

Open partnerships
Open possibilities

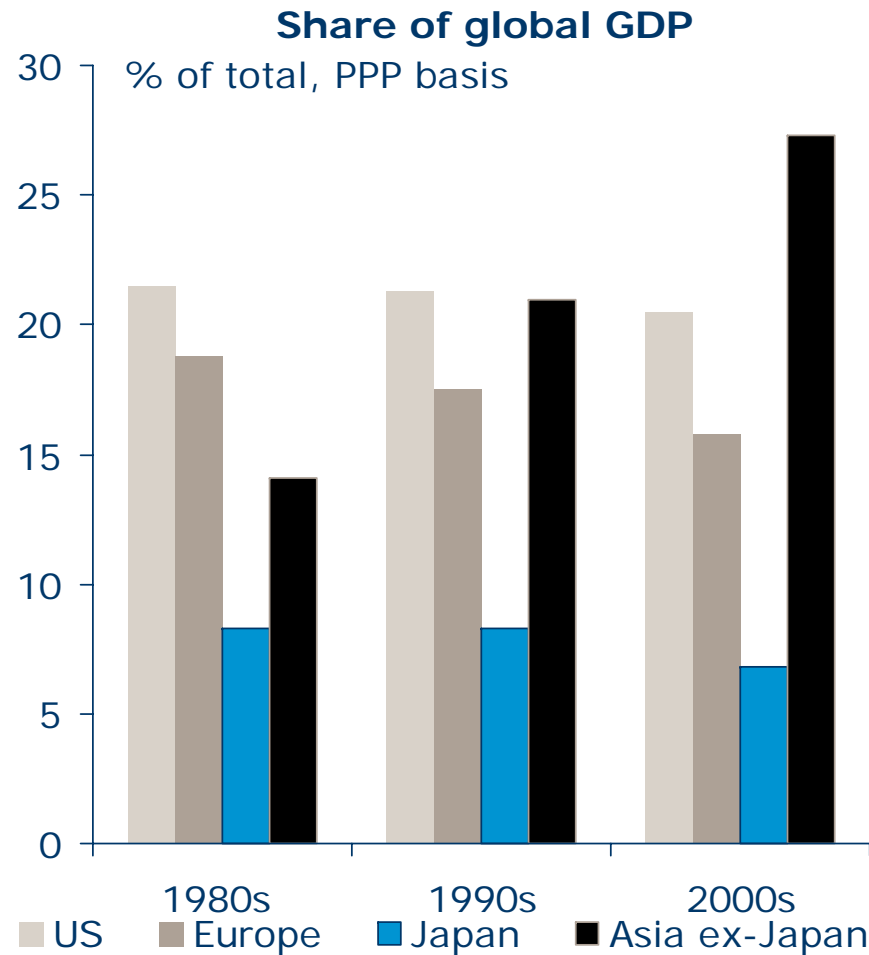
Re-orienting Fiji for growth

Fiji Australia Business Council

Amy Auster
Head of International Economics

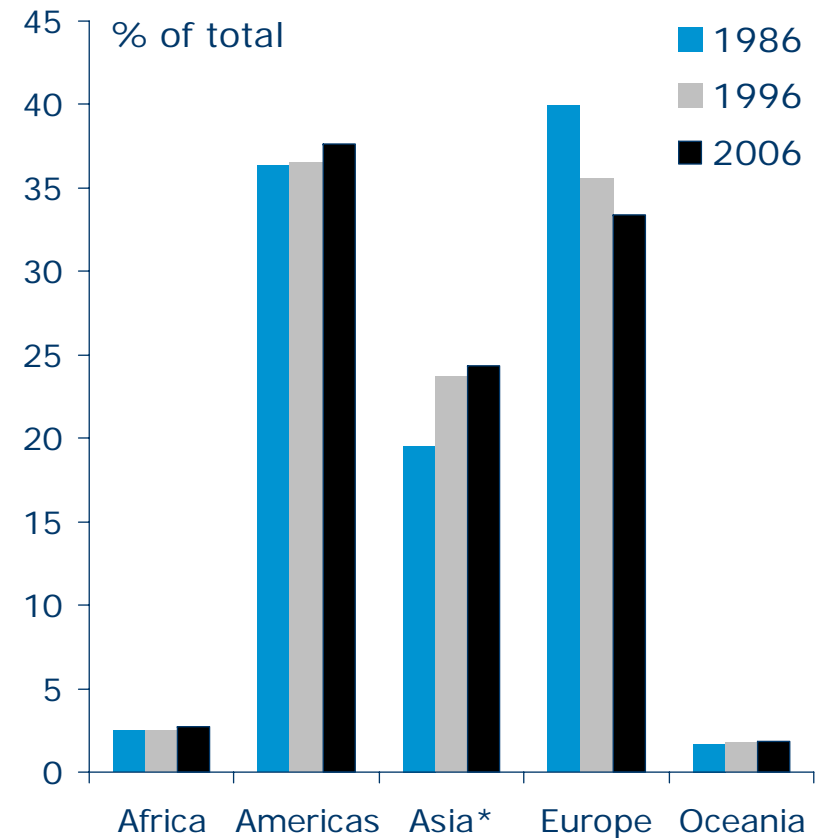
December 2007

Fast-growing Asia is contributing more to global growth and consumption than ever before



1980s 1990s 2000s
 US Europe Japan Asia ex-Japan
 Asia ex-Japan includes East, Southeast & South Asia

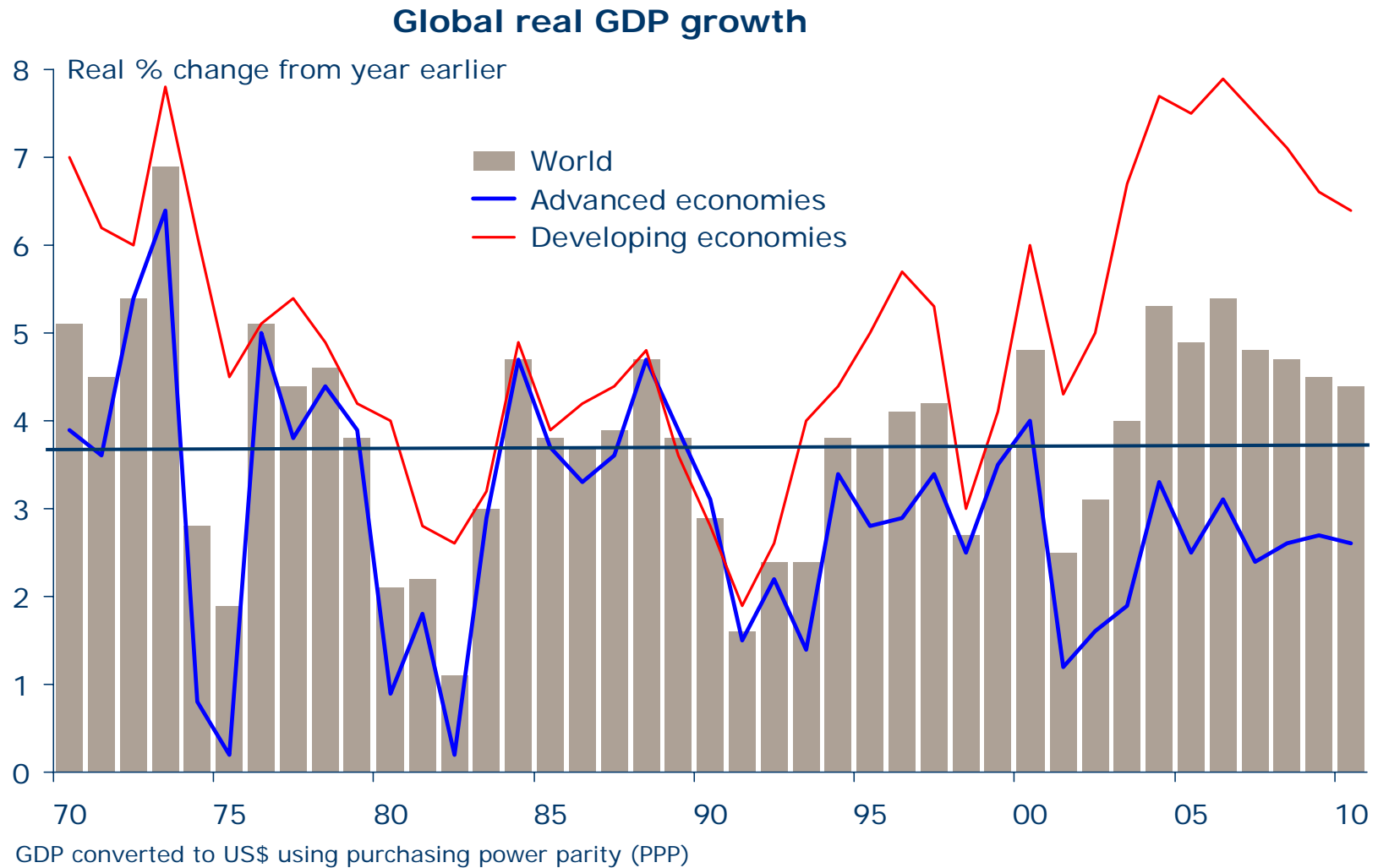
Share of global consumption



*: includes South, Southeast & east Asia as well as the Middle East

Source: Datastream, IMF, UN Database and Economics@ANZ

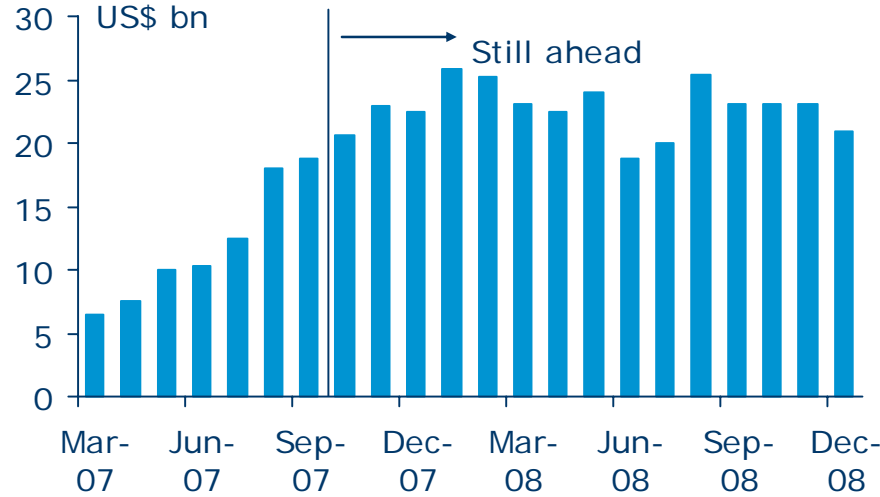
So US slowdown a lesser threat to global growth



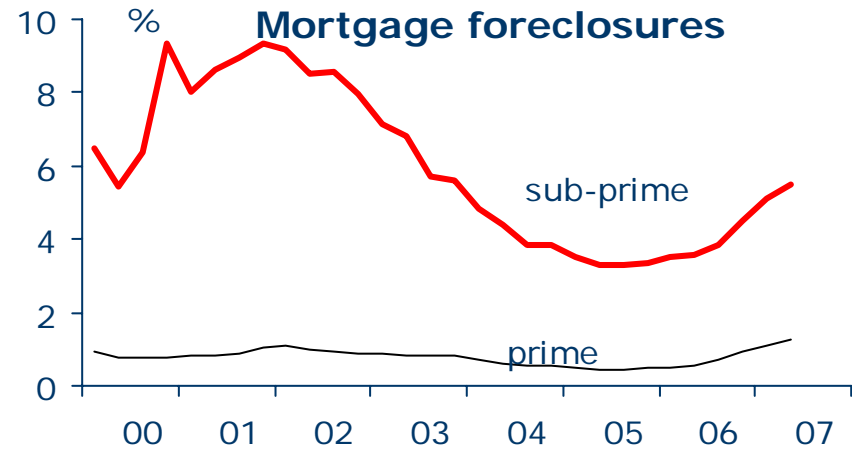
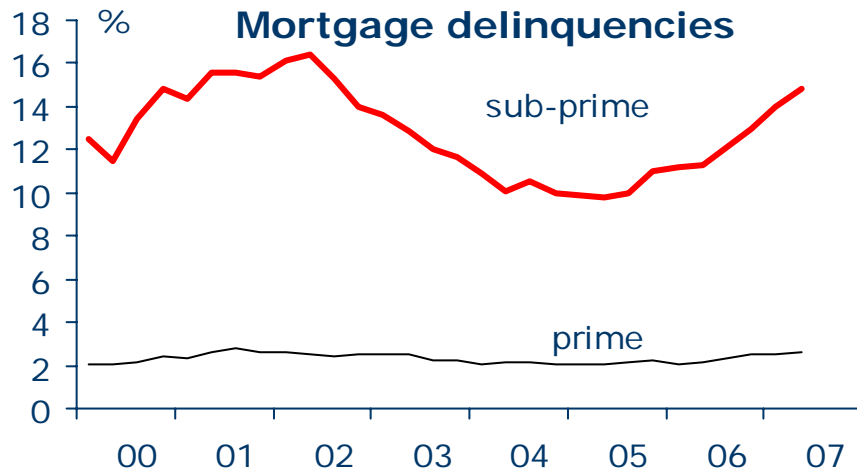
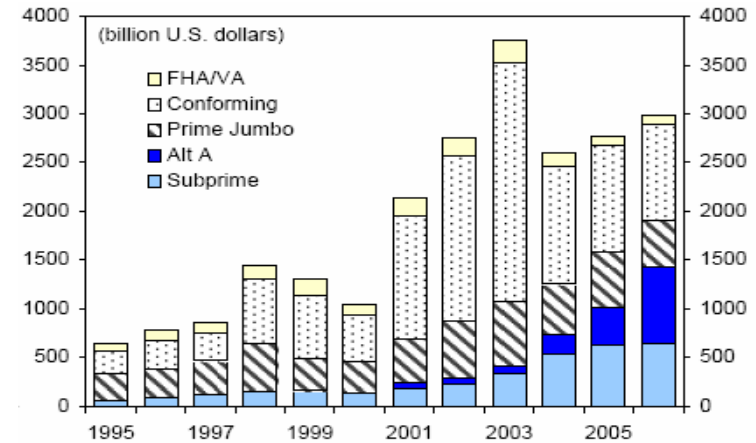
Source: Datastream, IMF and Economics@ANZ

US housing market will not bottom until Q2 2008

Schedule of adjustable rate resets



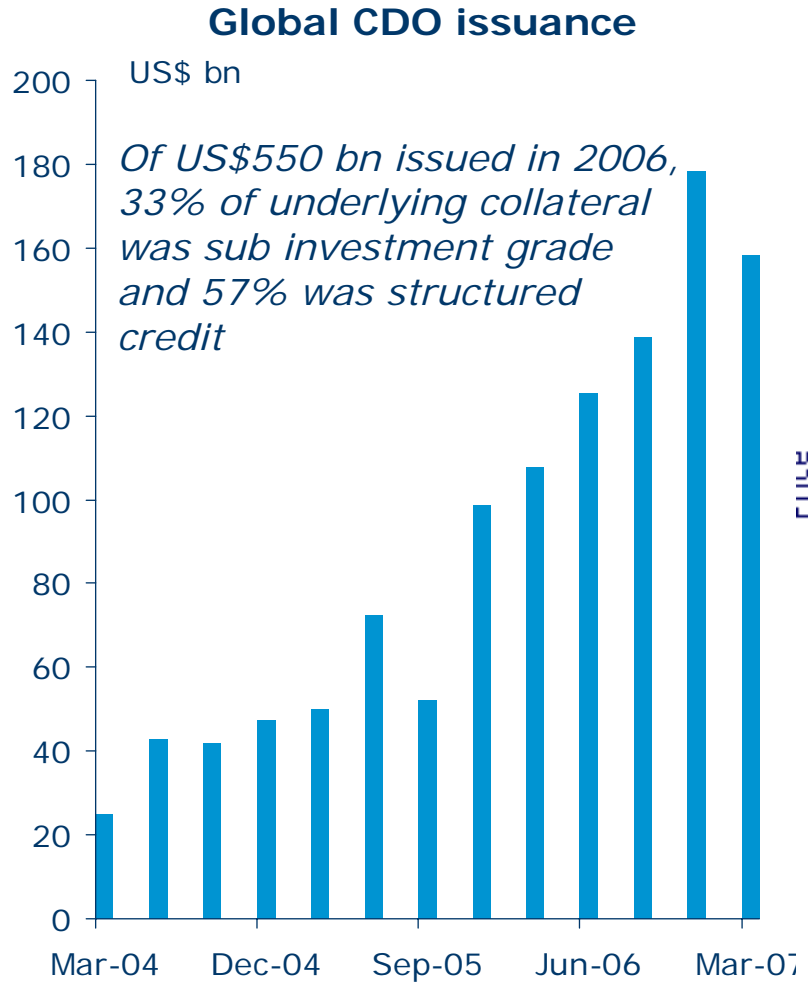
Recent mortgage origination



Source: Thomson Financial, Datastream, Economics@ANZ
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But banks' exposure to structured credit is the real problem



Fear and loathing dominate the market

Senior debt issued by rated SIVs that are sponsored by banks

<i>Institution</i>	<i>Amount of debt (US\$ bn)</i>
Citigroup	88.6
HSBC	42.5
Bank of Montreal	25.7
Standard Chartered	16.7
West LB	15.7
Rabobank	14.0
Societe General	4.3

Analysts estimate of write-downs

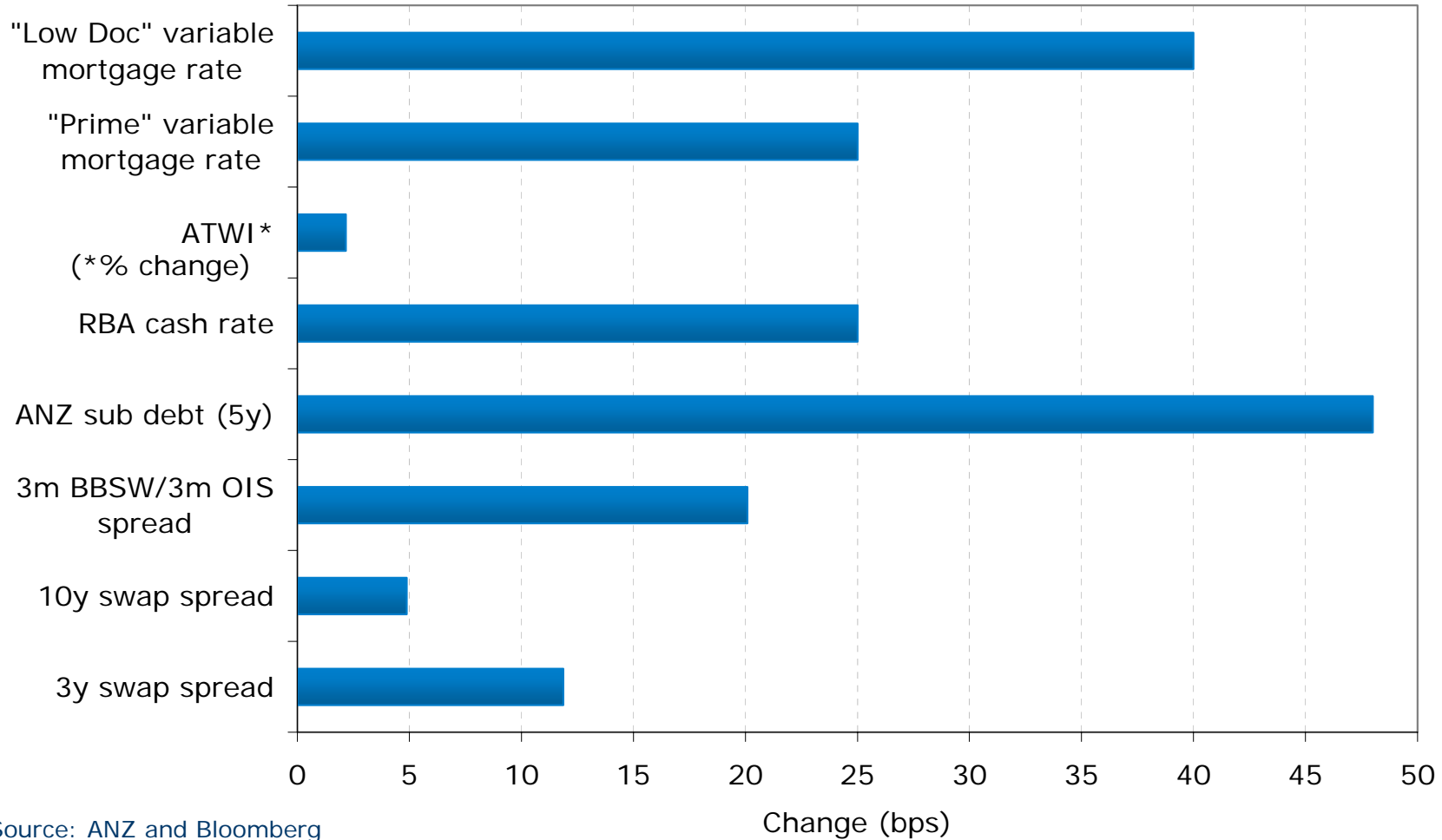
<i>Institution</i>	<i>Estimated write- down (US\$ bn)</i>
Citigroup	64.0
Merrill Lynch	10.2
UBS	7.2
Deutsche Bank	3.3
Goldman Sachs	4.3
Barclays	2.8
RBS	1.9

Source: Financial Times, S&P Structured Finance Group
Relationship Banking • Corporate Finance • Markets • Working Capital



Major transmission of US shock has been rising cost of funds for countries with a US\$ funding base – including Australia

Change in cost of funds in Australia from July through 5 November



Source: ANZ and Bloomberg



Growth in our regional markets expected to remain strong

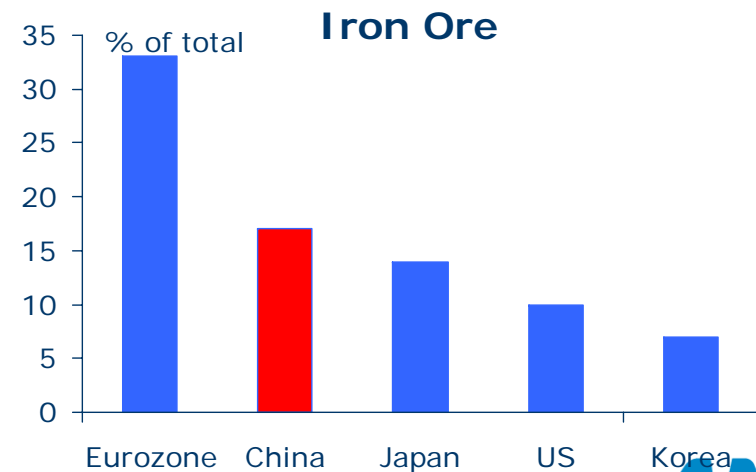
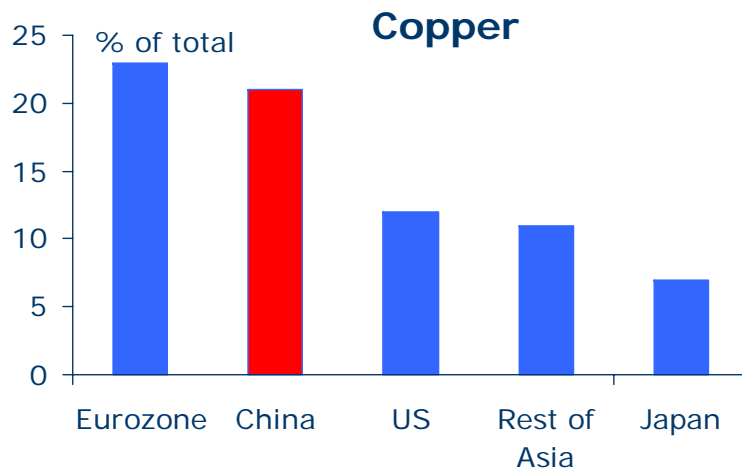
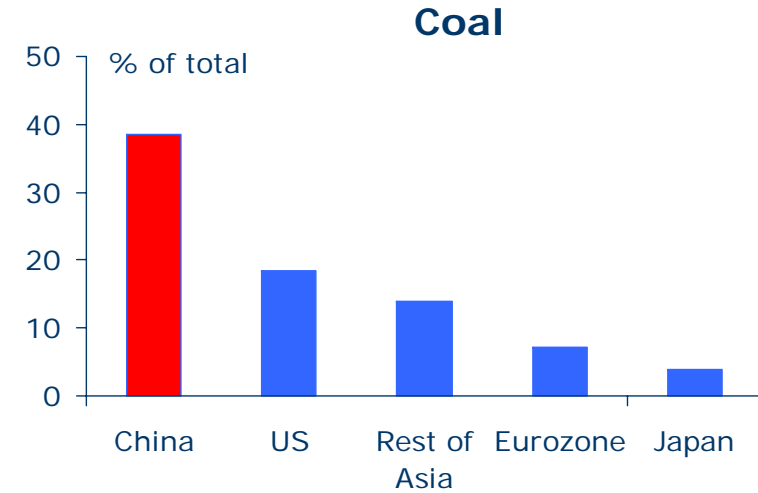
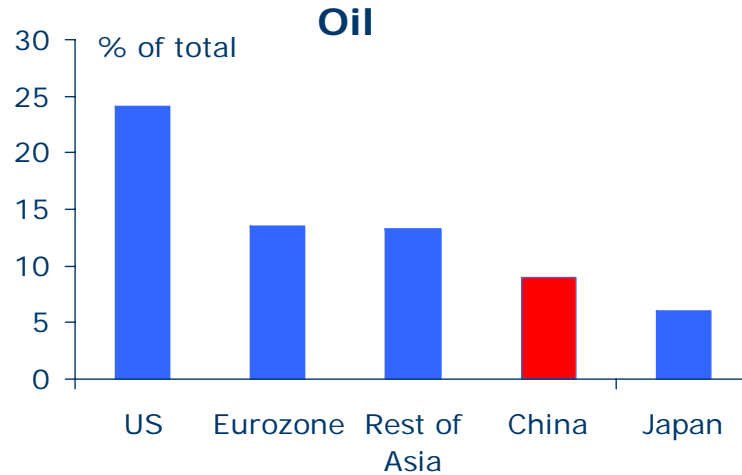
Real GDP growth forecasts (PPP basis)

	% change in real GDP from previous year			
	2006	2007	2008	2010-2020
United States	2.9	2.1	2.4	2.8
Japan	2.2	1.4	1.2	1.8
Euro area	2.6	2.3	1.9	2.0
Australia	2.7	4.3	3.9	3.4
New Zealand	1.7	2.8	1.5	2.5
China	10.7	11.3	10.3	9.0
Korea	5.0	4.8	4.2	4.5
Taiwan	4.6	4.6	4.2	4.0
Indonesia	5.6	6.2	6.5	6.0
Thailand	5.0	4.3	5.6	5.0
Hong Kong	6.8	6.3	5.7	6.0
Vietnam	8.2	8.5	9.0	8.4
East Asia excl Japan	9.3	10.1	9.7	8.7
World	5.2	5.1	4.8	4.6

Source: IMF, Economics@ANZ

Commodities demand unaffected by US shock because China is key source of demand

Comparison of share in global demand for key commodities

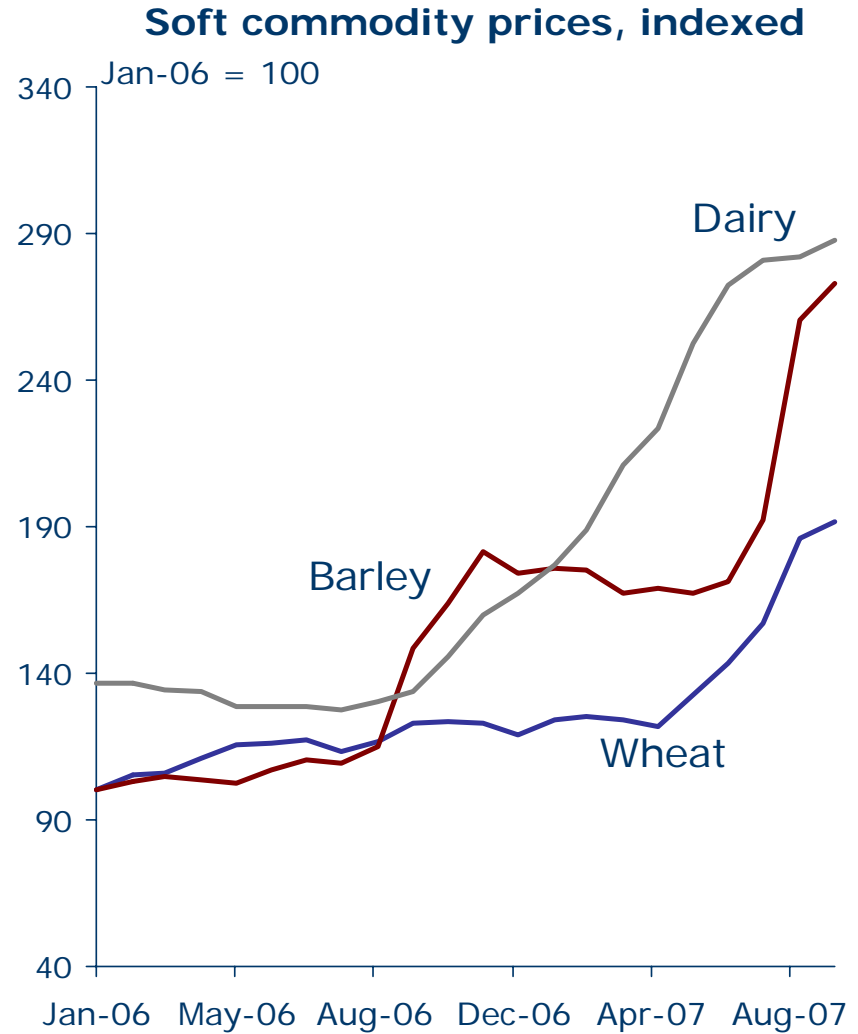
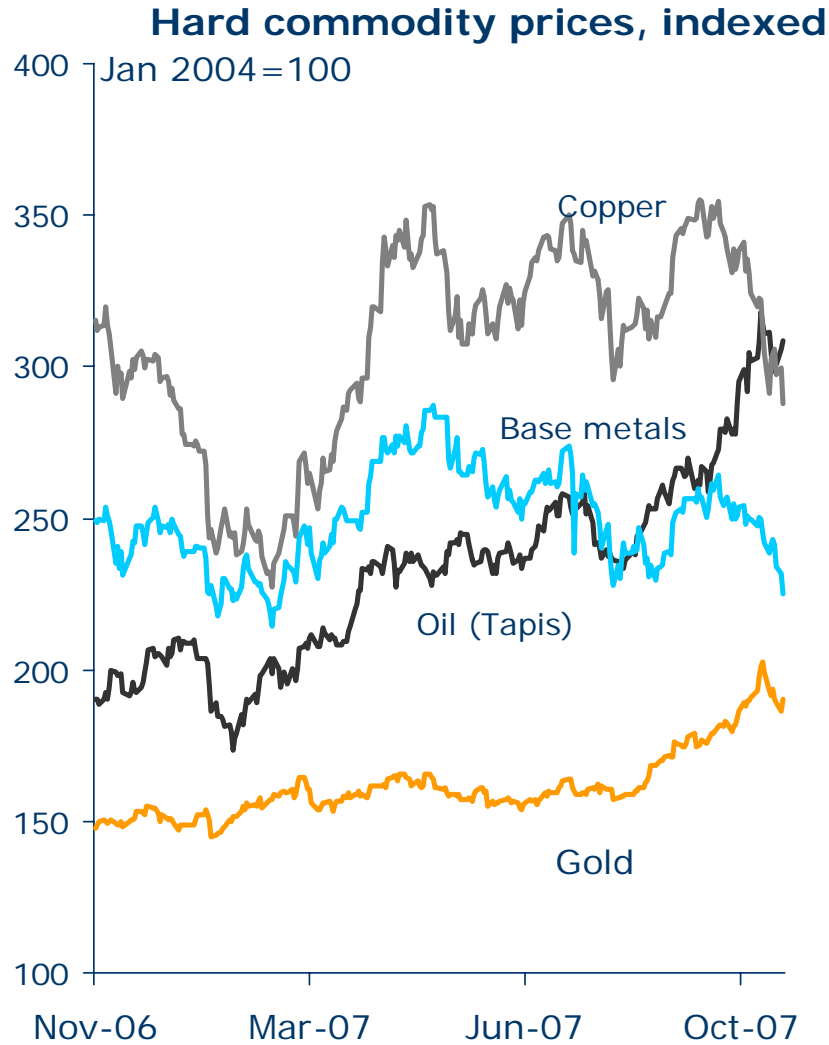


Strong demand from urbanising countries will keep commodity prices elevated even as US growth slows

Commodity price comparisons and forecasts

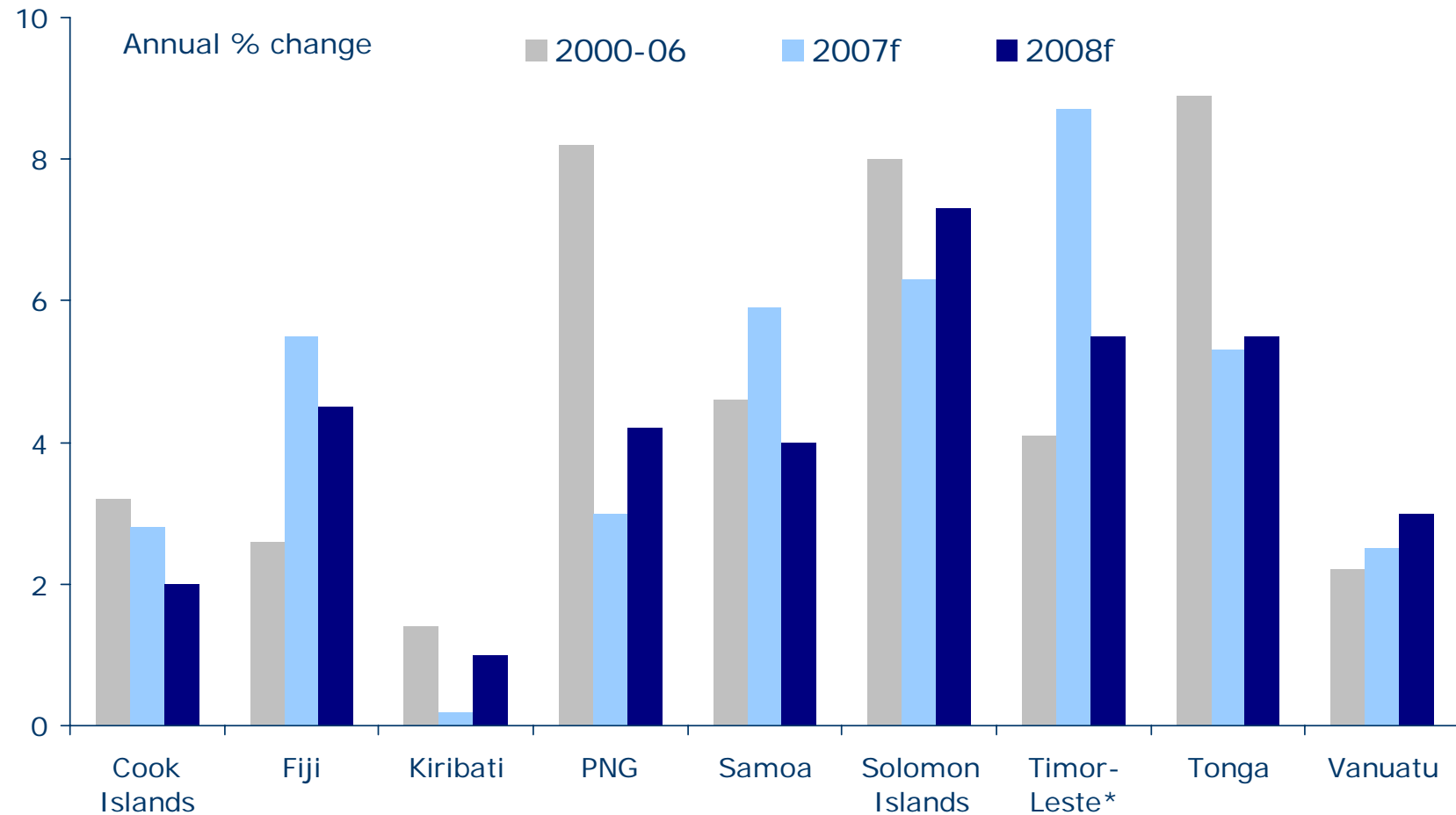
	Nov 2006	Nov 2007	Dec 2007	Dec 2008	Dec 2009
Oil – WTI USD/bbl	59.1	88.0	90.0	80.0	70.0
Thermal coal USD/t	52.5	55.5	55.5	75.0	70.0
Hard coking coal USD/t	115	96	96.0	125	120
Gold USD/oz	627.9	730	820	780	685
Aluminium USD/t	2702	2511	2579	2601	2601
Copper USD/t	7028	7529	7054	6614	5732
Nickel USD '000/t	32.1	31.5	32.0	29.5	25.3
Lead USD/t	1624	3601	3483	3086	2712
Zinc USD/t	4381	2831	2689	2601	2469
Wheat USD/t	235	345	340	240	204
Sugar USc/lb	12.3	11.1	11.0	11.0	12.2
Beef USc/kg	305	311	311	305	293
Wool Ac/kg	835	905	895	858	818

And there are inflation pressures from high energy prices, now followed by higher food prices



Inflation may be problematic in 2008 across the region

Consumer price inflation for selected Pacific economies



*: 2001-2006

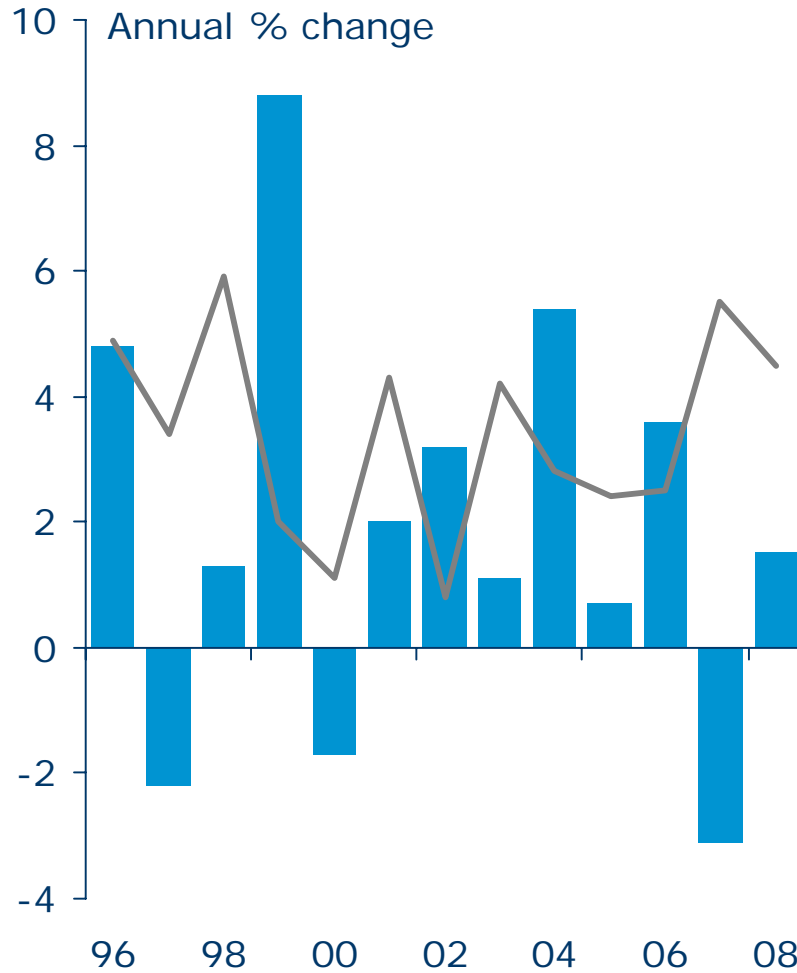
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Sources: Asian Development Bank, International Monetary Fund, Economics@ANZ

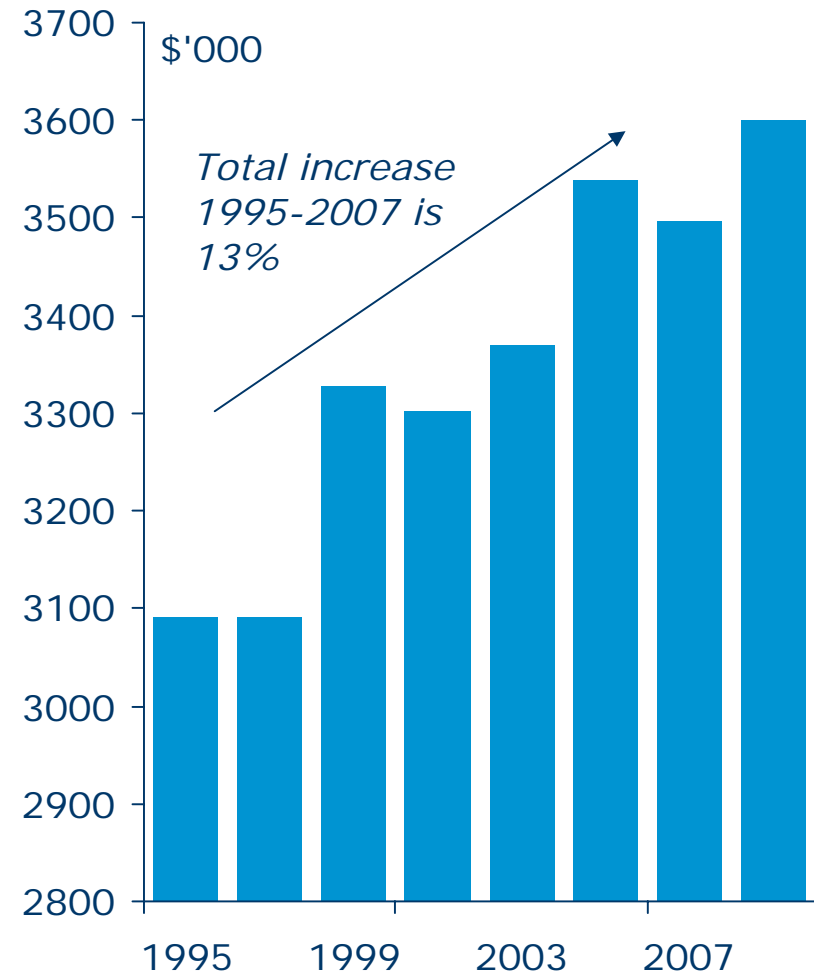


Fiji's economy out of step with global boom

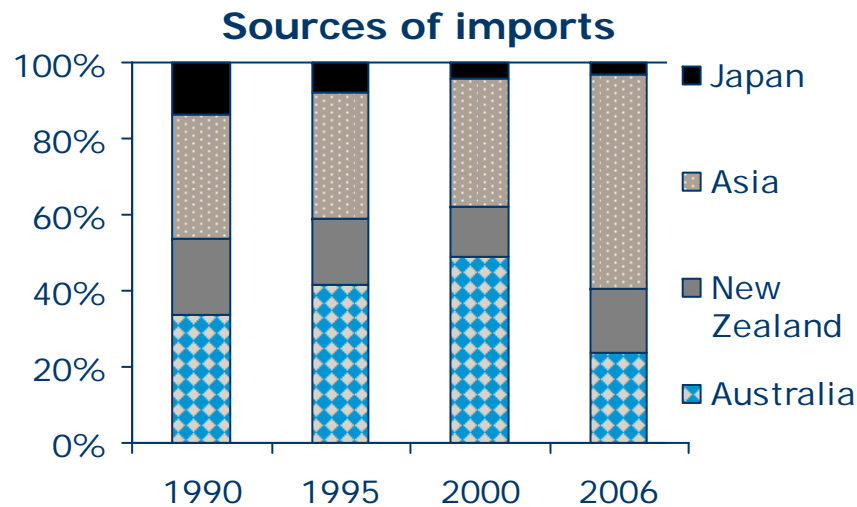
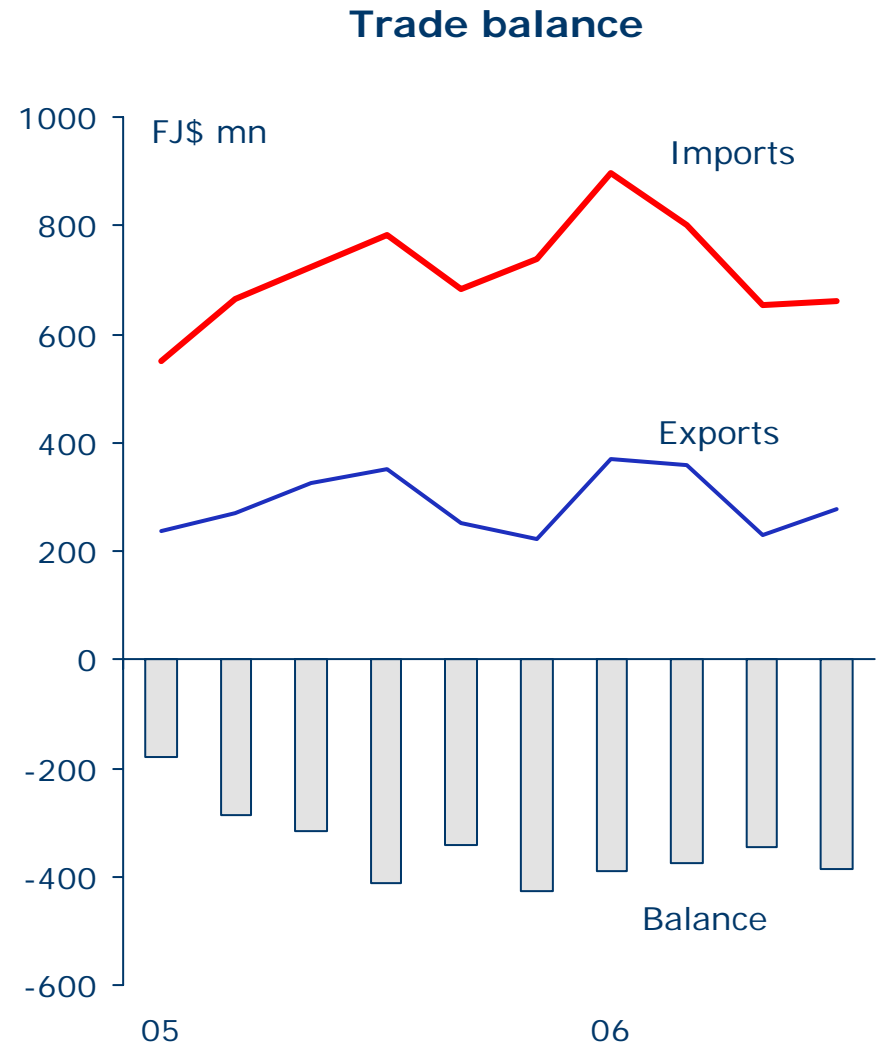
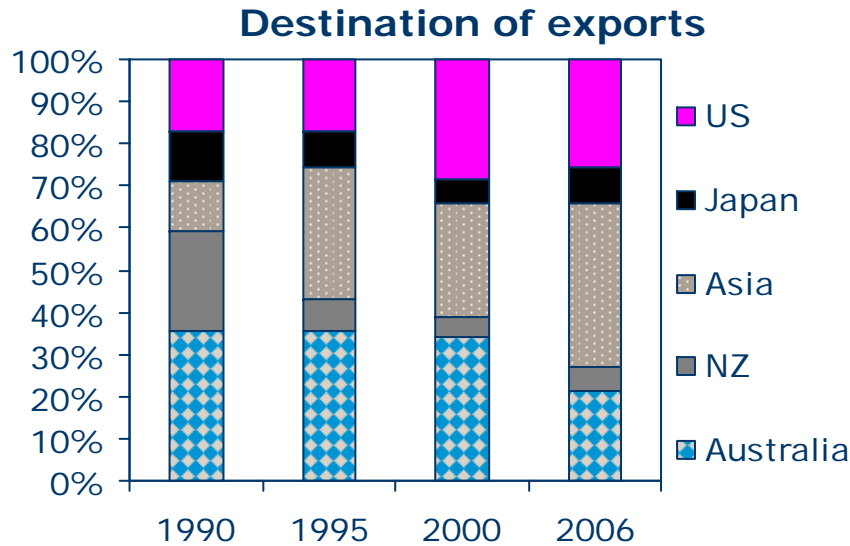
Fiji's real GDP growth and inflation



Per capita GDP

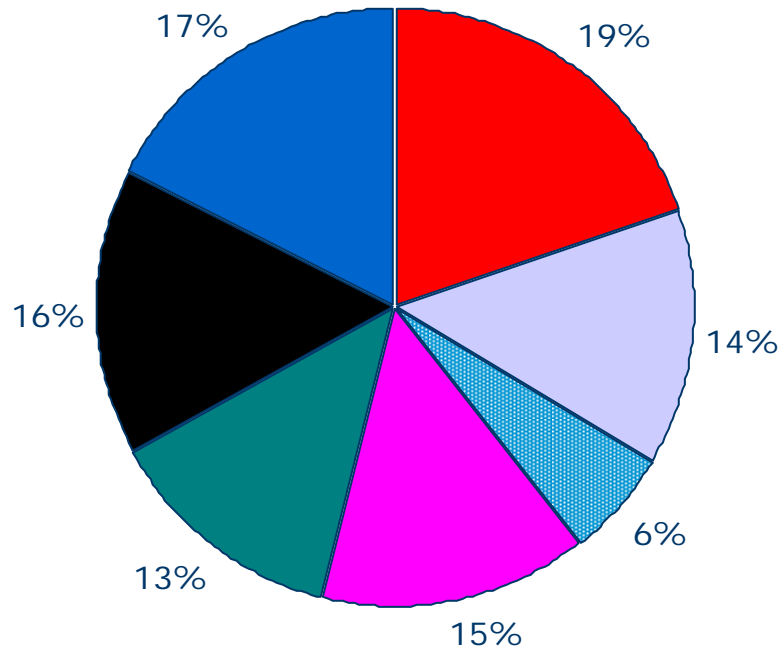


Fiji's merchandise trade has re-oriented to Asian region but this has not helped address trade deficit



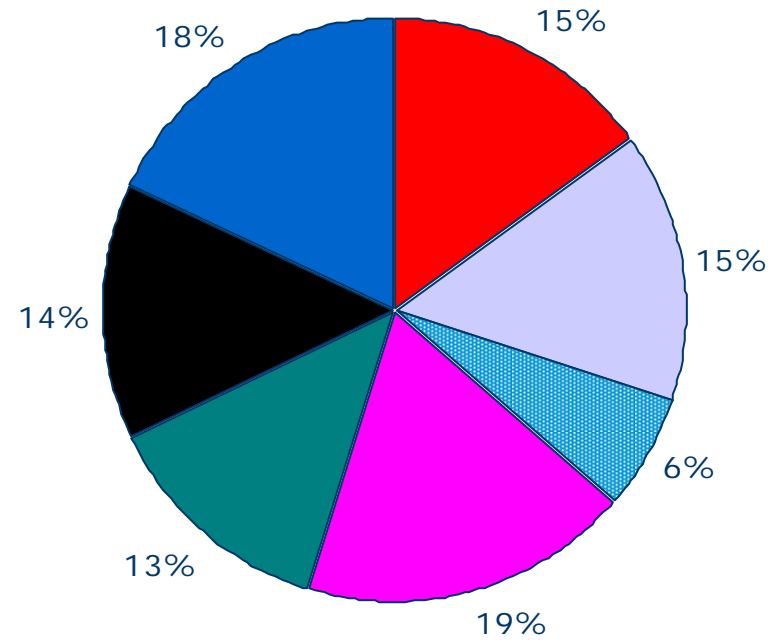
Because debt-driven consumption is higher than the productive capacity of the economy

Structure of GDP (1996)



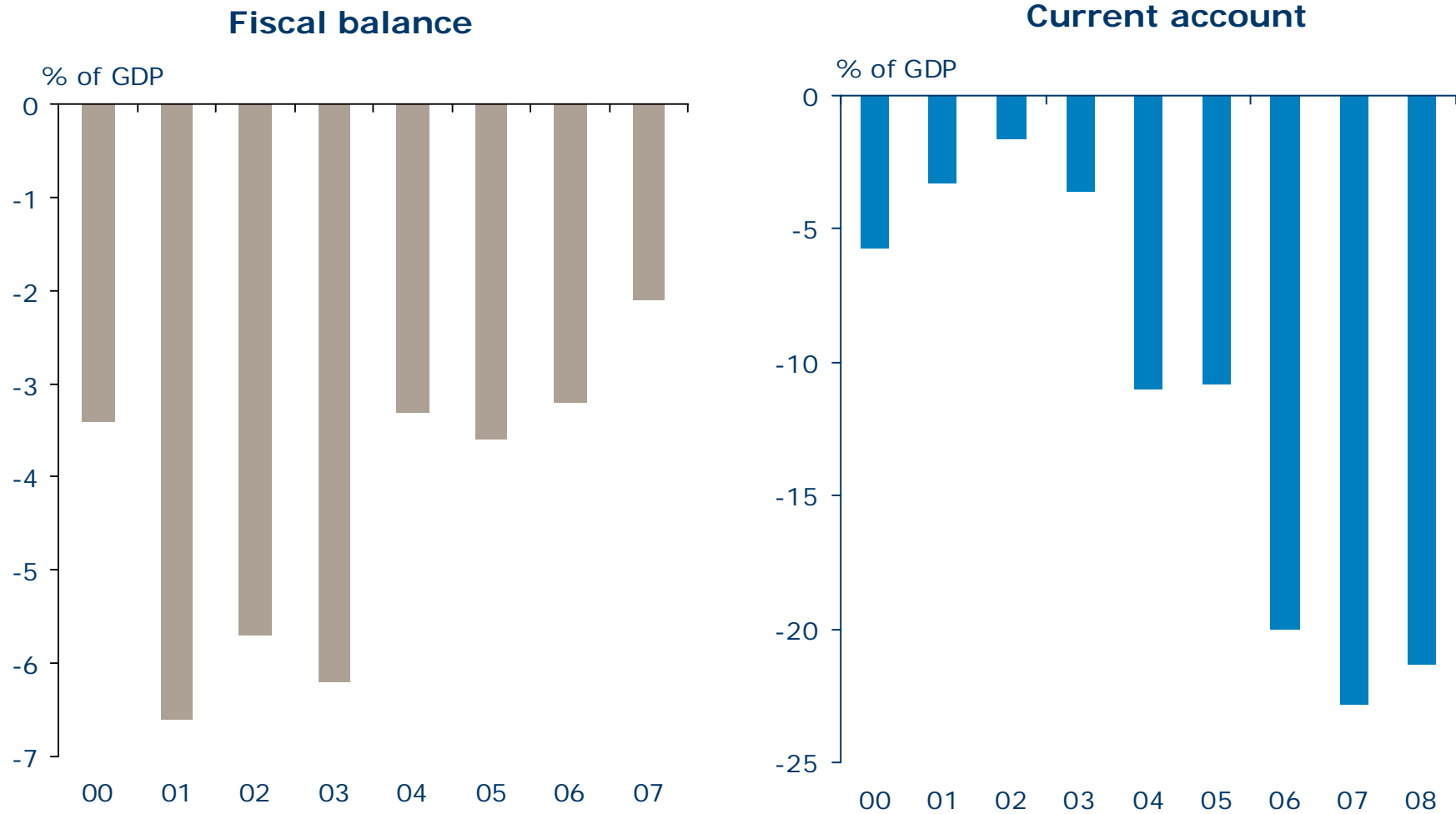
- Agriculture
- Manufacturing
- Construction
- Commerce
- Transport
- Finance
- Community

Structure of GDP (2006)

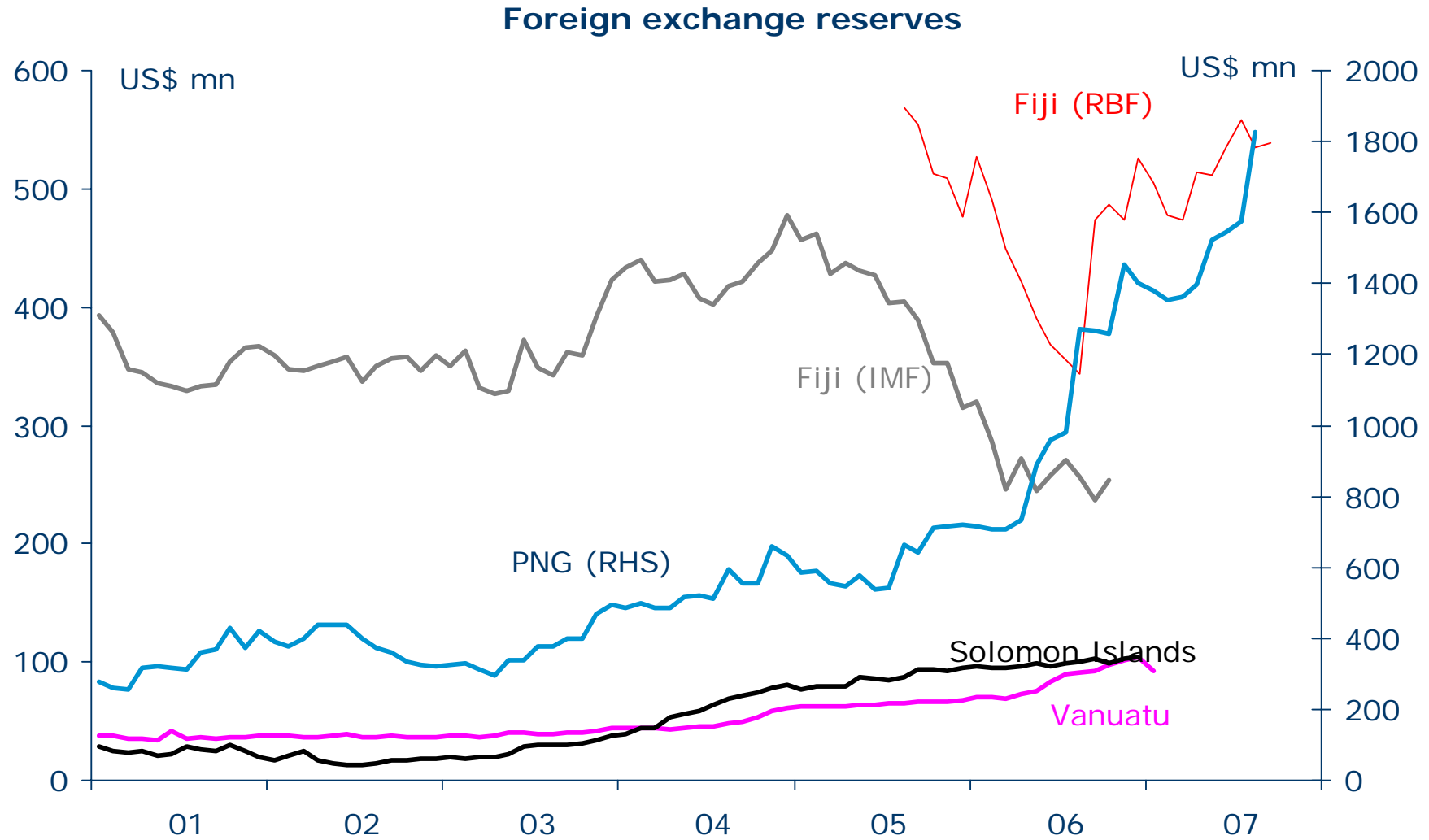


- Agriculture
- Manufacturing
- Construction
- Commerce
- Transport
- Finance
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Fiji's twin deficits limit the ability of the economy to expand

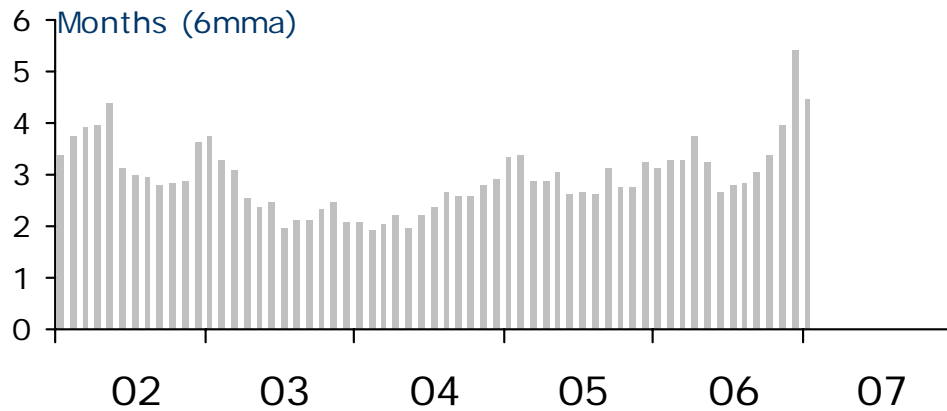


Issue of low FX reserves is simply a symptom of macroeconomic pressures

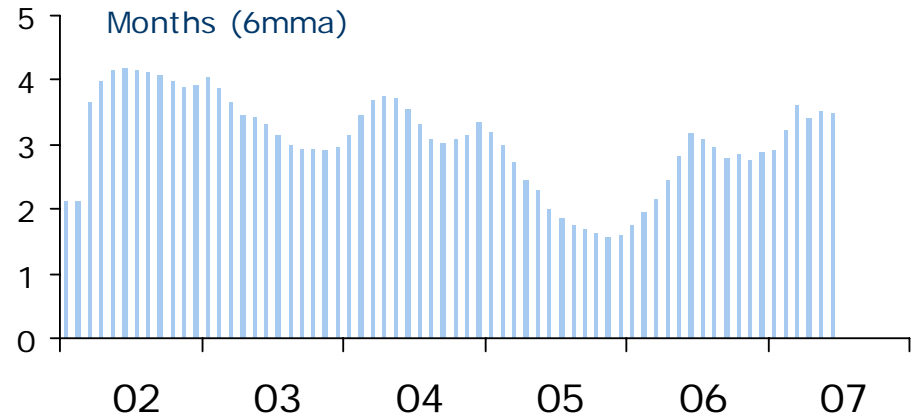


Other countries are experiencing an improvement in FX coverage and local liquidity

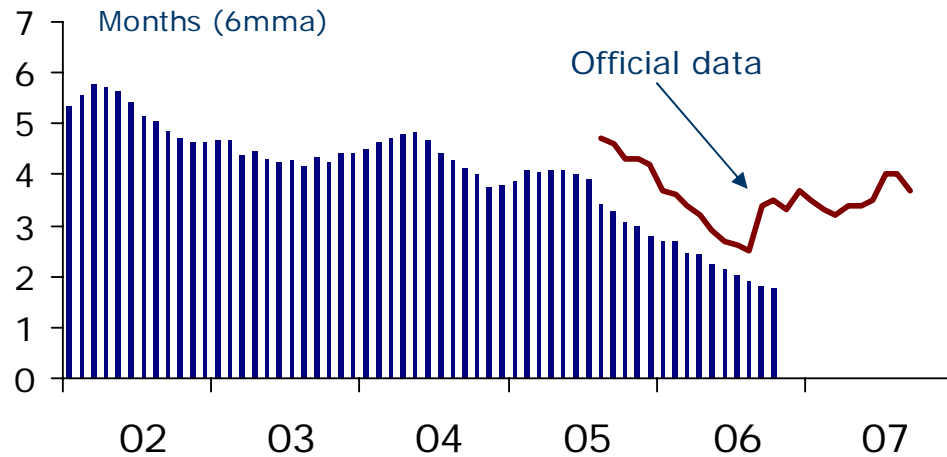
Vanuatu



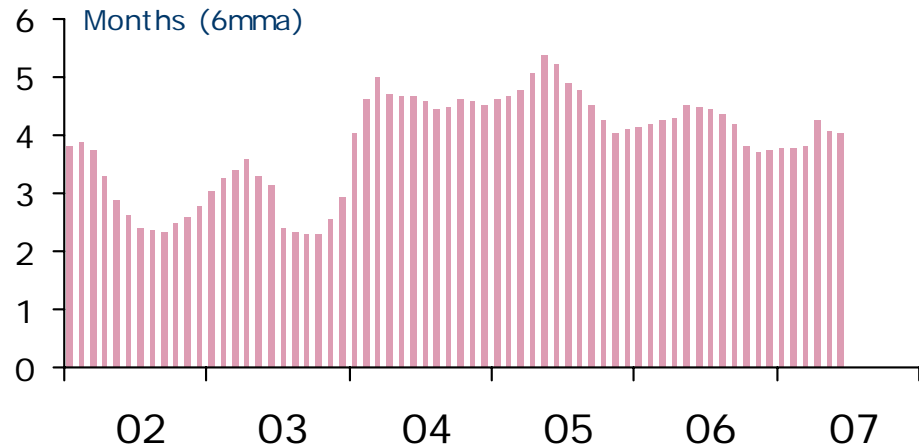
Samoa



Fiji

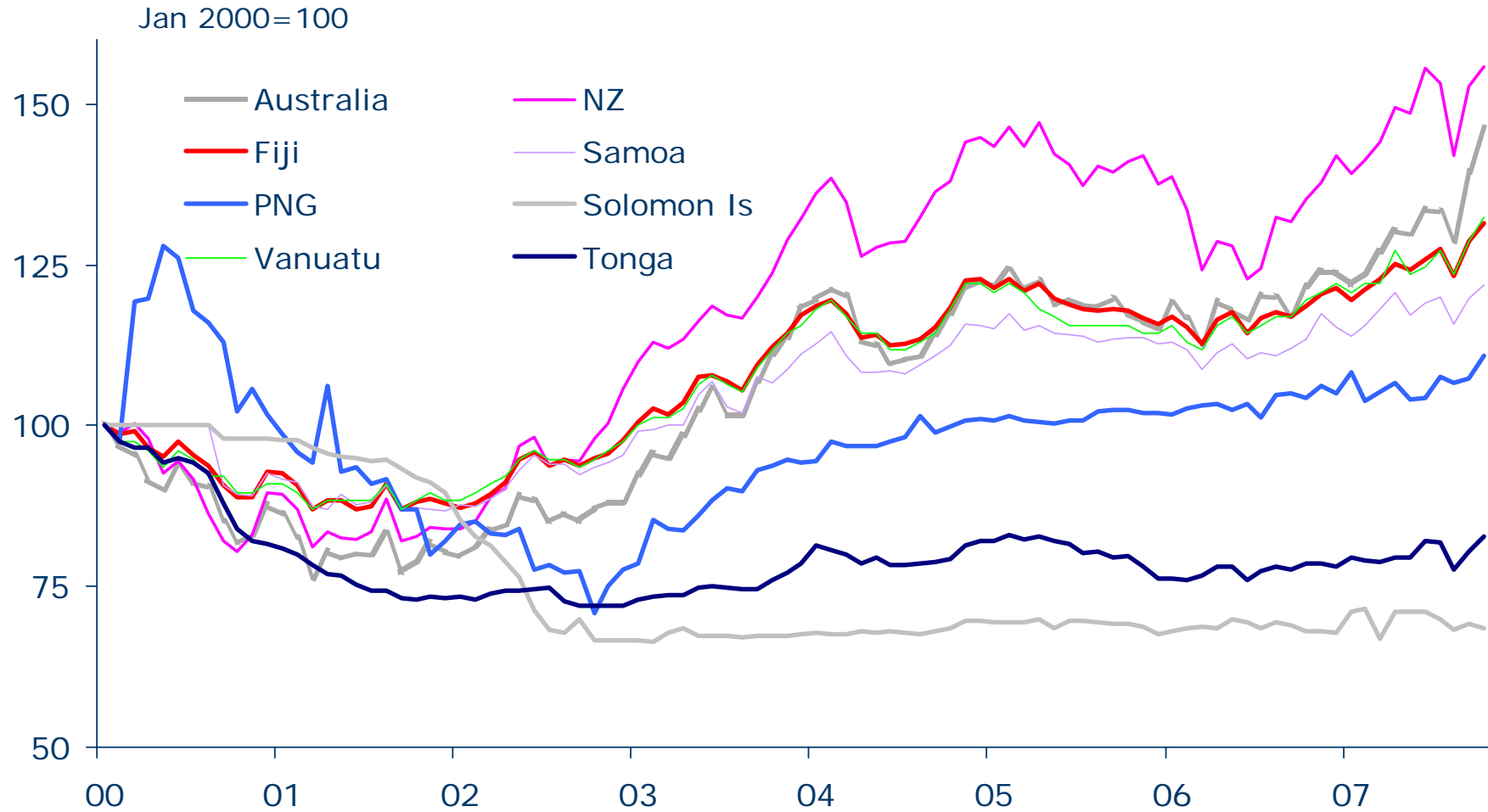


Tonga

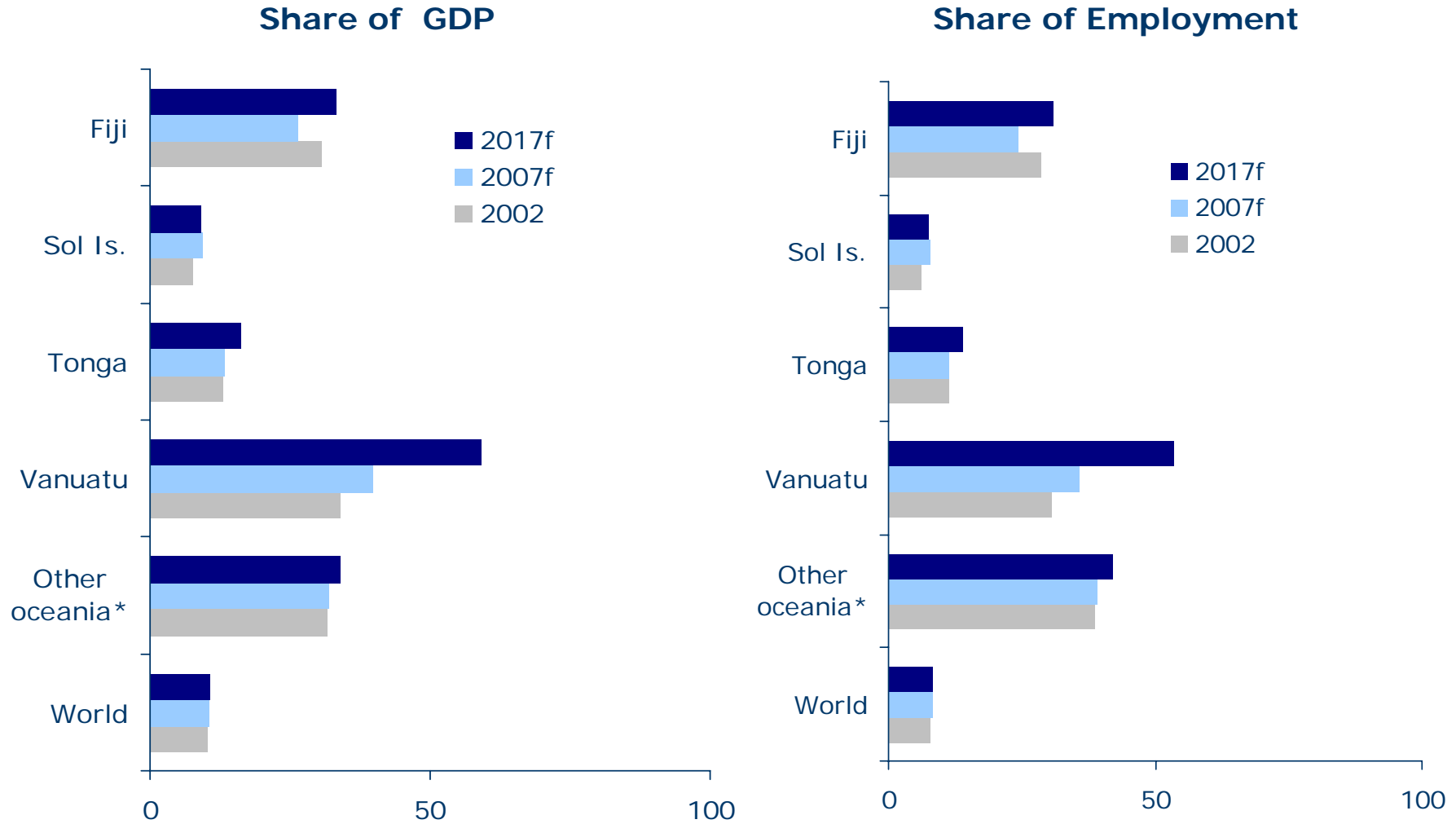


A strong exchange rate policy is contributing to the problem

Spot FX rate for selected countries vs US\$, indexed

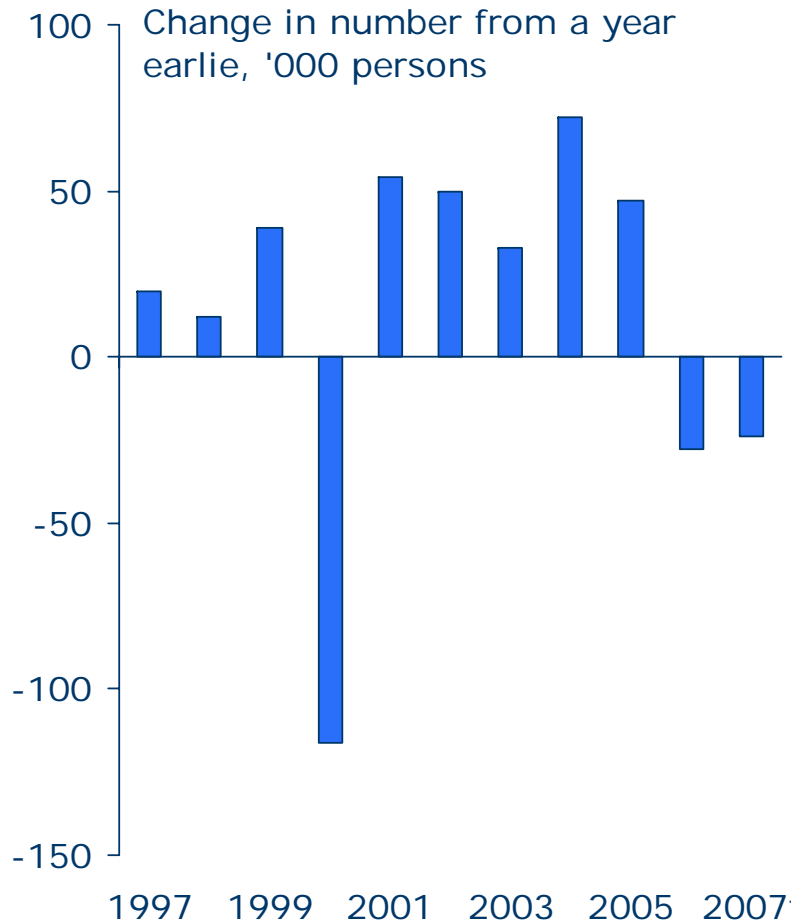


Tourism to remain a focal point for the economy

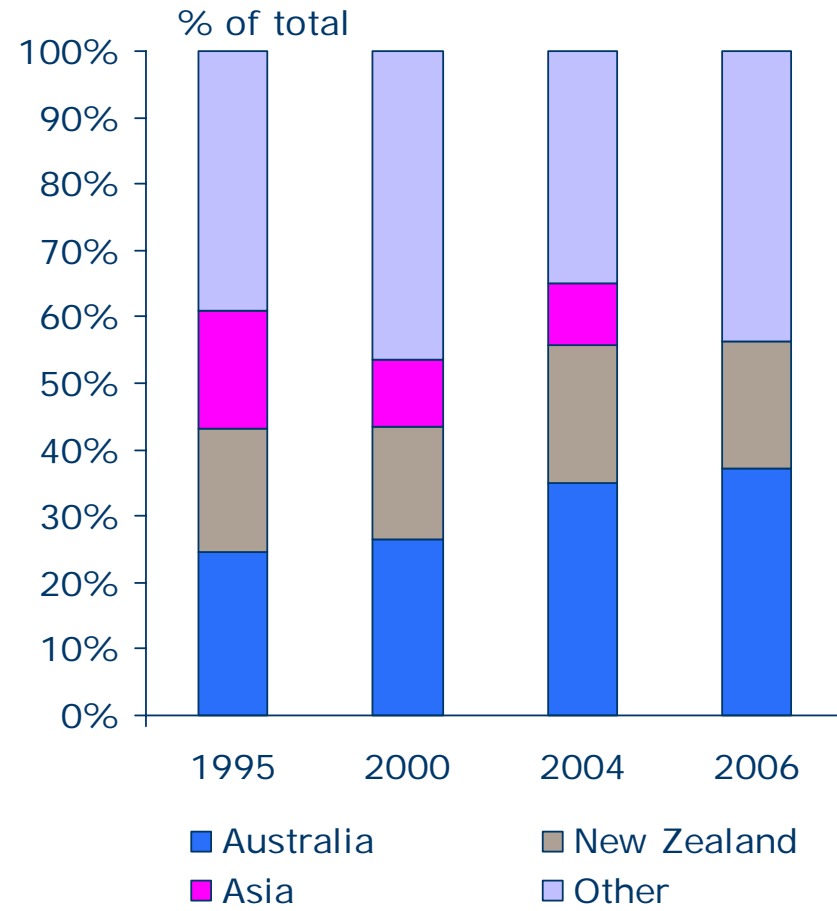


And traditional markets are likely to dominate in tourism for some time to come

Short-term overseas visitor arrivals



Origin of visitor arrivals*

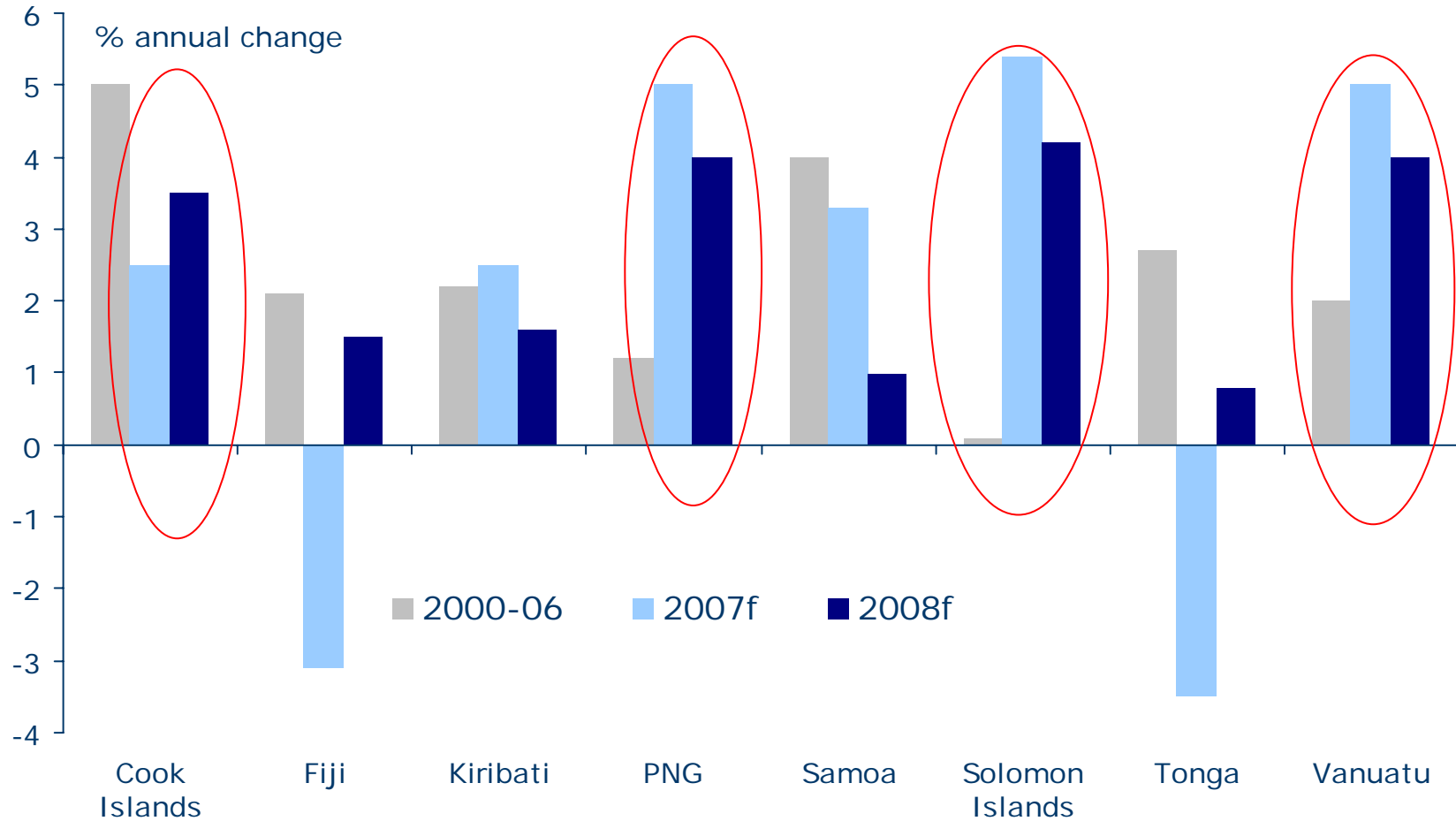


* No Asia data for 2006



Asian boom is registering elsewhere in the Pacific

Recent and projected real GDP growth for selected Pacific economies

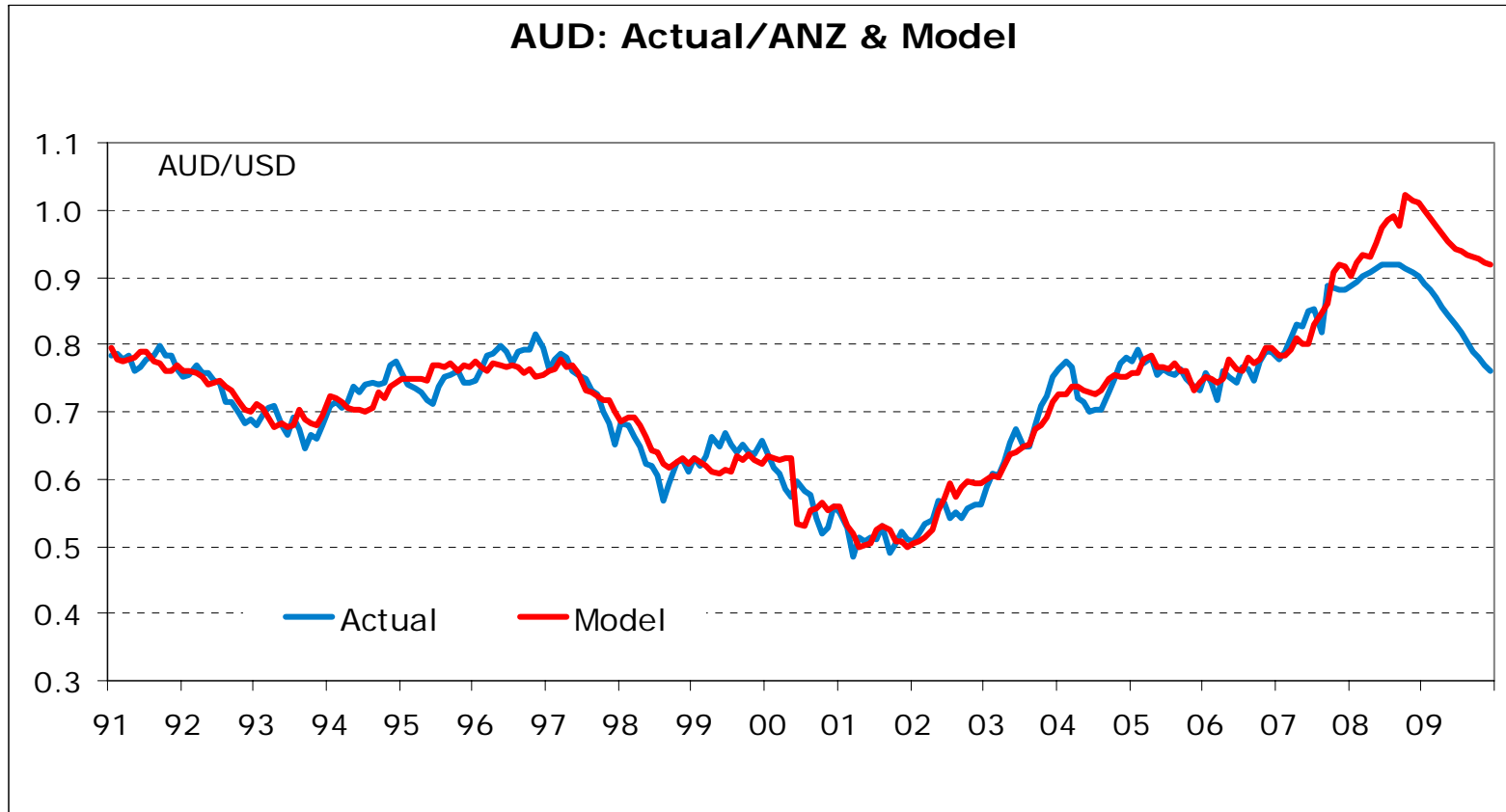


Pacific currency forecasts driven by mainly external factors

	Nov 2007	Dec 2007	Dec 2008	Dec 2009
US Fed funds rate	4.50	4.25	4.50	5.75
RBA cash rate	6.75	6.75	7.25	7.25
Bank of Japan call rate	0.50	0.50	1.00	1.25
European Central Bank refi rate	4.00	4.00	4.25	4.25
US 2-year bond yield	3.07	3.80	5.25	5.25
US 10-year bond yield	4.00	4.50	5.35	5.60
US\$ - ¥	108	114	108	116
€ - US\$	1.47	1.45	1.39	1.25
AUD – US\$	0.8708	0.94	0.90	0.80
NZD – US\$	0.7495	0.77	0.68	0.62
AUD - NZD	1.17	1.22	1.32	1.29
US\$ - CNY	7.41	7.397	7.043	7.085

The A\$ is expected to rise again

ANZ Fair Value model for the Australian dollar



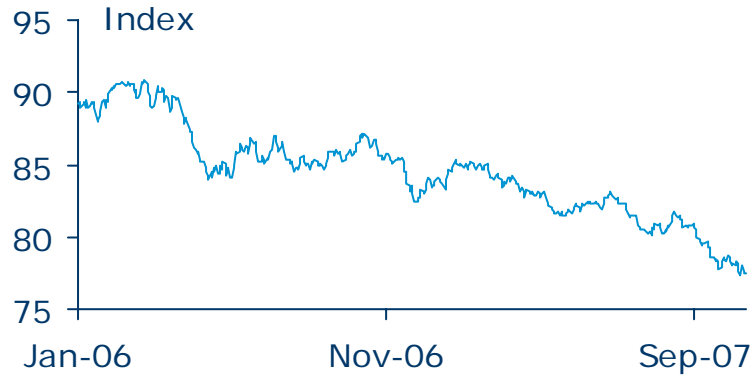
Source: Economics@ANZ

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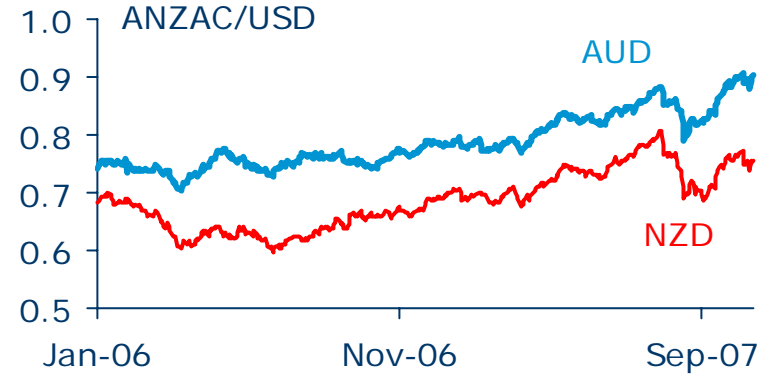


US\$ weakness a theme for 3-6 months

USD broad currency index hits new lows



AUD and NZD rallying



EUR climbing higher



As is JPY



Most central banks will remain key players and try to prevent large movements in their exchange rate

	Dec 2007	Mar 2008	Jun 2008	Dec 2008	Dec 2009
Fiji					
FJD/USD	0.666	0.669	0.668	0.638	0.587
FJD/AUD	0.71	0.70	0.70	0.71	0.73
PNG					
PGK/USD	0.365	0.368	0.370	0.355	0.33
PGK/AUD	0.388	0.387	0.385	0.394	0.40
Samoa					
WST/USD	0.411	0.419	0.423	0.406	0.373
WST/AUD	0.449	0.442	0.440	0.451	0.463
Solomon Islands					
USD/SLD	7.1	7.0	6.9	7.1	7.3
AUD/SLD	6.67	6.65	6.62	6.39	5.84
Tonga					
USD/TOP	1.88	1.86	1.85	1.89	1.98
AUD/TOP	1.77	1.77	1.78	1.70	1.58
Vanuatu					
USD/VUV	95.33	94.56	93.8	98.54	107.62
AUD/VUV	89.61	89.83	90.05	88.69	86.09

Pacific economic forecasts

Real GDP growth

	2006	2007e	2008f
Fiji	3.4	-3.1	1.5
PNG	2.6	5.0	4.0
Samoa	2.6	3.3	1.0
Timor-Leste ⁺	-1.6	22.0	3.5
Tonga [*]	-3.5	0.8	1.3
Vanuatu	5.5	5.0	4.0

Inflation

	2006	2007e	2008f
Fiji	2.5	5.0	4.5
PNG	2.8	3.0	4.2
Samoa	3.8	5.9	4.0
Timor-Leste	4.1	8.7	5.5
Tonga	7.0	5.3	5.5
Vanuatu	1.6	2.5	3.0

Current account % GDP

	2006	2007e	2008f
Fiji	-20	-22.8	-21.3
PNG	7.3	4.9	4.5
Samoa	-7.2	-6.5	-6.0
Timor-Leste [~]	48.5	50	53
Tonga	-6.8	-5.0	-5.5
Vanuatu	-8	-13.2	-13.7

FX reserves (US\$ mn)

	2006	2007e	2008f
Fiji	260	270	280
PNG	1,423	2,100	2,300
Samoa	215	185	195
Timor-Leste	1,000	1,900	3,500
Tonga	44.9	50	55
Vanuatu	99.2	118	130

Relationship Banking • Corporate Finance • Markets • Working Capital

Source: Economics@ANZ, IMF, ADB

~ : % of GNI, +: non-oil GDP; *: FY beginning July



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