

ECONOMICS & GLOBAL MARKETS RESEARCH

PACIFIC QUARTERLY

15 NOVEMBER 2010

INSIDE

| | |
|-------------------|---|
| Feature Note | 2 |
| Market Update | 5 |
| FX & Policy Rates | 6 |
| Commodities | 7 |
| Macro Forecasts | 8 |
| Country Updates | 9 |

ANZ PACIFIC TEAM

Paul Gruenwald
Chief Economist, Asia
+65 6216 1814
Paul.Gruenwald@anz.com

Bora Bedamu, Jr
Senior FX Dealer, Economics
+675 322 3250
Borab@anz.com

Vincent Conti
Analyst
+65 6216 1918
Vincent.Conti@anz.com

Graduate Trainees
Pay Shu Zhen
Isaac Thong

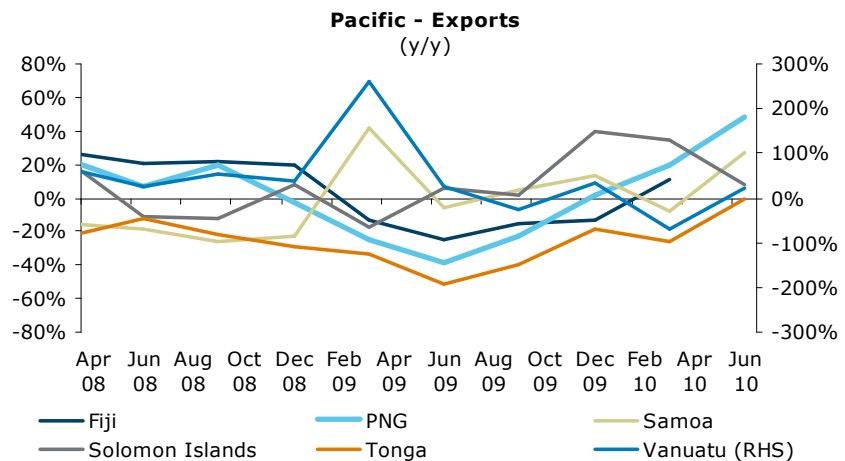
Research Interns
Daniel Wilson
Raj Gopalakrishnan

HIGHLIGHTS

- The recovery in the Pacific has lagged the recovery elsewhere in Asia, reflecting both domestic and external developments. On average, the region's resource-dependent economies are out-performing.
- As a result, we have marked down our GDP growth forecasts, which have been extended through 2012, for most countries compared with our last *Pacific Quarterly* released in August.
- Pacific currencies have been "pulled both ways" lately, strengthening against the US dollar whilst weakening against the Australian dollar. Overall, the impact has been small, and mixed.

CHART OF THE QUARTER

PACIFIC EXPORTS GAINED PACE IN Q2



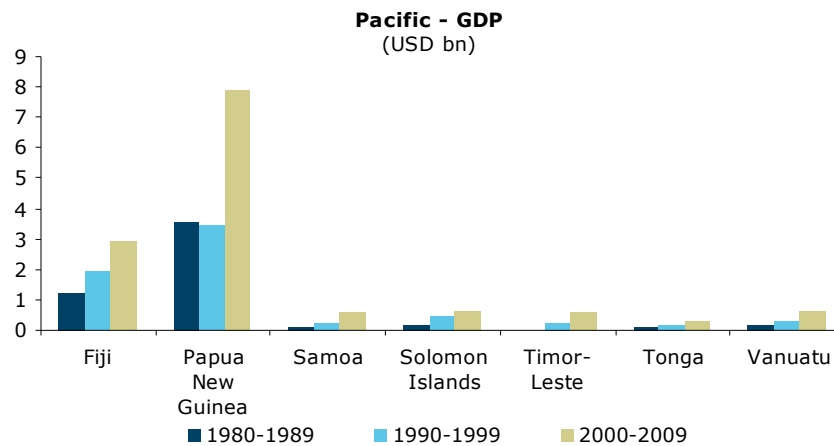
Source: Regional central banks, ANZ Economics

FEATURE NOTE

WHO'S THE PACIFIC POWERHOUSE NOW?

In this note we look at how relative economic power has evolved in the Pacific in recent decades as well as what lies ahead. While PNG has moved into a clear leadership position in terms of the size of its economy, far surpassing Fiji, its lead is not so obvious on a per capita basis. Indeed, PNG continues to lag most of the region in this regard. Focusing on the future of the two largest economies in the region, wise management of the LNG project should help PNG increase its GDP lead and close the per capital income gap with Fiji.

Papua New Guinea's economy dominates the Pacific in terms of sheer size (see chart below). Moreover, the lead over Fiji, the only Pacific economy that is anywhere close to approaching PNG's GDP, appears to be increasing. The just-completed decade has seen this gap between PNG and the rest of the region widen in terms of nominal GDP as well as percentage of Pacific GDP. With a GDP of nearly \$8 billion in 2009, PNG accounts for 60% of the region's GDP measured by the seven economies in our sample; Fiji's GDP is nearly \$3 billion. The GDP of each of the remaining economies in the sample is less than \$1 billion.



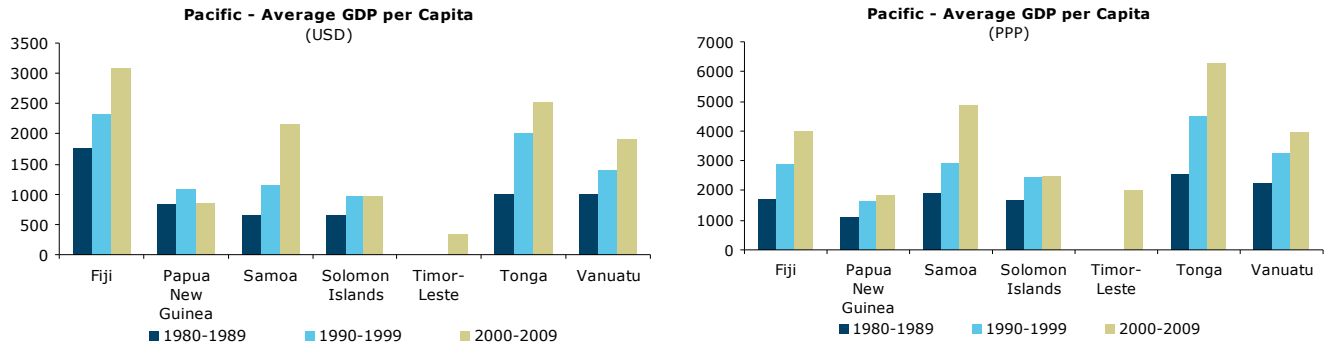
However, for a meaningful comparison of individual well-being, economic size needs to be adjusted for population. And in the Pacific, population clearly matters. Not surprisingly, PNG again leads the pack with about two-thirds of the region's population of 9.4 million in 2009. This ratio has held fairly steady over the past few decades. Timor-Leste comes next with a population of 1.1 million with all other countries having less than one million inhabitants.

Our story therefore changes dramatically when we move from the sheer size of each economy in the region to measuring GDP on a per capita basis (see charts overleaf):

- At market exchange rates (which equilibrate the prices of traded goods only), Fiji retains its historical leadership position in the Pacific. Again using 2009 data, Fiji's per capita GDP was over \$3300, slightly ahead of Samoa and Tonga, and two-and-a-half times larger than PNG. Indeed, in GDP per capita terms, Fiji has led the region over our entire three-decade sample.
- On a purchasing power parity basis (that is, using the exchange rate consistent with equal prices of all goods on average), the picture is even more interesting. Here, Tonga is the clear regional leader with a per capita GDP exceeding \$7000, a position it has held over our entire sample period. On this measure Fiji comes out in the middle of the pack whilst PNG is last in our sample with a per capita GDP of less than one-third of Tonga's.¹

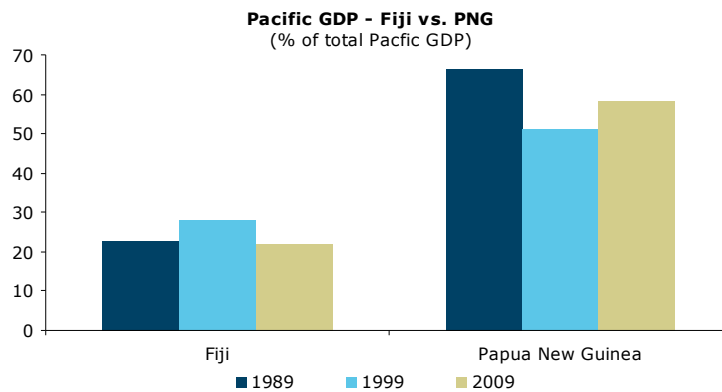
¹ A clear implication of this analysis is that Tonga's exchange rate is relatively undervalued.

FEATURE NOTE



Sources: IMF, ANZ Economics

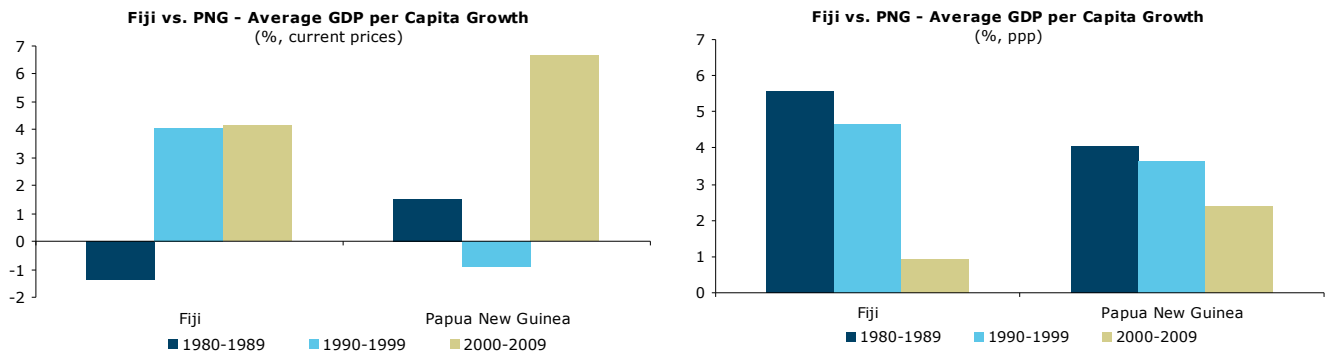
We now turn to the question of how the relative economic power of the Pacific’s “big two” might evolve. As noted above, PNG and Fiji comprise most of the region’s GDP, and their relative fortunes have ebbed and flowed over the years. But their collective share of Pacific GDP has remained at around 80% (see chart). To gauge how things might play out, we will look at where we have been and then project GDP growth for the new decade.



Sources: IMF, ANZ Economics

PNG has outperformed Fiji on both an absolute and per capita basis over the past decade. The per capita measure is particularly important since it is closely linked to productivity, which the economic growth literature shows is the only thing that matters over the longer run. Of note, PNG has outperformed Fiji independent of whether per capita growth is measured on a current price or purchasing power parity basis. Interestingly, these two measures give opposing trends for the pattern of growth, the USD measure showing increasing growth whilst the purchasing power parity measures showing decreasing growth.

FEATURE NOTE



Sources: IMF, ANZ Economics

Going forward, in our baseline scenario we think that PNG will continue to outperform Fiji and thereby bolster its dominance in the Pacific:

- PNG has the benefit of a natural resource boom. As we have argued elsewhere,² the LNG project has the potential, if properly managed, to significantly boost incomes and wealth over the coming decade. Indeed, double digit growth is possible in the near term.
- Fiji, on the other hand, is likely to continue to struggle with low, single digit growth. The opportunities exist (tourism, call centres, non-traditional exports), but there is a need to improve transparency and governance, and to take steps toward restoring flows relating to foreign investment, capital and profits, and remittances.

PER CAPITA GDP GROWTH FORECASTS

| | 2010 | 2020 |
|----------|-------|-------|
| PNG | 1,247 | 2,105 |
| FIJI | 3,337 | 3,871 |
| PNG/FIJI | 37% | 54% |

Sources: IMF, ANZ Economics

As a result of these diverging fortunes, we think that PNG will be able to make significant progress in closing the per capita income gap between 2010 and 2020. For example, assuming that (i) population growth of the previous decade is maintained (at 2½% for PNG and 1% for Fiji) and (ii) real GDP growth will pick up to a range of 7½% to 8½% in PNG and remain at 2% to 3% for Fiji, then per capita income would rise by 61% to 77% over the decade in PNG and only 10% to 21% in Fiji. In terms of relative per capita incomes, using the mid-point of these ranges, PNG would rise from 37% of Fiji's level now to 54% of Fiji's projected 2020 level.

Paul Gruenwald
Isaac Thong
Dan Wilson

² See "Papua New Guinea: LNG project = High growth (+ High inflation?)," October 2010.

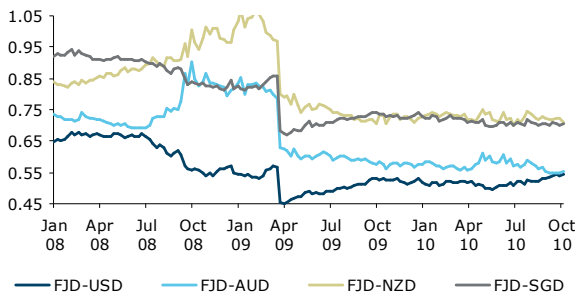
FINANCIAL MARKET UPDATE

PACIFIC CURRENCY CROSSES SAW MIXED RESULTS IN OCTOBER 2010

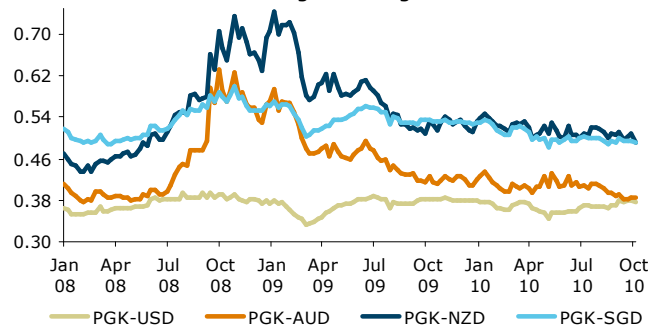
The FJD, PGK and WST have strengthened most recently against the US dollar whilst the other Pacific currencies weakened. Vanuatu's vatu suffered most with a 3.7% decline against the US dollar.

The FJD, PGK and WST depreciated against the Australian and New Zealand dollar over the past month. The Australian dollar continues to outperform other global currencies supported by interest rate differentials, commodity prices and generally strong fundamentals.

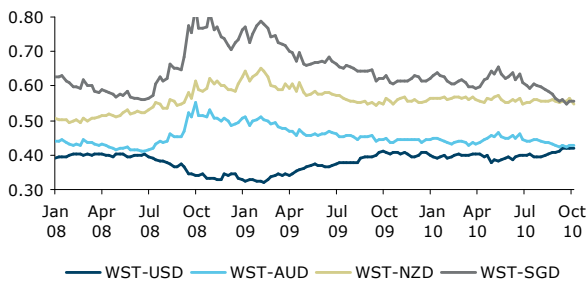
Fiji - Foreign exchange rates



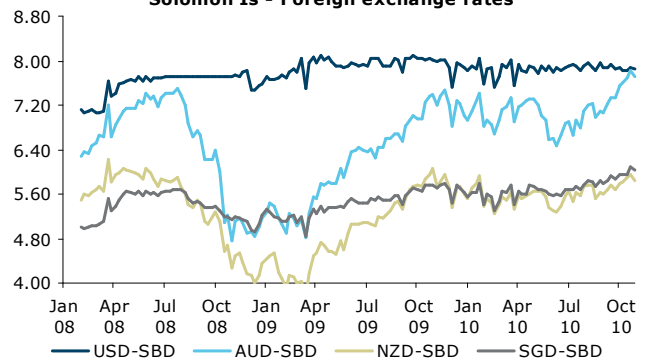
PNG - Foreign exchange rates



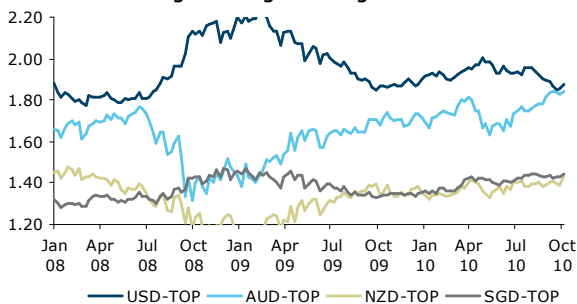
Samoa - Foreign exchange rates



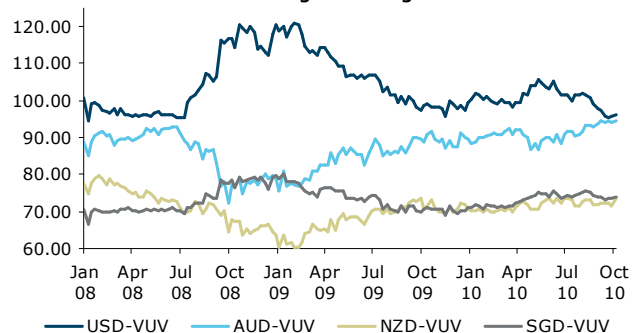
Solomon Is - Foreign exchange rates



Tonga - Foreign exchange rates



Vanuatu - Foreign exchange rates



FX AND POLICY INTEREST RATES

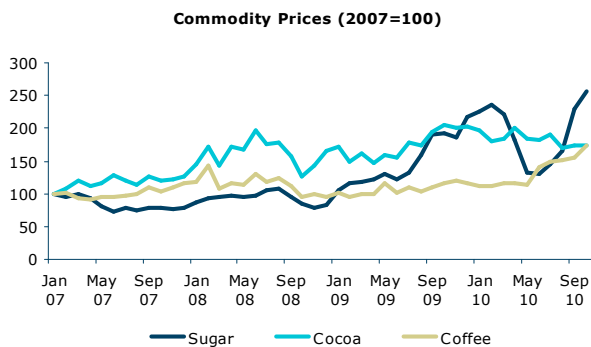
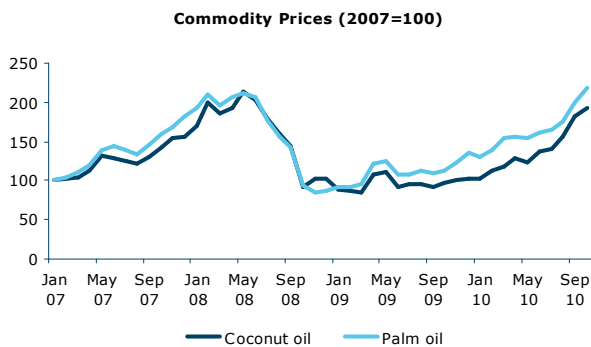
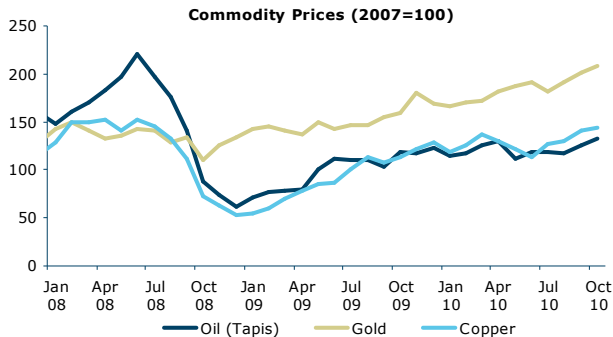
FX AND POLICY INTEREST RATE FORECASTS

| | | CURRENT | DEC 10 | MAR 11 | JUN 11 | SEP 11 | DEC 11 | MAR 12 | JUN 12 |
|---------------------|-----------------------|---------|--------|--------|--------|--------|--------|--------|--------|
| FIJI | FJD-USD, eop | 0.541 | 0.529 | 0.528 | 0.541 | 0.548 | 0.538 | 0.530 | 0.522 |
| | FJD-AUD, eop | 0.554 | 0.557 | 0.562 | 0.552 | 0.548 | 0.549 | 0.552 | 0.555 |
| | Overnight Policy Rate | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| PAPUA NEW GUINEA | PGK-USD, eop | 0.377 | 0.369 | 0.367 | 0.378 | 0.385 | 0.378 | 0.372 | 0.366 |
| | PGK-AUD, eop | 0.386 | 0.388 | 0.390 | 0.386 | 0.385 | 0.386 | 0.388 | 0.389 |
| | Kina Facility Rate | 7.00 | 7.00 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| SAMOA | WST-USD, eop | 0.416 | 0.408 | 0.407 | 0.420 | 0.426 | 0.418 | 0.411 | 0.404 |
| | WST-AUD, eop | 0.426 | 0.430 | 0.433 | 0.429 | 0.426 | 0.427 | 0.428 | 0.430 |
| SOLOMON ISLANDS | USD-SBD, eop | 8.190 | 7.830 | 7.830 | 7.830 | 7.830 | 7.830 | 7.830 | 7.830 |
| | AUD-SBD, eop | 8.382 | 8.242 | 8.330 | 7.990 | 7.830 | 7.990 | 8.156 | 8.330 |
| TONGA | USD-TOP, eop | 1.861 | 1.801 | 1.785 | 1.852 | 1.888 | 1.849 | 1.812 | 1.776 |
| | AUD-TOP, eop | 1.905 | 1.896 | 1.899 | 1.890 | 1.888 | 1.887 | 1.888 | 1.889 |
| VANUATU | USD-VUV, eop | 98.0 | 98.5 | 99.3 | 96.2 | 94.7 | 96.2 | 97.7 | 99.3 |
| | AUD-VUV, eop | 95.74 | 93.56 | 93.33 | 94.23 | 94.66 | 94.23 | 93.79 | 93.33 |
| | Discount Rate | 6.00 | 6.00 | 6.00 | 6.25 | 6.25 | 6.50 | 6.50 | 6.50 |

Note: The source of FX data is Bloomberg. As the currencies are illiquid with wide bid/offer spreads, the rate published is only indicative.

COMMODITIES

COMMODITY MARKET DEVELOPMENTS



Commodity prices remained upbeat through most of October while the US dollar weakened as markets priced in the Fed's QE. Prices strengthened further after the FOMC meeting. Also supporting prices was the release of relatively positive US data.

- Commodity prices generally trended upward on the expectation of another round of QE by the Fed, modest US GDP growth and improved non-farm payroll data. However, China's surprise rate hike and uncertainty ahead of the FOMC meeting resulted in some choppy periods of trading.
- Crude oil prices exhibited less focus on fundamentals, tracking the falling US dollar inversely. The post FOMC period saw trading at around \$87/bbl, with markets expecting \$90/bbl sometime soon. The Atlantic hurricane season also supported prices.
- Gold remained strong, recording highs of \$1398/oz, as buying increased on positive sentiment after the Fed's QE announcement. We remain bullish on gold, as increasing inflation expectations, post-QE, will prompt further buying.
- Base metals were a mixed bag, at times strengthened by QE expectations, or held back by weaker Chinese metal imports. Tin and copper experienced the greatest rise due to supply curbs of tin in Indonesia and strikes by copper miners' in Chile. We remain optimistic about prices as weakness of the USD is expected to persist.

Raj Gopalakrishnan

| COMMODITY PRICE CHANGES | OIL (TAPIS) | GOLD | COPPER | COC. OIL | PALM OIL | SUGAR | COFFEE | COCOA |
|-------------------------|-------------|------|--------|----------|----------|-------|--------|-------|
| m/m % (nsa) | 5.8 | 3.9 | 2.3 | 5.9 | 10.4 | 11.7 | 11.1 | -0.6 |
| q/q % (nsa) | 12.0 | 15.1 | 12.6 | 36.2 | 32.5 | 78.2 | 15.4 | -9.5 |
| y/y % | 11.3 | 30.0 | 26.8 | 99.3 | 94.8 | 33.8 | 50.1 | -15.2 |

Source: Bloomberg

MACROECONOMIC FORECASTS

REAL GDP GROWTH (%)

| | 2010 | 2011 | 2012 |
|-------------|------|------|------|
| Fiji | 0.5 | 1.5 | 2.0 |
| PNG | 7.5 | 6.0 | 4.3 |
| Samoa | 2.7 | 3.7 | 4.2 |
| Solomon Is. | 3.6 | 6.0 | 8.5 |
| Timor-Leste | 9.8 | 8.5 | 8.0 |
| Tonga | -0.6 | 0.8 | 1.2 |
| Vanuatu | 3.8 | 4.0 | 4.1 |

NOMINAL GDP (US\$ bn)

| | 2010 | 2011 | 2012 |
|-------------|------|------|------|
| Fiji | 3.8 | 4.0 | 4.2 |
| PNG | 7.6 | 8.4 | 9.0 |
| Samoa | 0.6 | 0.6 | 0.6 |
| Solomon Is. | 0.6 | 0.7 | 0.8 |
| Timor-Leste | 0.6 | 0.7 | 0.8 |
| Tonga | 0.3 | 0.3 | 0.3 |
| Vanuatu | 0.7 | 0.7 | 0.8 |

INFLATION (%)

| | 2010 | 2011 | 2012 |
|-------------|------|------|------|
| Fiji | 3.5 | 3.0 | 3.0 |
| PNG | 7.0 | 8.0 | 7.0 |
| Samoa | 1.0 | 3.5 | 4.8 |
| Solomon Is. | 2.0 | 5.0 | 6.0 |
| Timor-Leste | 6.0 | 5.0 | 4.0 |
| Tonga | 3.8 | 4.2 | 4.6 |
| Vanuatu | 4.0 | 3.0 | 3.0 |

FISCAL BALANCE (% OF GDP)

| | 2010 | 2011 | 2012 |
|-------------|------|-------|------|
| Fiji | -4.0 | -3.2 | -2.6 |
| PNG | 2.1 | 0.2 | 1.2 |
| Samoa | -7.0 | -10.2 | -6.5 |
| Solomon Is. | -1.9 | -2.8 | -3.5 |
| Timor-Leste | -1.0 | -1.0 | -1.3 |
| Tonga | -4.0 | -2.5 | -2.0 |
| Vanuatu | -0.1 | 0.2 | 0.2 |

CURRENT ACCOUNT BALANCE (% OF GDP)

| | 2010 | 2011 | 2012 |
|-------------|-------|-------|-------|
| Fiji | -14.0 | -12.0 | -10.5 |
| PNG | -59.5 | -48.7 | -32.8 |
| Samoa | -9.1 | -13.4 | -8.8 |
| Solomon Is. | -23.0 | -25.0 | -26.0 |
| Timor-Leste | 223.8 | 188.4 | 178.6 |
| Tonga | -18.6 | -20.0 | -19.1 |
| Vanuatu | -2.4 | -4.0 | -4.5 |

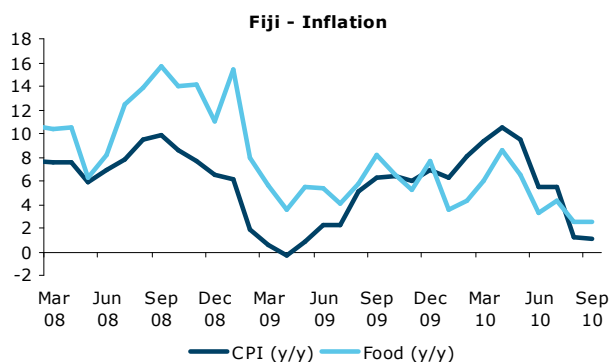
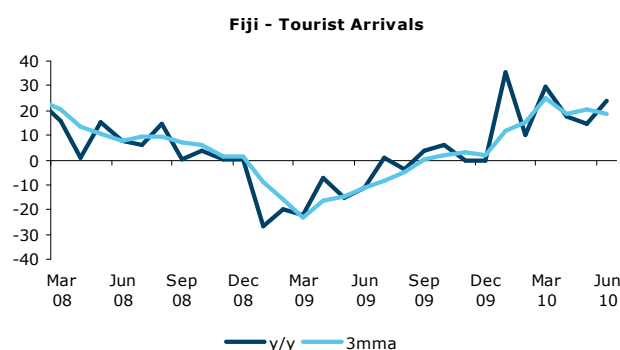
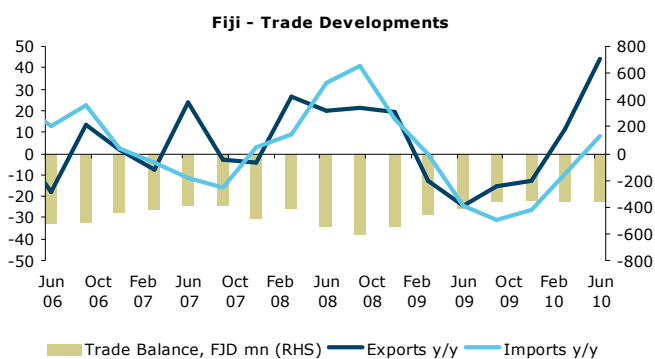
FOREIGN EXCHANGE RESERVES (US\$MN)

| | 2010 | 2011 | 2012 |
|-------------|-------|-------|-------|
| Fiji | 630 | 600 | 575 |
| PNG | 2,963 | 3,090 | 3,197 |
| Samoa | 219 | 254 | 286 |
| Solomon Is. | 225 | 255 | 275 |
| Timor-Leste | 250 | 275 | 300 |
| Tonga | 88 | 85 | 80 |
| Vanuatu | 145 | 150 | 155 |

Sources: Fiji: Reserve Bank of Fiji, ANZ Economics. PNG: Department of Treasury, Bank of PNG, ANZ Economics. Samoa: IMF, Central Bank of Samoa. Solomon Islands: IMF, Central Bank of Solomon Islands, ANZ Economics. Timor-Leste: ADB, WEO, ANZ Economics. Tonga: IMF, ADB. Vanuatu: IMF, Reserve Bank of Vanuatu, ANZ Economics

COUNTRY UPDATES

FIJI



The recovery is turning out to be weaker than expected. Activity in the tourism and mining sectors continues to pick up, but sugar production has weakened due to a prolonged drought. Reflecting soft demand, inflation and the balance of payments have both improved. Growth forecasts will be revised downward.

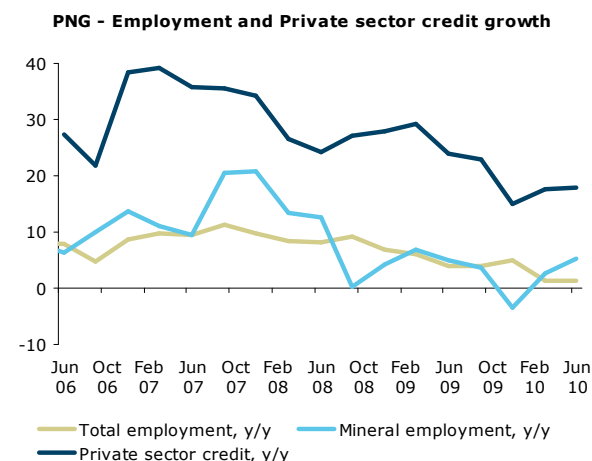
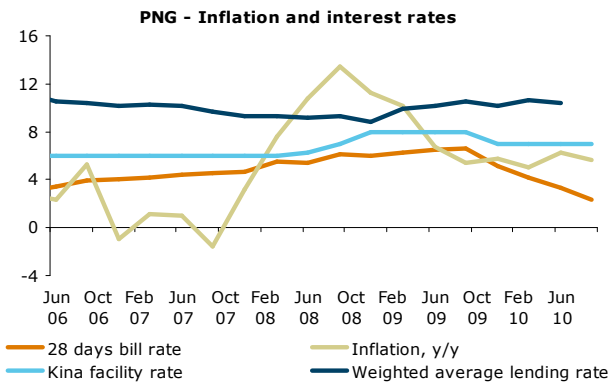
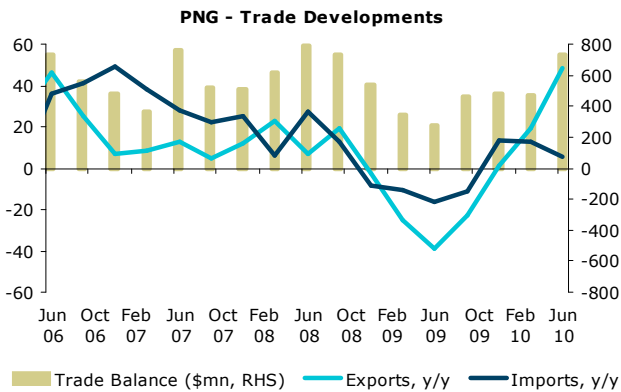
- Despite some bright spots, output growth is weakening overall. Sugar and cane production are down 9.1% (y/y) and 13.9%, respectively, through Sep. On the positive side, gold production through Sep more than doubled from last year, whilst tourist arrivals were up 19.4% through Jul.
- Consumption is improving, albeit modestly. VAT collections in real terms rose by around 7% through Sep. This has been partially supported by stronger remittances, which rose 6.6% on the same basis. Consumption lending by banks eased to 3.5% (y/y) growth in Sep from 8.5% in Aug.
- Investment remains subdued. Imports of investment goods fell by 5.1% (y/y) in Jun whilst the growth of bank lending for investment declined by 5ppts to 4.4% in Aug.
- The trade account improved markedly in H1. Export earnings rose by 23.7% (y/y) while imports were flat. Foreign reserves are currently equivalent to around four months of imports.
- Inflation continues to decline. Prices rose by just 1.1% (y/y) in Sep, marginally lower than Aug and well below the 6.3% rate of one year ago. Food price inflation in Sep was unchanged at 2.5%.
- The Fiji dollar has been broadly unchanged over the past year in nominal effective terms. This largely reflects the offsetting effects of a stronger Australian dollar and a weaker US dollar. In real effective terms, the Fiji dollar is starting to decline (become more competitive) given falling inflation relative to its main trading partners.
- Looking forward, it appears that the 1.8% growth target for 2010 will not be met. Over the medium term, growth is likely to remain below trend as long as the investment environment remains unresolved.

Paul Gruenwald

| QUARTERLY ECONOMIC DATA | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 | SEP 10 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Consumer Price Index, % y/y | 6.6 | 0.5 | 2.3 | 6.3 | 6.8 | 9.4 | 5.5 | 1.1 |
| Domestic Credit, % y/y | 4.8 | 4.9 | 3.8 | 4.2 | 4.1 | 5.4 | 2.9 | 1.6 |
| Exports, % y/y | 19.6 | -13 | -19.2 | -15.5 | -13.0 | 11.1 | 23.7 | N/A |
| Imports, % y/y | 16.1 | -0.2 | -24.4 | -31.1 | -26.2 | -9.6 | 10 | N/A |
| Trade Balance, US\$m | -310 | -252 | -203 | -184 | -182 | -186 | -190.2 | N/A |
| Foreign Exchange Reserves, US\$m | 317 | 241 | 318 | 523 | 568 | 557 | 561 | 639 |

Sources: Reserve Bank of Fiji, ADB, IMF

PAPUA NEW GUINEA



Activity continues to pick up with high commodity prices supporting the trade sector. Inflation eased further below the authorities target in Q3, providing some scope for a policy rate cut.

- Employment grew by 1.3% (y/y) in Q2, equalling Q1's result. Growth was broad-based and led by the construction sector. Mineral sector employment grew by 5.2% in Q2, compared with 2.6% in Q1.
- Private sector credit grew by 17.9% (y/y) in Q2, up slightly from 17.6% in Q1.
- The trade surplus rose to US\$733mn in Q2 from US\$471mn in Q1. Exports rose by 48.4% (y/y) in Q2, whilst imports grew by 5.6%.
- The balance of payments in H1 registered a PGK534mn surplus. A deficit in the current account of PGK216 (stemming from a large services deficit) was more than offset by a large capital account surplus.
- Inflation eased to 5.6% (y/y) in Q3 from 6.2% in the previous quarter. The decline was broad based.
- The central bank slashed the minimum liquid asset ratio by 250bps to 0% and increased the cash reserve requirement by 100bps to 4% in October due to high liquidity conditions. The policy approach eased some downward pressure on central bank bill rates and wholesale deposit rates.
- The weighted average lending rate increased from 10.2% in Dec 09 to 10.4% in Jun 10. Commercial bank indicator lending rates remained unchanged at 10.95% to 11.95% for the year to September.
- Preliminary estimates showed the government's fiscal operations produced a surplus of PGK101.3m in H1 driven by higher tax revenue and foreign grants.
- Inflation came in below the central bank's target of 7% for 2010; however, the continued strengthening of Australian dollar poses an upside risk for inflation through the import channel. Meanwhile, a reduction in the policy rate is possible in the near term should inflation pressures remain contained.

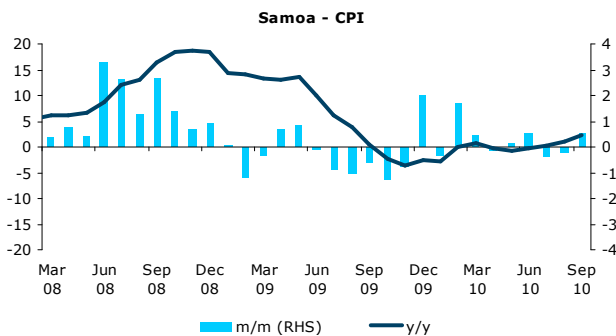
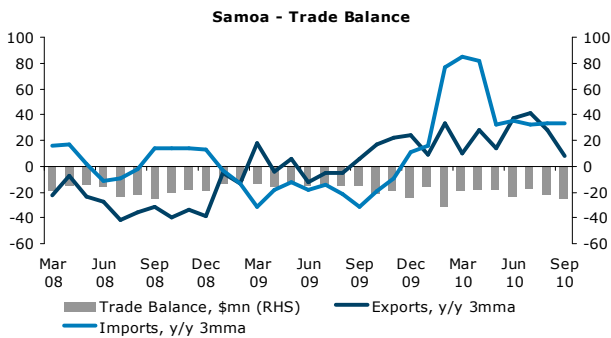
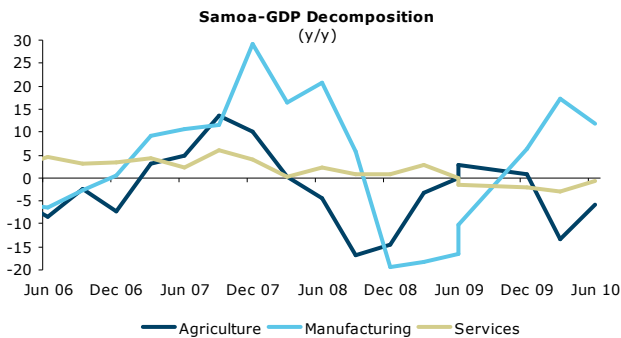
Bora Bedamu Jr

| QUARTERLY ECONOMIC DATA | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 | SEP 10 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Employment index, % y/y | 6.7 | 6.1 | 3.9 | 4.0 | 5.0 | 1.3 | 1.3 | N/A |
| Consumer Price Index, % y/y | 11.2 | 10.1 | 6.7 | 5.3 | 5.7 | 5.0 | 6.2 | 5.6 |
| Exports, % y/y | -2.6 | -25.2 | -38.9 | -22.9 | 1.3 | 19.4 | 48.4 | N/A |
| Imports, % y/y | -8.3 | -10.3 | -16.4 | -11.1 | 13.7 | 12.8 | 5.6 | N/A |
| Goods Balance, US\$m | 560 | 355 | 281 | 455 | 484 | 471 | 733 | N/A |
| Official Reserves, US\$m | 2,093 | 1,950 | 2,283 | 2,321 | 2,604 | 2,372 | 2,581 | 2,802 |

Sources: Bank of Papua New Guinea, National Statistics Office, ANZ Economics



SAMOA



Q2 GDP growth quickened 0.9ppts to 2.2% (y/y). Domestic demand indicators rebounded in Sep on a strong turnaround of tourist earnings and remittances from the previous year. External demand declined again while inflationary pressures have started to build.

- GDP growth picked up to 2.2% (y/y) in Q2 from a 1.3% increase in Q1, as output from manufacturing slowed. On a q/q basis, GDP rebounded, rising 0.4% after a 3.7% decline in Q1.
- Tourist arrivals bounced back, increasing by 14.3% (y/y) in Sep, from an 8.3% fall in Aug. On a m/m basis, arrivals rose 3.9% after falling 16.1% in Aug, with an increase in arrivals from Australia and New Zealand coinciding with the one-year anniversary of the Pacific tsunami. Total tourism earnings climbed by 16.6% in Sep compared with a fall of 8.5% in Aug.
- Private remittances strengthened, rising 24.6% (y/y) in Sep compared with a 1.5% decline in Aug. However, remittance numbers fell 5.5% (q/q) in Sep following a 1.9% decrease in the previous month.
- Exports have been hit hard, contracting by 27.3% (y/y) in Sep from a 0.4% decline in Aug. This was largely attributed to a 35% fall in shipments of fresh fish. Meanwhile, imports rose 47.7% in Sep, up from a 35.6% increase in the previous month. As a result, the trade deficit climbed to WST60.9mn.
- CPI inflation rose to 2.2% (y/y) in Sep compared with 1.1% in Aug. Consumer prices were driven mainly by rising food prices. Broad gains were posted across other commodity sub-indices. Despite rising price pressures, current inflation remains well below the double-digit levels seen in 2009.
- Growth should remain subdued this year as external demand looks likely to remain flat going forward. We expect FY2010 GDP growth of under 3%, reflecting our expectations for a slight pick up in growth during H2. Domestic demand has shown signs of improving while inflation pressures should continue to build.

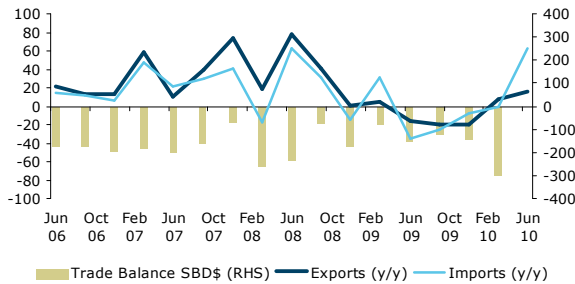
Isaac Thong

| QUARTERLY ECONOMIC DATA | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 | SEP 10 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Consumer Price Index, % y/y | 18.5 | 13.3 | 10.0 | 0.5 | -2.5 | 0.7 | -0.3 | 2.2 |
| M2, % y/y | 5.8 | 18.2 | 7.7 | 6.9 | 9.1 | 9.0 | 11.1 | 12.0 |
| Exports, % y/y | -45.2 | 47.8 | -5.6 | 26.6 | 33.8 | -33.7 | 35.2 | -23.9 |
| Imports, % y/y | 22 | -32.5 | -6.2 | -37.5 | 22.7 | 44.7 | 55.1 | 54.5 |
| Trade Balance, US\$m | -19.8 | -12.9 | -15.1 | -15.6 | -24.2 | -19.3 | -23.7 | -25.2 |
| Foreign Exchange Reserves, US\$m | 81.3 | 84.8 | 100.4 | 124.5 | 144.5 | 140.1 | 159.5 | 191.8 |

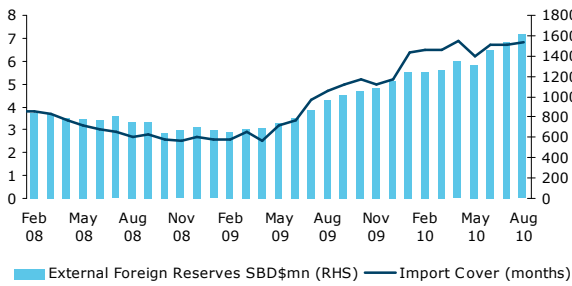
Source: The Central Bank of Samoa

SOLOMON ISLANDS

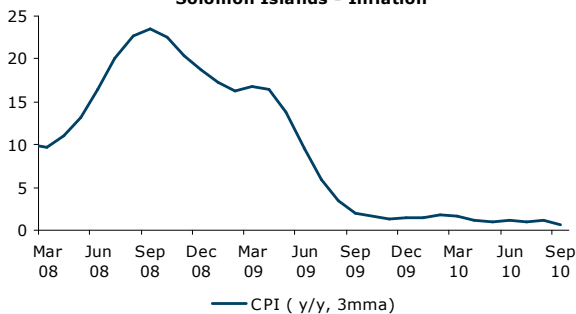
Solomon Islands - Merchandise Trade
(Quarterly)



Foreign Reserves & Import Cover



Solomon Islands - Inflation



The economy has rebounded on the back of strong agriculture and forestry output; however, the fishing sector has been quite weak. Inflation pressures remain benign. The central bank has lowered its 2010 growth forecast to under 4%.

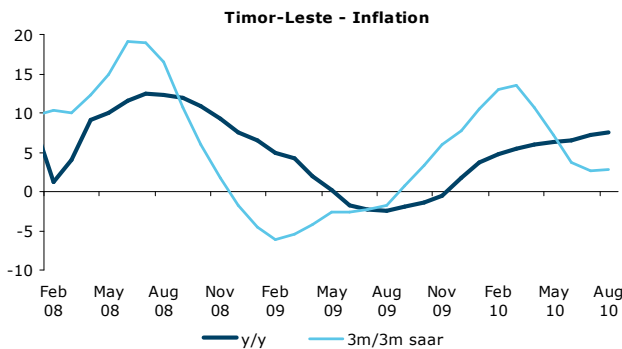
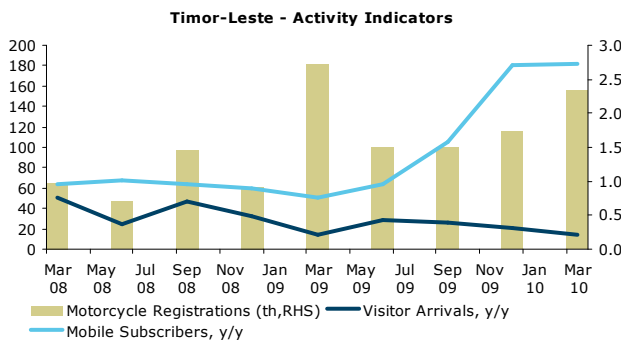
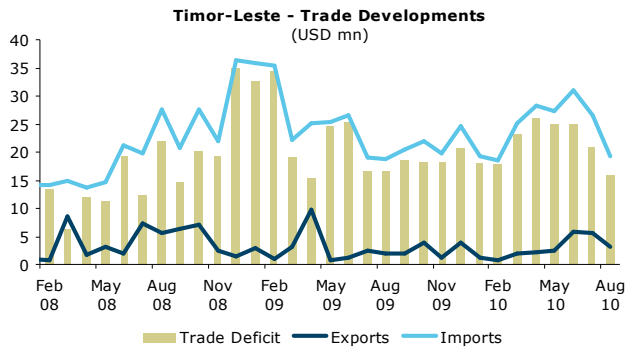
- Export receipts grew 5.5% (m/m) in Aug, due to increased shipments of copra, coconut oil, and palm oil. Meanwhile, imports rose 3.7% and the trade deficit was SBD101.9mn. Service receipts rose in Aug, while service payments and transfer receipts declined.
- Cocoa production has gained 6.0% since Q1, counteracting declines in the palm oil and copra sectors. Also, employment grew 3.5% in Q2.
- Total domestic credit advanced 1.4% (m/m) in Oct, but in year on year terms, decreased 16.1%. Net credit to the private sector declined 3.3% (m/m).
- Inflation was at 0.7% (3mma) in Sep, down from 1.0% in Aug. The downward trend in prices was caused by a fall in imported inflation with food prices falling 7.0% in Q2. The domestic component remained unchanged.
- External reserves rose 5.2% (m/m) to SBD1715.0mn as at 20 Oct 20. Reserves are sufficient to cover nearly seven months of imports.
- Total government debt outstanding grew 1.4% (q/q) in Q2 to SBD1401.5mn compared with a drop of 2.8% in the last quarter.
- The central bank, in its H2 outlook, revised down its 2010 GDP growth forecast to under 4%. The revision was based on an expected contraction of 9% in the country's third largest industry, fishing, due to weak catch figures in Q2. This will dampen an expected rise in logging production. Government spending is expected to provide some offset.

Dan Wilson

| QUARTERLY ECONOMIC DATA | SEP 08 | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Domestic Credit, % y/y | 56.6 | 47.8 | 17.1 | 11.9 | 0.60 | -5.3 | -8.3 | -6.7 |
| Consumer Price Index, % y/y | 23.5 | 19.4 | 17.2 | 9.4 | 2.0 | 1.3 | 1.6 | 1.0 |
| Exports, % y/y | 40.7 | 0.2 | 4.6 | -29.8 | -20.5 | -27.8 | 1.5 | 35.3 |
| Imports, % y/y | 30.8 | -14.9 | 31.2 | -35.8 | -25.7 | -7.3 | -0.8 | 62.8 |
| Trade Balance, SBD mn | -206.9 | -165.5 | -248.2 | -185.6 | -202.7 | -225.4 | -277.0 | -300.2 |
| Foreign Exchange Reserves, US\$m | 127.8 | 117.9 | 100.8 | 98.2 | 93.3 | 144.0 | 156.0 | 183.9 |

Source: The Central Bank of Solomon Islands

TIMOR-LESTE



Monetary conditions and trade indicators provided further signals of moderation. Export figures have eased from the triple-digit growth of previous months. Meanwhile, inflation has picked up again despite the declining money supply, while credit shrank and non-performing loans inched up.

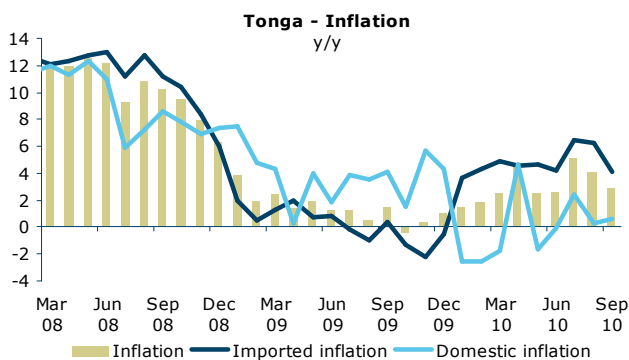
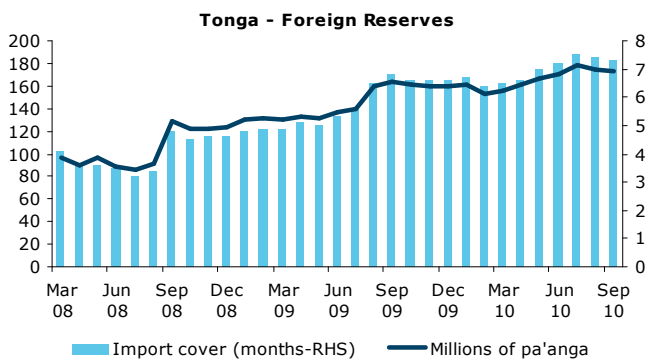
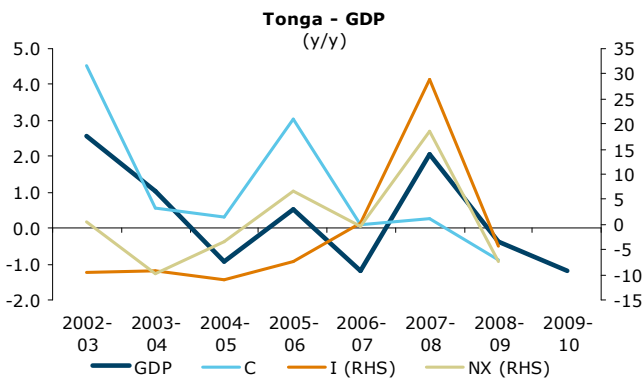
- Exports rose 59.8% (y/y) in Aug, down from the triple-digit growth of the previous three months. However, re-exports, which account for most of total exports, grew 153.3%. Import growth fell to 2.8% in Aug from 39.9% previously.
- Outstanding credit to the private sector declined by 6.0% (y/y) in Q3 from a rise of 2.4% previously. On a q/q basis, outstanding loans fell 2.8%. Meanwhile, the ratio of non-performing loans to total outstanding loans rose to 43.9% in Q3 compared to 41.9% in Q2.
- Broad money continued its decline, with growth falling to 10.5% (y/y) in Sep from 21.4% in Aug. On a m/m basis, broad money fell by 1.1% from a 2.3% increase previously.
- Inflation rose to 7.6% (y/y) in Aug, up from 7.3% in Jul. Inflation also picked up momentum, inching up to 2.8% (3m/3m, saar) in Aug. The increase was mostly due to food items. Full Q3 figures were not available at publication.
- Key indicators continue to point towards a moderation of growth: Trade and credit growth has eased or declined in recent months and activity indicators, such as visitor arrivals and electricity consumption, have shown slower Q1 growth. Declining credit to the private sector also provides a signal of a further moderation going forward. Meanwhile, price pressures have resumed due to price rises in food items, despite the cooling economy and declining money supply.
- Despite these key indicators, we expect output growth will receive a renewed boost from expected increases in own-funded government expenditures on capital formation and wages as well as upwardly revised GDP estimates for 2009. Therefore, we have revised our GDP forecasts for 2010-2012 upwards.

Vince Conti

| QUARTERLY ECONOMIC DATA | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 | SEP 10 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Mobile Subscribers, % y/y | 59.8 | 50.9 | 63.3 | 105.5 | 180.7 | 181.8 | N/A | N/A |
| Visitor Arrivals, % y/y | 32.7 | 14.6 | 29.1 | 25.6 | 21.0 | 14.1 | N/A | N/A |
| Consumer Price Index, % y/y | 6.1 | 2.8 | -2.8 | -1.7 | 1.1 | 3.7 | 2.5 | N/A |
| Exports, US\$m | 11.3 | 7.0 | 12.0 | 6.3 | 9.2 | 3.9 | 10.4 | N/A |
| Imports, US\$m | 85.7 | 93.2 | 77.2 | 58.3 | 66.4 | 62.8 | 86.5 | N/A |
| Trade Balance, US\$m | -74.4 | -86.2 | -65.2 | -52 | -57.2 | -59 | -76.1 | N/A |

Source: National Directorate of Statistics, Banking and Payments Authority of Timor-Leste

TONGA



The latest GDP readings showed economic growth contracting further due to weakening remittances, tourism receipts and delays in public infrastructure spending. Uncertainty remains high due to the fragile global recovery.

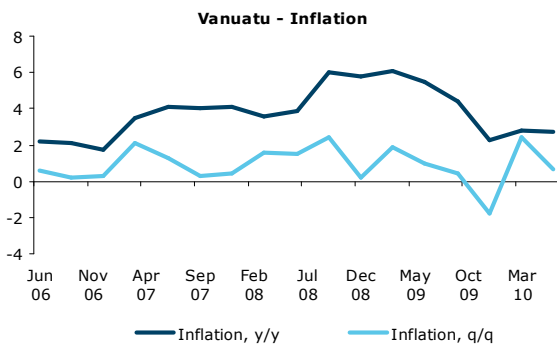
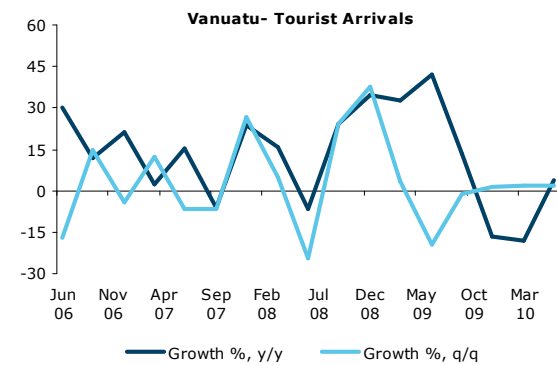
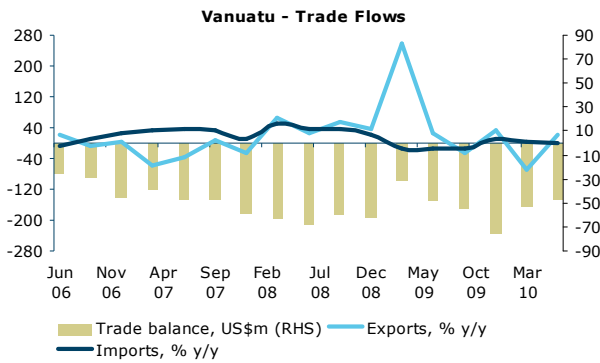
- GDP contracted by 1.2% (y/y) for the fiscal year 2009/10 (ending Jun) from a 0.4% decline in 2008/09. The two consecutive years of negative growth was due to the global financial crisis, domestic banks consolidating their balance sheets, and adverse weather conditions.
- Tourist receipts fell 9.2% in Jul following a 5.5% decline in Jun. Meanwhile, private remittances rose marginally in Aug to TOP156.6mn, but growth remained negative at 5.8% on an annual basis.
- External trade remained weak in Aug. Exports plunged 10.0% (y/y) from a 2.2% decline in Jul. Meanwhile, imports declined 12.3% from a decline of 20.5% previously.
- Inflation moderated in Sep to 2.9% (y/y) from 4.2% in Aug, driven by a decline in housing prices. On a m/m basis, the CPI rose 0.2% from 0.6% in Aug. Meanwhile, imported inflation continued to rise in Aug, albeit at a slower rate than Jul.
- Private sector credit growth remained subdued and continued to decline in Aug, falling 11.9% (y/y) compared with a 15.4% decrease in Jul. Credit growth to households and businesses remained sluggish, falling 3.8% and 19.3%, respectively.
- Foreign reserves fell by 0.8% (m/m) to TOP172.7 in Sep (equal to 7.3 months of imports) due to capital outflows.
- The hard landing in Tonga underpinned the economy's vulnerability to external shocks due to reliance on remittances and imported goods. The slow US recovery will inevitably affect Tonga's economy as it is the main source of remittances.
- Tongans will go to the polls on Nov 25. Under a new electoral system, the number of directly elected representatives will increase significantly.

Shuzhen Pay

| QUARTERLY ECONOMIC DATA | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 | SEP 10 |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Consumer Price Index, % y/y | 6.4 | 2.4 | 1.2 | 1.6 | 1.1 | 2.5 | 2.6 | 2.9 |
| Private Sector Credit, % y/y | 10.1 | 5.8 | -2.3 | -5.3 | -8.2 | -10.9 | -14.0 | N/A |
| Exports, % y/y | -9.1 | 15.4 | -63.3 | 14.6 | -3.3 | -10.0 | -1.5 | N/A |
| Imports, % y/y | 0.8 | -2.8 | -15.7 | -20.3 | 2.0 | -7.2 | -2.1 | N/A |
| Trade Balance, US\$m | -34.9 | -28.7 | -33.3 | -36.3 | -40.2 | -30.1 | -34.4 | N/A |
| Foreign Exchange Reserves, US\$m | 58.0 | 60.3 | 67.7 | 85.0 | 84.8 | 81.1 | 87.4 | 91.5 |

Sources: Ministry of Finance, National Reserve Bank of Tonga, Tonga Department of Statistics, ANZ Economics

VANUATU



Growth remained modest in the Jun quarter, driven by improvements in tourism, exports and the construction sector. However, the overall weakness in tourism and delays in implementation of infrastructure projects caused the authorities to further lower their growth forecast for the year.

- The tourism sector showed improvement in Q2, with total visitor arrivals rising by 3.7% (y/y) after posting a 17.9% decline in Q1. On a q/q basis, visitor arrivals rose by 1.8% on an increase in air arrivals.
- Trade data in Q2 improved from Q1, with exports increasing 21% (y/y), boosted by a surge in agricultural commodity prices. Copra and coconut oil exports were the top performers, while kava, cocoa and beef exports also saw respectable increases. Meanwhile, imports posted a decline of 0.9%. Overall, the Jun trade balance posted a deficit of \$46.4mn.
- CPI inflation rose by 2.7% (y/y) in Q2, marginally lower than in Q1, as food inflation eased. On a q/q basis, inflation rose by 0.7% in Q2, down from 2.4% in Q1.
- Private sector credit grew 3.7% (q/q) in Q2, driven mainly by a surge in personal lending to the real estate sector. Construction lending saw a modest increase while credit to other sectors contracted.
- Money supply contracted by 7.3% (y/y) in Aug, due to a decline in both net foreign assets and domestic credit.
- The government's budget recorded a deficit of VUV317.2mn in Q2, following a surplus of VUV228.9mn in Q1, as recurrent and tax revenues declined. An increase in supplementary budget expenditure also widened the shortfall.
- The Macroeconomic Committee revised down its 2010 real GDP growth forecast from 4.1% to 3.6%, mainly due to slower growth in the tourism sector and delays and postponement of projects. Although growth may be lower than 4% this year, we expect a pick up in tourism, exports and construction going forward.

Raj Gopalakrishnan

| QUARTERLY ECONOMIC DATA | SEP 08 | DEC 08 | MAR 09 | JUN 09 | SEP 09 | DEC 09 | MAR 10 | JUN 10 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| CPI (y/y) | 6.0 | 5.8 | 6.1 | 5.5 | 4.4 | 2.3 | 2.8 | 2.7 |
| Tourist (thou) | 46.3 | 63.6 | 65.6 | 52.9 | 53.9 | 53.0 | 53.9 | 54.8 |
| Exports (% y/y) | 54.7 | 36.5 | 259.8 | 26.9 | -29.8 | 28.3 | -68.0 | 21.0 |
| Imports (% y/y) | 36.7 | 23.5 | -14.8 | -16.3 | -14.7 | 9.8 | 2.8 | -0.9 |
| Trade Bal (\$mn) | -59.4 | -61.8 | -31.0 | -48.0 | -55.0 | -72.6 | -52.6 | -46.4 |
| FX reserves (\$mn) | 117.7 | 114.1 | 106.9 | 121.4 | 157.0 | 148.9 | 151.8 | 152.0 |

Sources: Reserve Bank of Vanuatu, ANZ Economics

IMPORTANT NOTICE

Australia and New Zealand Banking Group Limited is represented in various countries including:

AUSTRALIA

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands,
 Victoria 3008, Australia
 Telephone +61 3 9273 5555 Fax +61 3 9273 5711

CHINA

Australia and New Zealand Bank (China) Company Limited
 15th Floor and Unit 12B, Mirae Asset Tower, 166 Lujiazui Ring Road,
 Pudong, Shanghai, 200120, People's Republic of China
 Telephone +86 21 6169 6000 Fax +86 21 6169 6199

HONG KONG

Australia and New Zealand Banking Group Limited
 Level 31, One Exchange Square, 8 Connaught Place, Central, Hong
 Kong
 Telephone +852 2176 8888

NEW ZEALAND

ANZ National Bank Limited
 Level 7, 1-9 Victoria Street, Wellington, New Zealand
 Telephone +64 4 802 2000

SINGAPORE

Australia and New Zealand Banking Group Limited
 1 Raffles Place, Level 46, One Raffles Place, Singapore 048616
 Telephone +65 6535 8355 Fax +65 6539 6111

UNITED KINGDOM

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
 Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA

ANZ Securities, Inc. (Member of FINRA (www.finra.org) and
 registered with the SEC)
 277 Park Avenue, 31 Floor, New York, NY 10172, United States of
 America
 Telephone +1 212 801 9160 Fax +1 212 801 9163

This document ("document") is distributed to you in your jurisdiction, Australia and the United Kingdom by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZ") and in New Zealand by ANZ National Bank Limited ("ANZ NZ"). ANZ holds an Australian Financial Services licence no. 234527 and is authorised in the UK and regulated by the Financial Services Authority ("FSA").

China. No action has been taken by any ANZ entity which would permit a public offering of any products or services of such an ANZ entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such an ANZ entity are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

Hong Kong. This document is distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered by the Hong Kong Securities and Futures Commission to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. In Hong Kong, this document may only be made available to "professional investors" in accordance with Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). Please note that the contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Japan. The information contained in this document is only for informational purposes. No information in this document constitutes a solicitation, an offer, or a recommendation or advice to buy or sell or not to buy or sell any product, instruments or investment, to effect any transactions, or to conclude any legal act of any kind whatsoever. When making any decision about your investments, you should seek the advice of a professional legal, tax and/or financial advisor.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with the distribution of this document in Singapore, contact the ANZ Chief Economist, Asia, with the contact details provided in this document.

Taiwan. This document is distributed in Taiwan by the Taipei branch of ANZ, which is registered as a bank and holds a securities investment consulting enterprise license issued by the Taiwan Financial Supervisory Commission. In Taiwan, this document may only be made available to ANZ customers who have requested or have consented to receive distribution of this document and who have entered into a securities investment consulting agreement with ANZ. The information contained in this document is only for informational purposes. No information in this document constitutes a solicitation, an offer, or a recommendation or advice to buy or sell or not to buy or sell any product, instruments or investment, to effect any transactions, or to conclude any legal act of any kind whatsoever. When making any decision about your investments, you should seek the advice of a professional legal, tax and/or financial advisor.

United Kingdom. This document is being distributed in the United Kingdom by ANZ solely for the information of its eligible counterparties and professional clients (as defined by the FSA). It is not intended for and must not be distributed to any person who would come within the FSA definition of "retail clients". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.



IMPORTANT NOTICE

United States. If and when the material accompanying this disclaimer is received by any US persons or other persons within the United States or its territories or possessions, the following statements are applicable: This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. Nothing in this document constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy. None of the services and products referred to in this document is intended for nor available to persons resident in any country, state and jurisdiction where it would be contradictory to local law or regulation to offer such services and/or product. Such local laws and regulations always apply with non-exclusive jurisdiction of local courts. The recipient should seek its own financial, legal credit, tax and other relevant advice and should independently verify the accuracy of the information contained in this document.

In addition, from time to time ANZ, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001 and any other applicable law), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The capabilities described herein are not necessarily available in all jurisdictions and the provision thereof is subject to licensing, regulatory and other limitations.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.