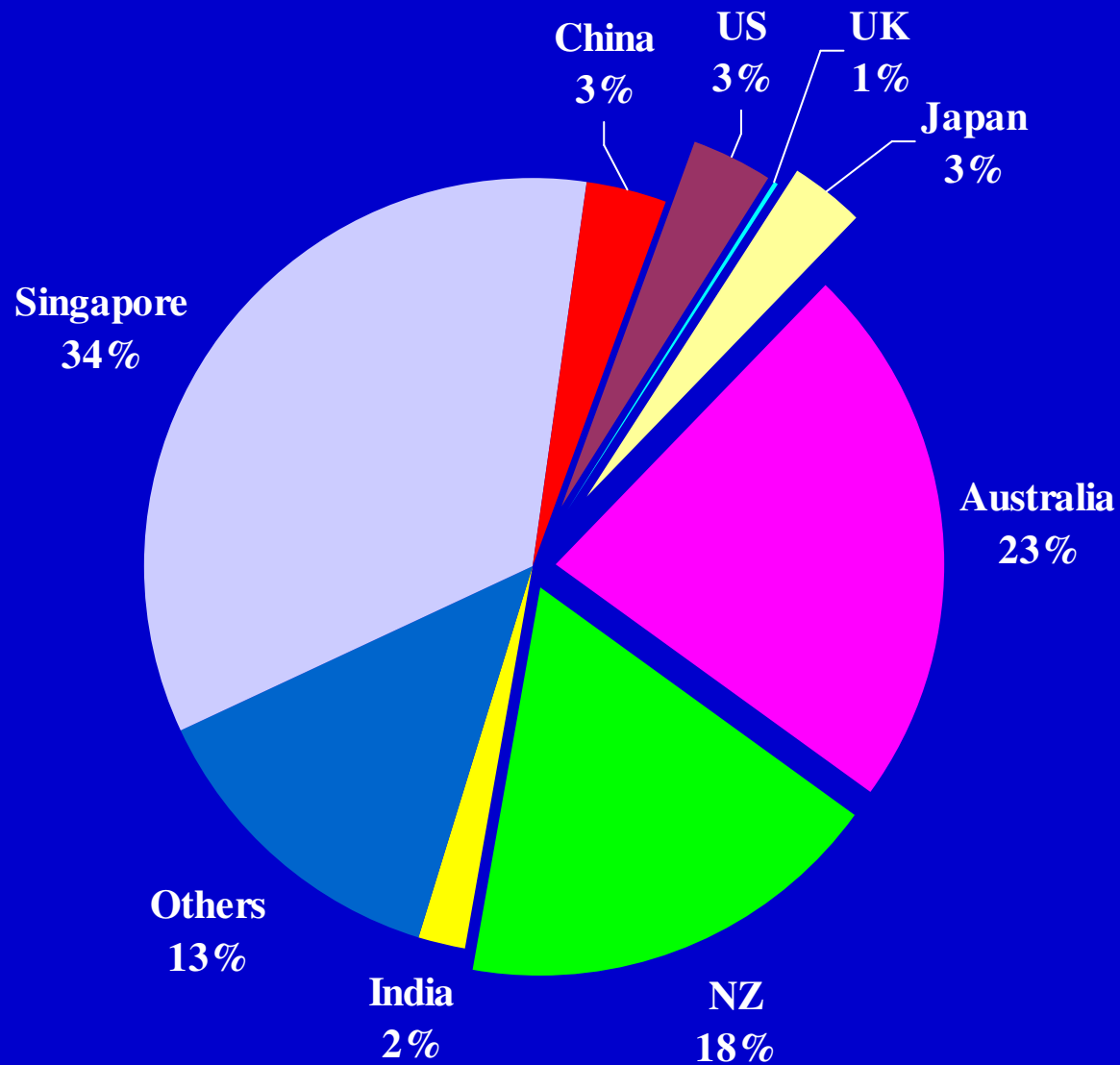
*Already Declining*



# IMPACT ON SERVICES

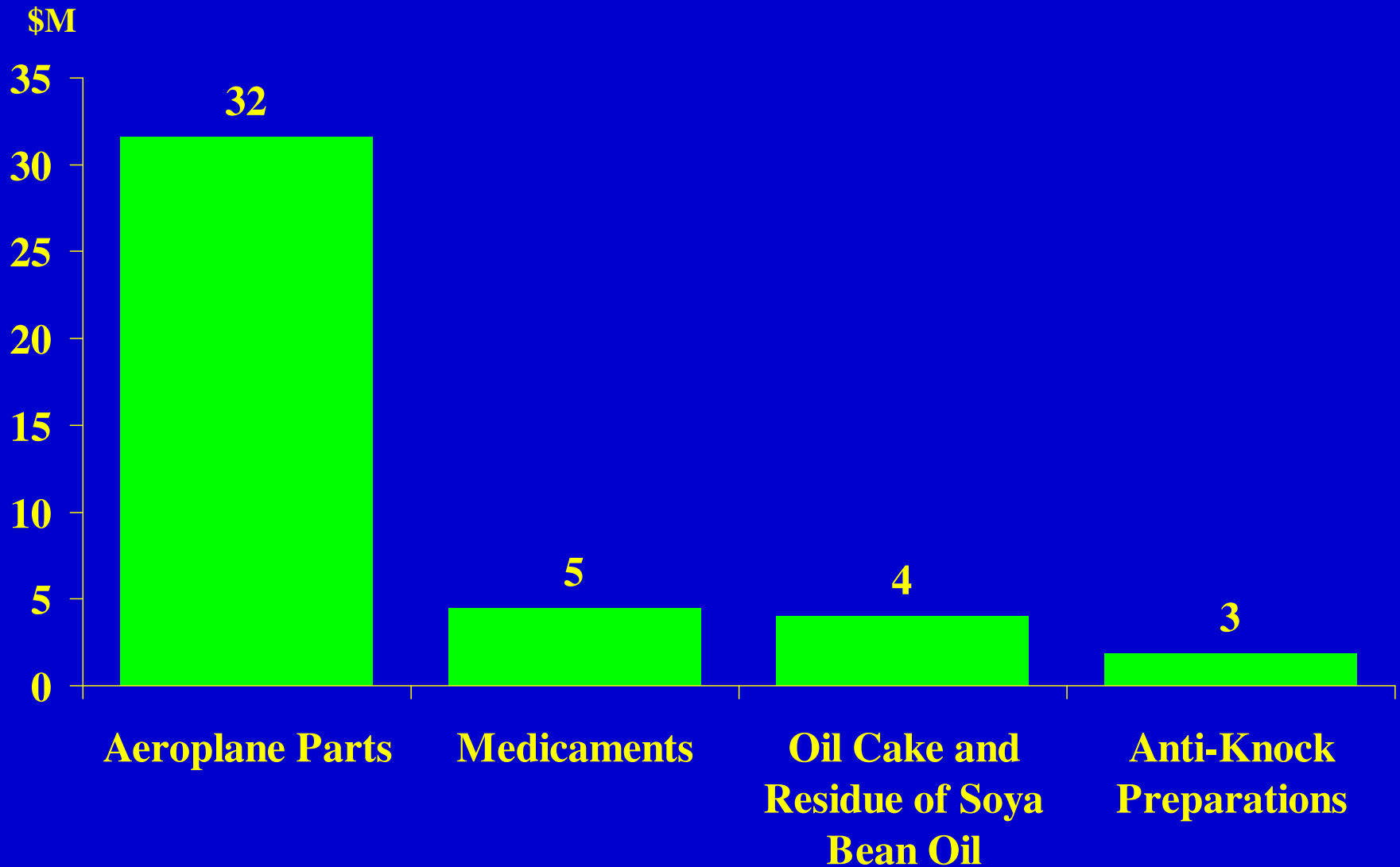
- **Reduce tourist arrivals**
  - Japan, Europe and US was already declining
  - NZ tourists were also flat
  - Australia was the growth industry
  - Exchange rate will further dampen demand
- **Remittances will decline further**

# FIJI'S ORIGIN OF IMPORTS



\*Refers to 2007 Total Imports = \$2,890m

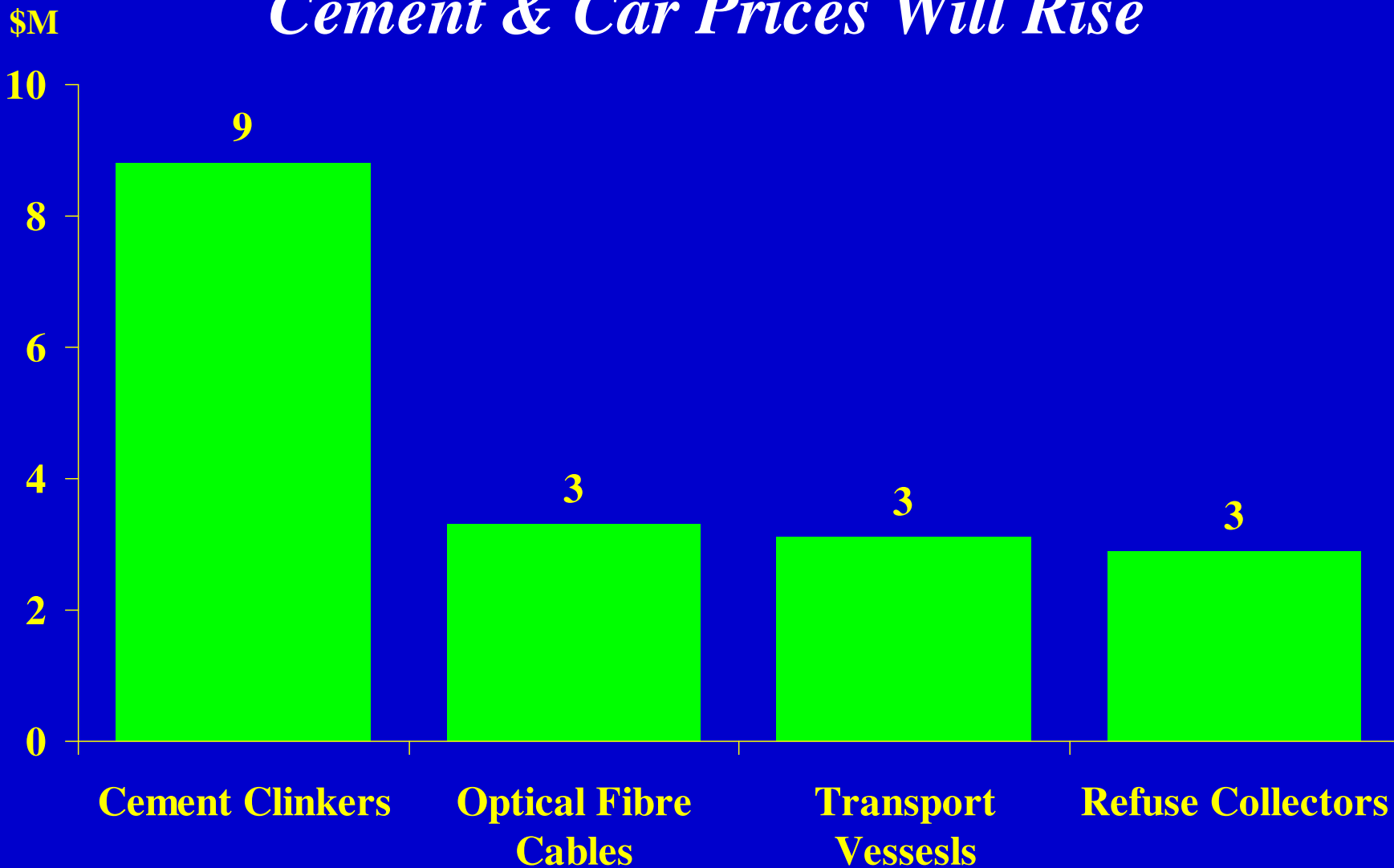
# IMPORTS\* FROM UNITED STATES



\*Represents 47% of total commodity imports from the US in 2007

# IMPORTS\* FROM JAPAN

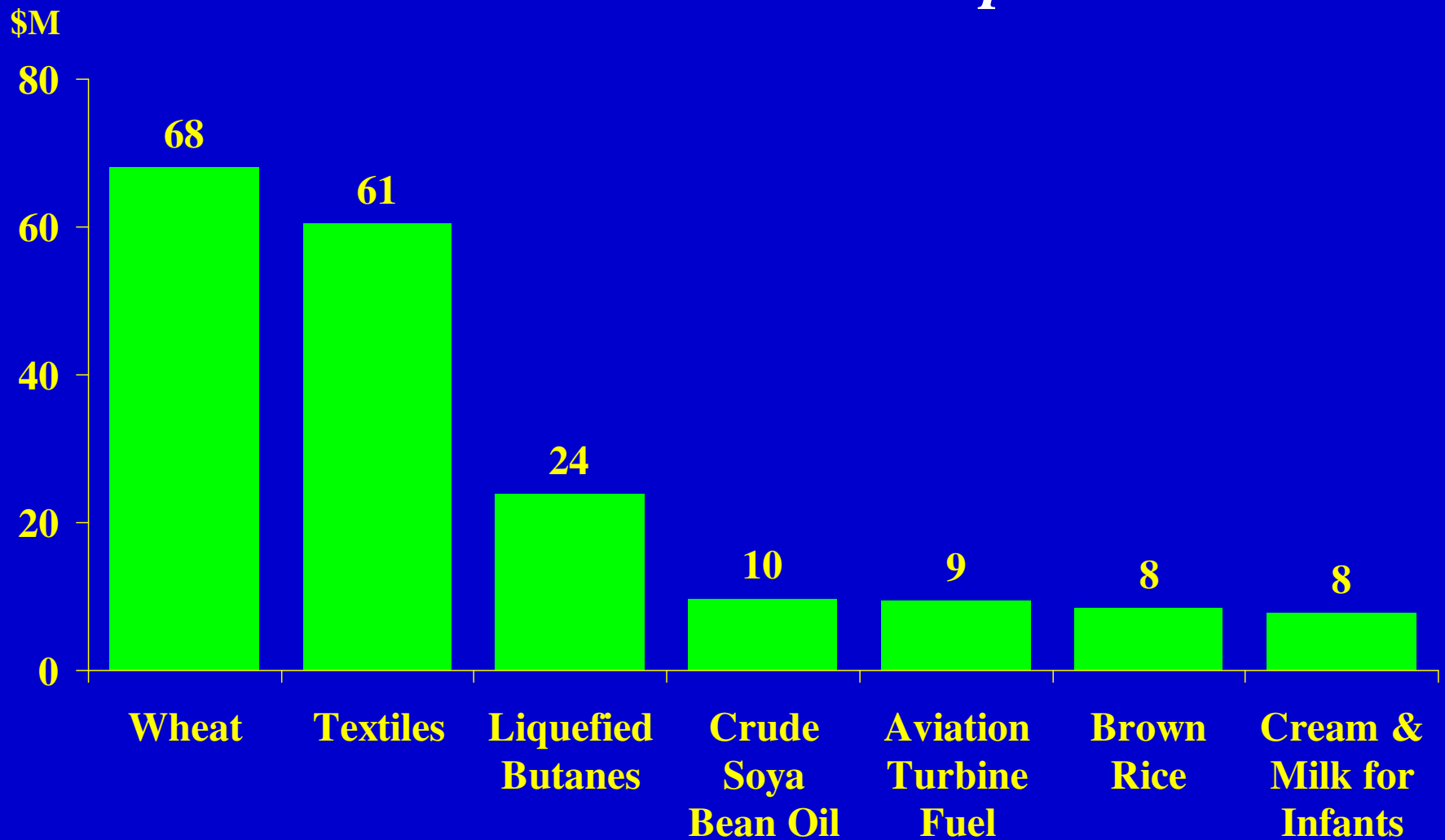
*Cement & Car Prices Will Rise*



\*Represents 21% of total commodity imports from Japan in 2007

# IMPORTS\* FROM AUSTRALIA

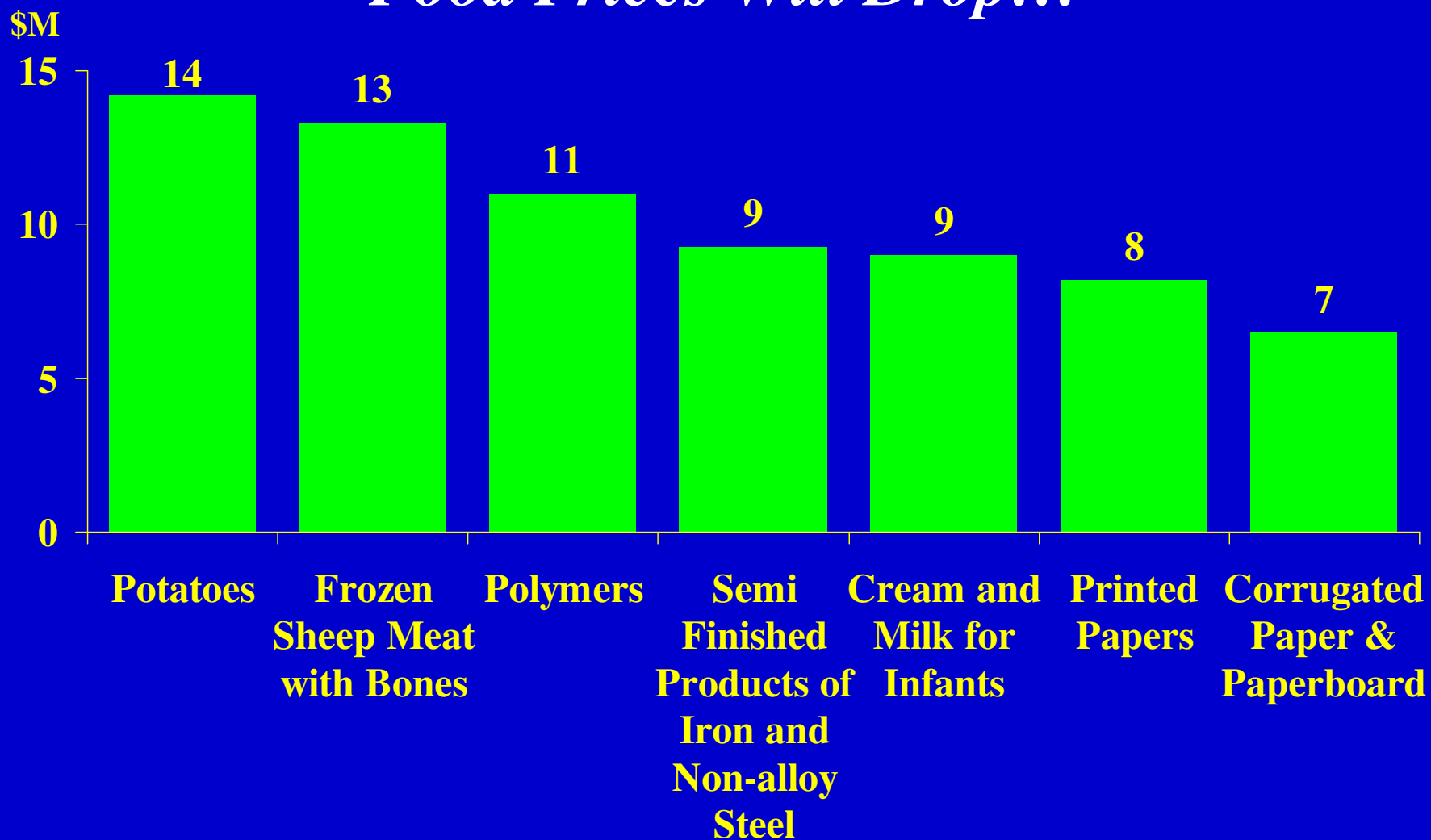
*Food Prices Will Drop...*



\*Represents 28% of total commodity imports from Australia in 2007

# IMPORTS\* FROM NEW ZEALAND

*Food Prices Will Drop...*



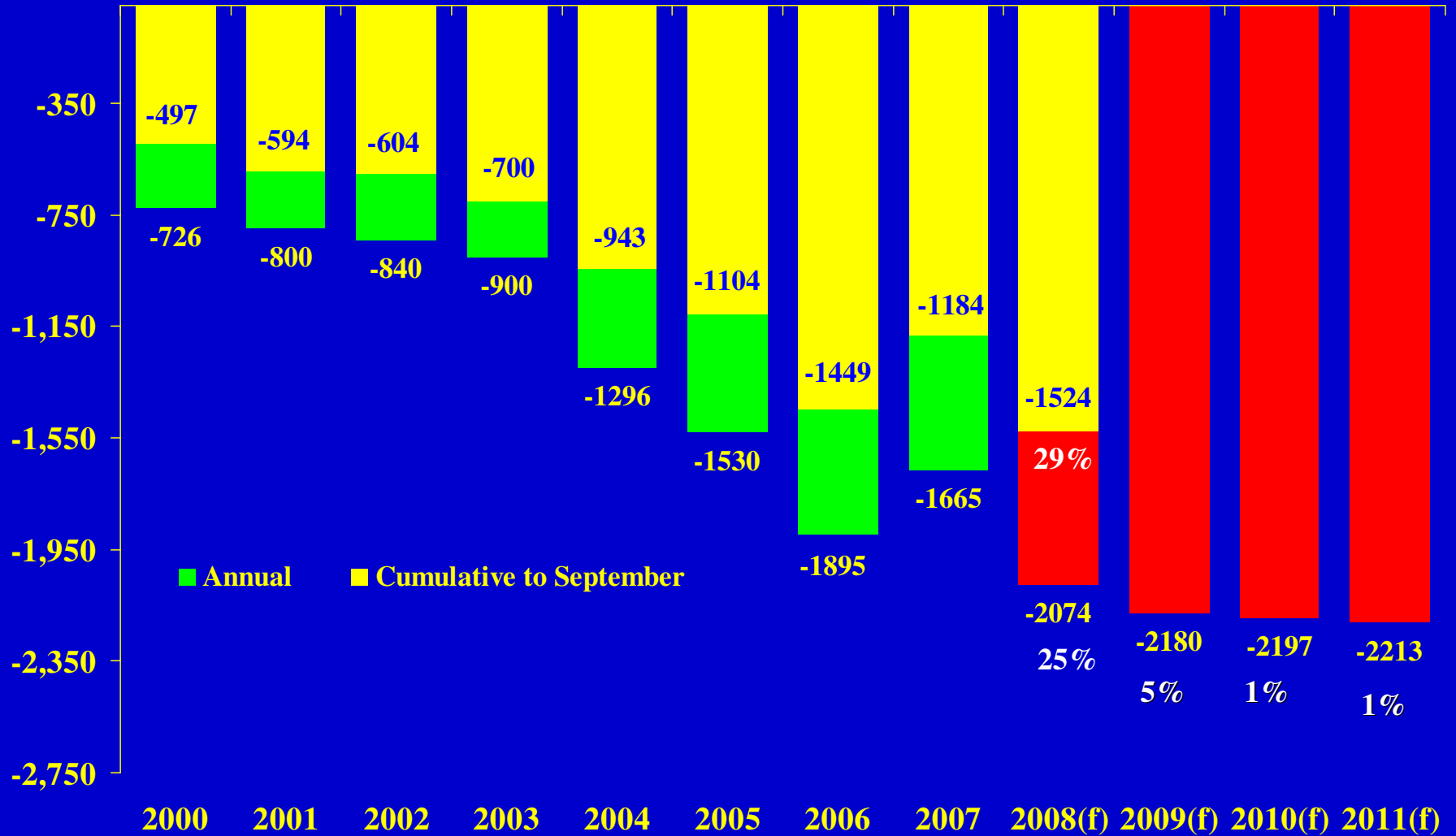
\*Represents 14% of total commodity imports from New Zealand in 2007

# IMPACT ON IMPORTS

- Imports will rise
  - Price of cars and auto parts will rise – demand will drop
  - Oil price in Fiji dollar will rise – will partly offset the lower global price
  - Prices of food and manufactured items will drop – demand may be inelastic
  - Cement price will rise

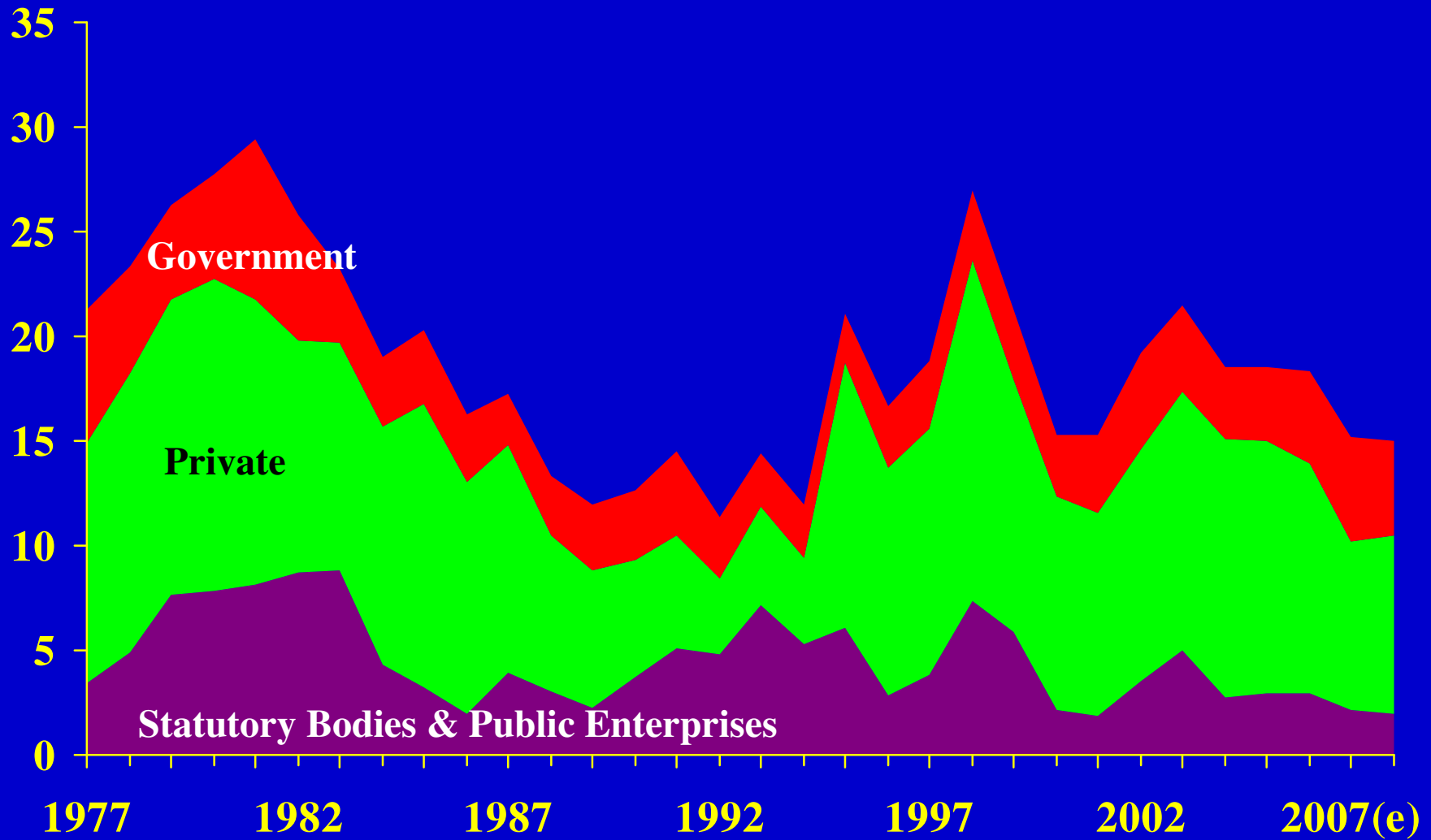
# TRADE BALANCE

F\$M



# INVESTMENT

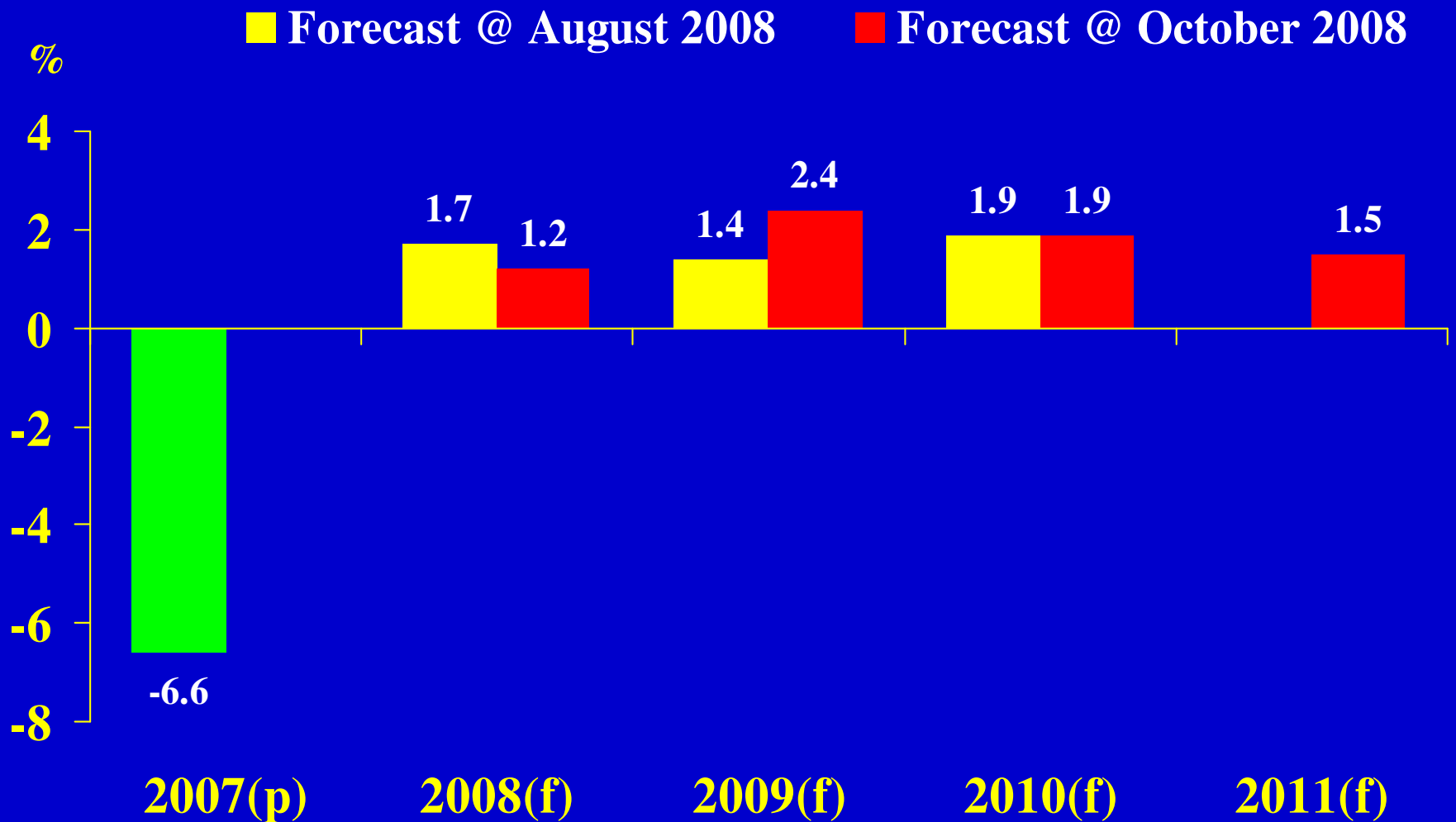
% of GDP





# GROWTH OUTLOOK

# GDP GROWTH: 2006-2011



# MAJOR DRIVERS

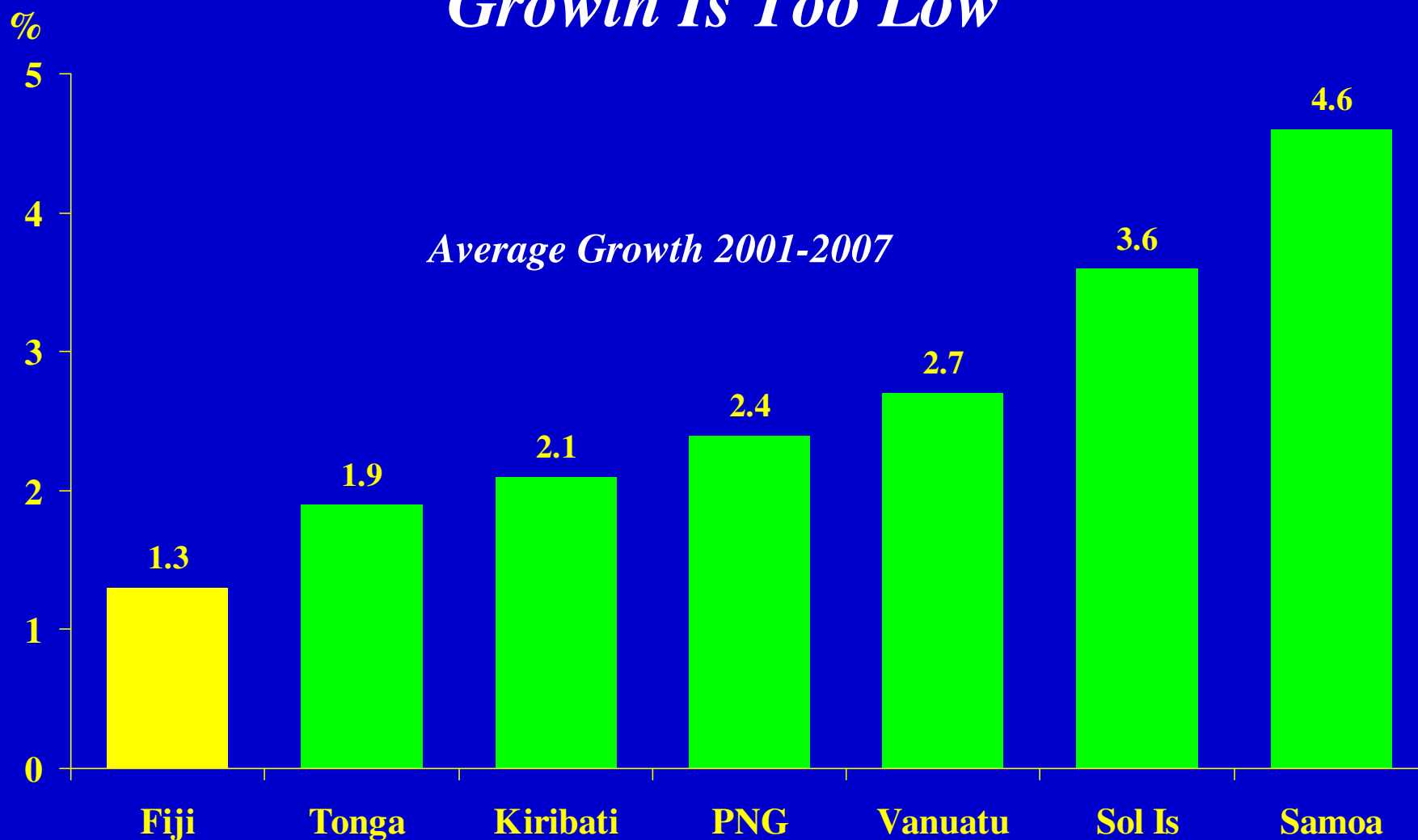
- **Tourism**
- **Agriculture – fishing, forestry**
- **Manufacturing, except garments**
- **Mining – gold**
- **Water**

# MAJOR DRAG

- **Community & social services – Government expenditure (2010 & 2011)**

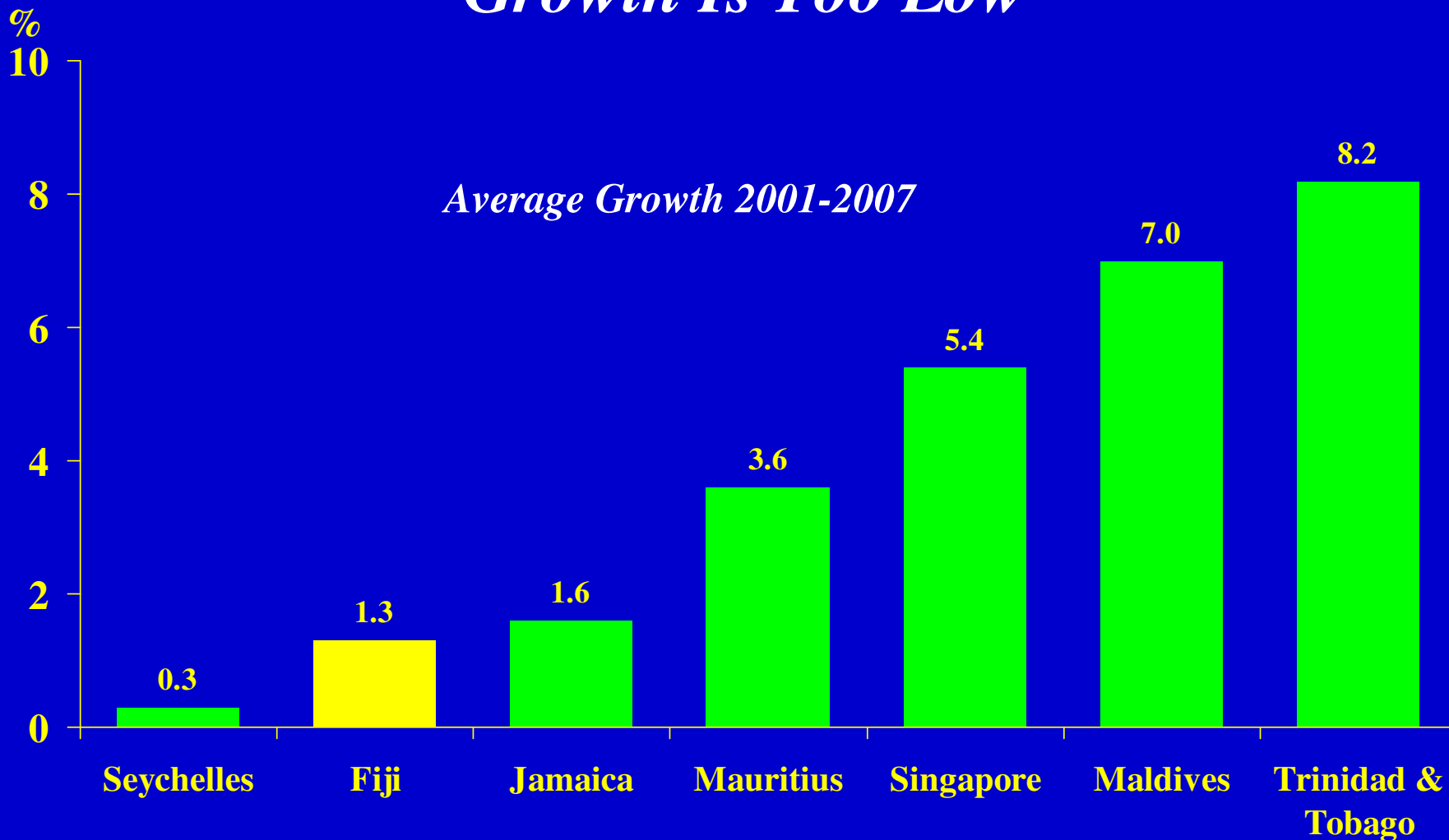
# GROWTH IN SELECTED PACIFIC ISLAND ECONOMIES

*Growth Is Too Low*



# GROWTH IN SELECTED SMALL ISLAND DEVELOPING STATES

*Growth Is Too Low*





# **KEY CHALLENGES AND POLICY MIX**

# KEY CHALLENGES

- Safeguarding Fiji's external position
- Raising exports
- Raising investment
- Raising and sustaining growth

# BUDGETARY MEASURES

- **PRO GROWTH**
  - 3% of GDP deficit
  - Support for priority sectors
    - Tourism
    - Agriculture
    - ICT

# BUDGETARY MEASURES

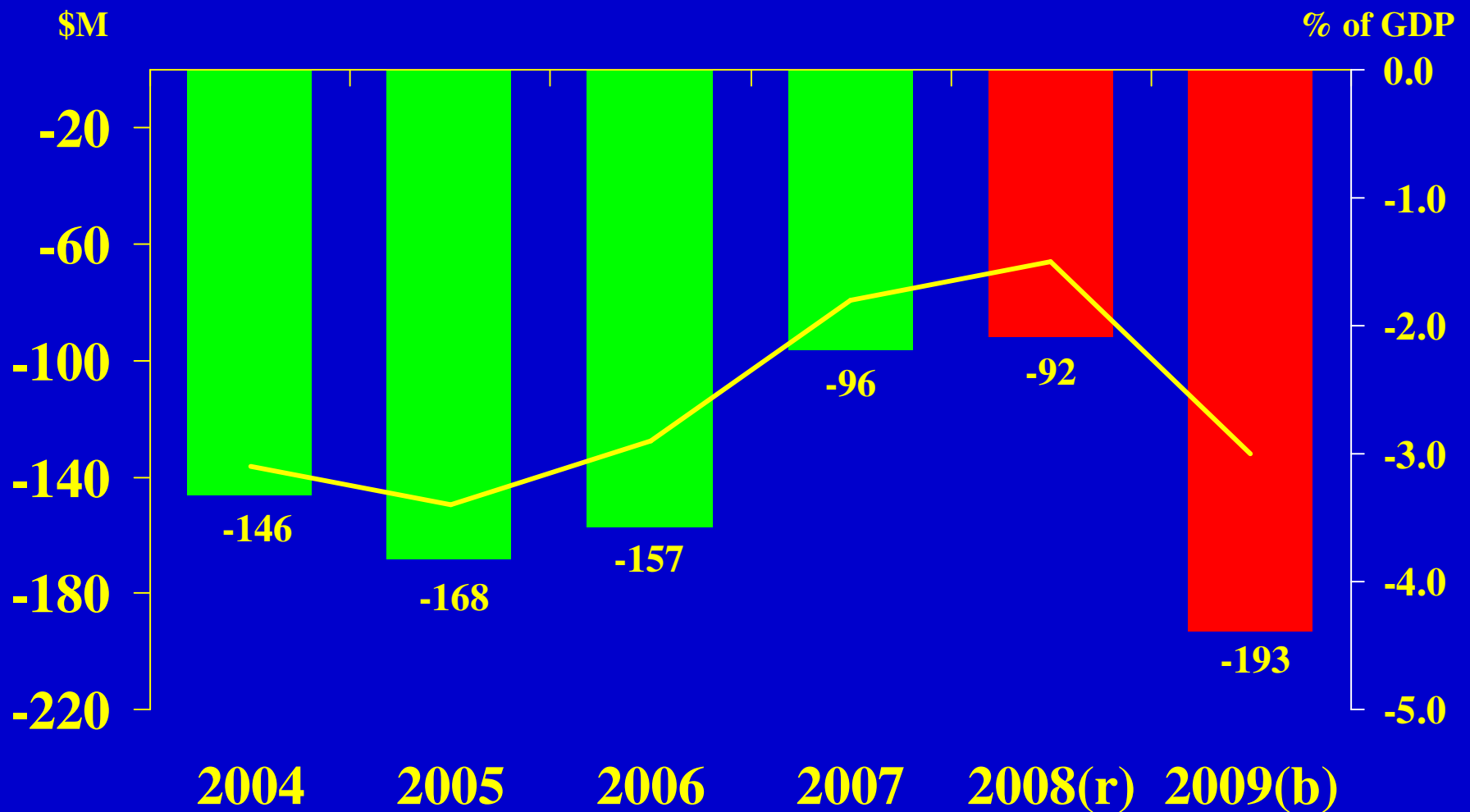
- **BALANCE OF PAYMENTS SUPPORT**
  - **Bio Fuel**
  - **Import Substitution**
  - **Fiji Diaspora**
  - **Increase in tariffs**
- **INVESTMENT**
  - **Infrastructure development**
  - **Incentives**

# MONETARY MEASURES

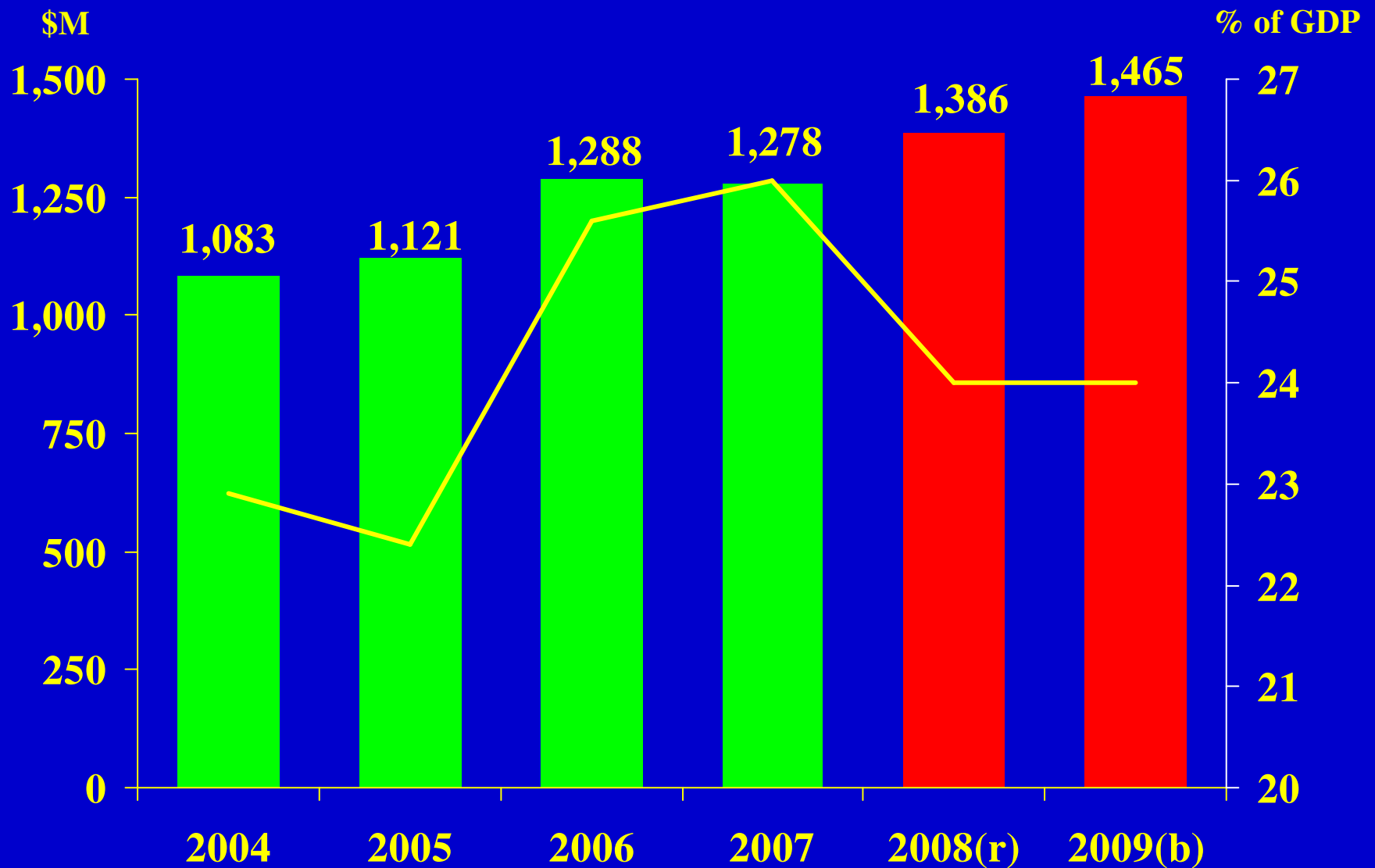
- **BALANCE OF PAYMENTS**
  - Credit Ceiling
  - Exchange Controls
- **INVESTMENT**
  - Interest rates
  - Special approvals

# GOVERNMENT UNDERLYING BALANCE

## *Expansionary Stance*

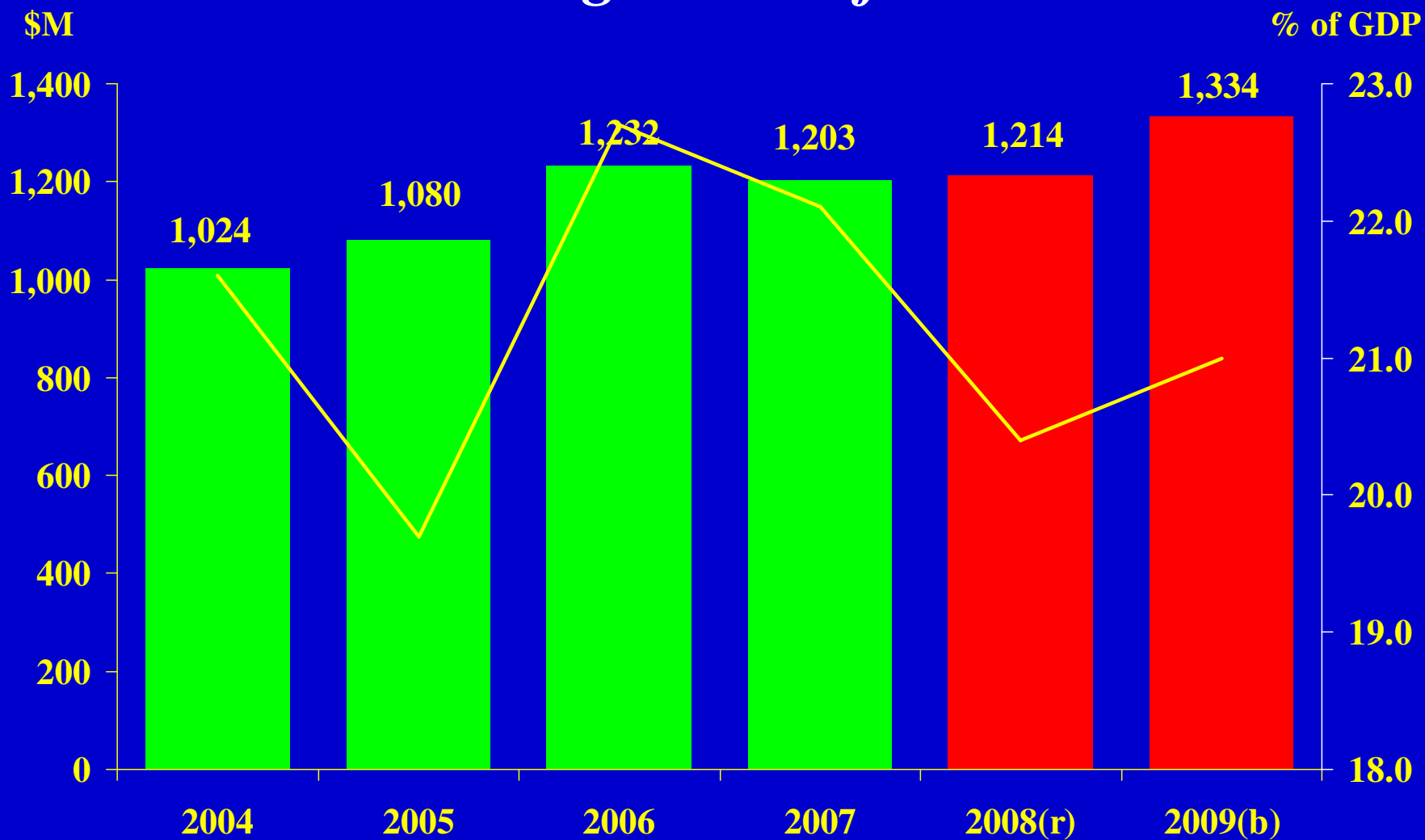


# GOVERNMENT REVENUE



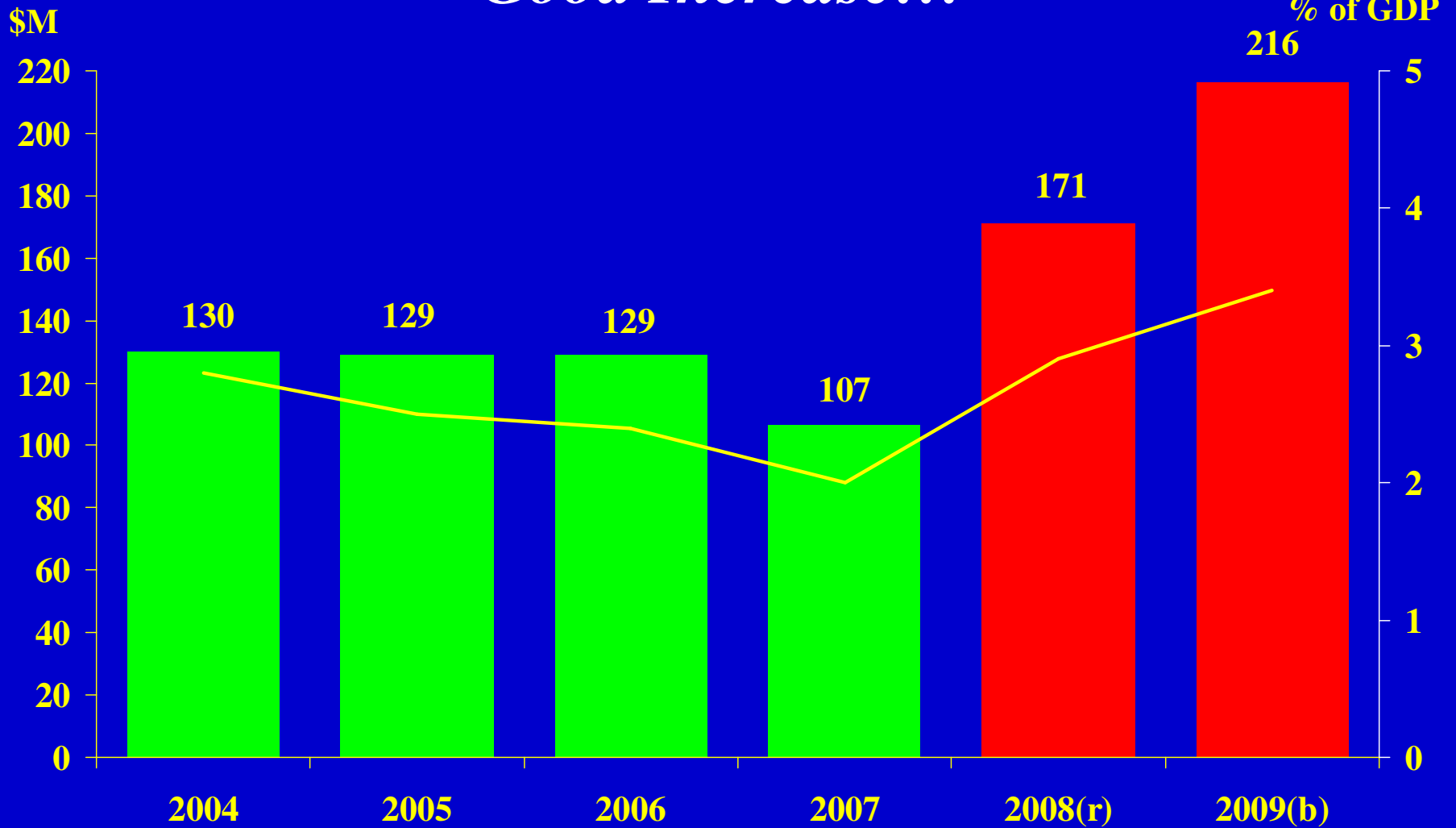
# GOVERNMENT OPERATING EXPENDITURE

*Too High as % of GDP*



# GOVERNMENT CAPITAL EXPENDITURE

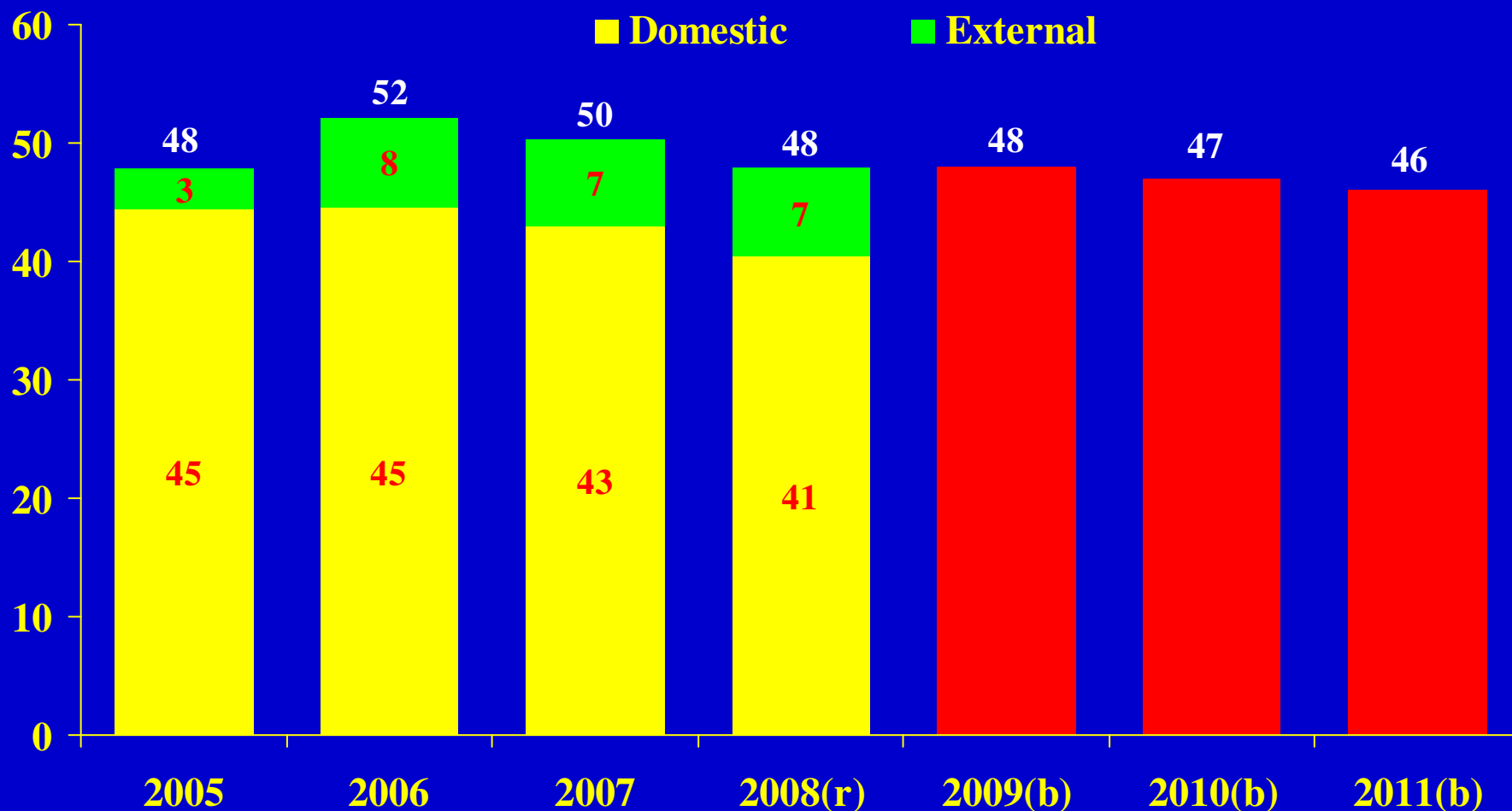
*Good Increase...*



# GOVERNMENT DEBT

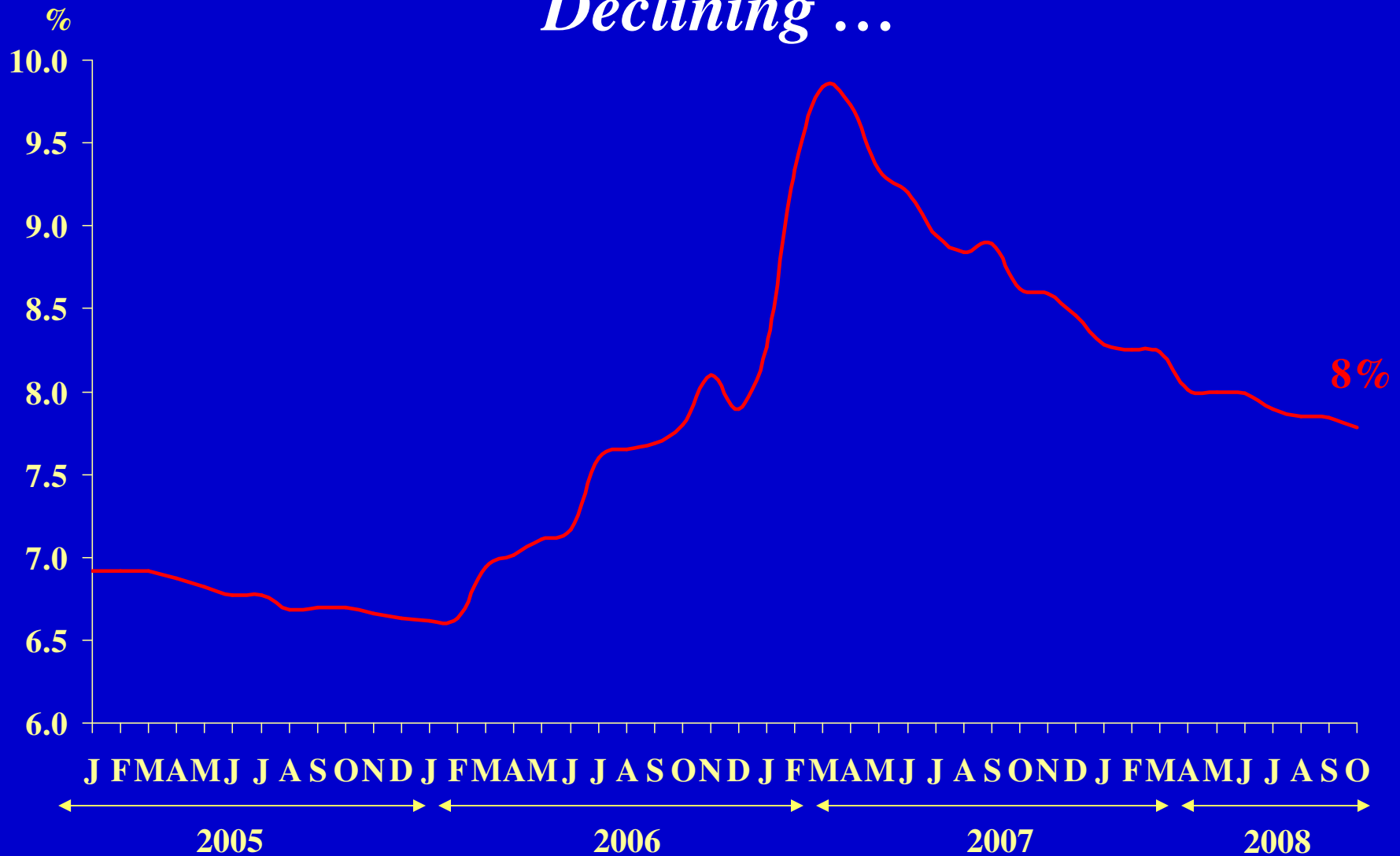
*Deficit is Sustainable*

% of GDP



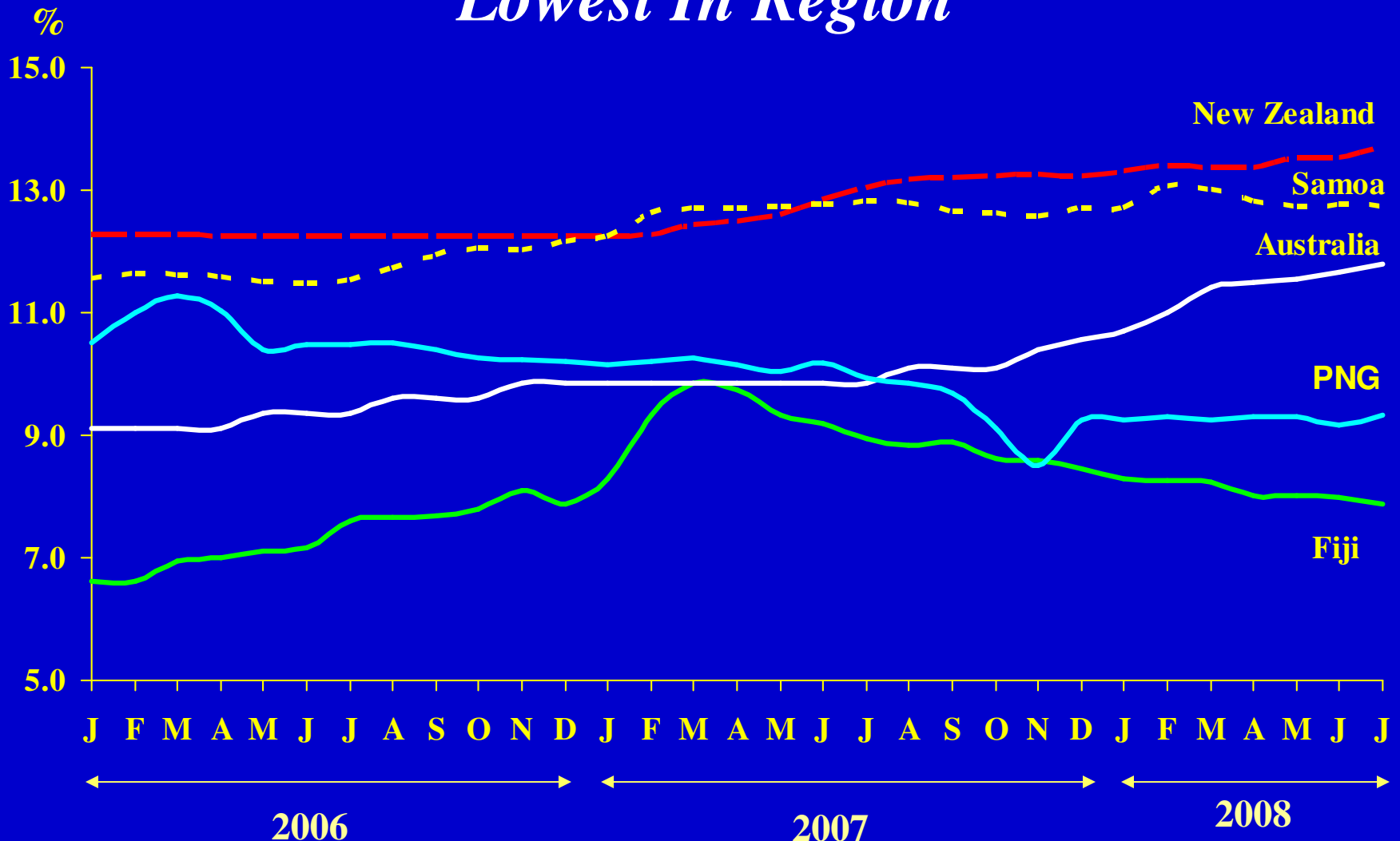
# COMMERCIAL BANK'S LENDING RATE

*Declining ...*



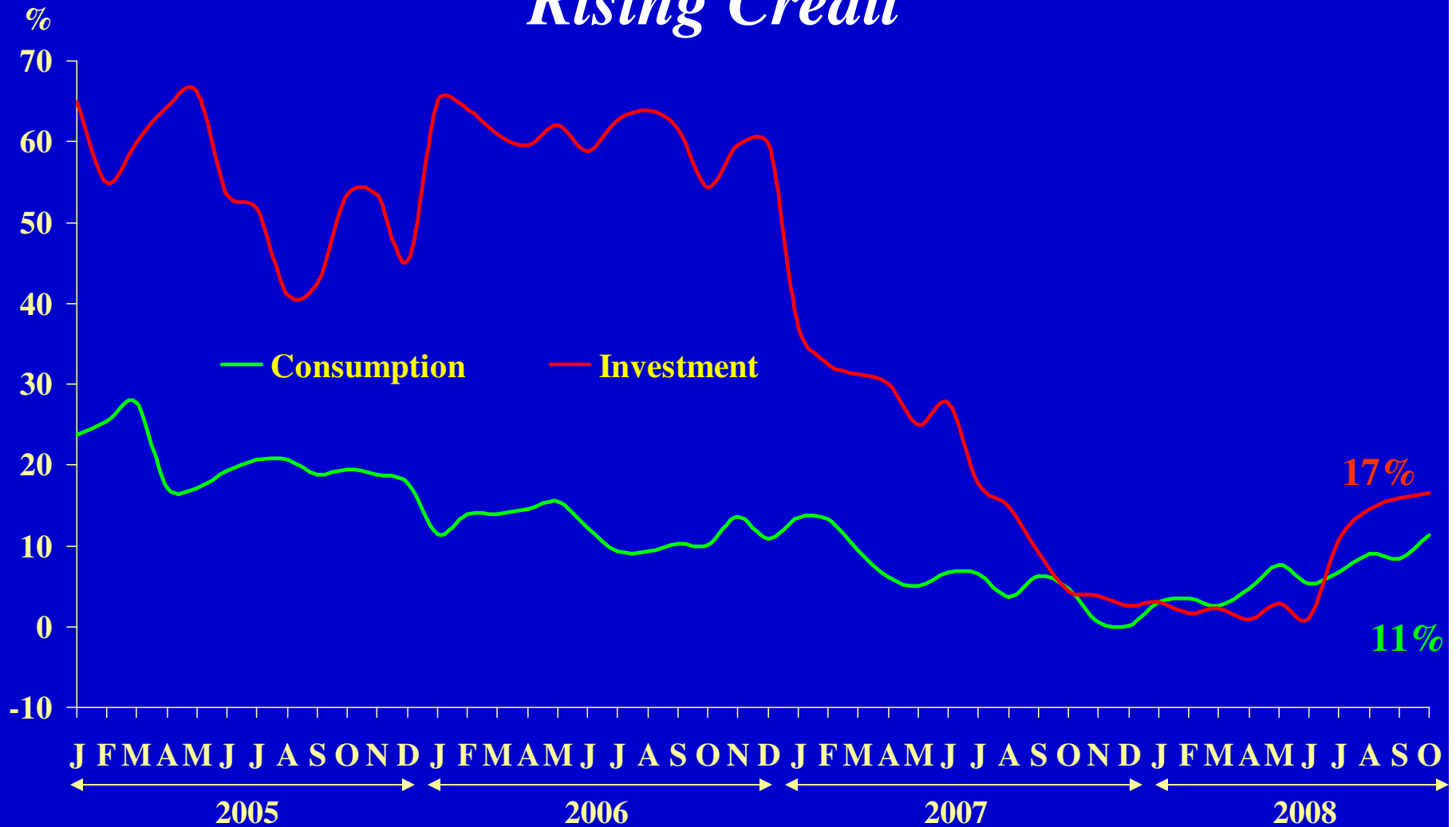
# LENDING RATES: FIJI & SELECTED COUNTRIES

*Lowest In Region*



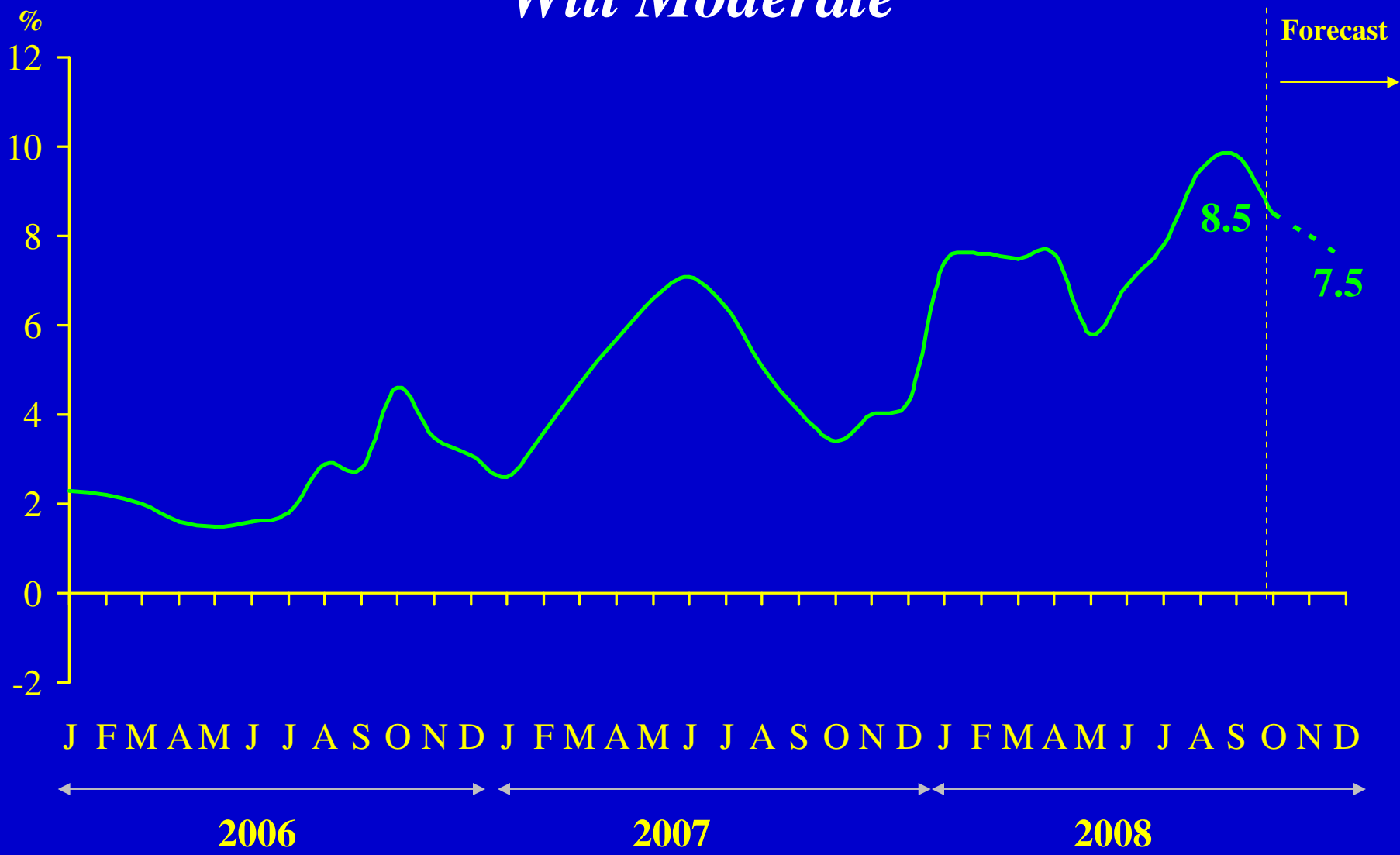
# COMMERCIAL BANKS' INVESTMENT & CONSUMPTION LENDING

*Rising Credit*



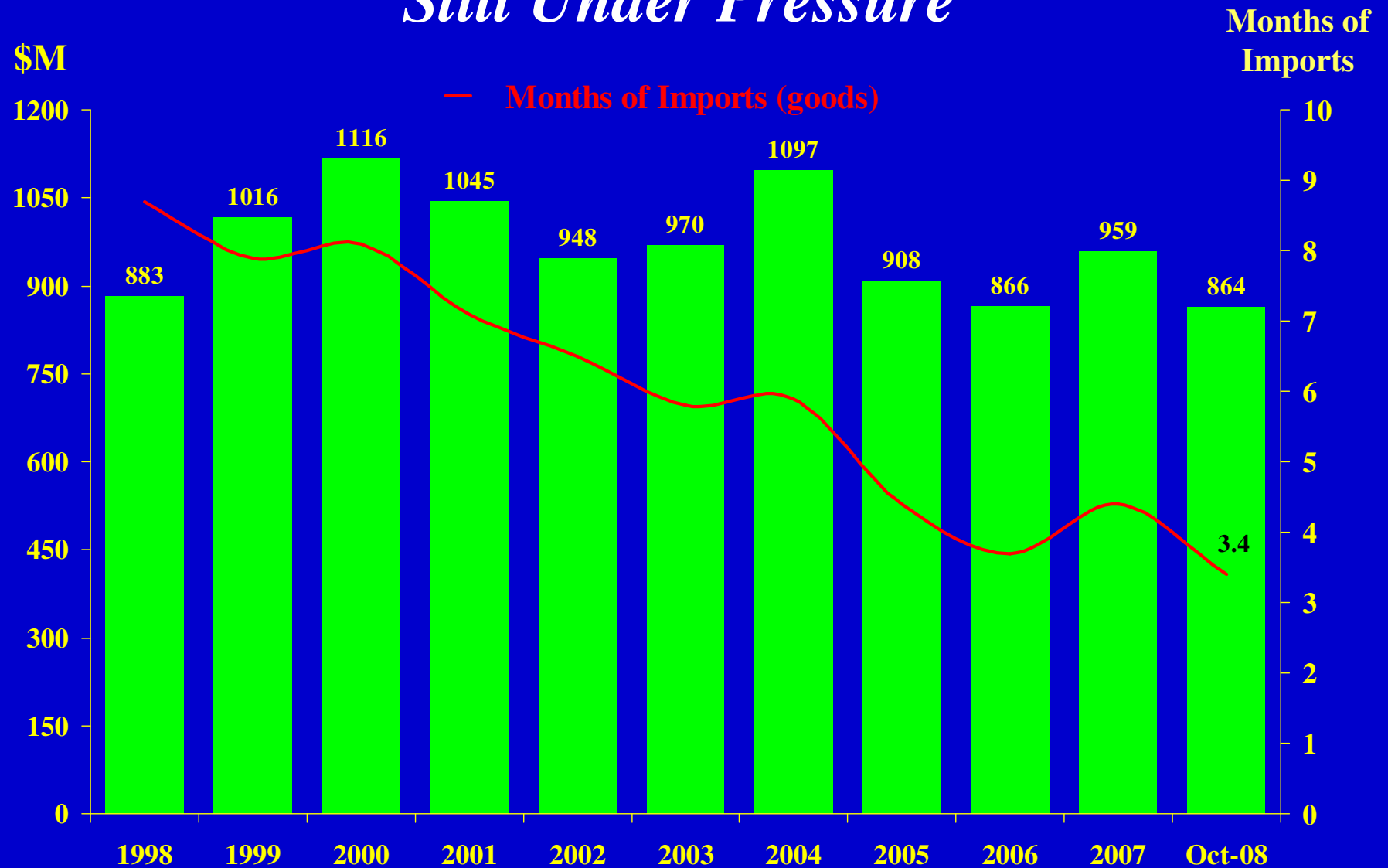
# INFLATION

*Will Moderate*



# OFFICIAL FOREIGN RESERVES

*Still Under Pressure*



# SUMMARY

- **Weak Fundamentals**
- **Financial Crisis will Reduce Potential**
- **Four Key Challenges**
- **Policy Mix**
- **Growth is too Low**
- **Agenda to Lift Growth Rests on Exports**



**THANK YOU**