

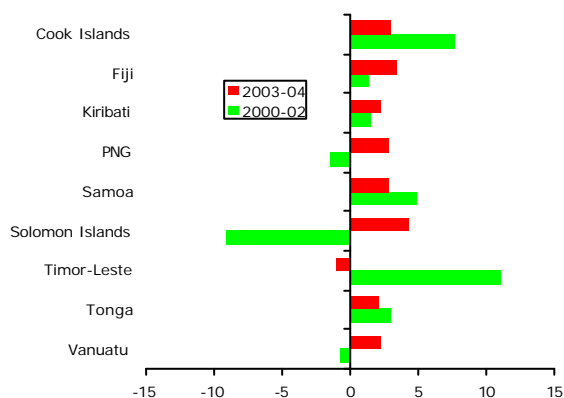
The Pacific Island economies have undertaken macroeconomic reform over the past decade. The outlook for the region in 2005 is favourable, underpinned by strengthening commodity prices and growth in tourism. However, the scope for faster expansion over the medium to long term rests with the active promotion of private sector investment<sup>1</sup>.

The Pacific region is uniquely diverse, and the different ethnic/cultural compositions in Micronesian, Polynesian, and Melanesian countries are matched by the regions' geographical terrain, which varies from atoll countries such as Kiribati, to volcanic ones such as Vanuatu.

There have been positive developments in many areas. Pacific Island economies have undertaken a number of macroeconomic reforms over the last 10 years assisted by the IMF and ADB. Greater regional cooperation is underscored by the establishment of the Pacific Island Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relationship (PACER). These agreements are expected to enhance trade flows among Pacific states.

Nevertheless, these countries are heavily impacted by adverse weather conditions, have small domestic markets and a narrow export base, which mainly comprises rural commodities, making them vulnerable to fluctuations in global prices.

#### Average GDP growth per annum



Economic growth in the Pacific Islands over the last two decades has been low. In terms of economic activity, Fiji and PNG are the largest nations in the region. The two countries make up the bulk of the population in the region and are more diversified in terms of manufacturing and service sector activities. The size of PNG's population and resource endowment, together with Fiji's relatively high income per capita and good infrastructure means that these two

economies generate the majority of economic activity in the region.

Most of the Pacific Island economies have fared better over 2003 and 2004. Strengthening commodity prices and tourism have lifted the region's economies. The sharp swing in economic performance in Timor-Leste mainly reflects the sharp scaling down of the large UN and expatriate presence and drought-related weakness in agricultural production. The economy declined by 3% in 2003 and was estimated to have recovered in 2004, to expand by around 1%. The outlook for 2005 is generally favourable with most economies expected to grow at a slightly quicker pace in 2005. Construction activity in Samoa ahead of the South Pacific Games in 2007 and, in the case of Vanuatu, a pick-up in tourism, are likely to lift growth further. Strong commodity prices for virtually all of PNG's exports are likely to underpin economic expansion in 2005. Fiji, on the other hand, is expected to be adversely affected by the expiry of quota access to the US under the Multi-fibre Agreement while the ADB, in its March 2004 report, projected slower growth of 1.5% for Kiribati from an estimated 1.8% in 2004. Timor-Leste and Solomon Islands are forecast to expand at a similar pace as in 2004.

Real GDP growth	2004e	2005f
American Samoa	na	na
Cook Islands	2.7	2.9
Fiji	3.8	1.5
Kiribati	1.8	1.5
PNG	2.6	2.9
Samoa	2.2	3.2
Solomon Islands	4.5	4.5
Timor-Leste	1.0	1.0
Tonga	2.3	2.8
Vanuatu	2.5	3.0

Over the medium to long term, promoting private sector domestic and foreign investment will be crucial in generating faster economic expansion in the region. Creating a conducive business environment with a sound regulatory framework, good corporate governance and transparency will go a long ways towards achieving private sector-led growth.

<sup>1</sup> This report, produced by Barry Coulthurst, Bernie Shuttleworth and Jasmine Robinson, focuses on the Pacific Island economies where ANZ Bank is represented except for New Caledonia. Economic data and information on most of the Pacific Island economies is very limited. This has hampered the detail and timeliness of some of the analysis in the report.

### The Territory's Governor and delegate to the US Congress are re-elected

American Samoa has been a Territory of the United States for over 100 years. The only US Territory in the Southern Hemisphere, American Samoa's official territorial status is "unincorporated and unofficial". The people of American Samoa are US nationals who can freely enter the US to work and reside, but not US citizens; they do not vote in US elections and not all provisions of the US Constitution relate to the islands. As a US Territory, American Samoa uses the US dollar as its local currency.

Executive power is vested in the governor who is popularly elected every four years. The governor exercises authority under the direction of the US Secretary of the Interior and has the power to veto legislation passed by the bicameral legislature, known as the Fono. American Samoa has a delegate in the US House of Representatives who can vote in committee but not on the floor of the House. Lieutenant-Governor Togiola Tulafono became acting Governor after the death of Governor Tauese on 26 March 2003. He was elected for a four-year term as Governor in the November 2004 elections. American Samoa's delegate to the Federal Congress, Mr. Eni Faleomavaega, was re-elected for an eighth consecutive two-year term in November.

American Samoa attracted international attention in February 2004 when the owner of a Korean clothing factory was found guilty of human trafficking by a US court. A number of immigrant workers had been employed in appalling conditions triggering allegations that the territory's political status may make it a target for exploitation of labour, and highlighting the need for the reform of labour laws.

### The economy is narrowly-based

The population is approximately 58,000 and according to recent estimates, per capita income exceeds US\$8000, which is high by Pacific standards. According to the World Bank, annual population growth was nearly 4% during the 1990s, one of the highest in the world, but the population growth rate is reported to have slowed in recent years. American Samoa is vulnerable to adverse weather conditions; it was hit by a powerful hurricane in 1991, severe drought in 1998, and suffered extensive damage from tropical cyclone Heta in January 2004. Damage to homes and communal facilities was widespread and supplies of water and electricity were cut-off.

The main sources of income are the US government and exports of tuna. The private sector is dominated by the fish processing

industry, which employs one-third of the workforce. Tuna-canning plants at Pago Pago process fish from US, Taiwanese and South Korean vessels. Canned tuna, which is produced by two US companies, Starkist and Samoa Packing, is American Samoa's principal export, accounting for 93% of total exports in 2002 that are directed almost entirely to the US market.

More than 90% of land is communally-owned. Subsistence agriculture comprises a variety of crops, including coconuts, taro and bananas, and livestock. Commercial agriculture development is hampered by the lack of suitable land as most of the islands are mountainous and heavily wooded.

The majority of the employed labour force is located within the service industries. The services sector mainly comprises the government (the public sector provides employment for about a third of the workforce) and wholesale and retail trade. The government is attempting to reduce the size of the public sector, but its efforts are hampered by the demands on government services from rapid population growth. A large proportion of private-sector activity is in supplying goods and services to the tuna industry.

Imported goods include materials for the canneries, food, petroleum products, and machinery. American Samoa usually acquires over 60% of its imports from the US, while Australia and New Zealand typically each provide around 10% of import requirements. Refined petroleum accounted for approximately 75% of Australia's exports to American Samoa in 2003. In 2003, South Korea was the fourth largest source of imports, with a share approaching 7%.

### The public sector is being reformed

American Samoa has a limited economic and tax base. The government has implemented a range of reforms over the past few years in attempts to reduce persistent budget deficits and achieve a greater measure of financial security for the country. Measures to achieve this have included decreasing the size of the public sector and increasing local taxes. In 2001, American Samoa recorded its first fiscal surplus for twenty years, but it is not clear whether the budget has remained in surplus.

### Government seeks to diversify the economy

In 2002, the American Samoan Economic Advisory Commission published a report, outlining proposals for further diversification in the Territory. The Commission identified fisheries and agriculture, telecommunications and IT, manufacturing and tourism as key

sectors that could help promote a diverse market economy. The plan seeks to introduce the proposals over a period of five to ten years, with the aim of generating more small to medium size businesses.

In support of efforts to diversify the productive base of the economy, some businesses are eligible for exemptions from all taxes for periods of up to ten years. The government has strongly supported tourism and the potential for developing this industry seems quite good given the islands' scenic beauty if constraints related to the costs and frequency of air services can be overcome. The government's economic objectives are to increase the islands' self-sufficiency and ensure greater participation with the South Pacific region. The economic development aims of the government focus strongly on the expansion of private sector activity and the encouragement of foreign investment with local participation.

### **Infrastructure**

The quality of infrastructure is generally good with a state-of-the-art telecommunications system and one of the best natural harbours in the Pacific at Pago Pago. The port has a broad range of facilities and there are good shipping links with the US, Japan, Australia, New Zealand, and a number of other Asian countries and Pacific Islands. A small number of airlines provide passenger and cargo air services to the US and other Pacific destinations.

*Note: Even by Pacific Islands' standards, economic data covering American Samoa is extremely limited.*

## Political Background

The Cook Islands became independent in 1965 and is a self-governing country "in free association" with New Zealand. In terms of this arrangement, Cook Islanders have the right of free access to New Zealand. The head of state is the British monarch. There is a unicameral parliament consisting of 24 elected members serving a term of 5 years. Along with the parliament, a House of Ariki (Chiefs), established in 1966, advises the government on land use and customary issues. Local government comprises island councils, district councils and village committees.

Government tends to be unstable, particularly since the near-deadlocked 1999 election. In the last election, held in September 2004, the Democratic Party, led by Dr George Woonton, won 14 seats, the Cook Islands Party won 9 and one independent was returned. Petitions were lodged against the results in 13 seats and a period of uncertainty followed, during which the Democratic Party split and Dr Woonton's seat was declared vacant following a recount. The situation was resolved in December 2004 when a new party, the Demo Tumu Party, led by Mr Jim Marurai, was able to form a government.

In a referendum held at the same time as the last election, a proposal to reduce terms of parliament from five to four years was passed. Advocates of political reform also propose a reduction in the number of MPs and a ban on party-hopping.

## The Economy

The Cook Islands suffers from the common development constraints associated with geographical isolation and dispersion of small population centres among 15 islands, limited natural resources and a scarcity of skilled labour. Emigration, driven by political uncertainty and limited economic opportunities exacerbates the skills shortage. The population in 2003 was estimated at 18,400, compared with about 60,000 Cook Islanders living in New Zealand and 20,000 in Australia.

Tourism, mainly centred on the largest island of Raratonga, accounts for around 40% of GDP and is the main industry in the Cook Islands. The number of visitor arrivals in 2003 was 78,000 – about 40% from New Zealand and a quarter from Europe.

The high dependence on tourism leaves the Cook Islands vulnerable to global forces, such as terrorism, which affect the industry. Also, the industry depends on continued services by Air New Zealand, which carries the majority of its visitors. Another risk is that, like many of its

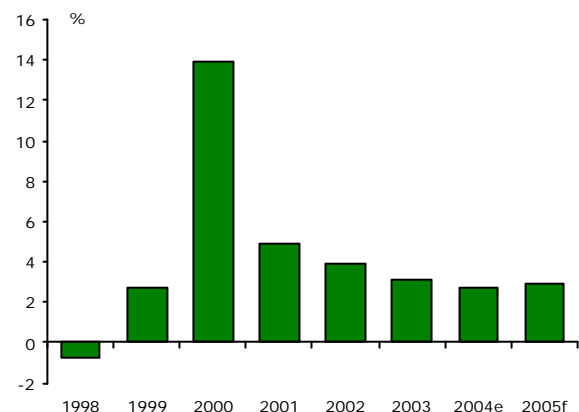
Pacific neighbours, the country is vulnerable to cyclones.

The Cook Islands' main exports are seafood, pearls, fresh fruit and handicrafts while the principal imports comprise capital equipment, basic manufactures and fuel.

Pearl production is focused on the northern group atolls of Manihiki and Penrhyn. The black pearl industry once accounted for the vast majority of goods exports. However, earnings have been in decline in recent years, and have been overtaken by earnings from the export of fresh and chilled fish.

Estimates of GDP have been revised due to improved data collection and a change in the base year from 1990 to 2000. For 2004 and 2005, the Asian Development Bank (ADB) estimates growth of 2.9% and 2.4% respectively. These projections assume modest continued growth in tourism and fishing, and the beginning of a recovery in the pearl industry.

### Economic growth



Source: Asian Development Bank

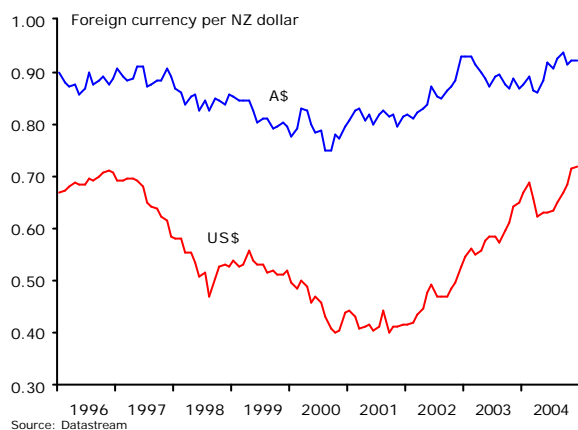
Between 1994 and 1996 the economy was in crisis, caused by large budget deficits financed by monetary expansion. The government defaulted on debts to Nauru and the ADB. A currency crisis led to the replacement of the Cook Islands dollar with the New Zealand dollar. A rescue package, called the Economic Reform Programme (ERP) was implemented with the support of the ADB. The program focused on reform of the public service, the sale of state assets, the stimulation of private sector-led growth and the strengthening of financial and economic management. The restructuring of the public sector was particularly painful, as some 30% of the workforce were government employees. As well as this, the country's tax regime was overhauled.

The ERP reforms have been relatively successful and have led to more effective economic management. However, the country still does not have a coherent national development

strategy and by 2003 there had been some backsliding, with a lax budget, continuation of some "transitional" taxation arrangements, a marked increase in the public sector wage bill and political interference in operational public sector matters.

The adoption of the New Zealand dollar has helped to stabilise prices, but inflation did rise to an average of 9.5% in 2001, due largely to a depreciation of the New Zealand dollar. According to the ADB, average inflation is likely to stay around 2% in 2004 and 2005.

### New Zealand dollar exchange rate



### Financial sector transparency

In 1998, the OECD included the Cook Islands on a list of 15 countries that engage in harmful tax practices. In response, and in line with the Economic Restructuring Program, the Cook Islands has committed to cooperate with the OECD to improve the transparency of its tax and regulatory systems and establish effective exchange of information for tax matters with OECD countries. A Financial Services Commission has been established to license and regulate trustee companies and banks which operate in the Cook Islands.

Despite the establishment of the Financial Services Commission and new regulations applying to offshore banks, the Cook Islands remains on the blacklist of the OECD's Financial Action Task Force (FATF) set up to combat money-laundering.

### Investment climate

The Cook Islands is endeavouring to diversify its economy. Priority has been given to the development of the marine resources contained within the Cook Islands' large Exclusive Economic Zone (EEZ), including black pearl farming in the Northern Group of Islands, as well as expanding its longline fishing capacity in tuna and billfish. Private sector investment is further encouraged by a loan from the Government to

the Bank of the Cook Islands to support commercial longline fishing. So far, many private operators have invested heavily and purchased new vessels, greatly expanding the fishing fleet. Another support measure is the exemption of levies on fuel, bait and equipment. Growth in the fishing industry is expected to continue into the medium term and has the potential to reap significant economic gains.

As with the fisheries industry, planned large-scale development in the tourism industry will require significant foreign investment and management. Investment is needed not only in accommodation facilities, but in basic services such as power, water and sewerage facilities.

### Direction of Trade – 2002 (% of total)

Exports		Imports	
Japan	44.1	NZ	79.1
Australia	22.1	Fiji	6.2
NZ	13.9	Australia	6.9
US	9.4	US	2.1

Source: Department of Foreign Affairs & Trade, Australia

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	3.9	3.1	2.7	2.9
CPI Inflation (average)	3.9	2.4	1.9	2.4
Budget Balance (% of GDP)	0.2	-3.2	n/a	n/a
Current Account Balance (% of GDP)	11.3	n/a	n/a	n/a

Source: Asian Development Bank

### Outlook

The economy is heavily dependent on tourism, and has been impacted in recent years by forces affecting the industry globally such as terrorism and SARS. More positively, the Pacific is regarded as a relatively safe destination. The industry is constrained by infrastructure, including basic capacities such as water and sewerage. It is also limited by flight connections and in this respect is at the mercy of commercial decisions that may be taken by the airlines serving the country.

## Political Climate

Ethnic tensions and political instability have marred Fiji's recent political history. Although there has been a period of political stability since the coup in 2000, a legacy is deep-seated antipathy between the government of Prime Minister Laisenia Qarase, which draws its main support from indigenous Fijians, and the opposition Fiji Labour Party (FLP), led by Mahendra Chaudhry, that draws support primarily from the ethnic Indian community. A long-running dispute concerning the representation of the FLP in the Cabinet appears to have ended when the FLP decided in November 2004 that it no longer wanted to join the coalition government. The next general election is due by November 2006.

Jose Madraiwiwi was sworn-in as Vice-President in January 2005 after his predecessor had been convicted of offences relating to the May 2000 coup.

## Real GDP growth estimates for 2003 and 2004 have been revised down

Real GDP is estimated to have risen by 3.0% in 2003, a sharp downward revision from an earlier estimate of 4.8%. The revision, announced by Finance Minister Ratu Jone Kubuabola in his 2005 Budget address in November, reflects lower-than-expected performance across several sectors including fishing, non-food manufacturing, and wholesale and retail trade. In addition, a number of construction projects have been delayed.

The sugar industry has been in decline for several years because of mill breakdowns and the non-renewal of leases, and drought in 2003. Uncertainties are exacerbated by the EU's plans to scale-back its preferential sugar price scheme, but the government is confident that the industry can survive the challenges of a more liberalised market and a 3-year reform and modernisation plan to ensure sugar's viability has been devised with technical and financial assistance from India. Concerns persist that implementation of reforms could be delayed by continuing disagreements between the government, cane growers, and millers.

There has also been a downward revision to the official estimate of GDP growth in 2004, from an earlier projection of 4.7% to 3.8%. If the latter figure is confirmed it will represent a modest improvement on the outcome in 2003, with the economy benefiting from a favourable international economic environment and strong economic growth in major export markets, such as Australia and the US. While GDP growth over the past couple of years has fallen short of earlier expectations, a fairly steady pace

averaging 3.5% per annum has been sustained over the past four years assisted by accommodative fiscal and monetary policies. But the downward revisions are disappointing, particularly when considered alongside earlier hopes that Fiji was set to enjoy a period of strong and sustained economic expansion.

Several aspects of recent economic performance still represent positive achievements. The tourist sector has performed strongly and is expected to continue to do so in the foreseeable future. Labour market conditions are improving, inflation is under control, the outlook for mining is benefiting from high gold prices, and the government reports that investment is rising after a long period of decline.

## Tourism is crucial to the diversification of the economy

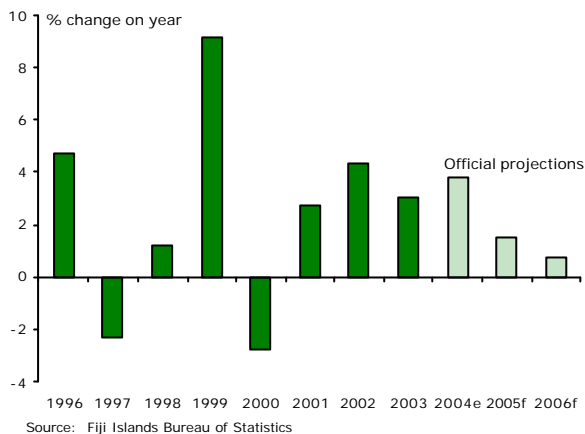
The tourist sector performed strongly in both 2003 and 2004. The number of visitors rose by 8.3% to a record 430,800 in 2003, assisted by the South Pacific Games. The average stay remained fairly steady over 2001-03 at around 9 days. Full figures for 2004 are not yet available, but it is already clear that a new record was established with the sector helped by the entry of low-cost airlines to the market. Partial figures show that the number of arrivals during January-August was up by about 17% from the corresponding period of 2003.

Prospects for tourism are good based on the Island's scenic beauty, wide range of water sports and other activities, and high-quality accommodation and resorts. The government recognises the importance of the sector, which contributes about 20% of GDP, and is committed to providing funds for infrastructure development projects and to promoting the sector. The outlook for tourism in 2005 will probably also benefit from the Tsunami disaster in Asia, but new accommodation is needed if recent growth is to be sustained.

## The government expects slower GDP growth in 2005 and 2006

There was further disappointing news with significant downward revisions in official GDP growth projections from 4.2% to 1.5% in 2005, and from 2.9% to just 0.7% in 2006. These unusually large revisions reflect a new assessment of the detrimental impact that the expiry of quota access to the US market, that had been available under the Multifibre Agreement until end-2004, will have on the garment sector. This industry also relies heavily on duty-free access to the Australian and New Zealand markets under the South Pacific and Regional Trade Agreement (SPARTECA)-TCF scheme, which has been extended to 2011.

### Real GDP growth



Consumer price inflation spiked higher to 5.4% in November 2003, its fastest since early-2001, partly due to the impact of higher food prices. The rise in inflation was short-lived, with the average annual increase declining from 4.2% in 2003 to 2.8% in 2004. The recent high level of international oil prices has added to price pressures over the past few months, but there has been some offset from spare capacity in some sectors of the economy. The underlying measure of inflation is subdued, rising by 1.6% in the year to December 2004.

The Reserve Bank of Fiji raised its official policy indicator interest rate by 50bps to 1.75% in May on concerns that the economy, after a period of sustained economic growth since 2000, might be reaching its growth potential. The Bank noted that strong consumption spending had been the main driver of economic growth over this period and it was no longer appropriate to maintain such an accommodative monetary policy stance. While emphasising that macroeconomic fundamentals are firm and the outlook for economic growth remains favourable, the Bank said that export-led growth would provide a strong foundation for future prosperity, but growth in commodity exports to date had been inadequate. In the light of the significant downward revisions in November 2004 to historical and projected GDP growth during 2003-06, the tone of some parts of the May 2004 policy statement about economic performance now appears to have been unduly positive. However, the emphasis placed on building exports of goods and services to bolster economic prospects remains appropriate.

### The budget aims to reduce the high cost of public sector salaries

The 2004 budget initially aimed to reduce the underlying budget deficit from about 6% of GDP in 2003 to 3.9% in 2004, but additional expenditure on health and education and the cost of unforeseen events, including flash flooding last April, is expected to be reflected in

an underlying budget deficit equivalent to about 4.8% of GDP. The 2005 budget again stresses the need for fiscal discipline and aims to reduce the underlying deficit to 4.3% of GDP, with government revenue projected to rise by 7% and expenditure by 4%.

In presenting the budget, the Finance Minister drew attention to the high cost of salaries and wages of the public sector which, at 11% of GDP compared to levels around 6-8% in many other countries, is reducing the government's ability to fund programmes in priority sectors such as health and education. The government is striving to reduce these costs by linking pay increases to productivity gains, but faces opposition from some trade unions. The budget emphasised the potential of small businesses to generate employment.

Medium-term objectives to which the government is committed are to raise its capital spending, which is expected to account for about 18% of total expenditure in 2005, to 30% of the total, and to raise investment's share of GDP from around 16% currently to 25%. The importance of developing new industries is recognised and recent successes in areas as diverse as mineral water, which has achieved significant success in export markets over a short period, the audio-visual industry, and financial and back-office services are encouraging.

### Direction of Trade – 2003 (% of total)

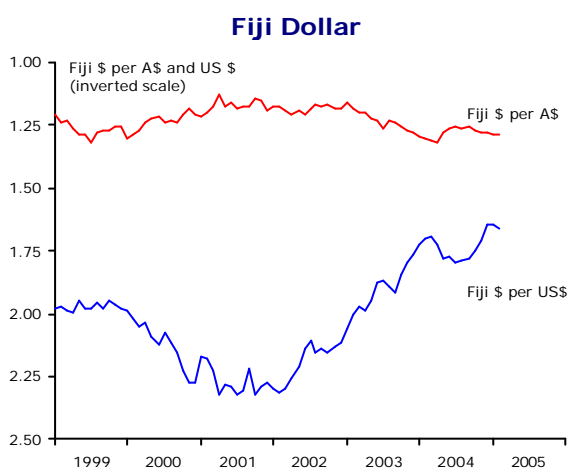
Exports		Imports	
US	23.7	Australia	35.1
Australia	18.3	Singapore	19.2
UK	13.6	NZ	17.2
Samoa	6.0	Japan	4.9
Japan	4.8	China	2.9

Source: IMF, Direction of Trade Statistics

Fiji records a large visible trade deficit, with exports and re-exports equivalent to only 62% of imports during 2001-03. The value of domestic exports has been on a declining trend over the past few years mainly reflecting a decline in the value of exports of garments. In 2003, garments remained the single most important source of merchandise exports with a share of almost 27%, ahead of sugar and fish that accounted for 24.5% and 9% respectively. Large visible trade deficits are offset by substantial net services income and remittances from Fijians living overseas. It has not been possible to reconcile pronounced differences in estimates of the current account balance. According to official statistics, there was a current account deficit equivalent to 2.2% of

GDP in 2003, but other sources, including the Asian Development Bank, report a much higher deficit, of around 10% of GDP, in 2003. The situation is further complicated by IMF data showing a small current account surplus in 2003.

Visible trade figures for the first 9 months of 2004 show that the value of exports, expressed in Fiji dollars, declined by 8.7% from the corresponding period of 2003, while imports fell by 7.5% over this period. International reserves, which rose from US\$358 mn at end-2002 to US\$424 mn by end-2003, reached US\$447 mn in November 2004, sufficient for approximately 3 months' imports of goods and services.



The Fijian dollar has been fairly steady against the Australian dollar over the past few years. In 2004, it appreciated by 1.1% against the Australian dollar and by 4.8% against the weaker US dollar.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	4.3	3.0	3.8	1.5
CPI Inflation (average)	0.7	4.2	2.8	3.5
Budget Balance* (% of GDP)	-7.2	-6.1	-4.8	-4.3
Current Account Balance (% of GDP)	1.1	-2.2	N/A	N/A

\* underlying balance; excludes loan repayments & asset sales

Sources: Asian Development Bank, Reserve Bank of Fiji, ANZ Bank

## Politics

Kiribati is a parliamentary democracy within the Commonwealth. The President is both Head of State and Head of government. In the July 2003 elections, Mr Anote Tong beat his older brother Dr Harry Tong by a narrow margin to become President.

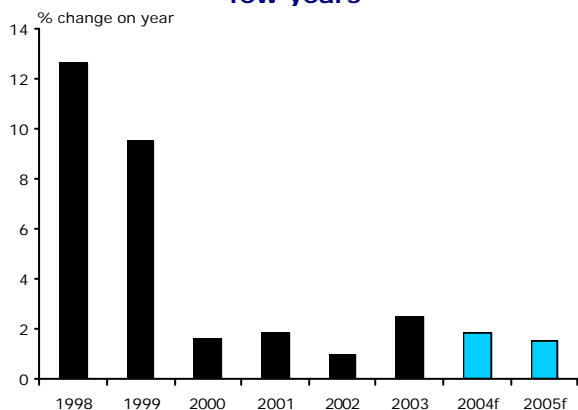
Kiribati established relations with Taiwan in November 2003, which led China to sever its relations.

## The environment is vulnerable to global warming

Kiribati is made up of 33 islands, of which 32 are only four metres above sea level, leaving much of the country extremely vulnerable to the rising tides expected to result from global warming. New legislation on the environment was enacted in 2002 and Kiribati will continue to work closely with international and regional organizations to secure agreement on environmental initiatives.

Kiribati has few natural resources, with copra and fish accounting for the bulk of production and exports following the exhaustion of commercially-viable phosphate deposits at the time of independence in 1979. Economic development is also hampered by weak infrastructure, geographical remoteness, a widely-dispersed population, and the small size of the domestic market. Kiribati remains heavily dependent on international aid.

### Real GDP has grown slowly over the past few years



Source: Asian Development Bank

There are several striking features about economic growth statistics for Kiribati. Firstly, there is a large difference in the size of GDP and GNP, with GNP usually 70-100% larger than GDP due to the inclusion of fishing license fees, investment income, and seamen's remittances. Secondly, GDP figures are subject to frequent and substantial revision.

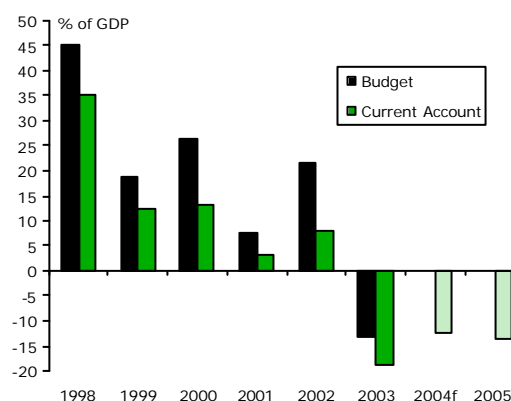
Real GDP growth in 1999, for example, has been revised up from an initial estimate of 2.3% to 9.5% while the outcome in 2000 has been revised from a contraction of 4.0% to growth of 1.6%. According to the latest estimates from the Asian Development Bank, the past few years have been characterised by slow GDP growth, which averaged 1.7% per annum during 2000-03. GDP growth of 2.5% in 2003 was the strongest since the surge in 1999 and was mainly due to a sharp rise in government spending ahead of elections in late 2002 and mid 2003. GDP growth in recent years has been held back by poor performance of the agricultural sector, with copra production declining. Despite stronger GDP growth in 2003, GNP is estimated to have fallen by 4.8% mainly due to a sharp decline in income from fishing licenses.

There is potential for tourism, but it is currently under-developed and the latest figures are disappointing showing annual declines in visitor arrivals of 11% and 14% respectively in 2002 and 2003.

Up-to-date unemployment figures are not available, but unemployment and underemployment are major problems. The Asian Development Bank estimated that less than 20% of the working-age population was formally employed in 2001.

Externally-funded public-sector projects are the main determinant of economic activity and employment. Projections by the Asian Development Bank in March 2004 envisaged real GDP growth of 1.8% and 1.5% respectively in 2004 and 2005. The government recognises that a comprehensive population policy, which includes family planning and emigration, is crucial for tackling high levels of unemployment, and creating conditions conducive to sustainable development and improved living standards.

### Sharp swings in the budget and current account balances



Source: Asian Development Bank

The fiscal position and balance of payments show substantial swings from year to year, reflecting the small size of the economy as well as its openness and reliance on "lumpy" items such as external grants and income from fishing licenses. This was clearly evident in 2003 when a fiscal deficit equivalent to approximately 13% of GDP was incurred, a spectacular deterioration from the 21% surplus generated in 2002. The deterioration was partly due to the decline in government revenues from lower fishing license income, but also reflected a massive 48% increase in development spending.

A Revenue Equalization Reserve Fund (RERF) is a significant source of income, in addition to providing a buffer against external shocks and means of helping to finance deficits and thereby ameliorating the impact of the big swings in the fiscal position. The value of the RERF rose from A\$576 mn at end-2002 to A\$593 mn at end-2003.

Estimates prepared in early-2004 envisaged a sharp reduction in the fiscal deficit to around 6% of GDP in 2004, with income from the RERF projected to benefit from an improvement in global financial markets while total expenditure was projected to decline assisted by a decision to cancel a lease on a commercial aircraft for the national airline.

### Inflation has declined

Kiribati uses the Australian dollar as the local currency and does not operate an independent currency system. Big moves in the Australian dollar can have a significant impact on inflation. The currency's decline in 2001 exacerbated inflationary pressures with annual inflation rising to 6.0%, but its subsequent appreciation helped to secure a decline in inflation to average 2.0% in 2003. Low inflation in 2003 also reflects low inflation in countries that are suppliers of imports to Kiribati, such as Australia and Japan, and price controls on petroleum products and some other basic goods.

#### Direction of Trade – 2003 (% of total)

Exports		Imports	
Japan	59.7	Australia	39.8
S. Korea	19.9	Fiji	23.0
Australia	5.5	Japan	8.7
US	5.4	New Zealand	8.1

Source: Asian Development Bank

Kiribati has abundant ocean resources and relies heavily on license fees from other fishing nations. Other foreign exchange earners comprise copra, live fish and seaweed, as well as

remittances from Kiribati citizens working abroad. Kiribati traditionally incurs a large visible trade deficit, which deteriorated sharply in 2003. The appreciation of the Australian dollar had an adverse impact on exports, which grew by 11.5% while imports rose by 23%. The impact on the current account was exacerbated by lower fishing license receipts and investment income, which resulted in a pronounced turnaround from a surplus equivalent to almost 8% of GDP in 2002 to a deficit of almost 19% in 2003.

External debt doubled between 1999 and 2003 from US\$8 mn to US\$16 mn (approximately 24% of GDP), but most is on concessional terms and the debt service ratio was modest at just 2% in 2002 and 2003.

The government's development policy is based on sound economic principles that recognise the role of the public and private investment in strengthening infrastructure and raising production, and also calls for the sustainable use of physical resources and adaptation to climate change, improved efficiency in the public sector, and strengthened governance of the RERF. There are plans to strengthen government revenues by introducing a VAT-style consumption tax.

The government introduced a number of reforms in 2003 to improve supervision and regulation of financial institutions, and to combat money laundering. There are concerns, however, about the poor standard of public-sector project evaluation and also about a rise in non-performing loans at the government-run Development Bank of Kiribati. Inflows of foreign investment have been disappointingly low over recent years and creating a more attractive environment for private sector investment, both domestic and foreign, is a major challenge for the government. The IMF has identified several sources of future economic growth including small-scale manufacturing for domestic consumption, tourism, and microfinance institutions.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	1.0	2.5	1.8	1.5
CPI Inflation (average)	3.2	1.4	2.3	2.5
Budget Balance (% of GDP)	21.4	-13.4	-6.0	N/A
Current Account Balance (% of GDP)	7.9	-18.7	-12.5	-13.7

Sources: Asian Development Bank, ANZ Bank

## Political Climate

Papua New Guinea is a Westminster-style parliamentary democracy within the British Commonwealth. The British monarch is the Head of State, and is represented in PNG by a Governor General. The unicameral National Parliament comprises 109 members - 89 representing local electorates plus the elected governors of the 19 provinces and the National Capital District. MPs serve five-year terms and the Prime Minister serves as the Head of Government. The National Executive Council (Cabinet), comprising the Prime Minister and other Ministers, determines policy.

There have been six general elections since independence, at five year intervals. With a fragmented party system and a relatively large number of independent MPs, every government has been a diverse multi-party coalition. Shifting party alignments and personal rivalries have produced instability, and no government has yet lasted a full five year term. On the other hand, there has never been an early general election, as on each occasion that a government has been brought down, MP's have simply re-arranged their alliances to form a new coalition. The "Organic Law on the Integrity of Political Parties and Candidates" was implemented in 2002 with the aim of improving political stability by prohibiting the practice of MP's switching parties after an election.

After the last general election, held in June and July 2002, Sir Michael Somare was elected Prime Minister for the third time. (He was PNG's first Prime Minister upon independence in 1975 and again between 1982 and 1985). Although gaining some protection by virtue of the "integrity of political parties" legislation, he has sacked some dissenting coalition members since his government was formed, and could thus be vulnerable to a no-confidence motion.

## Relations with Australia

Until the mid-nineties, Australian aid was paid into the PNG budget, which meant in effect the PNG government was in control of disbursements. In an important shift, Australia withdrew budgetary aid in favour of supporting only specific programmes and projects. The change was designed to improve the effectiveness of aid, through more rigorous project appraisal, financial controls and professional management through to completion. One consequence of this change was that the aid budget was under-spent, because of inadequate capacity in PNG, even with the secondment of Australian advisers, to meet the required technical, financial and managerial standards on a broad range of projects and programmes.

In 2004, a more radical change in the relationship was initiated. Following their involvement in restoring law and order in the Solomon Islands, the Australian and PNG governments negotiated a more hands-on approach to some of PNG's more entrenched problem areas. The new approach involves Australian police and bureaucrats being placed in line positions in the PNG public sector, in order to boost capacity and effectiveness. The new approach is called the Enhanced Co-operation Programme, or ECP, and was the subject of significant public debate over issues such as PNG's sovereignty and indemnity for Australian officers, before being endorsed by the PNG parliament.

## Bougainville

The giant Panguna copper mine on Bougainville was forced to close in 1989 as a result of attacks on mine property and staff by dissident landowners. Over the ensuing years the PNGDF was unable to subjugate the rebel groups. Eventually, in 1997, rebel groups and PNG government representatives met in New Zealand for talks on a ceasefire (the "Burnham truce"). After that, a peace process moved stutteringly forward, with further landmark agreements in Arawa (April 1998) and Townsville (February 2001), culminating in the signing of the Bougainville Peace Agreement in August 2001 and its ratification by the national parliament in February 2002. The agreement provides for greater autonomy than does the current provincial structure, and possible eventual independence. Bougainville, with the exception of the area around Panguna controlled by diehard leader Francis Ona, participated in the 2002 general election.

## The Economy

GDP fell for three consecutive years in the period 2000-02. This decline was mainly the result of resource depletion in the oil sector and intermittent production problems in mining, but 2001 was also a very bad year for agriculture. The economy began to recover in 2003, driven by stronger production of gold and copper, but commerce was subdued due to high and rising interest rates. In agriculture, coffee was constrained by poor infrastructure and low prices, but other crops such as palm oil and cocoa benefited from rising prices, and vanilla production surged in response to high prices resulting from a political crisis in Madagascar, the largest producer. The recovery broadened in 2004 thanks to strong commodity prices for virtually all of PNG's exports, and all sectors except oil and gas expanded.

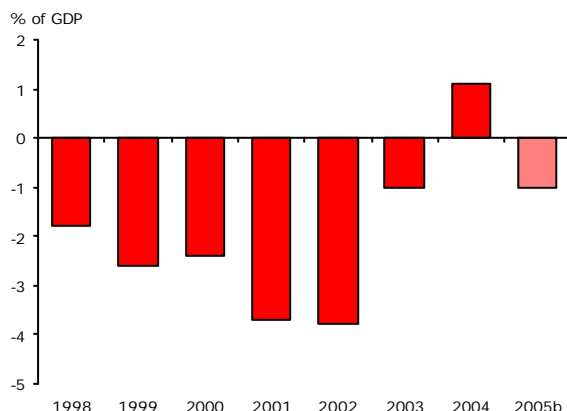
Inflation has moved through several pronounced cycles since the float of the kina in 1994, driven

by bouts of weakness in the currency and loose management of the government's budget. In the most recent cycle, headline inflation peaked at 20.7% over the year to the March quarter of 2003, despite the very weak economy over the previous three years. Inflation then declined rapidly from this peak, and the central bank began to encourage a decline in interest rates from August 2003. The latest headline inflation rate, over the year to September 2004, is just 1.5%. The two commonly used underlying measures are slightly higher at 2% and 3.1% respectively over the same period. Interest rates are now unusually low, with 182-day Treasury Bills yielding under 5%, the central bank's intervention rate (the Kina Facility Rate) at 7% and the major banks' prime rates in a range of 10.5% to 10.75%.

### Budget deficit has been reined in

Control over public spending has long been an issue in PNG. The budget for 2002, an election year, proposed significant increases in expenditure without commensurate increases in revenue. After the election, the new government brought down a mini-budget comprising both revenue measures and spending restrictions and contained the deficit to 3.8% of GDP. There was further consolidation in 2003, and in 2004, with revenue boosted by strong commodity prices, a surplus was achieved. The budget for 2005 is based on conservative assumptions – in particular on commodity prices significantly below current levels – so the target of a deficit of 1% of GDP seems readily achievable.

#### Budget Surplus/Deficit (% of GDP)

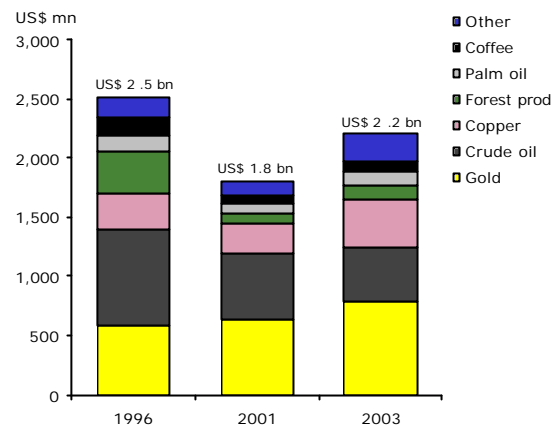


Source: Government of PNG: Budget Papers vol 1

### Balance of Payments

PNG's chief exports are gold, crude oil, copper, logs, palm oil, and coffee, while principal imports comprise machinery, transport equipment, manufactured goods and food.

### Composition of PNG's Exports



Source: Bank of Papua New Guinea

Export performance has been volatile. This has been driven partly by commodity prices and partly by changing production circumstances at the large mines which dominate the resources sector. The US dollar value of exports rose 27.5% in 2003, with most commodities recording positive growth. Imports in 2003 were subdued due to the continued weakness of domestic demand. As a consequence of these trends, the current account recorded a marked turnaround, from a deficit of 4.3% in 2002 to a surplus of 3.8% in 2003. The government estimates that a surplus of similar size was earned in 2004.

### Reserves have risen strongly



Source: IMF: International Financial Statistics

Thanks to the turnaround in the current account, PNG's international reserves have been built up significantly from the perilously low levels that prevailed in 1999. Reserves stood at US\$660 mn at November 2004 – equivalent to about 3.3 months of goods and services imports. External debt, according to the ADB, was US\$1,517 mn at the end of 2003.

The current account will benefit this year from production at the new oil refinery, which will displace imports of fuels. Also, crude oil production will be boosted as a small new field

ramps up. However, this will be only a temporary rise in production, and the downward trend will resume in 2006. Similarly, most of the existing mines are in decline. PNG will therefore need to develop new resources projects if it is to avoid a balance of payments constraint on its development in the future.

#### Direction of Trade – 2003 (% of total)

Exports		Imports	
Australia	25.6	Australia	44.6
EU	10.1	Singapore	20.6
Japan	7.4	NZ	7.7
China	5.8	China	5.0

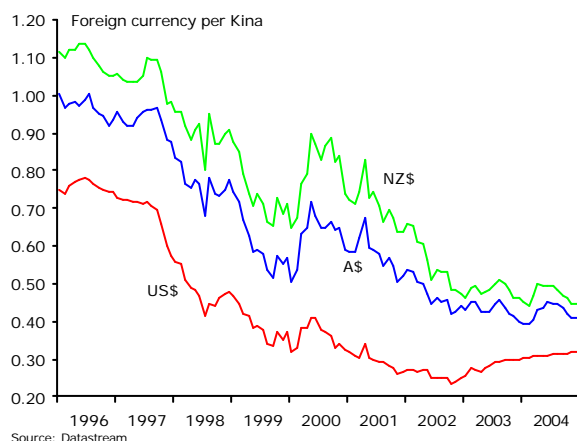
Source: IMF, Direction of Trade Statistics

Fortunately, the prospects for investment in new projects are looking better than they have for many years, with a number of small-medium mines committed and some larger ones under consideration by investors. Also, the proposed gas pipeline to Queensland, after many years of disappointment, has proceeded to FEED (front-end engineering and design) and the promoters are optimistic about signing customers for a sufficient volume to commit to construction. Nevertheless, there is some risk that these projects may not materialise. It is not difficult to envisage scenarios in which PNG's past history of political instability, loose fiscal management and depreciating currency re-emerge. In such circumstances, investors' willingness to carry exposure to PNG could once again unravel.

#### Exchange Rate

The kina is officially a floating currency, subject to controls on capital movements. The central bank intervenes in the thin foreign exchange market to smooth out fluctuations.

#### Kina exchange rate



The kina's long slide against the US dollar came to an end in late 2002, and the currency has since been on an uptrend, thanks to the current account surplus. The rise in the central bank's holdings of international reserves seems to suggest that, without official intervention, the currency would have risen even more strongly. Fluctuations against the Australian and New Zealand dollars reflect volatility in those currencies.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	-1.0	2.8	2.6	2.9
CPI Inflation (average)	11.8	14.7	2.1	4.2
Budget Balance (% of GDP)	-3.8	-1.0	1.1	-1.0
Current Account Balance (% of GDP)	-4.3	3.8	3.7	2.5

Source: Asian Development Bank.

## Stable Political Conditions

Samoa has developed a robust political system since becoming the first Pacific country to gain independence in 1962, underpinned by constitutional rule and regular elections. The ruling Human Rights Protection Party (HRPP), led by Tuila'epa Sa'ilele Malielegaoi, has embarked on an economic reform process, which is more ambitious than in other Pacific nations. However, the reform agenda of the government has led to concerns of income disparity between rural and urban areas, which has widened in recent years. Social problems, mainly drug and crime-related, have the potential to undermine the positive economic outlook.

The HRPP has governed Samoa for much of the past twenty years and, with 33 of the 49 parliamentary seats, there is no current threat to its political dominance. The next national elections are due by March 2006.

## The government has a firm commitment to economic reform

The economy is agriculturally-based and subsistence agriculture remains the primary economic activity. The main crops are coconuts, breadfruit, bananas, cocoa and taro. A livestock improvement programme is under way in order to reduce dependence on imported meat. Other economic activities include a small-scale manufacturing sector and tourism. It is estimated that there are more Samoans living abroad than living in Samoa and their remittances are a significant source of income that amounted to 20% of GDP in 2003.

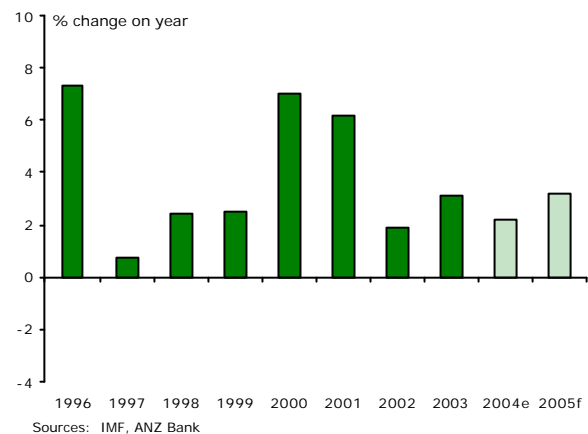
Samoa is vulnerable to bad weather and natural disasters, which are reflected in big swings in GDP growth and other economic variables such as inflation. Poor economic management hampered economic development in the early 1990s, but the economy has benefited from strong political leadership and sound economic policies since the mid-1990s. Samoa has become a more open economy and easier place in which to do business as the government has sought to boost the role of the private sector in order to foster more efficient allocation of resources. Economic reform has emphasised the need for greater efficiency in the public sector and has involved the rationalisation of government departments. The removal of business barriers and tariff and tax reform has improved the operating environment for business and helped to underpin a period of strong GDP growth above 6% per annum in 2000 and 2001.

The government is withdrawing from the marketing of agricultural produce and is gradually phasing out subsidies and price-

support measures that distort the market. It intends to gradually reduce its stake in state-owned companies, and in late 2004 was reported to be discussing the possibility of selling a minority stake in the loss-making Polynesian Airlines. Samoa is seeking to join the World Trade Organisation although it is unclear how quickly this objective will be achieved.

Despite progress in many areas over recent years, business continues to face some significant obstacles. The quality and reliability of basic utilities such as electricity, water, and telecommunications continue to be poor and can constrain business activity. Commercial development is also hampered through availability of land, but the government plans to review and update legislation concerning communal land ownership which could help to overcome some difficulties that hamper development of commercial agriculture and tourism.

## Real GDP growth



Real GDP rose by an estimated 3.1% in 2003, an improvement from 1.9% in 2002, led by growth in the services sector. Tourism had a good year in 2003, with arrivals rising by almost 4% to 92,300. The fishing industry, however, experienced a significant weakening in 2003 due to unfavourable climatic conditions.

## Economic growth in 2004 is hit by tropical cyclone Heta

Initial expectations that GDP growth would be around 3-4% in 2004 seem unlikely to have been met due to the severe damage that tropical cyclone Heta, which struck in January 2004, inflicted on crops, power, and transport and communications. The government estimates that GDP growth in fiscal year 2003/04 (July-June) fell to 1.7%. Although rehabilitation work following the cyclone will have been positive for economic activity, recent GDP growth projections for calendar year 2004 have been around 2-3%.

### The outlook for tourism is positive

Tourism does not appear to have been seriously affected by the cyclone, with arrivals during January-July 2004 up by 6% from the corresponding period of 2003, and local currency earnings from tourism rising by 22% over this period. Prospects for the tourist industry are good, with the construction of large hotels and smaller-scale boutique accommodation boosting the availability of up-market accommodation.

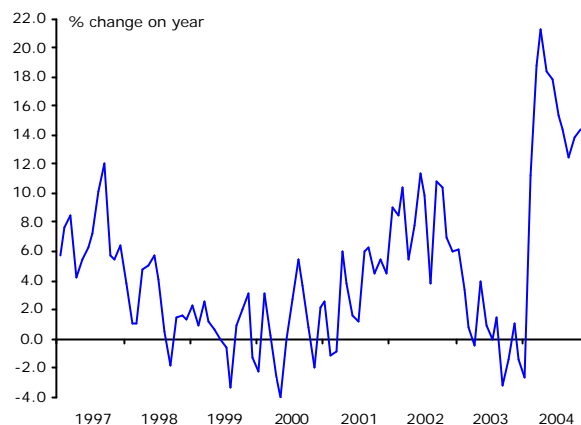
Economic growth in 2005-06 is expected to benefit from a number of construction projects in the public sector, with activity expected to gain momentum as facilities for the South Pacific Games, to be held in Samoa in 2007, are prepared. Fisheries production is expected to recover from its recent decline. There is potential for developing organic farming and Samoa plans to introduce international food standards for locally-produced crops, with the aim of boosting sales to export markets. Prospects for exports of nonu fruit, which is a traditional treatment for skin allergies and other ailments, seem particularly bright with export demand apparently well in excess of supply. Exports of garments have recently fallen sharply and prospects for this sector are poor due to increased low-cost international competition following the end of the Multi-fibre Agreement.

The recent record of economic growth in Samoa compares favourably with many other Pacific Island economies, but poverty remains a serious problem, which has been exacerbated by the recent decline in fishing. Many Samoans have inadequate access to basic services and it is estimated that some 20% of households have incomes below the poverty line.

### Inflation surged in early-2004 due to hurricane damage

Average inflation declined sharply from over 8% in 2002, when an increase in value-added goods and services tax had boosted inflation, to just 0.2% in 2003, the lowest annual result since 1995. However, cyclone Heta caused a local food shortage, which had a dramatic impact on prices. Annual inflation surged in early 2004, reaching a peak of 21.2% in March. Inflation subsequently fell back to 12.5% by August, with further falls expected over coming months as food supplies return to normal. There is, however, concern about energy prices reflecting both the high level of international oil prices and the adverse impact of recent dry weather on the supply of hydroelectricity.

### Consumer price inflation



The budget deficit, which declined from 2.1% of GDP in fiscal year 2001/02 to 0.6% in 2002/03, was projected to rise to 1.5% in 2003/04, but it is not clear what impact cyclone Heta had on the outcome. Over 90% of the deficit was expected to be financed by concessional external finance.

Samoa records a massive visible trade deficit with the value of exports usually equivalent to only about 12% of the value of imports. This large shortfall is offset by earnings from tourism and transfers from Samoans living overseas, but there are significant differences in estimates of the current account balance over recent years. Samoa has a high level of external debt, which was equivalent to 90% of GDP at end-2002 according to the World Bank. A significant proportion of external debt is on concessional terms, which helps to keep debt servicing costs down although up-to-date figures showing the debt service ratio are not available.

### Direction of Trade – 2003 (% of total)

Exports		Imports	
Australia	63.3	NZ	19.9
Indonesia	15.6	Fiji	17.7
US	5.0	Australia	15.5
American Samoa	2.3	Japan	11.9
NZ	1.6	Taiwan	10.6

Source: IMF, Direction of Trade Statistics

Samoa's main exports are fresh fish, garments, food crops, and beer. The local currency value of fresh fish exports fell by 46% in 2003, but this category remained the main export item accounting for about 36% of the total. Garments accounted for 30% of the total in 2003. There are also significant exports of motor vehicle wire harnesses to Australia. These are exported under concessional market-access arrangements and do not appear to be included in official trade data. As such the

proportionate shares of the export commodities mentioned above, which is from official data, are probably significantly over-stated.

Australia is Samoa's main export market by a large margin, but New Zealand and Fiji are more important sources of imports.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	1.9	3.1	2.2	3.2
CPI Inflation (average)	8.1	0.2	16.1	N/A
Budget Balance (% of GDP)	-2.1	-0.6	-2.5	N/A

Sources: IMF, ANZ Bank, Asian Development Bank

## Political Structure

The Solomon Islands has a unicameral national parliament, containing fifty members elected for four-year terms. The next election is due in early 2006. The country is divided into eight provinces, each with its own government, and one town council (Honiara). A draft replacement for the constitution has been drawn up by a government task force, with assistance from UN advisers. It envisages a federal system, with significant devolution of powers, phased in over ten years. The draft has been approved by cabinet and will be debated by Parliament in coming months.

## Conflict and Reconstruction

There is a history of tension on the main island, Guadalcanal, between local inhabitants and settlers from surrounding islands, predominantly Malaita. By mid-1999, the tensions had escalated to open confrontation between militant groups calling themselves the Malaita Eagle Force (MEF) and the Guadalcanal Revolutionary Army (GRA).

In June 2000, a coup, orchestrated by the MEF and renegade police officers, ousted the then Prime Minister Mr. Bart Ulufa'alu. An accord, the Townsville Peace Agreement (TPA) was signed in October 2000, which attempted to provide a framework for peace. Subsequently, elections were held in December 2001, under scrutiny of international observers. The People's Alliance Party, led by Sir Allan Kemakeza, was elected, and having been reinforced by defections from the opposition, appears to have a secure hold on government.

While there were fewer outbreaks of open conflict after the TPA was signed, the police force was weak and divided. From late 2002, violence, extortion and other forms of intimidation directed against officials by criminal groups had largely undermined the effectiveness of the administration. Many businesses on Guadalcanal closed because of the lack of security. The already-limited provision of electricity and telecommunications services was further restricted by damage to infrastructure.

In June 2003, Prime Minister Kemakeza asked Australia for assistance. An international intervention force was quickly arranged, backed by all 16 members of the Pacific Islands Forum (PIF) and unanimously approved by the parliament of Solomon Islands. In July 2003, the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI) arrived and quickly began to restore law and order. Tasks such as dealing with militants and criminals, the removal of weapons from communities, and the

strengthening of the Royal Solomon Islands Police Force were completed in a year.

In addition to restoring law and order, RAMSI was given responsibility for a Budget Stabilisation Programme. The main elements were: to establish controls over expenditure; to prepare a realistic budget for 2004, that would provide basic services and maintenance of infrastructure; to produce a debt management strategy that would address debt servicing difficulties; to clean up the public sector payroll; and to strengthen revenue collection.

By mid-2004, considerable progress had been made in these tasks. RAMSI's scope has now moved beyond budget stabilisation to broader issues such as public sector capacity and economic reform. It is expected that the task of building up public services and infrastructure to acceptable levels will take many years. Australia has committed to support and finance RAMSI for as long as necessary, but the agreement does provide for termination of the operation on three months notice by either side.

There is currently a "stocktake" on RAMSI underway. The government established a group, called the Intervention Taskforce, to produce a report reflecting community attitudes towards RAMSI. The report was favourable and recommended that the scope of RAMSI be broadened and that it remain for the long term. A cabinet committee has reviewed this report and issued its own statement arguing that expatriate advisers should be withdrawn and that RAMSI should be phased out in five years to be replaced by a normal bilateral aid relationship. In addition, the parliamentary committee on foreign Affairs has done its own report. All three documents have been the subject of, sometimes heated, debate in parliament.

It is likely that RAMSI will be in the Solomons for many years, and that its emphasis will continue to shift from policing to capacity-building in the public sector. There appears to be widespread community support for RAMSI, and this is acknowledged by many politicians. Some argue that those MPs who oppose RAMSI are fearful of possible exposure of past corrupt dealings. Most important, the prime minister fully backs RAMSI. He has fostered support for RAMSI among his own party and the opposition and has fired prominent dissenters from his cabinet.

## The Economy

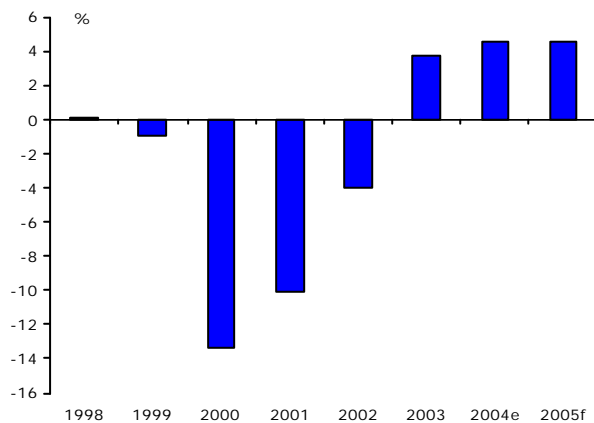
Agriculture is the mainstay of the economy, with about 90% of the population reliant on subsistence crops and nearly 90% of land held under traditional land-tenure arrangements. The share of agriculture in GDP rose sharply

from 42% in 2000 to 62% in 2002, as lawlessness crippled activity in the modern sector. In the period 1999-2002, government services collapsed, plant and equipment was vandalised, plantations were neglected and there was extensive damage to infrastructure. In this period the economy contracted for four consecutive years, declining by a cumulative 26%.

Traditional exports are timber, copra, cocoa, palm oil and fish, but the composition has fluctuated widely over the years, due mainly to supply factors, but also, in the case of timber, the collapse of demand during the Asian crisis of 1997-98. In 2002, timber was by far the largest export, bringing in 67% of total export earnings. It is likely to lose this dominance as the government moves to reduce illegal logging, and as production of other products rises.

Small-scale and subsistence agriculture have rebounded quickly in the more peaceful and secure environment. Cocoa, copra and fishing are recovering. However, the rehabilitation of infrastructure and the restarting of major businesses such as the Gold Ridge mine (closed in mid-2000 after only two years of operation) and the CDC palm oil plantations, (abandoned in 2002), will require significant capital. Foreign aid and investment<sup>2</sup> will be of considerable assistance.

### Economic growth



Source: Asian Development Bank

### Progress made on the budget

Throughout the nineties, large budget deficits were incurred. The government was frequently unable to meet its domestic debt service commitments, placing the financial sector under extreme pressure.

In mid-2000, a donor-sponsored economic reform program was suspended following the

<sup>2</sup> A PNG company, New Britain Palm Oil, has invested in, and intends to rehabilitate the CDC palm oil plantations in central Guadalcanal.

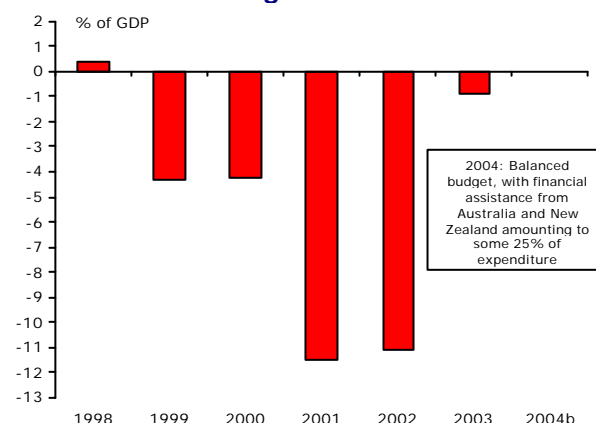
political and ethnic instability. Donor support had been providing a vital source of external financing. The Government was consequently unable to make wage and salary payments, precipitating strikes by teachers, as well as hospital and airport staff. The ADB records deficits in excess of 11% of GDP in both 2001 and 2002.

By November 2003, with RAMSI input, the government finalised its National Economic Recovery, Reform and Development Plan, 2003-2006. The plan sets out an ambitious programme to improve the effectiveness of government, and which involves boosting resources in many critical areas rather than downsizing.

As part of the implementation of the 2004 budget, staff were redeployed to improve compliance by tax-payers and reduce unofficial spending by government departments. A task force was established to investigate tax fraud, and, in January 2005, the long-serving Commissioner of Inland Revenue was arrested on charges of granting illegal tax exemptions.

Australia and New Zealand contributed approximately 25% of budgeted expenditure in 2004, producing a balanced budget. Expenditure was prioritised towards key service areas such as health and education, and the expansion of capacities in financial administration, law and justice. Some 21% of revenue was directed to debt servicing, but this was insufficient to prevent further accumulation of arrears. Arrears to trade creditors are a significant inhibitor of business confidence.

### Budget Deficit



Source: Asian Development Bank

Financial indicators do not adequately reflect the economic crisis that the Solomons has endured since 2000. The currency has declined steadily but has not collapsed. Treasury bill rates were held in a 6-8% range and inflation remained in single digits. The latest inflation rate as measured by the Honiara Retail Price Index is 6.8%, for the year to August 2004. Interest

rates on bank deposit were very low – below 1% for most of the period – reflecting a moribund banking sector.

## Balance of Payments

The ADB estimates that exports grew by around 20% in both 2003 and 2004, but were still only around a half of their 1999 level. Reflecting the overall weakness of the economy, imports continued their sustained decline in 2003, before rising by about 20% in 2004.

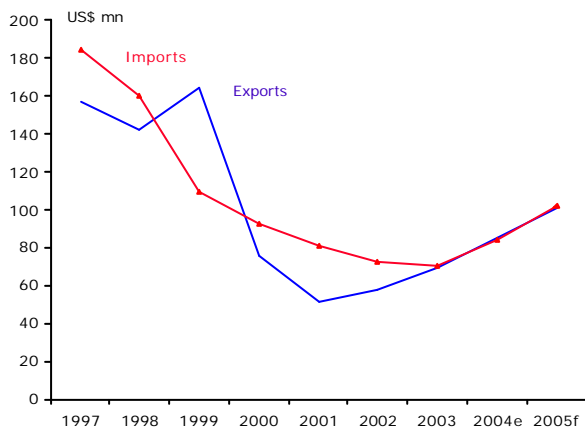
### Direction of Trade – 2003 (% of total)

Exports		Imports	
China	25.5	Australia	28.1
Japan	18.3	Singapore	23.7
S. Korea	14.2	NZ	5.1
Philippines	9.5	Fiji	4.4

Source: Economist Intelligence Unit

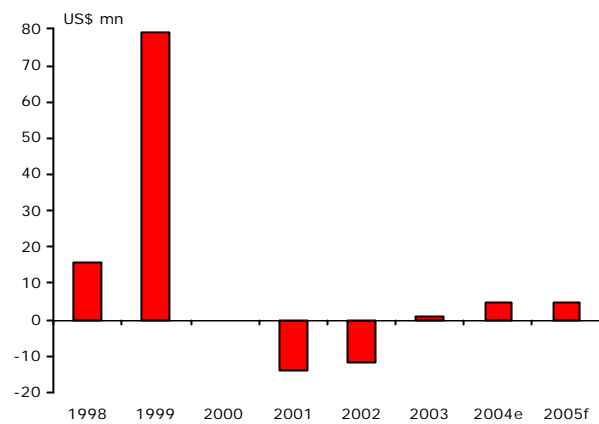
A huge current account surplus in 1999, equivalent to 25% of GDP, evaporated in 2000 and deficits were recorded in 2001 and 2002. Since then, the stronger export performance has produced small surpluses, estimated at 2% of GDP in 2004. The improved current position has been bolstered by capital inflows, leading to a significant improvement in reserves: according to the IMF, reserves at May 2004 were US\$56 mn (equivalent to eight months' merchandise imports), compared with just US\$22 mn a year earlier. External debt is estimated by the ADB at US\$159 mn at the end of 2003.

## External Trade



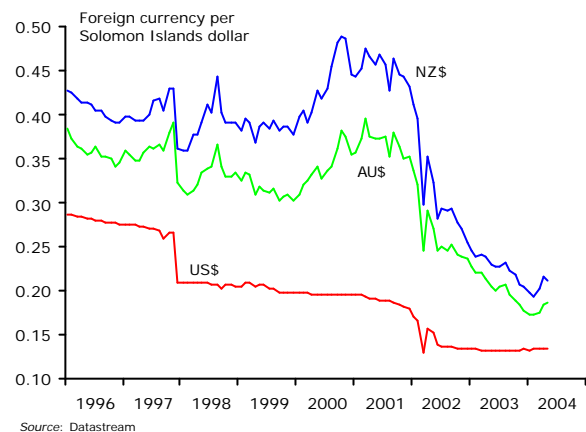
Source: Asian Development Bank

## Current Account Balance



Source: Asian Development Bank

## Exchange Rate



Source: Datastream

The Solomon Islands dollar has been held relatively stable against the US dollar since late 2002. Fluctuations against the Australian and New Zealand dollars reflect volatility in those currencies. Consideration is being given to abolishing the Solomon Islands dollar and adopting the Australian dollar as the official currency. A task force has been established to examine the advantages and disadvantages of such a move.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	-4.0	3.8	4.5	4.5
CPI Inflation (average)	7.3	8.3	6.0	6.5
Budget Balance (% of GDP)	-11.1	0.9	0.0	n/a
Current Account Balance (% of GDP)	-5.2	0.4	2.0	2.0

Source: Asian Development Bank.

### Encouraging progress in political environment but tough challenges remain

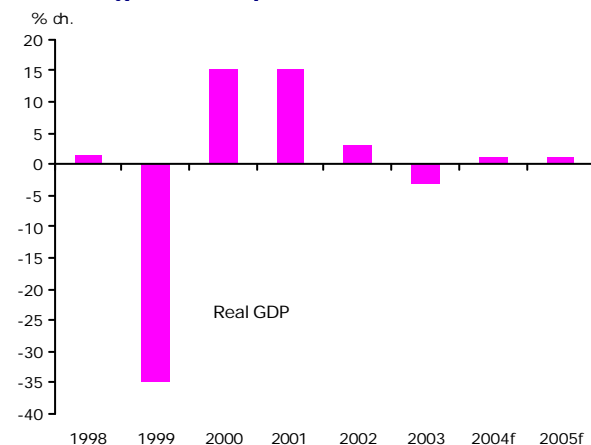
Formal independence on 20 May 2002 marked the end of the mandate of the UN Transitional Administration in East Timor (UNTAET). The UN Mission of Support in East Timor (UNMISET) was subsequently established to provide assistance to the government in areas such as public administration, law & order and security. Its mandate expires in May 2005. The remaining months will focus on ensuring a smooth transition of responsibility. The fledgling nation is, however, still likely to require international assistance.

Legislative elections were held in August 2001 and Fretilin (the Revolutionary Front for an Independent East Timor) secured 55 of the 88 seats. PM Mari Alkatiri and his administration face the challenging task of lifting socio-economic standards, tackling corruption and strengthening institutions and judicial systems. President Gusmao, who received over 80% of the vote in April 2002 elections, remains hugely popular. Both the president and members of parliament are in office for 5-year terms.

### Economy expected to recover

After a strong rebound in 2000 and 2001 when the economy grew by 15% per year, real GDP slowed considerably in 2002 and contracted by 3% in 2003 as the reduction in the presence of UN staff and expatriates adversely affected activity. The economy is projected to have recovered over 2004 with growth likely to have been around 1% and real GDP is forecast to expand at a similar rate in 2005, supported by a pick-up in agricultural production. Timor-Leste will have to depend largely on its non-oil economy (eg. agriculture, tourism) as gains from its rich oil and gas reserves are only likely to be felt over the medium term.

### Modest growth expected in 2004 and 2005



Source: IMF

Annual average inflation has improved in recent years apart from the drought-induced surge in prices in late 2002-early 2003. It is forecast to moderate to around 3.5-4% in 2004 and 2005 from 7.2% in 2003.

### Inflation eases

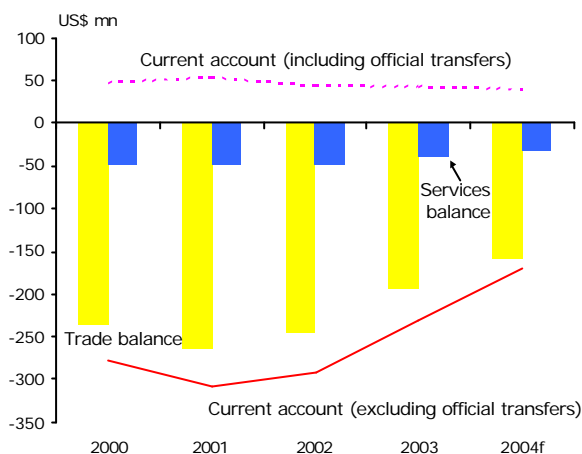


Sources : IMF

International donors have been encouraged by the government's fiscal prudence. Weaker-than-projected oil & gas revenues and an effort not to exert further pressure on the financing gap prompted the government to tighten projected expenditure in FY2004/05 (July-June) through to FY2006/07 from the estimates made during the 2003 mid-year budget review. The deficit for FY2004/05 is forecast to narrow to US\$8 mn (2½% of GDP) from an estimated US\$15 mn (4½% of GDP) in the previous year. Donor grants are likely to continue to largely cover the financing gap.

The trade deficit is substantial. According to the IMF, the trade shortfall was estimated at US\$195 mn (57% of GDP) in 2003. Coffee is the main export accounting for over 80% of total exports. Oil and gas revenues are excluded from exports but are instead recorded under income (royalties) and transfers (tax revenues) due to insufficient data on the sector (eg. production, exports).

Excluding official transfers, Timor-Leste runs large current account deficits. In addition, to the huge trade deficit, Timor-Leste also incurs a relatively small services deficit (about a fifth of the merchandise trade deficit in 2003). The current account shortfall was estimated at 67% of GDP in 2003. Official transfers, however, more than cover this shortfall. Including transfers, the current account reverts to a surplus. In 2003, the surplus was around US\$43 mn (13% of GDP). According to the IMF, this surplus is forecast to narrow over 2004 and 2005.

**Substantial merchandise trade deficit**

Sources: IMF

Timor-Leste adopted the US dollar as its official currency in 2000. Timorese coins were introduced in November 2003 in denominations of 1,5,10,25 and 50 centavos to facilitate smaller transactions. Operating under a US dollar currency regime has helped to improve financial confidence but has constrained the scope for monetary and exchange rate policies.

In terms of private sector development, there is wide scope for foreign investment in areas such as the construction of basic infrastructure, provision of business services and resource development. Nevertheless, a basic regulatory framework for business needs to be set out (eg. foreign investment, property and land ownership rights etc).

**Timor Gap dispute persists**

The revenue generated from oil & gas reserves in the Timor Sea is vital for the future economic advancement of the country but disputes over revenue sharing and maritime boundaries with Australia persist.

Under the Timor Sea Treaty, the Timor Gap is divided into three areas: the Joint Petroleum Development Area (A), area under Australian jurisdiction (B) and area under Timor-Leste's jurisdiction (C). In the Joint area, revenues are shared with a 90-10 split in favour of Timor-Leste. Major oil & gas fields discovered include the Elang-Kakatua-Kakatua-North, Bayu-Undan and Greater Sunrise fields.

Development of the Bayu-Undan field, which is located within the Joint area, began in 2000 and production of liquids started last year. The exploitation of oil & gas reserves in this field is estimated to generate revenue of around US\$3 bn over 20 years for Timor-Leste.

The failure of talks held late last year between Australia and East Timor over the sharing of oil & gas revenues in the Greater Sunrise gas field

has threatened the development of the project. Project operator, Woodside Petroleum, has indicated that further financial commitment and labour resources have already been held back following the lack of fiscal and legal certainty with this project. The Greater Sunrise field is estimated to be able to produce some US\$22-25 bn in revenue. However, only about 20% of this field is within the Joint area while the rest is located in waters claimed by both countries.

Separately, a seismic survey for oil & gas exploration is being conducted by China National Petroleum Corp. and Norway's Geo Global Services. This will provide a clearer idea of the size of East Timor's oil & gas reserves and paves the way for large-scale foreign investment in the oil & gas industry. The petroleum law, which allows for production sharing contracts and financial and tax incentives, was approved by parliament in December. An international roadshow is planned for Q2 2005, and the first licensing bid round is expected in the second half.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	3.0	-3.0	1.0	1.0
CPI Inflation (average)	4.7	7.2	4.0	3.5
Current Account Balance* (% of GDP)	12	13	12	9
Budget Balance* (% of GDP)	-6.1	-4.4	-2.4	2.2

2002: relates to FY2002/03 fiscal year beginning July

+: including official transfers

Sources: EIU, ADB, IMF, ANZ Bank.

### Political reform receives a significant lift

In a major step towards political reform, the Prime Minister announced in November 2004 that the cabinet would be expanded to 16 from 12. Of the four additional ministers, two would be chosen from the directly-elected "commoner" members of parliament (MPs) following general elections scheduled for March 2005 and the other two would be selected from the nine noble MPs. The legislative assembly comprises the cabinet<sup>3</sup>, nine of 33 nobles (chosen by their peers) and nine representatives elected by the people for 3-year terms.

While this move is unlikely to diminish the royal family's hold on power, it is expected to help alleviate growing domestic and international pressure for a more democratic system. The Human Rights and Democracy Movement (HRDM), an active opposition force in Tonga, which won seven of the nine seats in the March 2002 elections, continues to campaign for a fully-elected parliament.

### Economy grows at sluggish pace

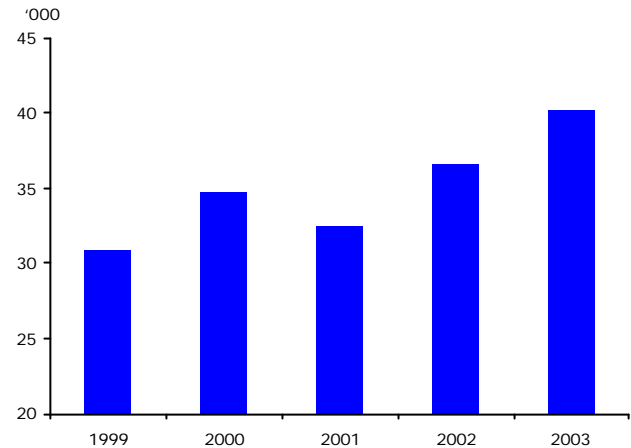
Tonga is a small economy with a narrow export base. It is heavily reliant on remittances from Tongans abroad, which is the top foreign exchange earner. According to the World Bank, remittances were estimated at US\$52.5 mn in 2002, about 38% of GDP. The other main foreign exchange earners are agriculture, fisheries and tourism.

Agriculture (including forestry and fisheries) represents about 30% of GDP. The main cash crop is squash. Other cash crops include vanilla beans and kava. Crop output and fishing activity have been vulnerable to poor weather conditions (cyclones). According to the ADB, agriculture output recovered strongly in FY2000 (year ended June 2000), growing by 10.6% after two successive yearly declines, but grew at an average rate of 0.8% per year during FY2001 to FY2003.

Tourism accounts for about 15% of GDP, among the highest after Cook Islands (47%) and Vanuatu (17%). According to the South Pacific Tourism Organisation, tourist arrivals rose by 9.6% in 2003 to around 40,000. However, visitor numbers were down during the first half of 2004 due in part to the collapse of the state-owned Royal Tongan Airlines in April 2004. The introduction of a "one domestic airline" policy in August means that the tourism and export sectors will be increasingly reliant on international carriers.

Apart from a "millennium" boost bringing growth to 6½% in FY2000, the economy grew at an average rate of 2% per annum between FY1998 and FY2004. The trade and services sector benefited from millennium-related celebrations. A recovery in agricultural production and an increase in workers' remittances also helped to lift real GDP growth in FY2000.

### Visitor arrivals



Source : South Pacific Tourism Organisation

The government revised downwards its estimate for FY2004 to 1.6% from 2.6% reflecting in part weak squash prices and a poor fish catch. Nevertheless, real GDP is estimated to have grown by around 2.3% in FY 2004. A pick-up is expected for FY2005 to around 2.8%, supported by a recovery in agricultural output.

Inflation rose from 4.9% in 1999 to an estimated 11% in 2004. High oil prices, a depreciating currency and increases in tariffs on selected imports have fuelled price pressures.

According to the IMF, Tonga's fiscal position has deteriorated from 0.3% of GDP in FY2000 to about 3% in FY2003. In the budget, the fiscal shortfall was estimated at ½% for FY2004 but is likely to have been wider as the cost of the collapse of the Royal Tongan Airlines adversely impacted public finances.

Tonga's trade deficit is large with imports around three times greater than the value of exports. The US and Japan collectively account for over 80% of Tonga's exports. New Zealand, Fiji and Australia account for about 75% of its imports. The main imports are food, fuel, minerals and machinery & transport equipment. The services account is also in deficit. However, a surplus in the transfers account, mainly reflecting remittances, has helped to improve the current account balance. In FY2002, the current account shifted to a surplus due to the large inflows of remittances from Tongans abroad but slipped into a deficit in FY2003 as the trade shortfall widened.

<sup>3</sup> The cabinet is appointed by the King who traditionally selects ministers from outside parliament who then become MPs.

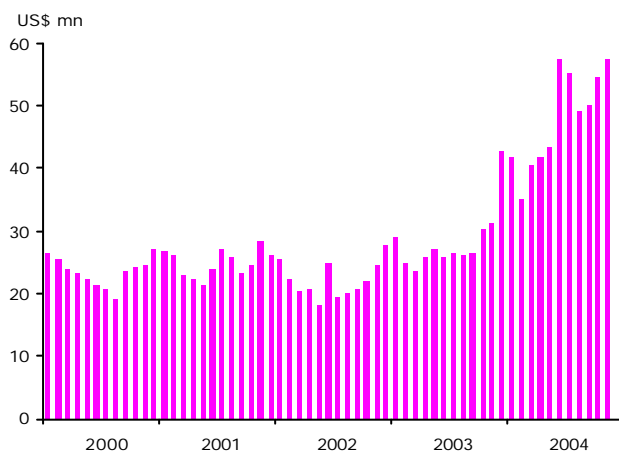
## Direction of Trade – 2003 (% of total)

Exports		Imports	
US	49.0	NZ	43.1
Japan	3.4	Fiji	21.9
NZ	3.1	Australia	11.2
Italy	2.2	US	6.3
Hong Kong	1.7	China	2.3

Source: IMF, Direction of Trade Statistics

Foreign reserves increased significantly in 2004. As at November 2004, reserves were US\$57 mn against US\$31 mn as at November 2003.

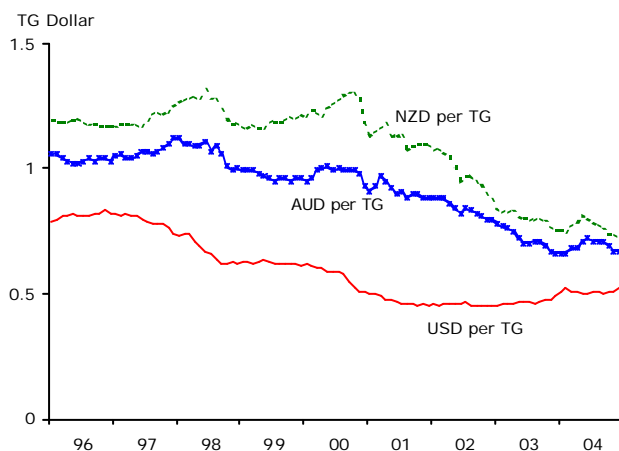
## Significant rise in reserves in 2004



Source: IMF

The Tonga dollar appreciated by some 6% against the US dollar between December 2003 and December 2004 but rose more slowly against the Australian dollar (1.8%) and weakened against the New Zealand currency.

## Currency Trends



Sources: IMF, Datastream

Economic Data+	2002	2003	2004e	2005f
Real GDP Growth	1.6	1.9	2.3	2.8
Inflation	10.3	11.6	11.2	na
Current Account Balance (% of GDP)	4.9	-2.9	0.8	na
Budget Balance (% of GDP)	-1.5	-3.1	-0.6	na
Reserves (US\$ mn)	27.7	42.6	57.4*	

+: Fiscal years except inflation and reserves; FY2002: year ended June 2002

\*: November 2004

Sources: Economist Intelligence Unit, Asian Development Bank, International Monetary Fund.

## Fragile coalitions cloud political outlook

Weak coalition governments and changing party alliances have undermined political stability in Vanuatu. The election, held on 6 July 2004, saw no party secure an absolute majority in parliament. There was also a rise in the number of independents. Mr Serge Vohor, leader of the Union of Moderate Parties, was elected Prime Minister on 29 July. His term in office, however, was short-lived after he was defeated in a no-confidence motion in December, which was triggered by opposition to his attempts to grant formal diplomatic recognition to Taiwan. Mr Ham Lini, leader of the National United Party, was subsequently appointed Prime Minister. It remains to be seen if this government can provide some stability in a fragile political environment. On a positive note, Australia retracted its threat to withdraw all aid except for humanitarian assistance following tensions with Mr Vohor over corruption and governance concerns, as PM Lini agreed to Australia's demands on dealing with these issues. Australia is Vanuatu's largest aid donor and committed A\$31 mn for the year ending June 2005.

## Economy expected to expand at moderate pace in 2005

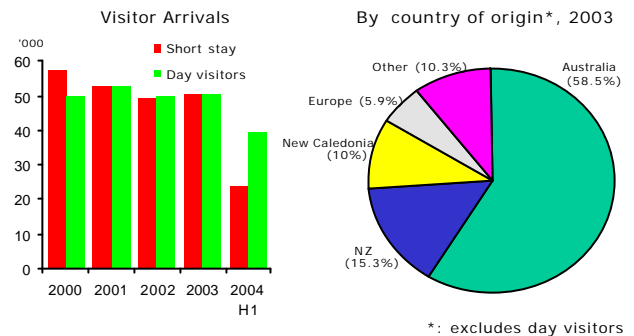
The economy emerged from two successive years of negative growth in 2003, with real GDP expanding by 1.8%. It is estimated to have continued to grow in 2004 to around 2½%, aided by the agriculture sector (including fishing and forestry) and a pick up in tourism. Real GDP is forecast to expand by around 3% in 2005. Annual inflation has averaged 2.8% per year between 2000 and 2003. Inflation edged up to 3% in 2003 from 1.9% in 2002 due in part to the impact of higher duties on imported food, increase in alcohol and tobacco excise duties, higher education and health costs as well as a weaker currency against its main trading partners, Australia and New Zealand. Inflation is forecast to ease slightly to around 2½% in 2004 and 2005 as the one-off impact of import duties fades.

The agriculture sector, which accounts for about 20% of GDP, has been lifted by the rise in world prices for cocoa, copra and cattle. Coconut, cocoa, beef and timber are the main exports, accounting for more than half of total exports. While the prospects for the agriculture sector is positive, the outlook remains vulnerable to weather conditions. For instance, two cyclones that hit in 2001 caused significant damage to property and crops and led to a sharp deterioration in exports.

Tourism is another major foreign exchange earner. The number of non-resident short-stay

visitors grew by around 12% in the first half of the year against the same period in 2003. Cruises have become increasingly popular with cruise ship visitors, which fall under the category of day visitors, rising by over 60% in the first half of 2004 compared with the same period in 2003. The tourism sector was given a boost in the third quarter of 2004 by an expansion of air capacity with the launch of Pacific Blue in September and an additional aircraft leased by Air Vanuatu. Vanuatu has also benefited from the success of the "Survivor" TV series, which was filmed in Vanuatu in mid-July. In addition, Air Pacific, Fiji's national airline, has begun a weekly service with a schedule that links in with its long-haul service to the US and Japan which should help to encourage more visitors from these destinations.

## Visitor arrivals hold steady



Sources: Vanuatu Statistics Office, Reserve Bank of Vanuatu

This year has been declared the national year of tourism in Vanuatu. This should lead to greater marketing efforts, which would be a boon to the tourism industry. However, further infrastructure development is essential to cope with increasing demands on accommodation and transport (eg. airport upgrades).

A fiscal surplus is expected for 2005, similar to that in 2004. Government recurrent expenditure is budgeted to rise this year reflecting in part the addition of four government ministries. On the revenue side, the Minister of Finance has proposed to drop the unpopular bank debit tax and to raise the threshold on business turnover tax in a bid to improve tax compliance.

According to the IMF, Vanuatu has recorded successive current account deficits for more than a decade. Merchandise imports have traditionally been significantly larger than exports, resulting in substantial trade shortfalls. Vanuatu's main imports comprise machinery & transport equipment, food & live animals and mineral fuels. Australia is the largest supplier, accounting for over 40% of total imports, followed by New Zealand (14% in 2003).

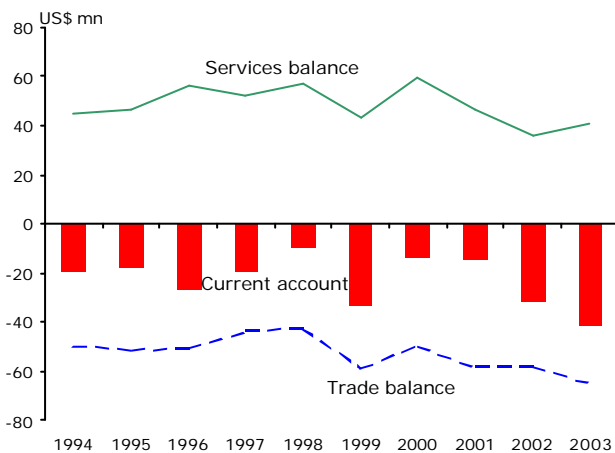
## Direction of Trade – 2003 (% of total)

Exports		Imports	
India	32.8	Australia	15.2
Thailand	25.5	Japan	10.6
Indonesia	9.6	Singapore	7.6
Japan	7.5	NZ	5.8
Australia	3.6	Fiji	5.0

Source: IMF, Direction of Trade Statistics

Exports are likely to pick up, supported by high commodity prices and stronger agriculture output but imports are expected to stay strong, making it difficult to reduce the trade deficit by much over 2004 and 2005. The services account has been chalking up favourable surpluses but has not been sufficient to offset the merchandise and income deficits. The services surplus should strengthen in 2004 and 2005, supported by an anticipated rise in travel receipts. Overall, the current account shortfall is likely to narrow but stay relatively high.

## Substantial current account deficit

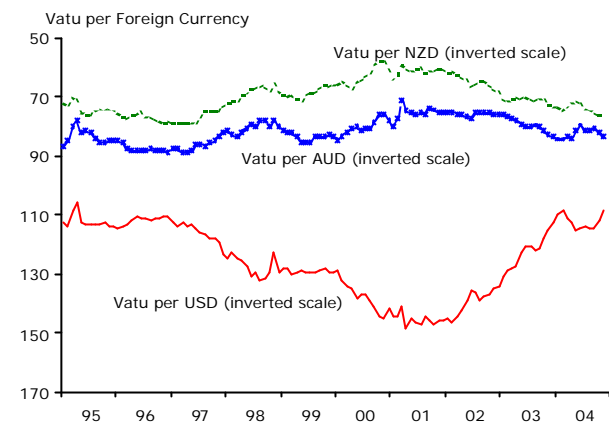


Sources: IMF, International Financial Statistics, Datastream

Foreign reserves rose to US\$58 mn as at November 2004, up 32.3% from the end of 2003, assisted by foreign aid inflows. Reserves in 2003 were equivalent to around 3.6 months of imports of goods and services.

In a bid to improve its offshore financial centre status, the Vanuatu government has sought to tighten the regulatory and supervisory framework for offshore banks and has committed to enhancing transparency. This assisted in the removal of the country from the OECD list of uncooperative tax havens in 2003. Vanuatu has also taken steps to improve the effectiveness of anti-money laundering measures.

## Currency trends



Sources: IMF, Datastream

The vatu is pegged against a basket of currencies. It came under pressure against the US dollar in 1997 and 1998 as the effects of the Asian crisis, currency devaluations in the region, the sharp deterioration in the budget in 1998 and riots in Port Vila took its toll on the currency. The vatu bottomed in 2001 against the US dollar and has appreciated by an average rate of 9% per annum between 2002 and 2004, largely reflecting the decline in the US dollar and a recovery in the domestic economy.

Economic Data	2002	2003	2004e	2005f
Real GDP Growth	-2.8	1.8	2.5	3.0
Inflation	1.9	3.0	2.6	2.5
Current Account Balance (% of GDP)	-13.2	-14.7	-12	-11
Budget Balance (% of GDP)	-3.2	-1.1	0.7	0.5
Reserves (US\$ mn)	36.5	43.8	53.8*	
Import Cover (Months)	3.5	3.6		

\*: October 2004

Sources: Economic Intelligence Unit, Asian Development Bank, International Monetary Fund, ANZ Bank.

## The Region in Profile

	American Samoa	Cook Islands	Fiji	Kiribati	PNG
<b>Population</b> (000s) (2004 estimate)	58	18	868	92	5,762
<b>GDP per capita</b> (2004 estimate) (US\$ mkt exch rate)	N/A	N/A	2140	760	690
<b>GDP growth</b> (2000-04 annual average)	N/A	5.7	2.2	1.7	0.2
<b>Government Budget Balance</b> (2003) (% of GDP)	N/A	-3.2	-6.1	-13.4	-1.0
<b>Inflation</b> (2000-04 annual average)	N/A	3.9	2.4	2.7	11.5
<b>Current a/c balance</b> (2003) (% of GDP)	N/A	N/A	-2.2	-18.7	3.8
<b>International Reserves</b> (2004 latest) (US\$ mn)	N/A	N/A	447.3 (Nov)	N/A	660 (Nov)
<b>Main exports</b>	Canned tuna	Seafood, pearls, fresh fruit	Garments, sugar, fish, gold, timber.	Copra, fish, fishing licences	Gold, crude oil, copper, logs, palm oil
<b>Main markets</b> (2003)	US	Japan, Australia, NZ, US	US, Australia, UK, Samoa	Japan, South Korea, Australia, US	Australia, Japan, China, Germany

Sources: Asian Development Bank (ADB), Economist Intelligence Unit, IMF, World Bank

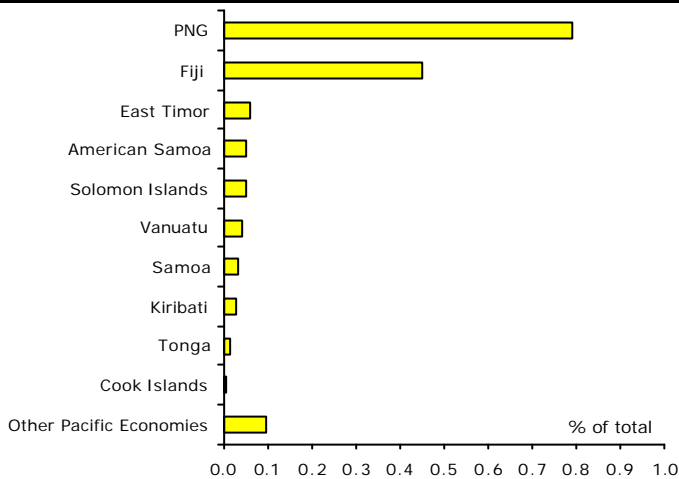
## The Region in Profile

	Samoa	Solomon Islands	Timor-Leste	Tonga	Vanuatu
<b>Population</b> (000s) (2004 estimate)	181	468	925	102	213
<b>GDP per capita</b> (2004 estimate) (US\$ mkt exch rate)	1,750	520	400	2,060	1,390
<b>GDP growth</b> (2000-04 annual average)	4.1	-3.8	6.2	2.4	0.4
<b>Government Budget Balance</b> (2003) (% of GDP)	-0.6	0.9	-4.4	-3.1	-1.1
<b>Inflation</b> (2000-04 annual average)	5.8	7.1	37.3	9.5	2.5
<b>Current a/c balance</b> (2003) (% of GDP)	-2.0	0.4	13.0	-2.9	-14.7
<b>International Reserves</b> (2004 latest) (US\$ mn)	88.7 (Nov)	56.2 (May)	N/A	57.4 (Nov)	58.0 (Nov)
<b>Main exports</b>	Fish, garments	Timber, fish, cocoa, copra	Coffee, oil & gas	Fish, squash, vanilla	Cocoa, beef, copra, timber
<b>Main markets</b> (2003)	Australia, Indonesia, US, American Samoa	Japan, China, South Korea, Philippines	N/A	US, Japan, NZ	India, Thailand, Indonesia, Japan

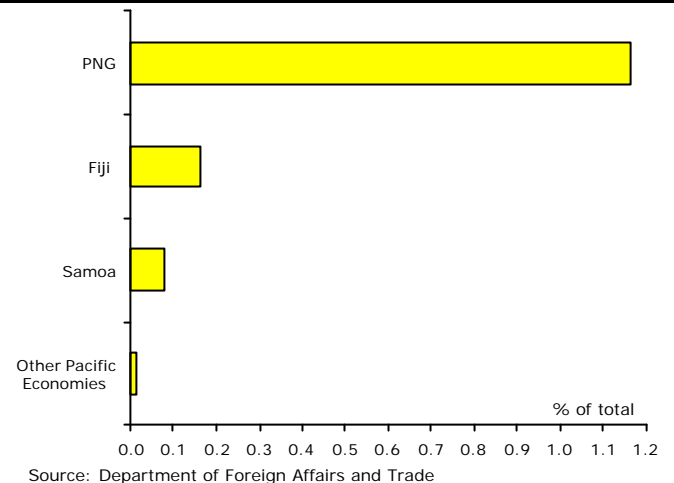
Sources: Asian Development Bank (ADB), Economist Intelligence Unit, IMF, World Bank

## Australia's Trade With the Pacific

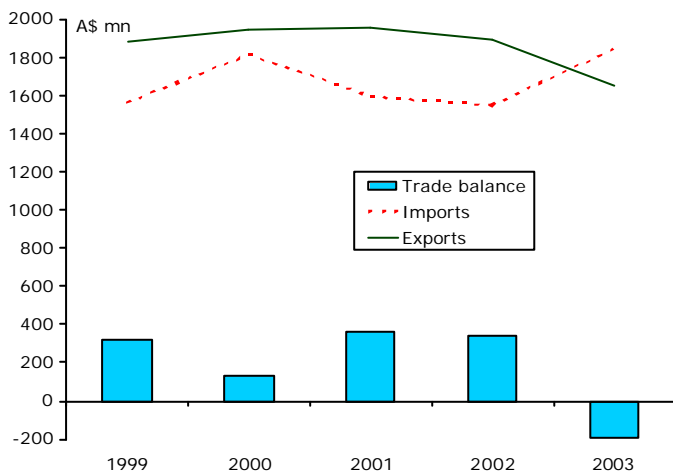
### Australia's main Pacific export markets in 2003



### Australia's main Pacific import sources in 2003



### Australia's Trade with the Pacific



### Australia's Trade with the Pacific in 2003

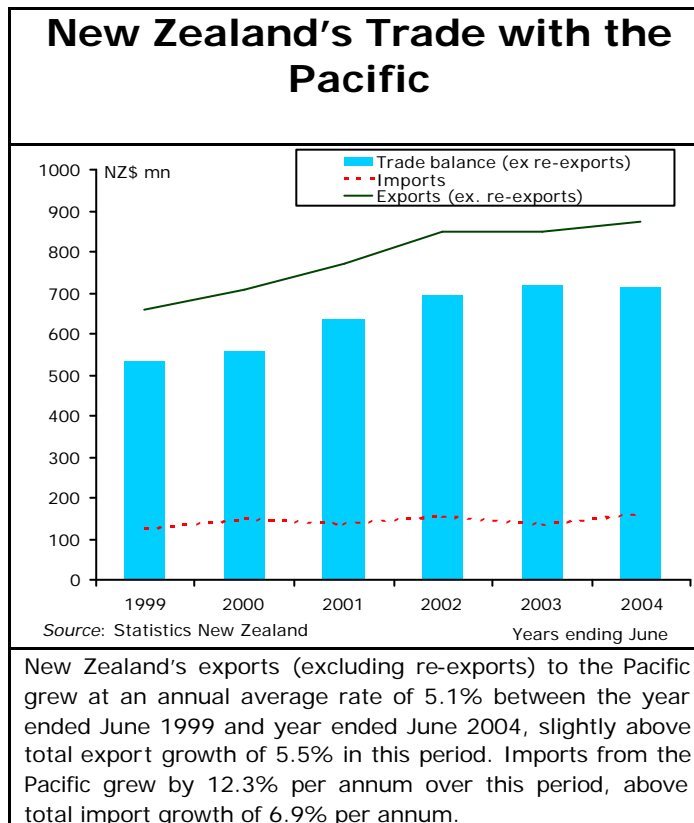
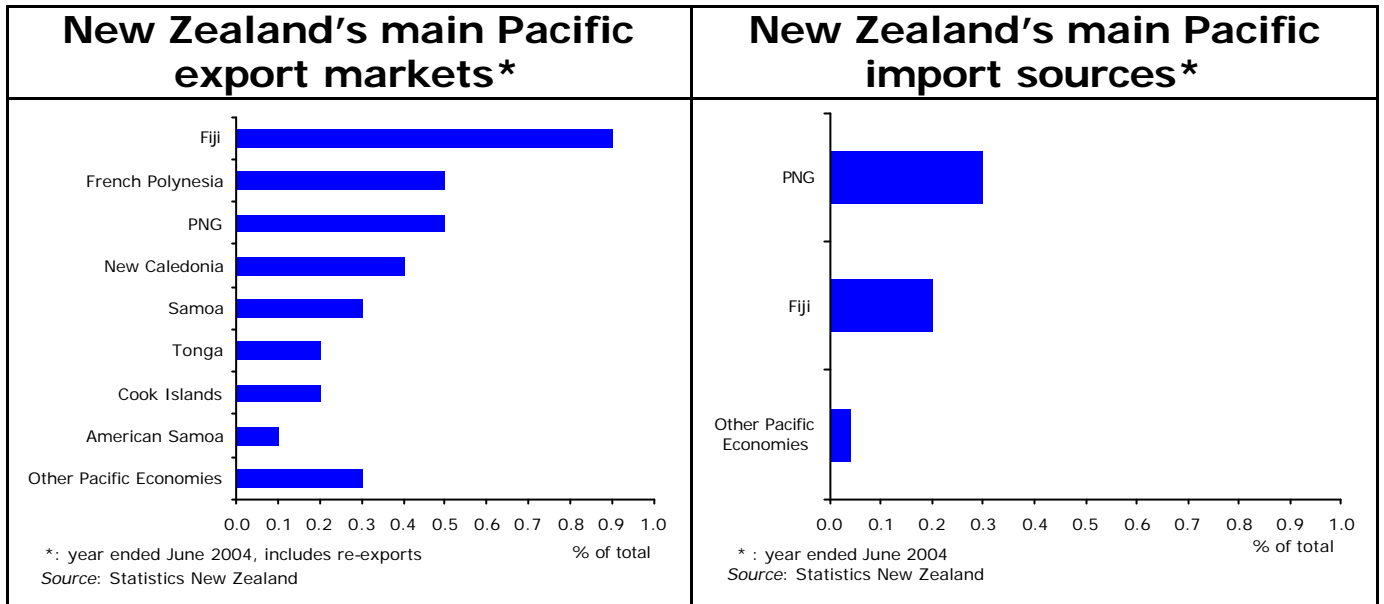
	% share of total
<b>Australia's exports:</b>	
Machinery & Transport	26.3
Petroleum	12.7
Food & live animals	11.3
Confidential Items*	8.3
<b>Australia's imports:</b>	
Non-monetary gold	55.6
Petroleum	25.8
Clothing/Footwear	5.9
Confidential Items*	5.0

\* includes wheat, other grains, various minerals, other commodities and products

Source: Department of Foreign Affairs and Trade

Australia's exports to the Pacific in 2003 were 12% below their level in 1999, a disappointing result when set against cumulative growth in total exports of 24% over this period. Imports from the Pacific in 2003 were 18% above their 1999 level, compared with cumulative total import growth of 28%.

## NZ Trade With the Pacific



ANZ is represented in:

**AUSTRALIA by:**  
Australia and New Zealand Banking Group Limited ABN 11 005 357 522  
10th Floor 100 Queen Street, Melbourne 3000, Australia  
Telephone +61 3 9273 6224 Fax +61 3 9273 5711

**UNITED KINGDOM by:**  
Australia and New Zealand Banking Group Limited  
ABN 11 005 357 522  
Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom  
Telephone +44 20 7378 2121 Fax +44 20 7378 2378

**UNITED STATES OF AMERICA by:**  
ANZ Securities, Inc. (Member of NASD and SIPC)  
6th Floor 1177 Avenue of the Americas  
New York, NY 10036, United States of America  
Tel: +1 212 801 9160 Fax: +1 212 801 9163

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

In Australia and the UK, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZ Bank"), which holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NZ").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ Bank), 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 being distributed in the United Kingdom by ANZ Bank for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ Bank is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer which ANZ Bank may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

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. 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.

In addition, from time to time ANZ Bank, 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), 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 Bank, 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 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 Bank, 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.

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

For further information, please email [Economics@anz.com](mailto:Economics@anz.com)