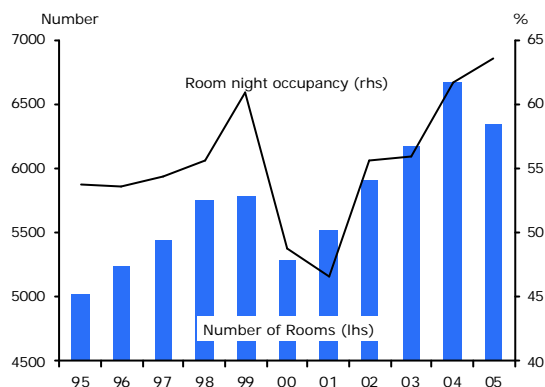


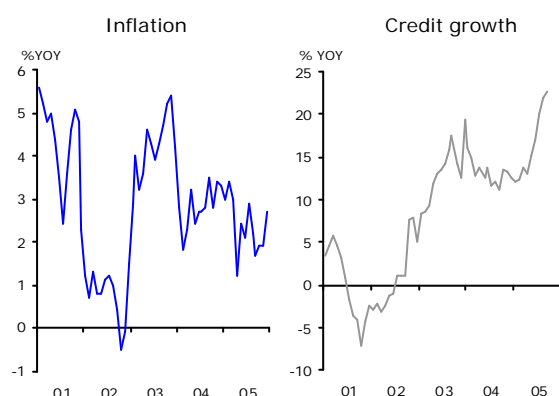
# Country Update Fiji

## Tourism sector remains healthy



Source: Fiji Islands Bureau of Statistics

## Monetary policy expected to remain tight



Sources: Datastream, Fiji Islands Bureau of Statistics, IMF

- The economy grew by an estimated 1.5% in 2005 with the sharp slowdown from 2004 (4.1%) due largely to a decline in garment exports and a restructuring of the sugar industry. For the first ten months of 2005, textile and garment exports fell by 40%YOY while sugar output has been on the decline.
- Real GDP is forecast to expand at a similar pace in 2006 as the garment and sugar industries continue to put a drag on growth. The restructuring of the sugar industry is underway while the garments sector continues to face tough competition from Asia. Nevertheless, tourism is expected to grow at a relatively healthy pace in 2006. The number of overseas visitors soared to a new record in 2005 with arrivals projected to have exceeded 530,000. The Fiji Visitors Bureau has forecast a further 6% rise in the number of visitor arrivals this year. The tourism boom continues to underpin construction activity with 2000 hotel rooms expected to be added to supply in 2006 and 2007.
- Annual average inflation for 2005 was 2.4%, down from 2.8% in 2004 but consumer prices were up 2.7%YOY in December from 1.9%YOY in November. The removal of the VAT on some basic food items and kerosene, from 1 January 2006 will help to check inflation. However, this impact is likely to be outweighed by the potential for further fuel price hikes, given the rise in global oil prices, and public sector wage increases. Credit growth has also accelerated. The Reserve Bank of Fiji raised its key rate from 1.75% to 2.25% in October 2005, the first increase since May 2004, amidst concerns over inflation risks and is likely to maintain a tightening bias.
- On the political front, divisions within the military and concerns of a possible coup attempt arose at the start of the year. While tensions have since eased, the economic climate is likely to be clouded by uncertainty ahead of general elections, which are due by September 2006, as the two key parties, namely the indigenous Fijian-backed Soqosoqo Duavata ni Lewenivanua Party and the ethnic Indian-dominated Fiji Labour Party, vie to secure the leadership. In addition, President Josefa Iloilo is not expected to seek a second term in office when his current term expires in May.

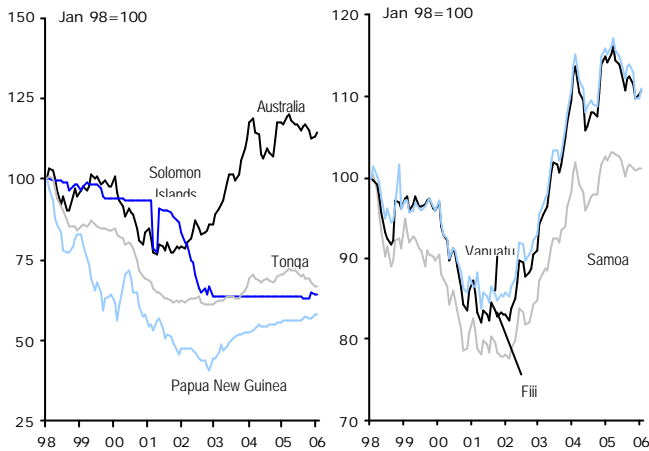
Jasmine Robinson

## Economic data – Fiji

Quarterly data	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05	Q3 05
Consumer Price Index, %YOY	2.3	2.8	3.0	3.2	3.1	1.9	2.3
Domestic Credit, % YOY	12.8	13.7	11.2	12.5	13.9	17.0	22.6
Exports, % YOY	14.7	-26.2	12.3	7.7	12.5	12.5	12.8
Imports, % YOY	32.8	-7.7	25.2	34.4	4.4	21.1	16.6
Trade Balance, US\$ mn	-190.7	-181.4	-170	-210.3	-187.7	-232	-205.5
International reserves, US\$ mn	421.2	407.0	422.2	478.1	427.7	427.1	389.5

Sources: Datastream, Fiji Islands Bureau of Statistics, IMF

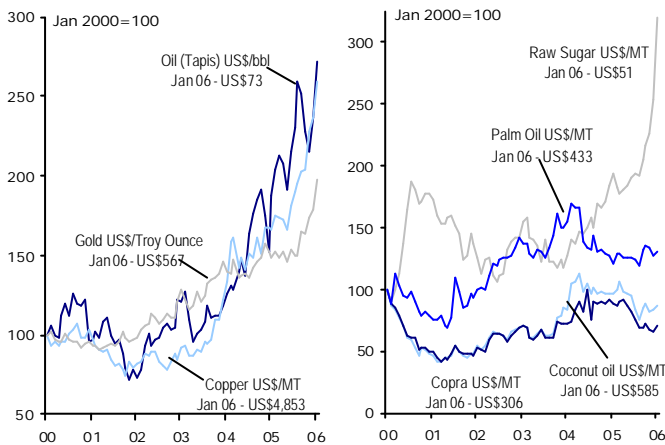
Exchange rates



Exchange rates

- The currencies of Vanuatu (Vatu), Samoa (Tala) and Fiji (dollar) have pegged arrangements against a basket of currencies in which the Australian and New Zealand dollars are prominent. This reflects the strong economic ties via trade, investment, tourism, private remittances and aid with these nations.
- The PNG kina has held steady at PGK/USD0.30-0.32 for the past 18 months or so after climbing steadily since early 2003.
- The Tongan pa'anga has been weighed down by large trade deficits.
- The Solomon Islands dollar has been stable since the sharp weakness in 2002.

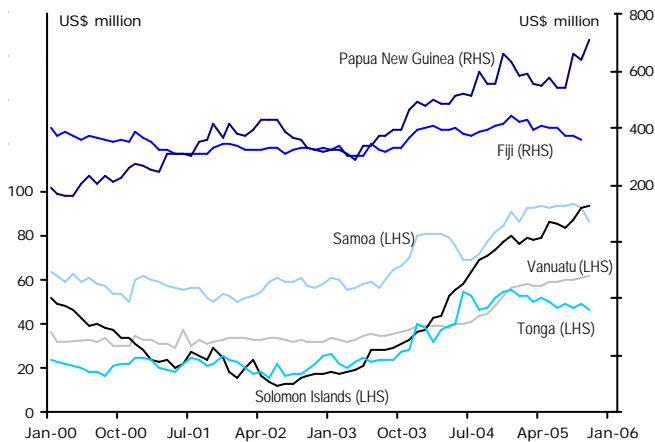
Commodity Prices



Commodities

- Exports from the region are largely commodity-based and these economies have benefited from the upturn in global commodity prices.
- The continued upward trend in prices of oil, gold and copper has underpinned PNG's strong export receipts, with the three commodities collectively accounting for some 73% of total exports in 2004.
- Sugar is Fiji's second largest export but EU sugar reform and industry restructuring pose serious challenges. Nevertheless, sugar prices have more than doubled over the past six months or so, reaching 26-year highs, which should provide some reprieve.
- Coconut oil prices have eased somewhat reflecting the increase in supply of other edible oils.

International Reserves



International Reserves

- PNG and Fiji's reserves are far higher than the rest of the Pacific economies.
- While PNG's reserves strengthened significantly in the second half of 2005 due in part to a surge in the trade surplus, Fiji's reserves dipped slightly due to sluggish export receipts and high import costs.
- Samoa's reserves have come off slightly as of October 2005 to US\$86 mn due largely to a rise in import payments.
- Lifted by donor inflows as well as strong tourism receipts, Vanuatu's reserves stood at US\$70 mn as at October 2005, up 4% from June 2005.
- Foreign exchange reserves of the Solomon Islands have climbed steadily to US\$93.1 mn as at October 2005 from a low of US\$12.4 mn as at June 2002, reflecting a pick-up in exports and donor funding.

## FX and policy interest rate forecasts

	Dec 05	Jan 06	Feb 06	Mar 06	Jun 06	Sep 06	Dec 06
<b>Fiji</b>							
FJD/USD, eop	0.573	0.576	0.578	0.579	0.568	0.555	0.553
FJD/AUD, eop	0.781	0.776	0.769	0.762	0.767	0.782	0.790
Short term rates*	2.25	2.25	2.25	2.25	2.50	2.50	2.50
<b>PNG</b>							
PGK/USD, eop	0.323	0.323	0.322	0.321	0.320	0.320	0.32
PGK/AUD, eop	0.441	0.425	0.420	0.423	0.433	0.451	0.457
Short term rates**	6.0	6.0	6.0	6.0	6.0	6.0	6.0
<b>Samoa</b>							
WST/USD, eop	0.367	0.366	0.371	0.369	0.364	0.357	0.355
WST/AUD, eop	0.500	0.485	0.487	0.486	0.492	0.503	0.508
Short term rates***	2.85	3.50	3.75	3.80	4.0	4.2	4.5
<b>Vanuatu</b>							
USD/VUV, eop	113.6	112.3	111.7	111.1	112.2	114.6	117.9
AUD/VUV, eop	84.3	84.2	85.4	84.3	82.3	81.3	82.6
Short term rates****	6.25	6.25	6.25	6.25	6.25	6.25	6.25

\*: 91-day RBF notes; \*\*: Kina Repo Facility (KFR); \*\*\*56-day CBS notes; \*\*\*\*: Discount rate

### Real GDP Growth (%)

	2004	2005f	2006f
<b>Fiji</b>	4.1	1.5	1.5
<b>PNG</b>	2.6	2.9	3.2
<b>Samoa</b>	3.7	5.2	4.0
<b>Vanuatu</b>	3.5	3.1	2.9

### Nominal GDP (US\$ bn)

	2004	2005f	2006f
<b>Fiji</b>	2.65	2.75	2.85
<b>PNG</b>	4.97	5.39	5.69
<b>Samoa</b>	0.38	0.40	0.42
<b>Vanuatu</b>	0.29	0.30	0.31

### Inflation (%)

	2004	2005f	2006f
<b>Fiji</b>	2.8	2.4	3.0
<b>PNG</b>	1.9	1.3	1.5
<b>Samoa</b>	16.3	2.1	1.1
<b>Vanuatu</b>	1.4	1.1	1.5

### Fiscal Balance (% of GDP)

	2004	2005f	2006f
<b>Fiji</b>	-3.3	-3.5	-3.5
<b>PNG</b>	1.7	2.0	n/a
<b>Samoa</b>	-1.4	-0.9	-1.8
<b>Vanuatu</b>	1.2	2.2	2.4

### Current Account (% of GDP)

	2004	2005f	2006f
<b>Fiji</b>	-2.5	-2.8	-3.0
<b>PNG</b>	1.9	7.6	3.6
<b>Samoa</b>	-13.3	-18.0	-17.5
<b>Vanuatu</b>	-7.0	-6.1	-6.0

### Foreign Exchange Reserves (US\$ mn)

	2004	2005f	2006f
<b>Fiji</b>	478.1	400	410
<b>PNG</b>	672.8	730	700
<b>Samoa</b>	90.6	85.0	90.0
<b>Vanuatu</b>	56.5	64.2	71.2

Long Term Foreign Currency Debt Ratings

Investment Grade		Sub-Investment Grade	
Moody's	S&P	Moody's	S&P
<b>Aaa</b> Australia Canada France Germany Japan New Zealand Singapore United Kingdom United States	<b>AAA</b> Australia Canada France Germany Singapore United Kingdom United States	<b>Ba1</b> Bulgaria Costa Rica Egypt Morocco Panama Romania	<b>BB+</b> Egypt El Salvador India Morocco
<b>Aa1</b> Belgium	<b>AA+</b> Belgium <b>New Zealand</b>	<b>Ba2</b> Colombia Fiji Guatemala Jordan	<b>BB</b> Colombia Costa Rica Jordan Panama Peru
<b>Aa2</b> Italy	<b>AA</b>	<b>Ba3</b> Peru <b>Vietnam</b>	<b>BB-</b> Brazil <b>Cook Islands</b>
<b>Aa3</b> Cayman Islands Taiwan	<b>AA-</b> Hong Kong Italy Japan Taiwan	Brazil Turkey	Guatemala <b>Philippines</b> Serbia Turkey Ukraine <b>Vietnam</b>
<b>A1</b> Czech Republic Hong Kong Hungary Macau Qatar UAE	<b>A+</b> Qatar Kuwait	<b>B1</b> Papua New Guinea Philippines Suriname Ukraine	<b>B+</b> Ghana <b>Indonesia</b> Pakistan Venezuela
<b>A2</b> China Cyprus Israel Kuwait Poland	<b>A</b> Chile Cyprus Korea Saudi Arabia	<b>B2</b> Honduras <b>Indonesia</b> Pakistan Venezuela	<b>B</b> Papua New Guinea Uruguay
<b>A3</b> Korea Malaysia Saudi Arabia	<b>A-</b> China Czech Republic Hungary Israel <b>Malaysia</b>	<b>B3</b> Argentina Bolivia Lebanon Uruguay	<b>B-</b> Argentina Bolivia Lebanon Paraguay Suriname
<b>Baa1</b> Chile Mexico South Africa Thailand Oman	<b>BBB+</b> Oman Poland Thailand South Africa	<b>Caa1 and below</b> Cuba Ecuador Nicaragua Paraguay Belize	<b>CCC and below</b> Belize Ecuador
<b>Baa2</b> Mauritius Tunisia Russia	<b>BBB</b> Mexico Tunisia Bulgaria Russia		
<b>Baa3</b> India	<b>BBB-</b> Romania		

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