

14 December 2009 Highlights

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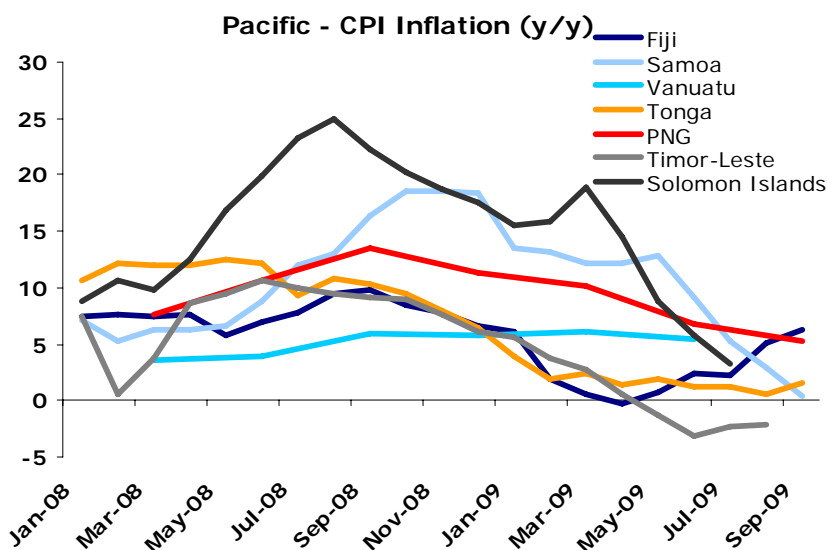
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- Inflation pressures remain generally benign across the region. The exception is Fiji, where the effects of the devaluation continue to drive inflation higher.
- Trade flows remain depressed with double-digit declines the norm in all countries reporting data this month.
- In contrast, tourism flows are starting to look better on a sequential basis, although the picture is far from uniformly bright across the Pacific.
- Pacific currencies have generally held steady against the USD over the past month, but have weakened against AUD.

Chart of the Month: Rising Inflation in Fiji Bucks the Regional Trend



Sources: Bloomberg, ANZ Economics

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Key Data Releases and Commentary

Inflation remained subdued with the exception of Fiji. Fiji's CPI rose 6.3% (y/y) in Oct, unchanged from Sep. However, the inflationary pressure deriving from the FJD devaluation still needs to be monitored in the coming months. PNG's Q3 CPI inflation slowed to 5.3% from 6.7% in Q2. At the same time, the CPI rose 4.4% in Vanuatu in Q3, 2ppt lower than Q1's 6.4%.

			Latest	Prev
Fiji	CPI (y/y)	Oct	6.3%	6.3%
PNG	CPI (y/y)	Q3	5.3%	6.7%
Vanuatu	CPI (y/y)	Q3	4.4%	6.4%

External trade flows remain depressed. Exports from the Solomon Islands fell 19.1% (y/y) in Oct, down from 0.6% in Sep on lower log and fish shipments. Timor-Leste's export contraction narrowed to 46.1% in Oct while Tonga's exports dropped 39.9% in Sep. Tonga Sep imports declined 19.4% from Aug's -9.8%.

			Latest	Prev
Solomon Islands	Exports (y/y)	Oct	-19.1%	0.6%
Timor-Leste	Exports (y/y)	Oct	-46.1%	-69.9%
Tonga	Exports (y/y)	Sep	-39.9%	-45.3%
Tonga	Imports (y/y)	Sep	-19.4%	-9.8%

Tourism and remittance developments were mixed. Fiji's tourist arrivals fell 11.4% (y/y) in Q2, following a 23.3% decline in Q1. Tonga's tourist receipts dropped sharply by 24.5%, after falling 19.6% in Aug. Meanwhile, Samoa's tourist arrivals rose 2.0% in Sep versus 9.0% in Aug. The tourism industry performed reasonably well in Timor-Leste, with tourism arrivals rising 25.6% in Q3. On the other hand, the Solomon Islands continue to benefit from the rising inbound remittances, with Oct transfer receipts climbing 28.1%. Tonga's remittances remained weak in Sep, falling 18.3% compared with a 15.8% decline in Aug.

			Latest	Prev
Fiji	Tourist Arrivals (y/y)	Q2	-11.4%	-23.3%
Samoa	Tourist Arrivals (y/y)	Sep	2.0%	9.0%
Timor-Leste	Tourist Arrivals (y/y)	Q3	25.6%	29.1%
Tonga	Tourist Receipts (y/y)	Sep	-24.5%	-19.6%
Solomon Islands	Transfer Receipts (y/y)	Oct	28.1%	33.4%
Tonga	Private Remittances (y/y)	Sep	-18.3%	-15.8%

Credit growth remains stable or declining slightly across the Pacific. Fiji registered credit growth of 3.5% (y/y) in Oct against a 4.5% rise in Sep. Bank lending in PNG rose 34.5% (y/y) in Q2, down from 47.9% in Q1. Sep bank lending rose 8.3% and 27.1% respectively, in Samoa and Vanuatu, broadly unchanged.

			Latest	Prev
Fiji	Domestic Credit (y/y)	Oct	3.5%	4.5%
Papua New Guinea	Outstanding Loans (y/y)	Q2	34.5%	47.9%
Samoa	Commercial Bank Credit (y/y)	Sep	8.3%	8.5%
Vanuatu	Domestic Credit (y/y)	Sep	27.1%	28.8%

Other Pacific News

Fiji

- The government expects the economy to contract 2.5% (y/y) in 2009 on weak exports, tourism and remittances. However, it expects growth of 1.9% in 2010 as the global recession nears an end.

Papua New Guinea

- The national budget for 2010 forecasts GDP growth of 8.5% (y/y) compared with growth of 4.5% in 2009. This reflects mainly the commencement of the LNG project and the opening of new mines. The LNG project with Exxon Mobil is expected to contribute \$15.6bn, one-third of projected GDP growth.
- Total revenue and grants are forecasted to increase by 12.8% (y/y) to PGK7489.7mn in 2010 compared with PGK6639.6mn in 2009. The revenue increase can be attributed to an expected 18.8% rise in total tax revenues.
- The national budget has forecast inflation of 7.4% (y/y) for 2009 and 9.5% for 2010.
- The current account deficit for 2010 is expected to rise to 27.8% of GDP, driven by a widening of the trade deficit. This is due to an expected strong surge in imports to support the LNG project. However, the current account is expected to be in surplus from 2014, when LNG production is scheduled to begin.
- PNG has entered into a binding deal with Sinopec for the sale of liquefied natural gas (LNG). As part of the deal, PNG would supply 2.0mn tonnes of gas per year for twenty years. The project is expected to generate exports of \$3.8bn per year, equivalent to 80% of PNG's current annual exports.
- PNG has received \$480.0mn from the Asian Development Bank (ADB) for upgrading twenty-one airports and improving its civil aviation system.

Samoa

- The World Bank has decided to double its financial contribution to Samoa, to \$40.0mn, to help the country combat the devastation unleashed by the recent tsunami.
- The Asian Development Bank has decided to extend fresh loans totalling \$26.0mn to Samoa for tsunami-related credits in addition to offering \$1.0mn in emergency relief.

Solomon Islands

- According to the Ministry of Finance and Treasury, state finances will remain tight for the rest of the year as the government has been unable to meet its revenue target due to the hard-hit export sector.

Timor-Leste

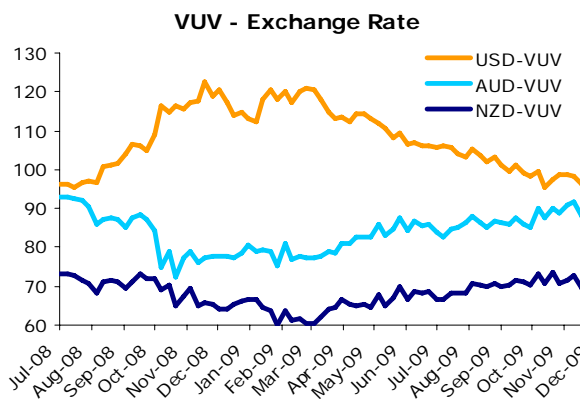
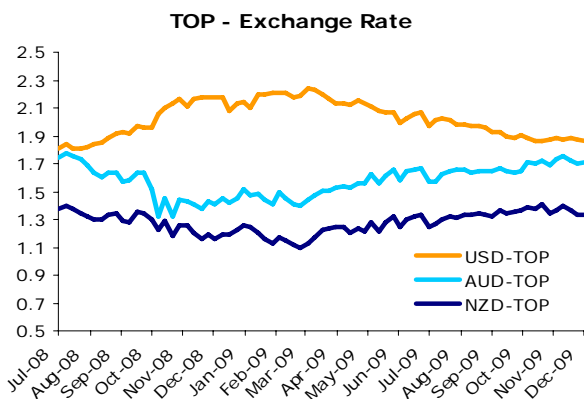
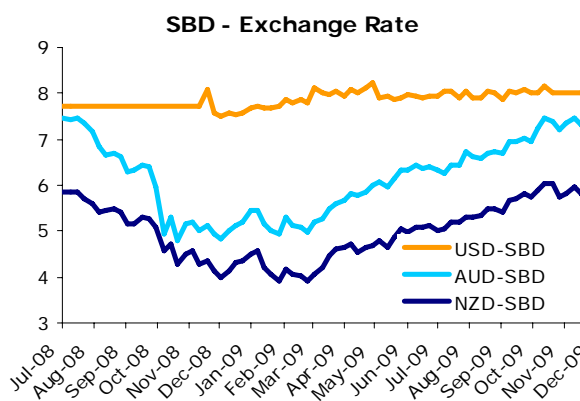
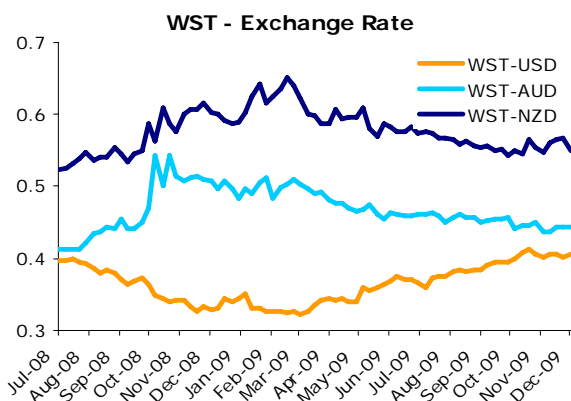
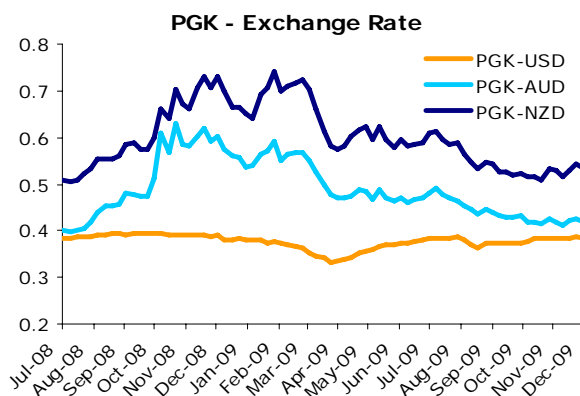
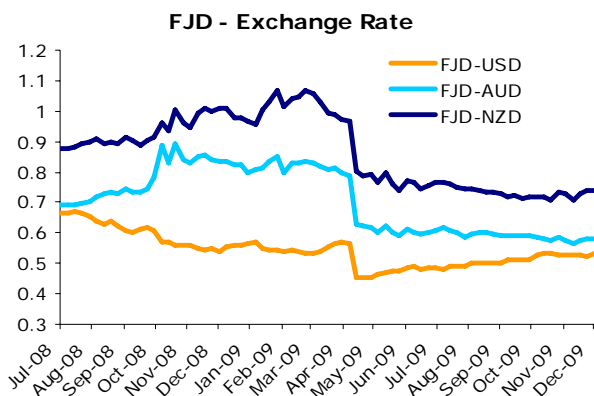
- The Asian Development Bank will provide a \$46.0mn grant to help Timor-Leste overhaul its road network. The grant will be used to strengthen the country's roads, form a road maintenance programme and upgrade cross-border connectivity with Indonesia. The ADB believes the project will create jobs, promote private sector growth and reduce poverty.
- The UN formally handed over the responsibility of policing Viqueque, the country's largest district, to the local police force earlier this month. This is the fourth district where the police force has regained responsibility after the UN took over the country's security operations in 2006 following widespread violence.

Tonga

- The Asian Development Bank has approved a \$10.0mn grant to sustain the country's key social sector spending programmes, which have been hit by the global economic meltdown.

FX Market Developments

As a group, Pacific currencies are little changed against the USD compared with levels at the end of Oct (as of 10 Dec) with the USD having unwound most of the losses sustained during Nov. In contrast, Nov gains in AUD-USD have largely held, such that Pacific currencies are 1.5% weaker on average in AUD terms. Individual currency performance has been sharply mixed. Notably, the VUV has out-performed (+2.7% versus the USD), while the WST has under-performed (-1.5%).



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