

PACIFIC QUARTERLY NOVEMBER 2009

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Highlights

- The worst of the crisis is past for the Pacific, and the region is beginning to show some signs of a rebound. That said, natural disasters have affected some of the smaller economies in the region, putting a damper on the recovery.
- The region has benefited from its close economic links to Australia, whose recovery is most advanced amongst the industrialised nations. Closer trade linkages with China (see Feature Note) have also helped some Pacific countries.
- The year-to-date performance of Pacific currencies has been mixed. The currencies of Samoa, Tonga and Vanuatu have seen double-digit appreciation against the USD, while the Fijian and Solomon Island dollars have weakened moderately.
- Papua New Guinea is likely to lead the region in tightening monetary conditions. Weak economic performance in Fiji should see the Reserve Bank of Fiji maintaining an accommodative stance until late-2010.

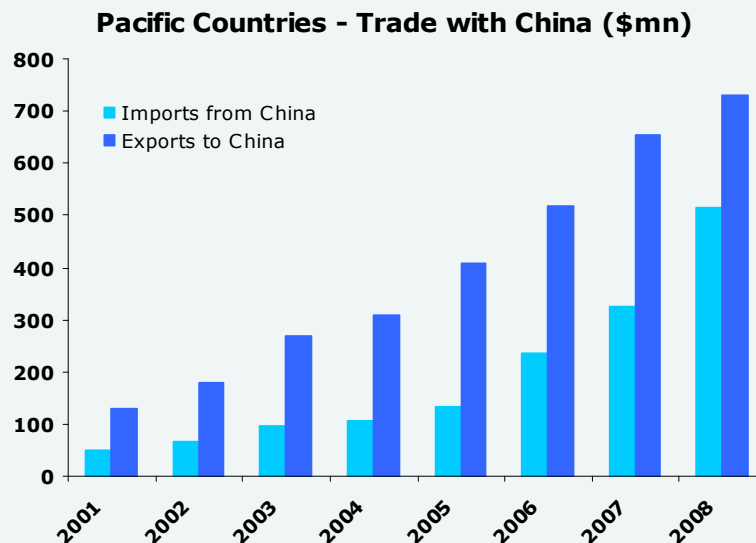
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Feature Note: China's Rising Trade Integration with the Pacific

As with other regions, China's trade integration with the Pacific has expanded sharply over the past decade. In this note we look at trade flows between China and six Pacific economies for which data are available: Fiji, Papua New Guinea, Samoa, the Solomon Islands, Tonga and Vanuatu. We find that the resource-based economies in the region are driving an overall trade surplus with China, although Chinese exports are gaining steady market share across the Pacific. That said, the share of the region's total imports coming from China is presently on a par with those from New Zealand and still well below Australia's. Looking ahead, it appears as if China's trade deepening with the Pacific region will continue more or less unabated.

China's trade with the Pacific has exploded over the past decade. Total trade has grown from \$180mn in 2001 to over \$1.2bn in 2008, resulting in an average annual growth rate of 32.3% (see chart). Imports have grown faster, reaching \$516bn in 2008 with an average annual growth rate of 40.7% over the period. Exports were \$730 in 2008 and have grown by an average of 28.7% annually since 2001. Trade flows have generally decreased so far during 2009 owing to the effects of the global financial crisis.



Sources: CEIC, ANZ Research.

Pacific trade flows with China are dominated by a few countries, although weights have changed markedly this past decade. On the import side, two-thirds of flows from China to the Pacific went to Papua New Guinea in 2008, with Fiji next at 17%. This is a sharp reversal from the beginning of the decade, when 51% of the region's imports from China went to Fiji and 38% to Papua New Guinea. Vanuatu's share of total Pacific imports from China has tripled so far this decade to 6.6 in 2008. The export side is also dominated by Papua New Guinea, but the real story has been the Solomon Islands. Reflecting its surging shipments of logs, the Solomon Island's share of Pacific exports to China has jumped from 4.6% in 2001 to almost 30% in 2008. Papua New Guinea's share has fallen from 95% to 70% over the same period.

The Pacific has run a consistent trade surplus with China in aggregate, but most countries in our sample run deficits with the Middle Kingdom. The region's trade surplus with China has roughly tripled this past decade, rising from \$78bn in 2001 to \$214 in 2008. However, there is a wide degree of variation across countries. The Solomon Islands and Papua New Guinea both ran sizeable surpluses of \$203mn and \$167mn, respectively in 2008. Papua New Guinea's surplus is about 60% larger than in 2001, while the Solomon Island's surplus has exploded from only \$4mn in 2001. The rest of the countries in our sample run trade deficits with China, ranging from \$7mn in Tonga to \$88mn in Fiji. Interestingly, the sign of each Pacific country's trade balance with China has been unchanged during the entire sample period—no country has shifted from running a trade surplus or deficit with China this past decade.

Pacific Countries - China's Share of Trade

Exports	PNG	Fiji	Samoa	Solomon	Tonga	Vanuatu
1998	1.3	0.6	0.1	2.1	0.0	0.2
2000	6.5	0.0	0.1	11.3	0.0	0.4
2005	5.4	0.2	0.0	39.0	0.0	0.2
2008	5.1	0.1	1.5	47.7	0.1	0.1
Imports	PNG	Fiji	Samoa	Solomon	Tonga	Vanuatu
1998	1.6	1.9	0.1	0.8	0.0	0.9
2000	2.2	2.2	0.8	0.9	2.2	1.0
2005	3.6	3.3	4.6	2.7	2.5	3.2
2008	10.9	5.3	8.7	3.7	5.0	8.5

Sources: CEIC, ANZ Research.

With the exception of the Solomon Islands, the Pacific countries have been unable to raise the share of exports going to China this decade (see table). As noted above, exports from the Solomon Islands to China have exploded this decade in nominal terms. This is also true in terms of the share to total exports going to China, which have surged to almost one-half of the country's total in 2008 from just 2% in 1998. Elsewhere in the Pacific region, the share of Papua New Guinea's exports to China has fallen modestly this decade, to around 5 percent in 2008, while export share of the rest of the region's economies to China remains quite low.

In contrast, China's exports have made steady inroads across the Pacific. China's exports have gained considerable market share this decade across all of the countries in our sample. We estimate that China's exports have increased their market share in the Pacific from 1½% in 1998 to around 8½% last year. Unlike the Pacific's exports to China, where gains are concentrated in the Solomon Islands, China's export share gains have ranged from about 3ppt in the Solomon Islands to over 9ppt in Papua New Guinea, reaching a share of 11% there. The share of Pacific imports coming from China now exceeds 5% in all geographies save one.

Taking a broader view, the market share of China's exports in the Pacific is on a par with New Zealand's, and remains well below Australia's. Over the past decade, China's export penetration into the Pacific has passed that of the United States, the European Union and Japan, whose collective share has fallen

from 19% to under 12%. China's 8½% share in 2008 was just below New Zealand, but well below Australia and Singapore.¹ Of note, Australia's market share in the Pacific, while still dominant, has fallen by one-third over the past decade to 30%.

Pacific Countries - Import Source Markets
(as a share of total imports)

	1998	2000	2005	2008
Australia	45.2	44.7	39.1	30.3
New Zealand	9.5	8.1	11.0	8.7
United States	6.8	4.2	3.4	3.5
EU	4.9	3.2	3.5	3.6
Japan	7.2	5.4	4.8	4.6
China	1.5	2.0	3.5	8.4
Singapore	7.9	14.5	17.5	20.1
Others	17.1	17.9	17.2	20.9

Sources: CEIC, ANZ Research.

Looking ahead, China's pace of trade integration into the Pacific region is likely to continue. This view reflects the trend of trade deepening within the Pacific. It also takes into account China's continued appetite for natural resources, and outward investment and aid flows. On the former, the Pacific's Northern, resource-intensive economies are likely to continue to enjoy trade surpluses with China as its fast, investment led growth requirements will benefit resource exporters. On the latter, China will continue to expand its outward investment to secure resource lines (including, increasingly, for soft commodities) as well as expand its political influence through bilateral aid, including as a way to finance the purchase of related Chinese exports.

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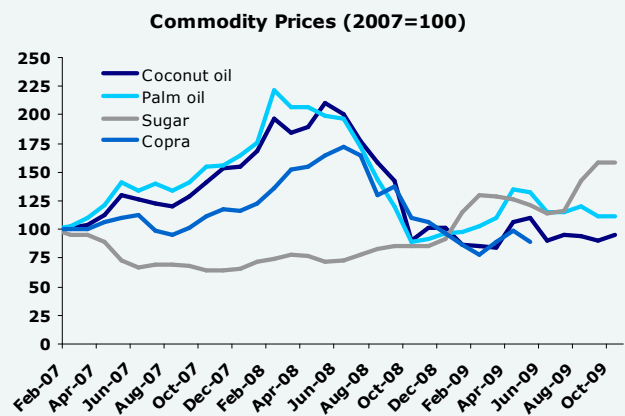
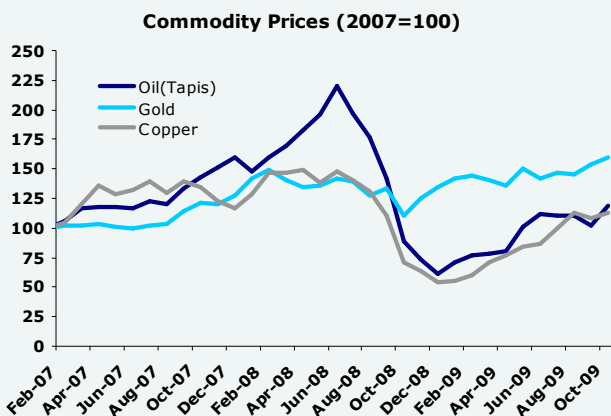
Financial Markets Update

Exchange Rates

- The USD faces structural headwinds from global rebalancing and ongoing diversification by central banks. Meanwhile, cyclical factors such as loose US policy settings and a rebuilding of risk appetite have also weighed on the USD.
- Among the G10 currencies, the Australian and New Zealand dollars have outperformed this year, gaining 34% and 26% against the USD, respectively.
- The year-to-date performance of Pacific currencies has been mixed. The currencies of Samoa, Tonga and Vanuatu have experienced double-digit appreciation against the USD, while the Fijian and Solomon Island dollars have weakened moderately. Papua New Guinea’s kina has been stable against the USD.
- The Samoan tala has out-performed within the Pacific currency bloc; the WST has gained close to 16% against the USD.

Commodities

- Commodity prices have strengthened on the improvement in global economic conditions. China’s strong growth momentum and a weak USD are likely to continue supporting commodity prices in the near-term.
- Crude oil prices have touched \$80/bbl recently, closely tracking the market view on the global recovery and the USD. However, supply-side conditions are likely to cap gains in oil prices. Low utilisation rates and high stockpiles should limit gains above \$100/bbl in 2010.
- Gold has moved from a safe haven investment in late 2008 to early 2009 to an inflation and currency hedge for the most of 2009. At current record price levels, the bullion looks expensive on a ratio basis to other key benchmarks.
- The underlying demand drivers for base metals in China remain in place. Strong growth in vehicle output signals higher demand for aluminium and zinc. Rising electricity output growth is also positive for copper and aluminium demand.



Yeo Han Sia

FX and Policy Interest Rate Forecasts

		Current	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Fiji	FJD-USD, eop	0.530	0.534	0.546	0.541	0.530	0.523	0.510	0.500
	FJD-AUD, eop	0.584	0.581	0.574	0.575	0.576	0.581	0.586	0.595
	Short term rates*	4.25	4.25	4.25	4.25	4.50	4.75	5.00	5.25
Papua New Guinea	PGK-USD, eop	0.384	0.383	0.393	0.395	0.385	0.379	0.370	0.362
	PGK-AUD, eop	0.413	0.425	0.418	0.412	0.419	0.422	0.425	0.426
	Short term rates**	8.00	8.25	8.50	9.00	9.50	9.50	9.50	9.50
Samoa	WST-USD, eop	0.409	0.404	0.417	0.425	0.412	0.405	0.395	0.386
	WST-AUD, eop	0.450	0.449	0.444	0.443	0.448	0.450	0.454	0.457
Solomon Islands	USD-SBD, eop	7.99	7.95	7.71	7.50	7.71	7.81	7.87	7.96
	AUD-SBD, eop	7.41	7.16	7.24	7.20	7.09	7.02	6.85	6.76
Tonga	USD-TOP, eop	1.875	1.878	1.804	1.768	1.840	1.879	1.941	1.984
	AUD-TOP, eop	1.687	1.690	1.696	1.698	1.693	1.691	1.689	1.687
Vanuatu	USD-VUV, eop	98.0	96.9	94.6	95.3	96.9	98.0	99.4	101.1
	AUD-VUV, eop	90.8	89.2	89.8	89.6	89.2	88.9	88.5	88.0
	Short term	6.00	6.00	6.25	6.50	6.50	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. (*) 91-day RBF notes, (**) Kina Facility Rate, (***) Rediscount rate, (Current) 9 November 2009.

Macroeconomic Forecasts

Real GDP Growth (%)

	2008e	2009f	2010f
Fiji	0.2	-2.0	0.5
PNG	7.0	5.0	6.5
Samoa	-3.4	-2.1	0.1
Solomon Is.	6.9	1.5	3.5
Timor-Leste	12.8	8.0	8.0
Tonga	1.2	1.0	1.5
Vanuatu	6.6	4.5	5.0

Nominal GDP (US\$ bn)

	2008e	2009f	2010f
Fiji	3.4	3.7	3.9
PNG	8.1	9.1	10.4
Samoa	0.5	0.5	0.5
Solomon Is.	0.5	0.5	0.6
Timor-Leste	0.4	0.4	0.5
Tonga	0.3	0.3	0.3
Vanuatu	0.5	0.5	0.6

Inflation (%)

	2008	2009f	2010f
Fiji	7.6	12.0	4.0
PNG	11.2	7.2	7.6
Samoa	10.9	5.0	3.5
Solomon Is.	16.5	8.0	6.0
Timor-Leste	8.4	3.0	6.0
Tonga	9.2	5.0	4.0
Vanuatu	5.8	4.2	3.5

Fiscal Balance (% of GDP)

	2008e	2009f	2010f
Fiji	-1.5	-3.5	-2.0
PNG	4.5	-1.0	1.0
Samoa	-3.2	-10.0	-5.0
Solomon Is.	-5.6	-4.0	-3.5
Timor-Leste	384.0	150.0	150.0
Tonga	2.0	-0.5	-0.5
Vanuatu	2.2	1.5	1.8

Current Account Balance (% of GDP)

	2008e	2009f	2010f
Fiji	-25.0	-22.0	-22.0
PNG	2.8	-6.0	-4.0
Samoa	-6.2	-2.0	-5.5
Solomon Is.	-18.7	-10.1	-15.0
Timor-Leste	408.3	180.0	150.0
Tonga	-10.4	-7.0	-7.5
Vanuatu	-6.2	-5.5	-6.0

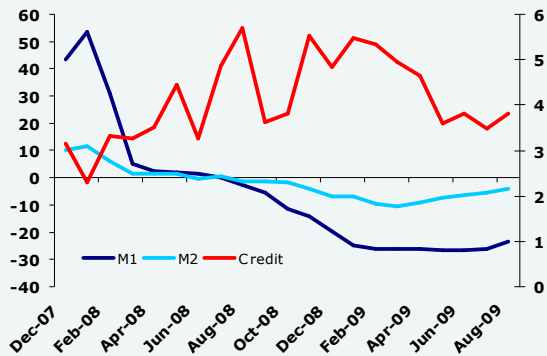
Foreign Exchange Reserve (US\$ mn)

	2008	2009f	2010f
Fiji	317	510	535
PNG	2,093	2,400	2,600
Samoa	81	110	115
Solomon Is.	93	105	110
Timor-Leste	4,407	5,250	6,500
Tonga	58	75	80
Vanuatu	119	125	135

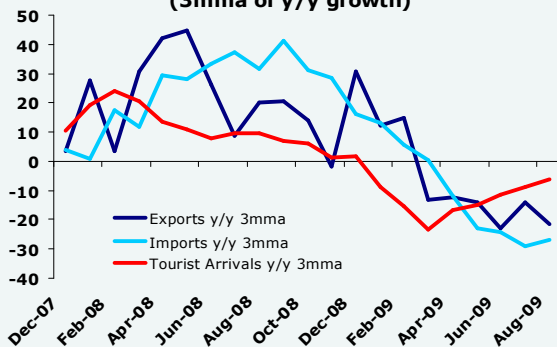
Sources: Asian Development Bank, International Monetary Fund, country websites, ANZ Economics.

Country Update: Fiji

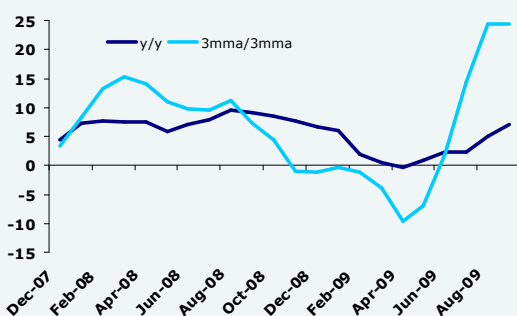
Fiji - Money and Credit Growth (y/y)



Fiji - Trade and Tourism
(3mma of y/y growth)



Fiji - Inflation



The effects of the devaluation can be seen clearly in an improving trade balance and higher inflation. On the latter, the Reserve Bank has raised reserve requirements to contain liquidity growth. The rotation of activity toward domestic demand appears muted, so near-term growth prospects look modest.

- Available demand indicators point to soft momentum. Value added tax collections remain weak, as do imports of consumption goods. On investment, the value of work for building and construction in Q2 was down 11% (y/y).
- The trade balance is improving as import growth remains subdued. While exports continue to trend lower, imports have fallen even faster reflecting the devaluation. The monthly trade balance has fallen by one-third compared with its peak in late 2008. The reserve situation has improved, including from an SDR allocation from the IMF.
- Tourist arrivals are still declining, although a recovery is in train. Arrivals were down 6.1% (y/y) in Aug, but the trend has improved noticeably since an average 23% monthly fall in Q1. The number of visitors from Australia and New Zealand has surged in recent months.
- Inflation pressures have risen sharply owing to the effects of the devaluation. Prices in Sep were up 7.0% (y/y); however, on a momentum basis, inflation was over 24% for Aug and Sep.
- Money and credit growth remain weak. Monetary aggregates have been falling in recent years with little sign of a recovery. M1 was down 23.3% (y/y) in Aug while M2 was down 4.0%. Domestic credit growth was 3.8% in Aug, and has been relatively steady.
- The Reserve Bank of Fiji raised the reserve requirement by 2ppt to 7.00% on 6 Nov (effective 7 Dec) in an effort to contain the growth of system liquidity.
- The Fiji dollar has been stable in nominal effective terms since May, although it is down by 20%(y/y) owing to the effects of the devaluation. In real effective terms the currency has fallen by an estimated 16%. The local currency has strengthened by 16% against the US dollar since mid-April and has fallen by 9% against AUD.
- It is difficult to be positive about the near-term outlook for Fiji, and we continue to forecast negative growth for 2009, with only a modest recovery in 2010.

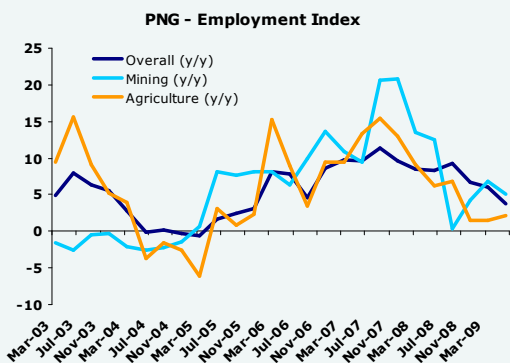
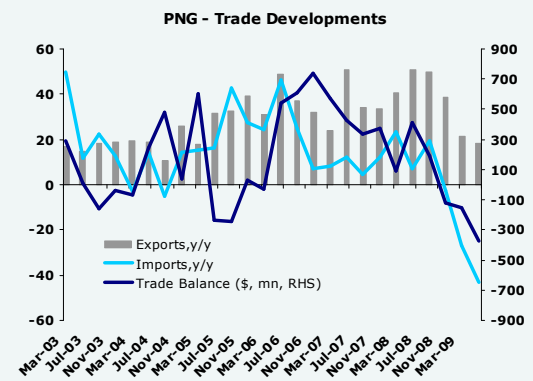
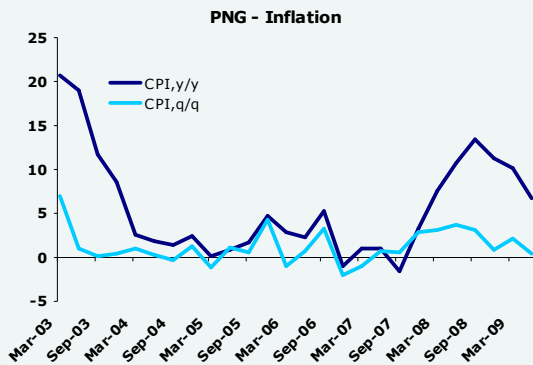
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Economic Data – Fiji

Quarterly data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Consumer Price Index, % YOY	5.2	3.9	7.6	6.8	9.0	6.6	0.5	2.3
Domestic Credit, % YOY	8.5	3.2	3.0	3.8	4.7	4.8	5.3	4.0
Exports, % YOY	-3.3	-4.0	26.8	20.2	21.3	19.6	-13.0	-22.7
Imports, % YOY	-15.9	2.7	8.6	38.2	40.9	16.1	0.5	-24.1
Trade Balance, US\$ mn	-274	-310	-275	-384	-375	-310	-219	-203
Official Reserves, US\$ mn	436	519	504	481	429	316	239	316

Sources: Reserve Bank of Fiji, ADB, IMF

Country Update: Papua New Guinea



Growth has remained resilient owing to the domestic-oriented pattern of activity, although trade flows have weakened substantially. High credit growth has kept inflation elevated and monetary conditions may need to be tightened should growth pick up in 2010.

- Exports fell 43.0% (y/y) in Q2, following a 34.4% fall in Q1. All categories declined except gold, and the bulk of the drop reflected price developments. Imports dropped by 24.9% in Q2; the outturn was broad-based.
- The Private Sector Employment Index increased by 3.9% (y/y) for Q2, compared with a 6.1% rise in Q1. Construction led the gains; retail and transport lagged.
- Headline inflation fell to 6.7%(y/y) in Q2 from 10.2% in Q1, attributed to lower fuel prices and the lagged effect of a stronger currency in late 2008. Underlying inflation was 7.9% in Q2, down from 11.0% in Q1.
- The PGK continued to depreciate against most major currencies—AUD, USD, EUR, GBP and JPY—during the first nine months of the year.
- The budget surplus for the first six months of 2009 was broadly unchanged from 2008 at PGK302mn. However, tax revenue was down 13% and PGK423 million was injected as a transfer from the Trust Accounts.
- Total deposits in banks increased by 17.4% (y/y) as of the fortnight ending 11 Sep to PGK11.9bn. Outstanding loans advanced 31.3% to PGK5.3bn in the same period.
- The current account recorded a deficit of PGK173.0mn in Q2 compared with a surplus of PGK716.0mn in Q2 2008. However, the financial account saw a net addition of PGK740.0mn following large FDI flows and a drawdown in financial derivative instruments from hedging receipts.
- Foreign exchange reserves stood at \$2.3bn at the end of Q3, equivalent to 9.9 months of imports.
- The Bank of Papua New Guinea has kept the Kina Facility Rate (KFR) at 8.00% for ten months in a row. The dealing margin for repos has been kept constant at 100 basis points on both sides of the KFR.

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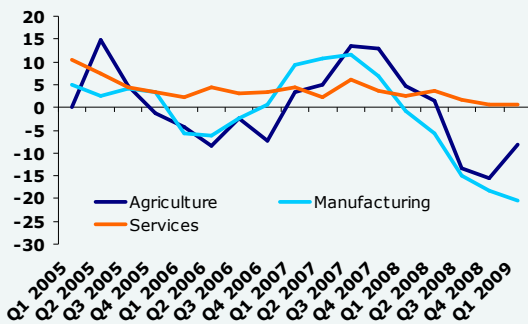
Economic Data – Papua New Guinea

Quarterly data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Employment Index, % YOY	11.7	10.4	8.5	8.3	9.3	6.7	6.1	3.9
Consumer Price Index, % YOY	-1.6	3.2	7.5	10.7	13.5	11.2	10.2	6.7
Exports of goods, % YOY	-40.6	12.9	24.2	11.2	112.4	-2.6	-34.9	-43.0
Imports of goods, % YOY	117.7	25.1	6.0	29.2	-36.8	-8.3	-16.2	-24.9
Trade Balance (goods), US\$ mn	514	505	608	759	745	583	324	273
Foreign Exchange Reserves, US\$m	1,545	2,053	2,039	2,418	2,454	2,093	1,950	2,283

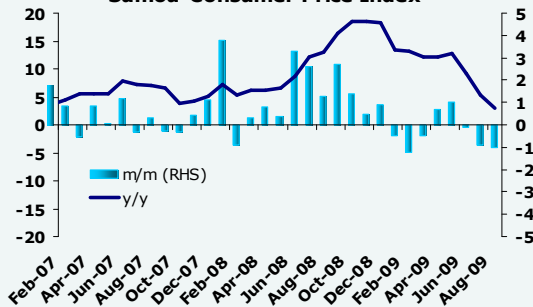
Source: Bank of Papua New Guinea

Country Update: Samoa

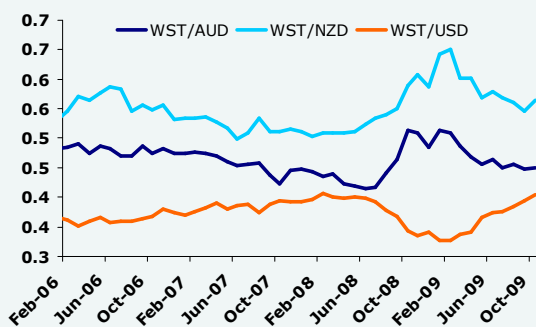
Samoa-GDP decomposition (y/y)



Samoa-Consumer Price Index



Samoa-Exchange Rate



Economic Data – Samoa

Quarterly Data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Consumer Price Index, % YOY	7.0	4.5	6.3	7.2	13.9	18.4	13.0	11.3
M2, % YOY	12.2	11.0	1.9	12.1	6.9	5.8	18.2	7.7
Exports, % YOY	79.0	33.7	-4.5	-18.7	-26.5	-42.0	-2.6	-21.3
Imports, % YOY	12.3	-10.2	-15.2	-0.4	13.9	12.6	-25.9	-18.5
Trade Balance, US\$ mn	-61.9	-50.2	-54.4	-52.5	-72.2	-58.5	-39.4	-42.5
Foreign Exchange Reserves, US\$ mn	82.3	90.2	100.6	101.5	90.2	81.3	84.8	100.4

Sources: Central Bank of Samoa, Samoa Ministry of Finance

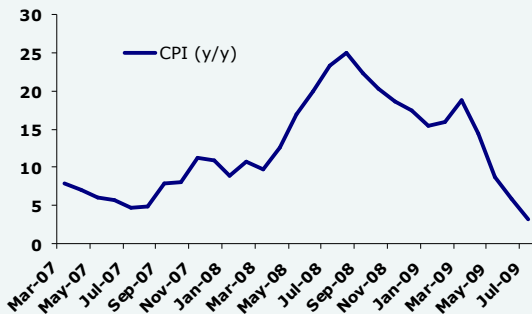
The recent earthquake hit Samoa heavily, with initial cost estimates standing at \$150mn (25% of GDP). We expect the recovery will be delayed due to natural disasters, and have downgraded 2009 growth to -2.1%.

- The powerful earthquake of magnitude 8.3 that struck the country in Sep triggered a tsunami. While it is still early to assess the full economic impact, initial official cost estimates stand at about \$150mn (25% of GDP). Samoa's rapidly growing tourism sector has been severely damaged.
- The economy contracted by 4.3% (y/y) in Q1, following a 7.3% decline in Q4 2008. Services remained resilient, while agriculture and manufacturing activity declined by 7.5% and 19.5%, respectively.
- Exports rose 1.8% (y/y) in Q3, compared with a 21.3% decline in the second quarter. Imports fell 36.0% in Q3, following an 18.5% drop in Q2. As a result, the trade deficit widened to \$44.9mn in Q3 from \$42.5mn in Q2.
- Price pressures continue to ease. The CPI rose 0.3% (y/y) in Sep, down sharply from 3.7% Aug and Q2's 11.3%. The drop is mainly due to lower food prices.
- A seasonal downturn in tourist arrivals for Sep resulted in a 17% (m/m) decline. However, on a year-on-year basis, the total number of visitors in Q3 was 5% higher. Tourism revenues also rose 4% (y/y) in Q3.
- International reserves jumped to \$126.9mn at end-Sep, \$26.5mn higher than end-Jun. Capital inflows and valuation effects contributed to the sharp rise. Import cover stood at 6.9 months, well above the central bank's target of 5 months for 2009-2010.
- Looking forward, we expect the economy will slow in the coming months due to the impact of the earthquake and tsunami. However, reconstruction efforts will contribute to GDP growth next year.

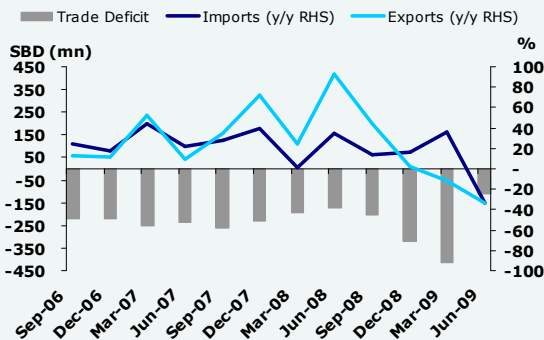
Zhou Hao

Country Update: Solomon Islands

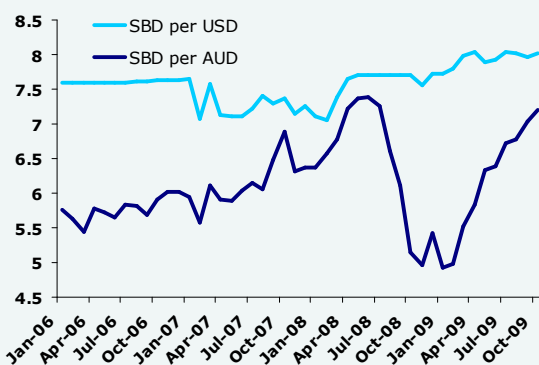
Consumer Price Index



Solomon Islands - Trade Developments



Solomon Islands - FX



The economy has rebounded sharply through an increase in exports and production levels. Inflation has dropped significantly. The fiscal position as well as foreign reserves have strengthened due to higher exports and revaluation gains. The effect of the recent 5.9 magnitude earthquake remains uncertain.

- The overall production index surged 21.9% (q/q) in Jun to reach 124.5, after declines in the previous two quarters. The positive trend was reflected in all commodities except palm oil. Log export volumes, a leading indicator for monthly production, advanced 23.0% (m/m) in Aug, reversing the 38.0% decline in Jul.
- Exports rose 0.8% (m/m) in Aug, aided by an increase in shipments of copra (which rose 25.1%), logs, palm oil and alluvial gold.
- Total transfer receipts declined strongly in Aug, by 30.6% (m/m), due to a fall in transfers to individuals, companies and charitable organisations.
- Inflation in Aug dropped significantly to 3.4% (y/y) from 5.9% in Jul. Imported inflation fell to 3.7% in Jul as compared with 8.5% in Jun. Domestic inflation fell to 7.4% in Jul, from 10.2% in Jun.
- The total government debt stock stood at SBD1.4bn at the end of Oct, of which SBD1.1bn amounted to external debt. This represents a 0.2% (m/m) decline. The public debt stock remains at around 35% of GDP as against an IMF recommendation of 30%.
- Official foreign reserves increased by 2.6% (m/m) to SBD1,041mn at end-Oct. The increase was largely due to the allocation of SDRs by the IMF in Aug.
- The SBD remained broadly unchanged against the USD through Oct for seventh consecutive month. However, it depreciated against other major currencies including AUD, GBP, EUR and NZD. SBD depreciated against the yen earlier in Q3, but has appreciated since.
- The economy's relatively high exposure to China should provide some support to growth going forward.

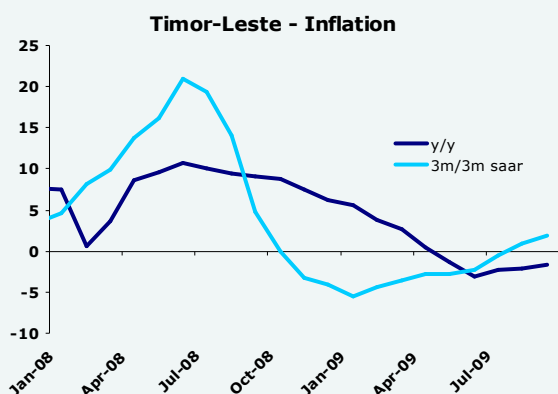
Jaimin Shah

Economic Data – Solomon Islands

Quarterly Data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Domestic Credit, % YOY	74.4	56.6	47.8	63.3	35.9	39.0	27.7	10.9
Consumer Price Index, % YOY	5.8	10.0	9.7	16.5	23.5	19.4	17.1	9.6
Exports, % YOY	35.1	72.3	24.0	93.6	44.5	2.2	-11.1	-33.2
Imports, % YOY	27.5	39.2	1.4	34.9	13.5	15.8	35.5	-18.8
Trade Balance, US\$ mn	-36.7	-31.7	-27.2	-23.1	-26.5	-41.9	-52.7	-111.7
Foreign Exchange Reserves, US\$	124.1	127.8	117.9	100.8	98.3	93.3	84.7	98.2

Sources: National Directorate of Statistics, Economist Intelligence Unit

Country Update: Timor-Leste



The positive growth outlook is supported by rising oil prices as well as higher government spending, despite a fall in coffee harvests. Credit growth remains weak with banks remaining wary of an increase in non-performing loans. Inflation pressures are starting to pick up but trade activity remains subdued as domestic exports and re-exports have failed to recover.

Commercial Bank Outstanding Credit to Private Sector

Sector	y/y	3m/3m annualised	% of Total
Agriculture, Water and Fores	-76.6	18.0	0.4
Industry and Manufacturing	-16.7	1.4	1.8
Construction	-57.7	2.0	11.9
Transport and Communicatic	11.9	-2.9	2.0
Trade and Finance	-47.4	7.7	12.8
Tourism and Services	86.8	-0.9	14.1
Individuals	42.5	2.0	57.0
Total	-5.3	2.2	100.0

- Total exports declined by 66.9% (y/y) in Q3 as re-exports fell sharply on account of the economic slowdown witnessed by trading partners. Domestic exports fell by 53.8% in Q3 as coffee, the country's primary export commodity, had a poor harvest season due to weather conditions. Imports fared better with a decline of 14.5% in Q3.
- Outstanding loans by commercial banks increased by 2.2% (q/q) for the quarter ended Jun, following a 2.6% contraction in the previous quarter. Broad money growth remains weak, growing at 19.2% (y/y) in Sep compared with 18.0% in Jun.
- Credit to individuals, accounting for more than half of outstanding loans, grew 2.0% (q/q) in Q2. Primary industries (agriculture and forestry) enjoyed the highest credit growth of 18.0% (q/q), followed by the trade and finance sector at 7.7%. Lending to the transport and tourism sectors declined by 2.9% and 0.9% respectively.
- Inbound tourism has picked up, with the number of visitors rising due to an improved security situation. The recent Tour de Timor added an additional 1,000 arrivals.
- The NPL ratio stood at 31.6% of outstanding loans at the end of Q3, rising from 29.9% at the end of the previous quarter. However, loan-loss provisioning at the end of Sep is little changed at 1.8 times current NPL levels.
- The successful conduct of the local elections and the finalisation of an agreement to end territorial disputes with Indonesia bode well for future political stability and should help improve Timor-Leste as a destination for investments.



Chang Wei Liang

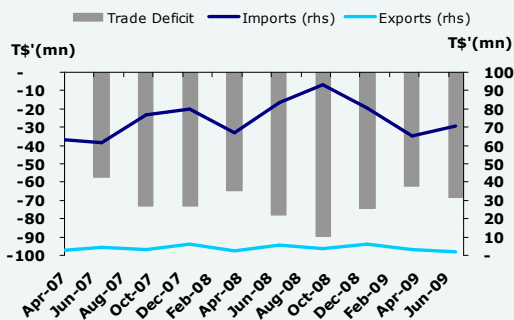
Economic Data – Timor-Leste

Quarterly Data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Consumer Price Index, % YOY	7.2	7.6	3.7	10.7	9.1	6.1	4.2	-1.7
- Food, % YOY	10.7	11.0	3.2	13.8	10.9	7.0	5.0	-2.7
- Transport & Comms, % YOY	-0.9	3.8	4.3	24.2	22.4	12.5	-5.9	-15.4
Exports, US\$ mn	N/A	N/A	10.3	7.1	19.2	11.3	7.0	6.3
Imports, US\$ mn	N/A	N/A	41.6	48.3	66.5	82.0	89.8	54.5
Trade Balance, US\$ mn	N/A	N/A	-31.2	-41.2	-47.4	-70.7	-82.8	-48.1

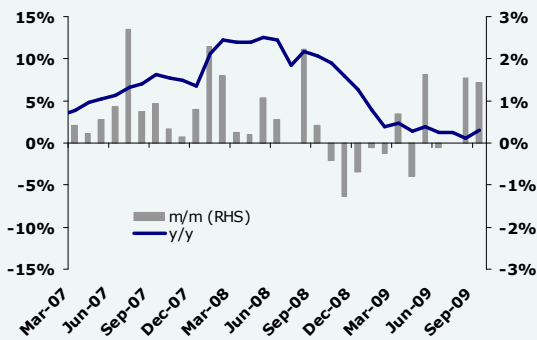
Sources: National Directorate of Statistics, Economist Intelligence Unit

Country Update: Tonga

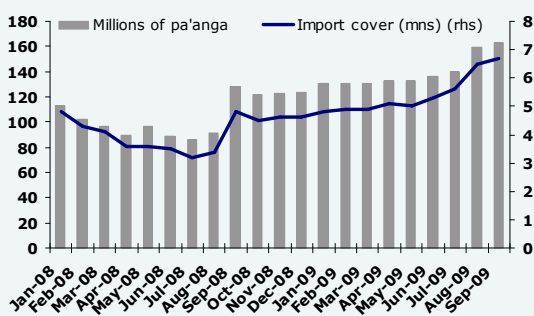
Tonga - Trade Developments



Tonga - CPI



Tonga - Foreign Reserves



Activity remains weak overall. Exports, tourist receipts and remittances continue to decline, as does private credit growth. On the political front, the recently-crowned King George Tupou V promised to start devolving political power over the next year.

- Export growth remained weak in Aug, declining 45.3% (y/y) following a 50.3% decline in Jul. Imports fell by 9.8% in Aug compared with -0.1% in Jul. Exports as a proportion of imports remain negligible; hence, the balance of payments remains heavily dependent on tourism revenues and remittances.
- Private credit growth declined 9.7% (y/y) in Aug, compared with growth of -7.8% in the previous month. Credit to corporates declined 10.7% in Aug, while credit to households declined 8.4%.
- Tourist receipts declined 19.6% (y/y) in Aug, compared with a 13.5% decline in Jul.
- Private remittances declined in Jun by 15.8% (y/y) to TOP14.4mn. However, this level is TOP2.2mn higher than May, marking a gain of 18.0% (m/m).
- CPI inflation rose in Sep after declining for five consecutive months. Inflation was 1.6% (y/y) following 0.5% in Aug. This increase mainly reflected food prices. Domestic inflation was higher at 4.1% in Sep, while imported inflation stood at 0.3%.
- Official foreign reserves rose to a historic high of TOP163.3mn at end-Sep, marking growth of 27.1% (y/y). The current level of reserves is equivalent to 6.7 months of imports, compared with 3.5 monthly of import cover at end-Jun.
- Total public debt at end-Jun stood at TOP225.0mn, representing 37.1% of GDP. Of this amount, TOP202.5mn is external. Total debt increased 14.0% (q/q).
- Tonga was spared the effects of the recent earthquake and resulting tsunami, and should therefore enjoy reasonably healthy growth in 2009.

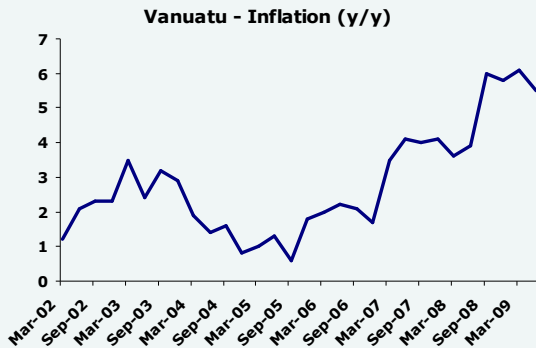
Eesh Mengi

Economic Data - Tonga

Quarterly Data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Consumer Price Index, % YOY	8.1	6.8	12.0	12.2	10.1	7.9	2.7	1.5
Private Sector Credit, % YOY	12.4	16.3	15.9	17.1	14.5	10.0	4.5	-2.9
Exports, % YOY	-43.4	-63.2	-10.4	23.9	21.3	8.9	34.5	-62.5
Imports, % YOY	-40.7	-25.8	6.1	36.0	22.0	0.8	-2.8	-15.7
Trade Balance, US\$ mn	-37.9	-32.9	-27.1	-43.3	-45.5	-34.8	-28.6	-33.4
Foreign Exchange Reserves, US\$ mn	54.9	61.9	53.9	49.4	65.0	58.0	60.0	66.5

Sources: National Reserve Bank of Tonga, Tonga Department of Statistics

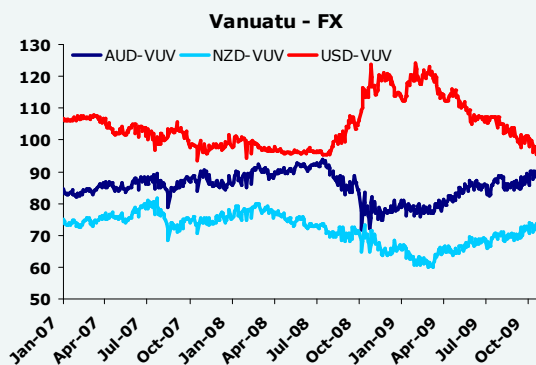
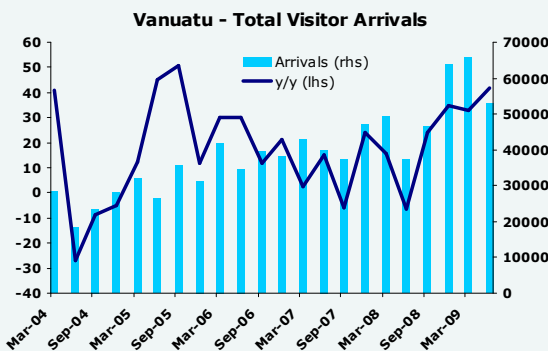
Country Update: Vanuatu



Vanuatu is entering the recovery phase from a position of strength, but a swift rebound to pre-crisis activity levels is unlikely in 2010.

- Activity held up in Q2, supported by construction and services. Infrastructure spending and tourism refurbishment projects boosted construction; strong tourist arrivals in H1 supported services. Agriculture remained sluggish due to weak commodity exports.
- Exports fell by 17.5% (q/q) in Q2 on lower commodity prices. Imports increased by 7.8% due to a stronger AUD. The current account deficit narrowed to VUV1bn from 1.6bn in Q1 on higher remittances, with the balance of payments registering a surplus of VUV886mn.
- Tourist arrivals dipped 16% (q/q) in Q2 on lower cruise ship calls, but on a y/y basis arrivals rose 41%. The negative quarterly impact of lower arrivals was offset by an increase in the average length of stay to 9 days.
- The CPI was up 5.5% (y/y) in Q2, against a 6.1% rise in Q1. In q/q terms, prices rose 1.0% (1.9% in Q1). The RBV attributed lower inflation to a delayed pass-through from lower global fuel prices. Annual inflation will remain above the 0% to 4% target zone for 2009 due to the 50% bus fare hike and a re-weighting of the CPI basket.
- The VUV strengthened against the USD in Q3 on a sustained improvement in global risk appetite, but currency gains continue to lag behind the AUD and NZD.
- Foreign reserves rose to VUV12.2bn, with import cover rising to 5.8 months, above the target of 4 months.
- The RBV left the rediscount rate unchanged at 6.00% in Sep, citing an improvement in external conditions and sustained growth momentum. GDP growth is expected to gain pace to 4½% in 2010, up from 3.8% in 2009.
- The economy has weathered the global downturn reasonably well. Tourism, a key driver, has benefited from proximity to Australia. Vanuatu is also entering the recovery phase with a strong fiscal position, having posted surpluses since 2008. GDP growth is unlikely to reach pre-crisis levels before a full recovery in global demand.

Yeo Han Sia



Economic Data – Vanuatu

Quarterly Data	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Consumer Price Index, % YOY	4.0	4.1	3.6	3.9	6.0	5.8	6.1	5.5
Exports, % YOY	37.3	47.2	49.4	37.3	46.3	63.6	65.6	52.9
Imports, % YOY	6.0	-24.2	66.8	26.0	54.7	36.5	259.8	26.9
Trade Balance, US\$ mn	34.2	11.5	49.3	36.2	36.7	23.5	-14.8	-16.3
Foreign Exchange Reserves, US\$ mn	106.8	113.8	116.9	119.0	112.2	109.4	100.9	117.1

Sources: RBV, ANZ Economics

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