Pacific Islands: Economic Outlook

PFTAC Steering Committee
27 March 2018

Regional Resident Representative’s Office
Recap – October 2017 WEO Projections

<table>
<thead>
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<td>Fiji</td>
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<td>3.8</td>
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<td>Kiribati</td>
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<td>2.8</td>
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<td>5.5</td>
<td>4.5</td>
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<tr>
<td>Papua New Guinea</td>
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<td>2.9</td>
<td>2.6</td>
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<tr>
<td>Samoa</td>
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<td>7.1</td>
<td>2.1</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Solomon Islands</td>
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<td>3.3</td>
<td>3.0</td>
<td>3.1</td>
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<tr>
<td>Timor-Leste</td>
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<td>5.0</td>
<td>4.0</td>
<td>6.0</td>
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</tr>
<tr>
<td>Tonga</td>
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<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Tuvalu</td>
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<td>3.2</td>
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<tr>
<td>Vanuatu</td>
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<td>4.0</td>
<td>4.5</td>
<td>4.0</td>
<td>3.5</td>
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</table>

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**

*In USD*

- **Crude oil, spot price**
- **Energy price (right axis)**

![Graph showing energy prices and inflation for APD small states and Pacific islands, 2017.](image)

Source: World Economic Outlook.
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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)

<table>
<thead>
<tr>
<th>From Australia and New Zealand</th>
<th>From the United States</th>
<th>Destination region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samoa</td>
<td>Fiji</td>
<td>Tonga</td>
</tr>
<tr>
<td>Average: 9.12</td>
<td>Average: 6.02</td>
<td></td>
</tr>
</tbody>
</table>

Source: Remittance Prices Worldwide, World Bank.
Remittance costs to the Pacific remain high

**Average costs of sending AU$200 or NZ$200 via banks**
(in percent of sent amount)

- Fiji
- Samoa
- Tonga
- Vanuatu

Source countries:
- Australia
- New Zealand

Source: Remittance Prices Worldwide, World Bank.

**Average costs of sending AU$200 or NZ$200 via MTOs**
(in percent of sent amount)

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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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• **Fishing license fees**
• Tourism

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VDS has resulted in strong growth in fishing revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Fishing License Revenue (In USD million)</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>140</td>
</tr>
<tr>
<td>2014</td>
<td>200</td>
</tr>
<tr>
<td>2015</td>
<td>260</td>
</tr>
<tr>
<td>2016</td>
<td>220</td>
</tr>
</tbody>
</table>

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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Tourism – scope for further growth

**Tourist Arrival**
(Annual visitor number)

- **Samoa**
- **Vanuatu**
- **Palau**
- **Fiji**


Visitor numbers:
- Samoa: 100,000
- Vanuatu: 200,000
- Palau: 300,000
- Fiji: 400,000

Tourist arrival shows significant growth, particularly in Fiji.
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)

2000-15 Average
2016-17 Average
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