

Pacific Islands: Economic Outlook



**PFTAC Steering Committee
27 March 2018**

**Regional Resident
Representative's Office**



Recap – October 2017 WEO Projections

Real GDP (percent change y/y)	2015	2016	2017	2018	2019
Fiji	3.8	0.4	3.8	3.5	3.4
Kiribati	7.5	4.2	2.8	2.3	2.3
Marshall Islands	1.9	2.0	1.9	1.8	1.7
Micronesia	3.7	3.0	2.0	1.4	0.9
Nauru	2.8	10.4	4.0	-4.0	0.2
Palau	11.4	1.9	1.0	5.5	4.5
Papua New Guinea	9.2	2.4	3.1	2.9	2.6
Samoa	1.6	7.1	2.1	0.9	1.8
Solomon Islands	2.5	3.3	3.0	3.1	2.8
Timor-Leste	4.0	5.0	4.0	6.0	6.0
Tonga	3.5	3.1	3.1	3.2	2.9
Tuvalu	9.1	3.0	3.2	2.5	2.2
Vanuatu	1.6	4.0	4.5	4.0	3.5

Source: World Economic Outlook Update, October 2017.



Factors affecting Pacific Island economic growth outlook and risks

- External environment
- **Oil and commodity prices**
- Remittances
- Natural disasters and climate change

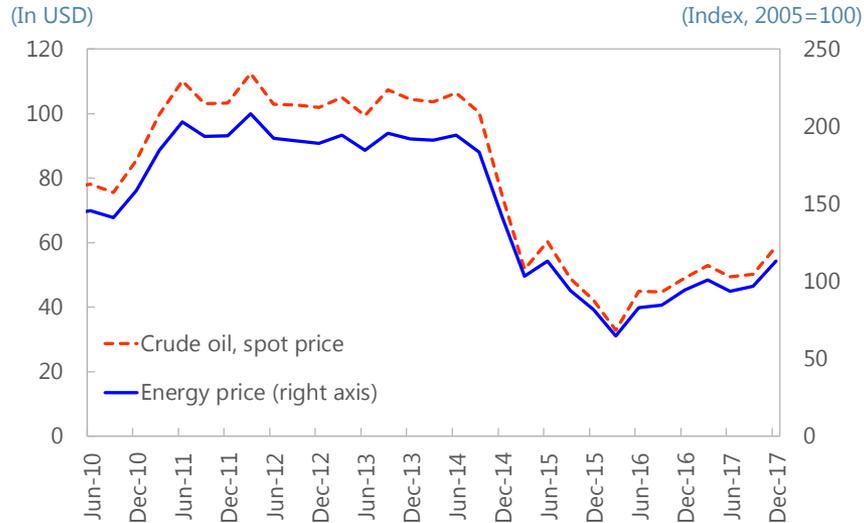
- Fishing license fees
- Tourism

- Correspondent banking relationships
- Labor mobility (World Bank, "Pacific Possible")
- Cryptocurrency

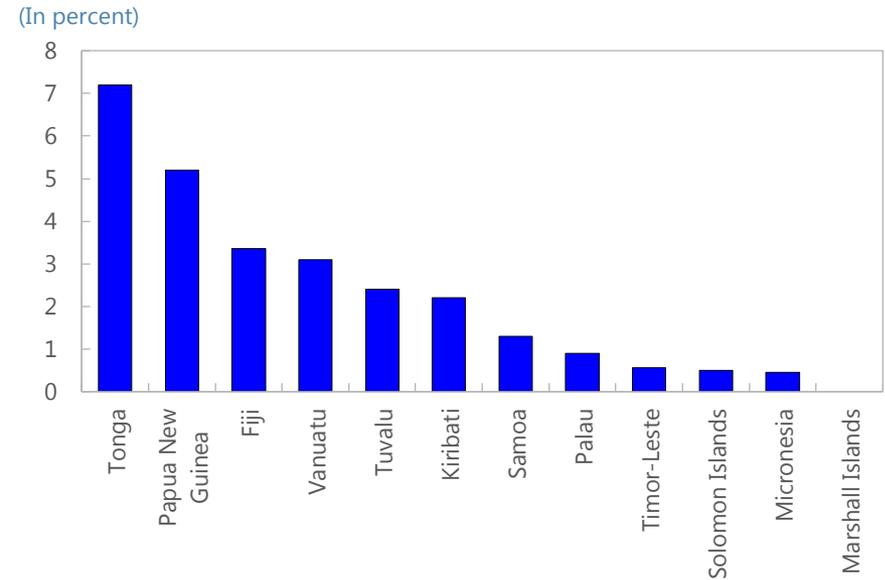


Lower oil prices slowed growth for some, but also contributed to relatively low inflation

Energy prices



Inflation - APD small states and Pacific islands, 2017



Source: World Economic Outlook.



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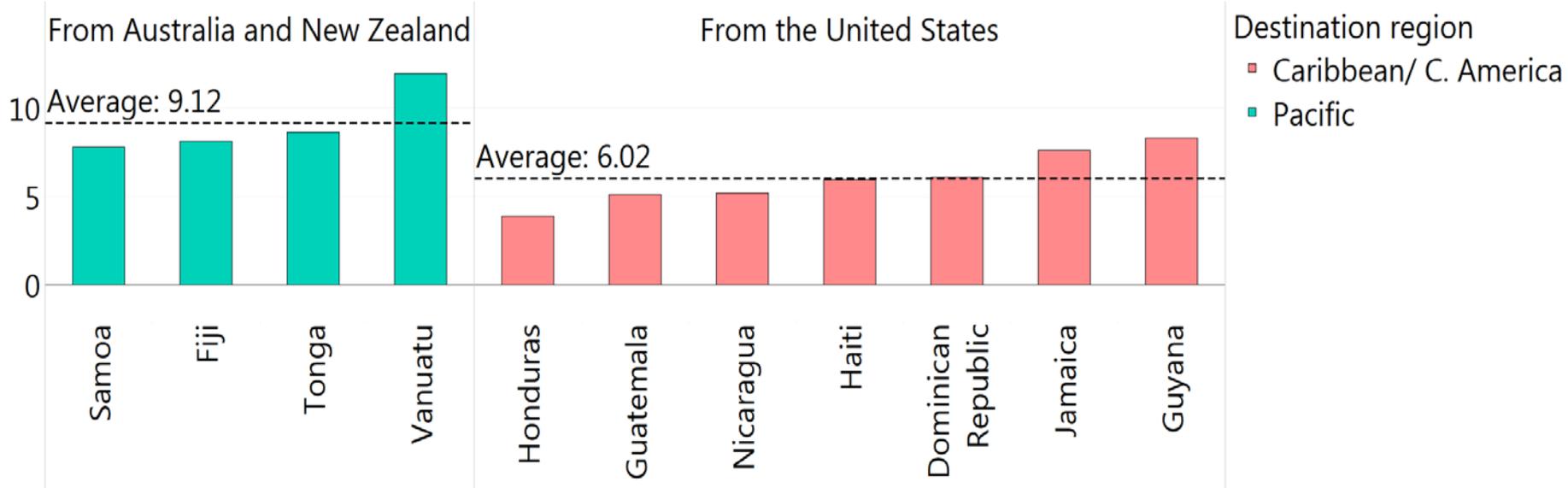
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Remittance costs to the Pacific remain high

Pacific, Caribbean and Central American countries: Average costs of sending AU\$200, NZ\$200 or US\$200 via MTOs, 2011Q1-2017Q3
(in percent of sent amount)



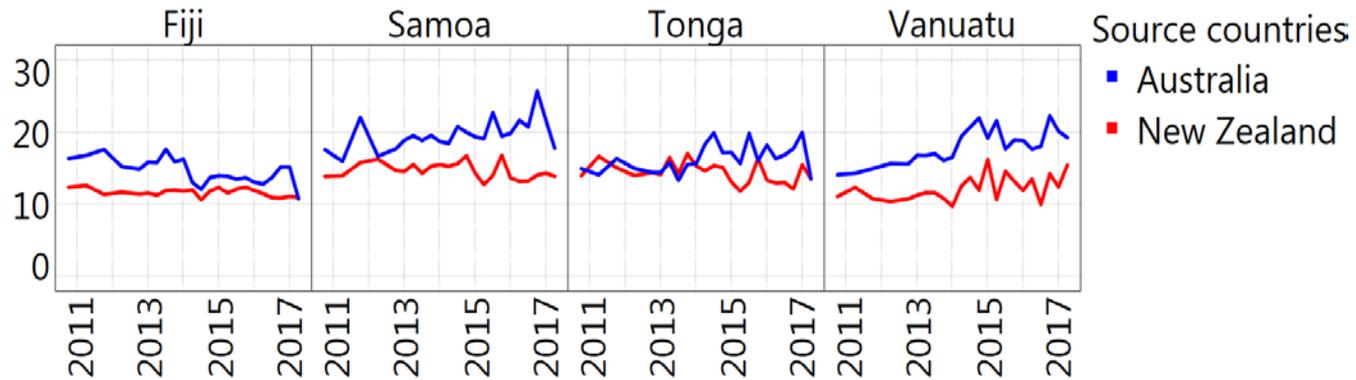
Source: Remittance Prices Worldwide, World Bank.



Remittance costs to the Pacific remain high

Average costs of sending AU\$200 or NZ\$200 via banks

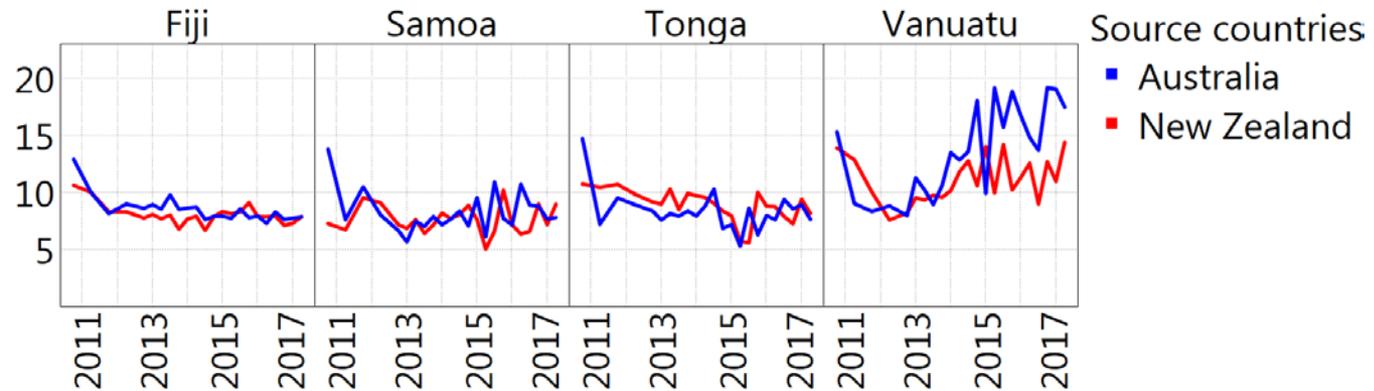
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Source: Remittance Prices Worldwide, World Bank.

Average costs of sending AU\$200 or NZ\$200 via MTOs

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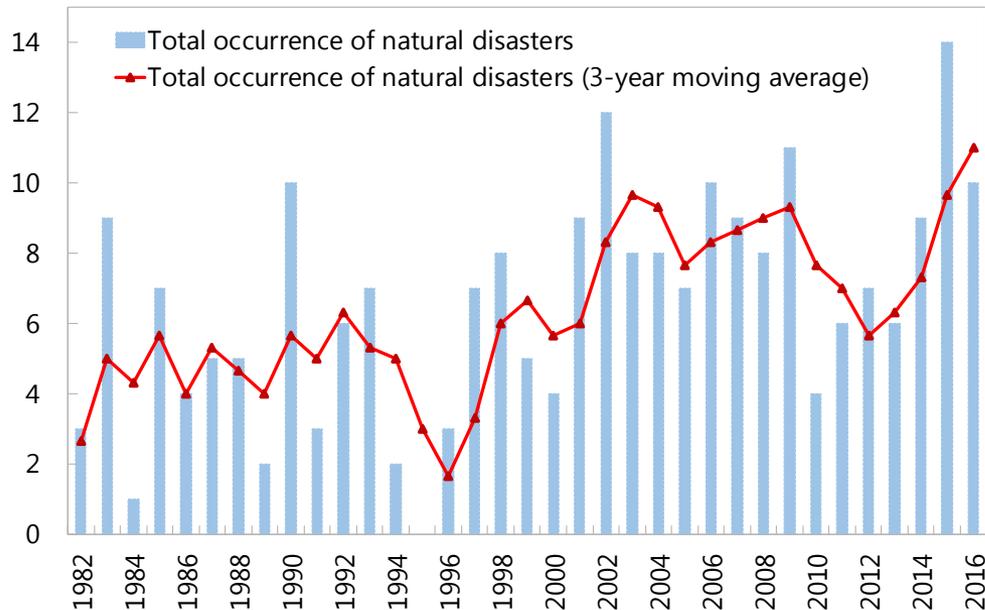
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- Trade – Pacer Plus



Rise in number of natural disasters since 1980s

Occurrence of Natural Disasters in PICs



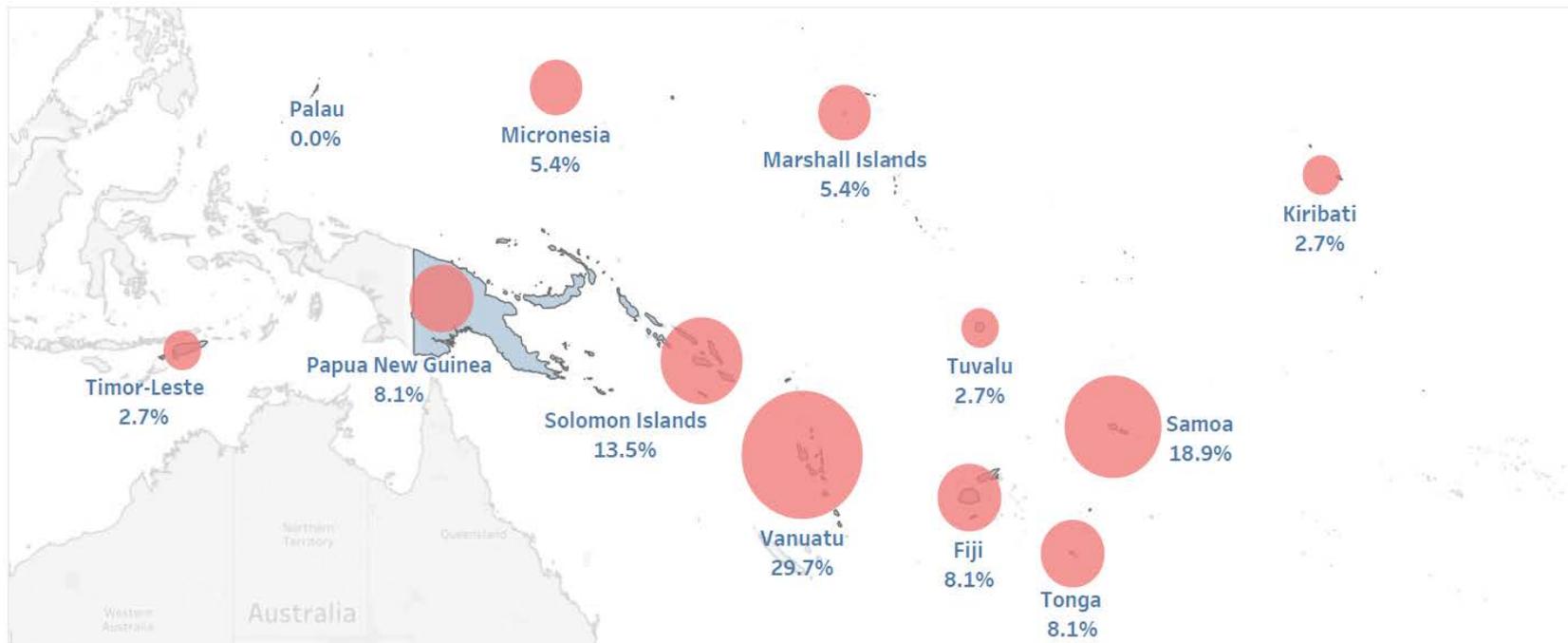
- Forthcoming Working Paper (Lee et al, 2018)
- EM-DAT database
- Objective: estimate effects and probability of severe natural disaster; build natural disaster risk into baseline projections



Frequency of severe natural disasters has varied across countries

- Preliminary estimates based on historical data for natural disasters – shows Vanuatu, Samoa particularly vulnerable.
- Does not fully reflect climate change.

Probability of Severe Natural Disasters in PICs



Note: The size of circle denotes the probability that each country is hit by a severe (above 75th percentile) natural disaster.



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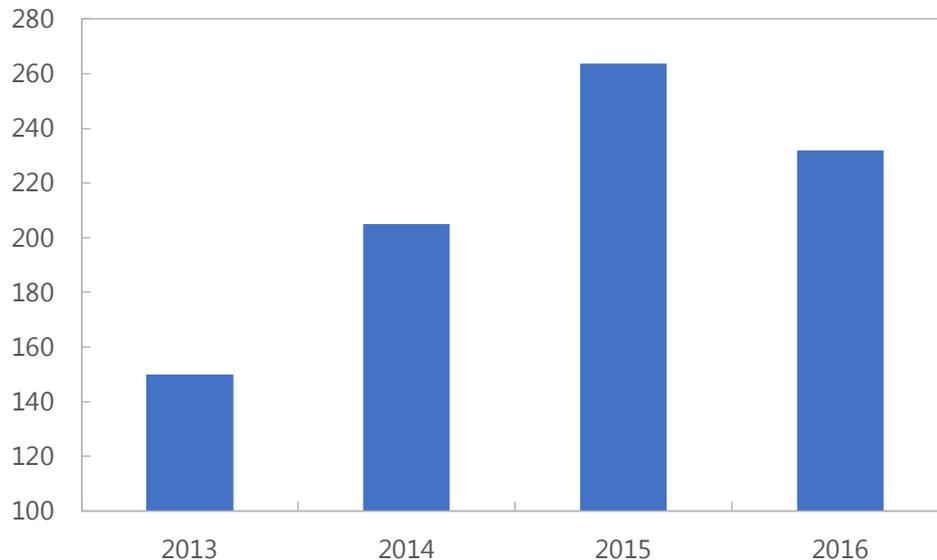
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VDS has resulted in strong growth in fishing revenue

Fishing License Revenue

(In USD million)



Note: Countries included are Kiribati, Marshall Islands, Micronesia, and Tuvalu

- Supporting improved fiscal positions in some countries
- Opportunity to build buffers and smooth spending to extend benefits
- Fishing revenues depend on weather conditions (Kiribati AIV) and fish migration patterns



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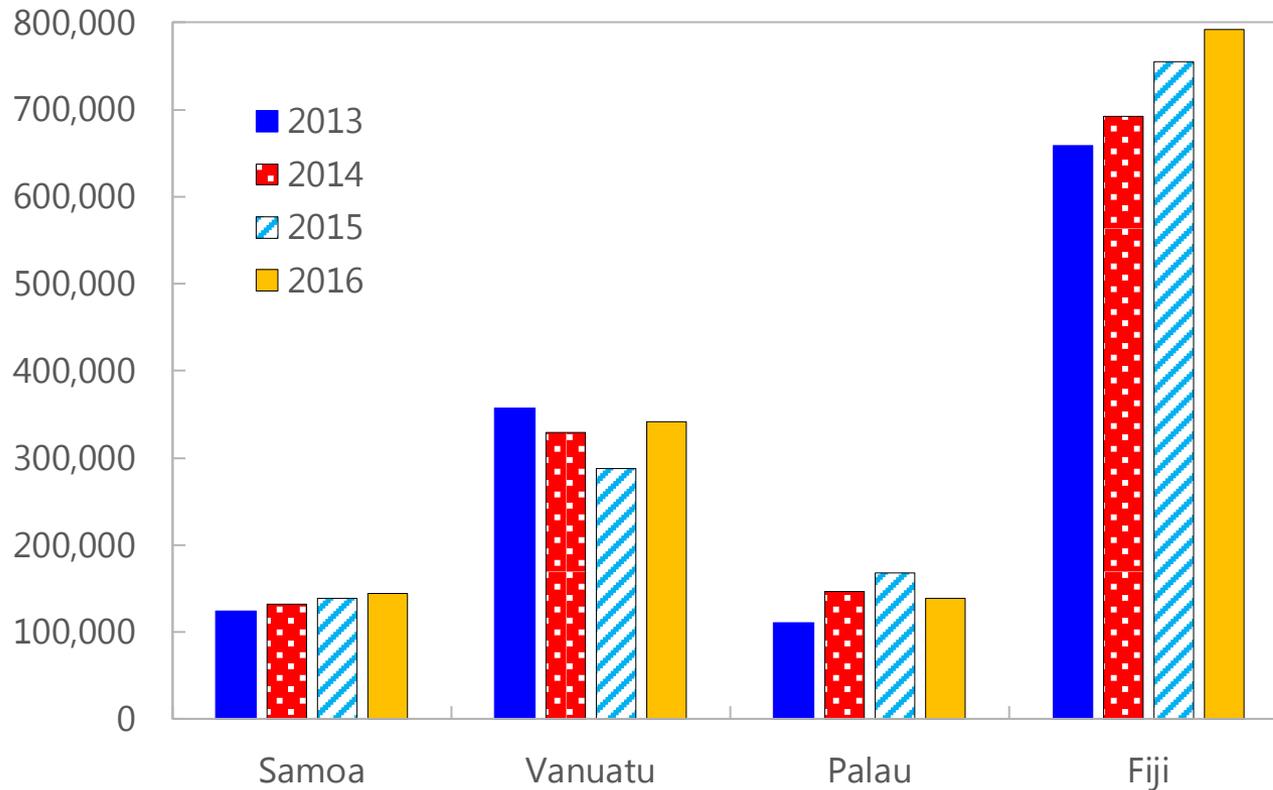
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Tourism – scope for further growth

Tourist Arrival

(Annual visitor number)

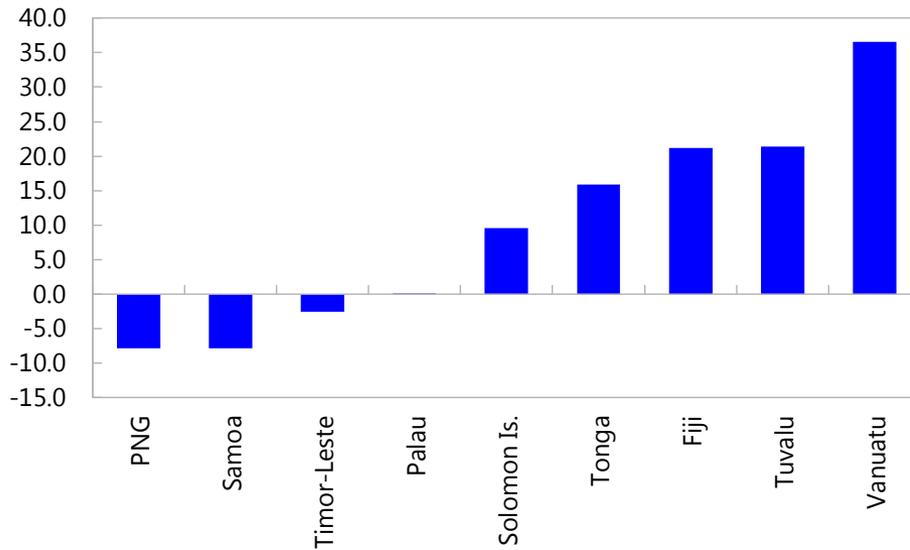




External buffers: FX reserves have increased in many countries

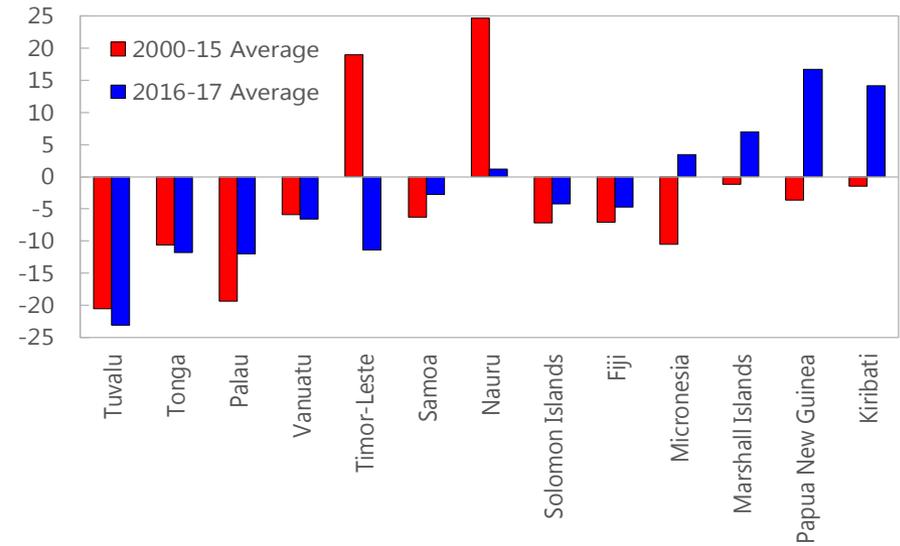
Reserve levels - changes from 2015 to 2017

(In percent, year-on-year)



Current Account Balance

(In percent of GDP)

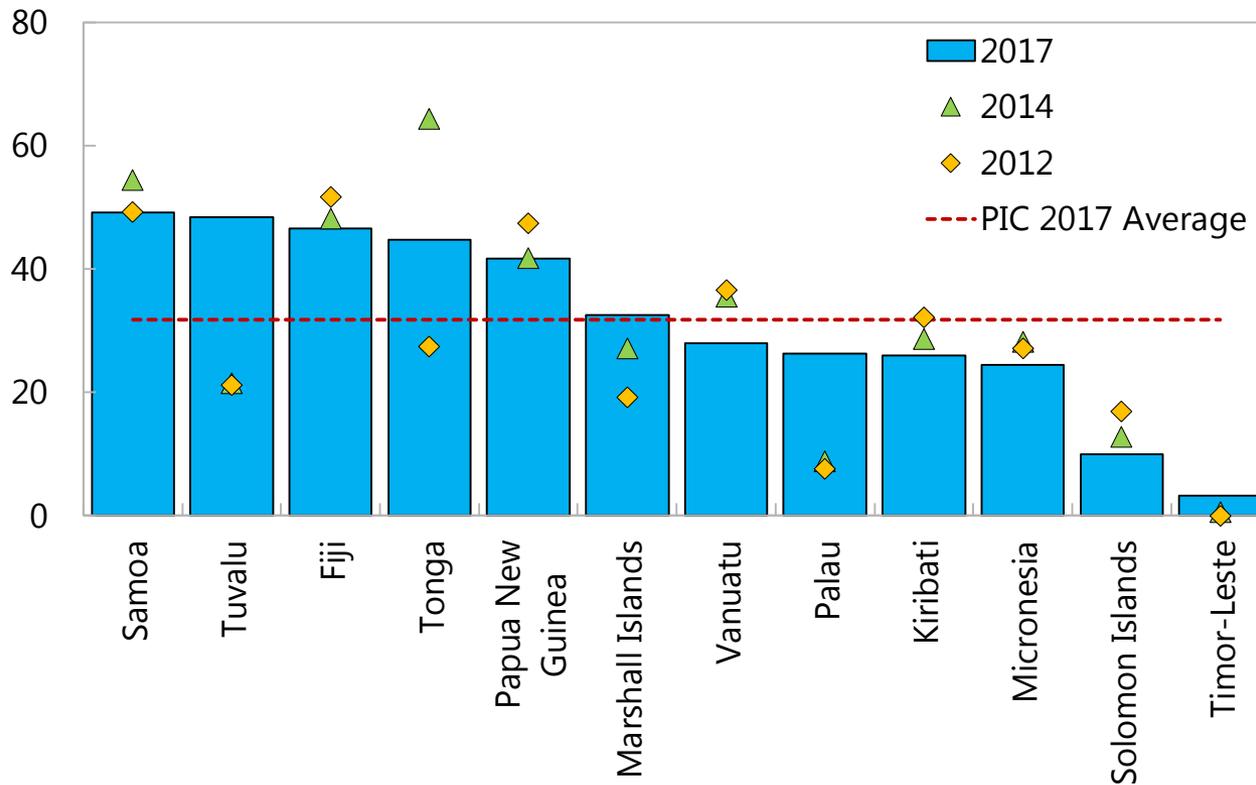




Fiscal buffers: Several countries have reduced public debt

Pacific Islands: Total Public Debt

(In percent of GDP)





Integrating Surveillance and Capacity Development

- Increased focus on making ensuring policy recommendations are practical and feasible
- Fund CD (TA and training) supports policy recommendations / surveillance priorities
- E.g. Surveillance priority: build fiscal buffers to increase resilience to shocks
 - => Fund can provide TA on increasing fiscal revenues; improved PFM and investment management, etc.



IMF work agenda

Themes:

- ⇒ Building resilience
- ⇒ Increasing growth

Underway and upcoming, includes:

- Natural disasters included in macro-frameworks and DSAs / forthcoming WP on natural disaster impact
- Financial inclusion (departmental paper)
- CBR
- Review of low income facilities