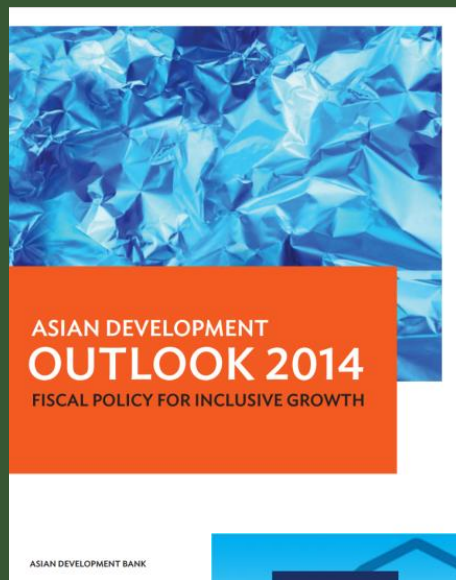


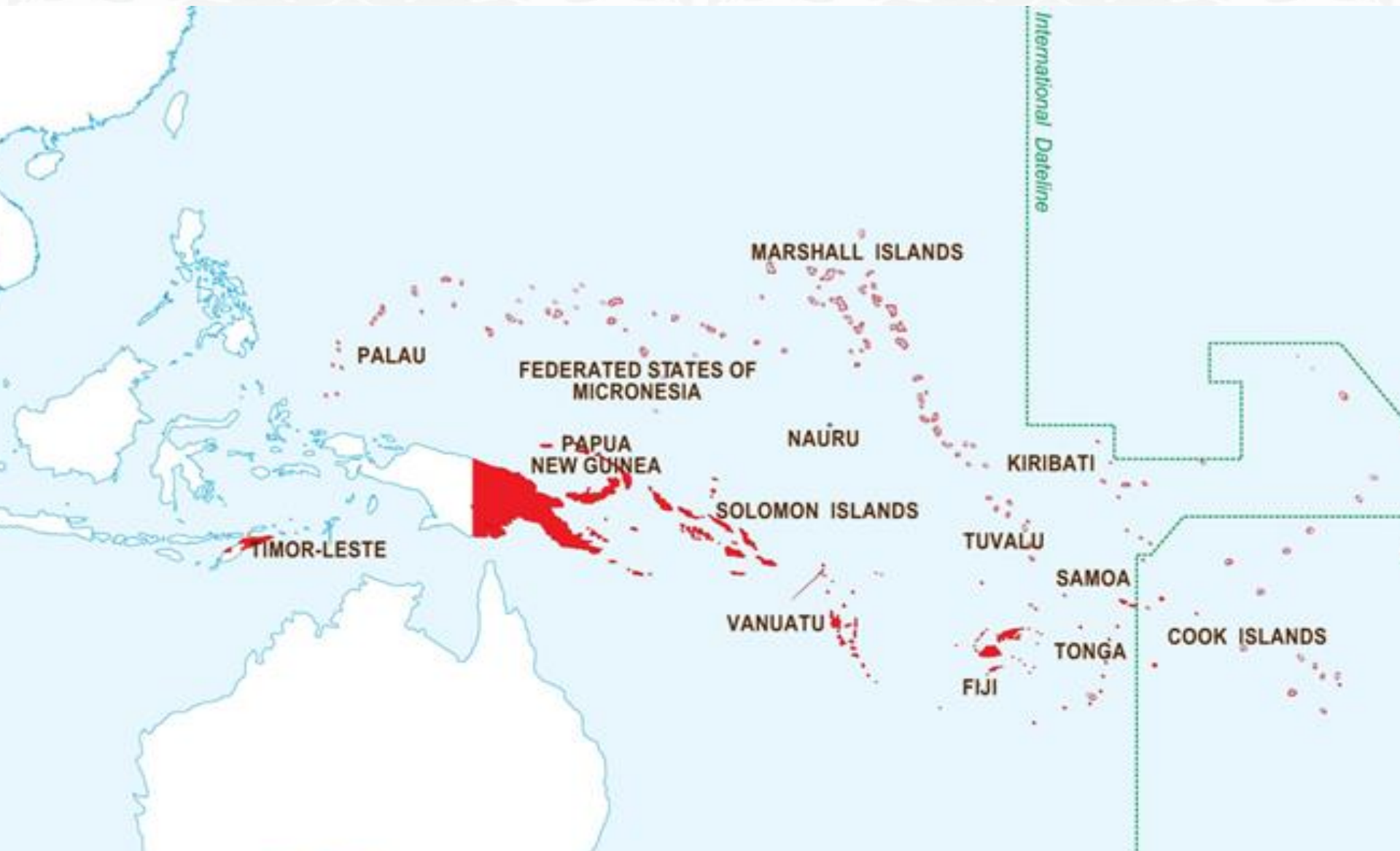
Regional economic overview: Midyear assessment



Christopher Edmonds
Senior Economist
Pacific Department,
Asian Development
Bank, Manila

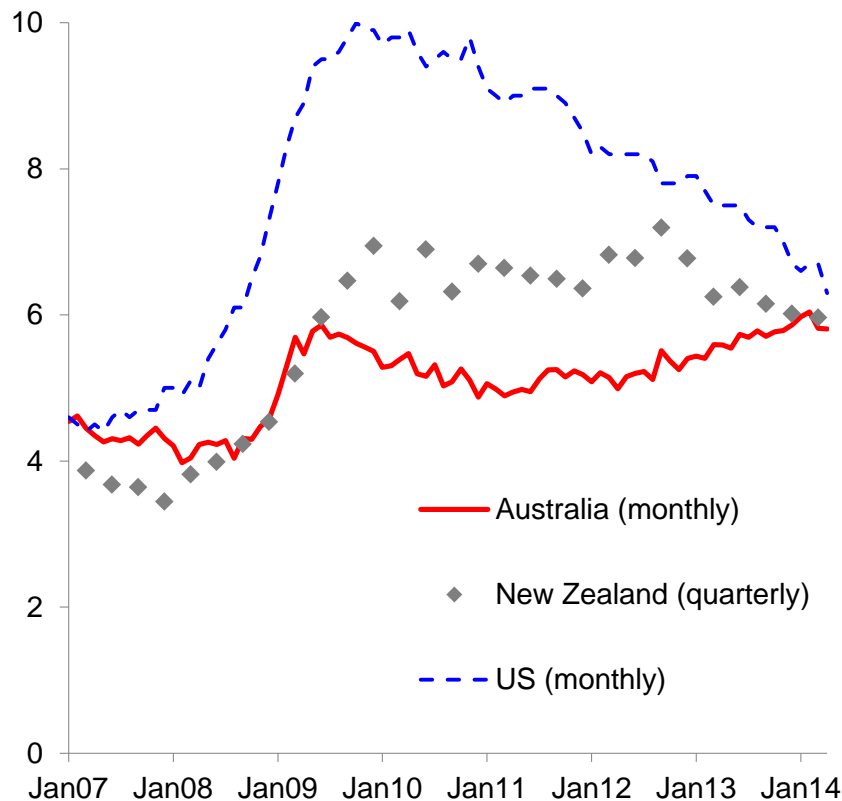


ADB Developing Member Countries in the Pacific



International and regional developments

Unemployment rates (% of labor force)

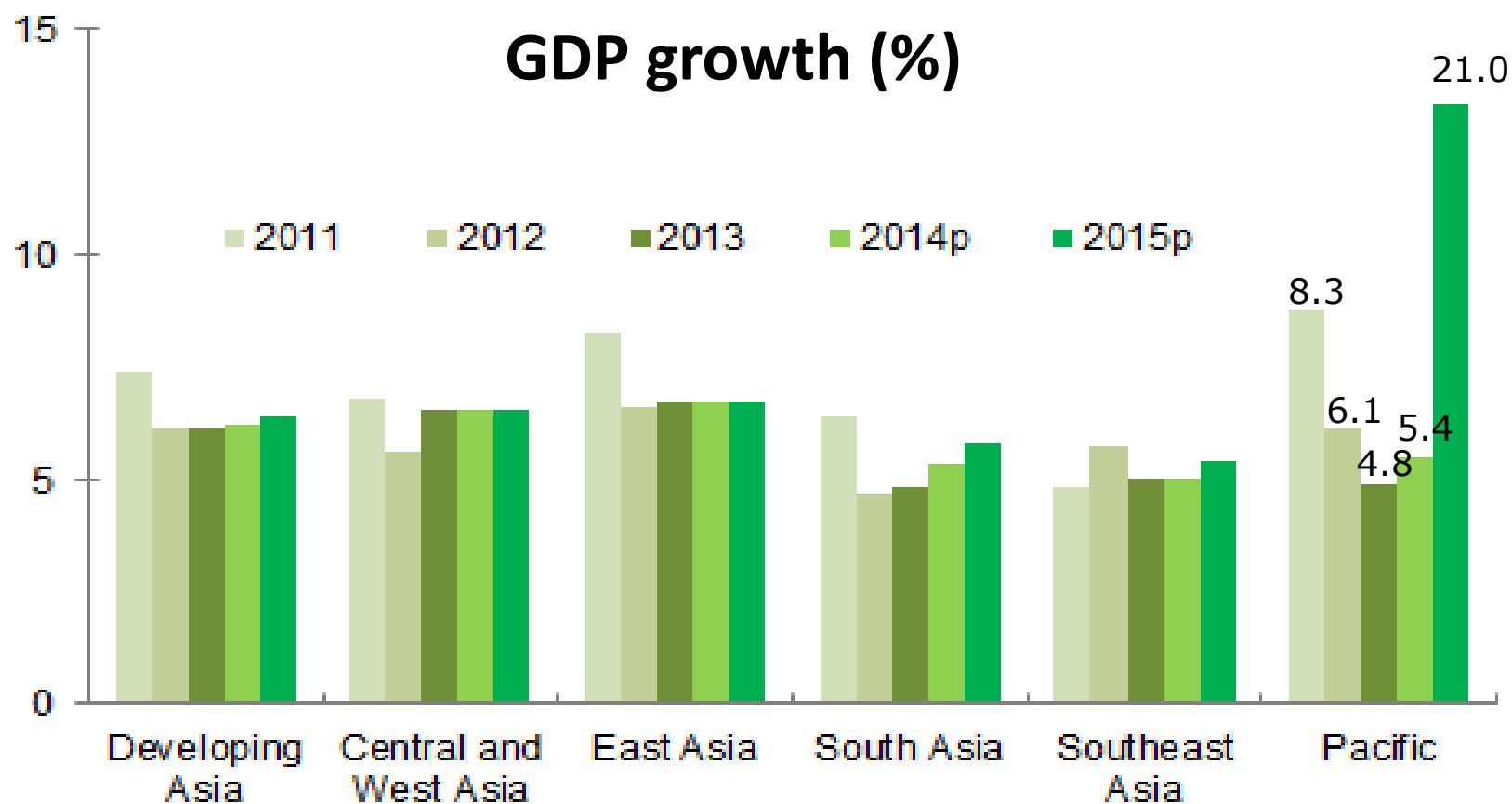


- Improving global economy...
 - Stronger US and Euro area
 - Stable developing Asia
 - Accelerations in Australia and New Zealand
 - ... but risks from possible escalation of ongoing conflicts
- Pacific trade and tourism off to good start in 2014
- Improving conditions in most overseas markets for Pacific workers

Overall trends in the Pacific

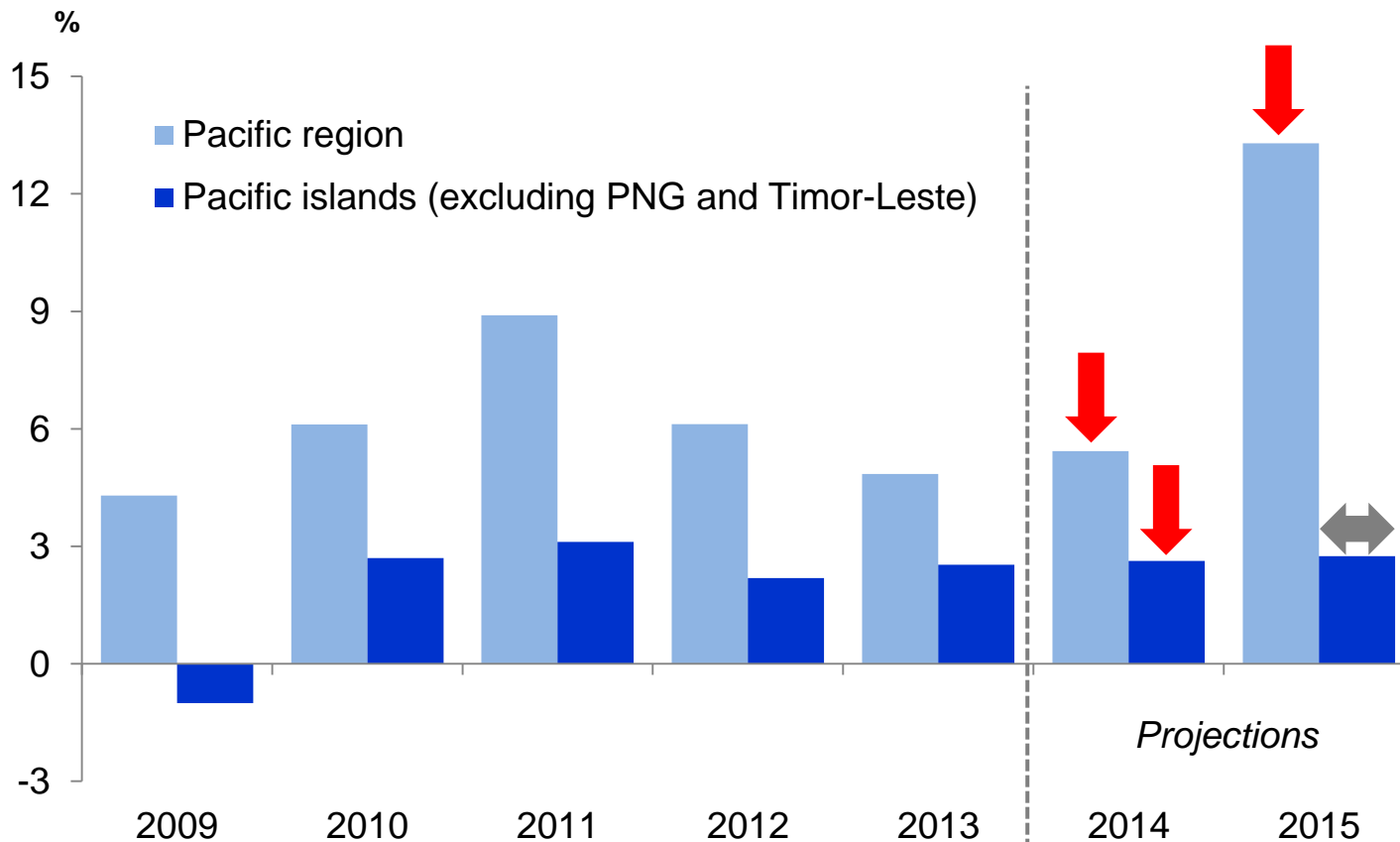
- Growth performance remains mostly in line with outlook presented in *Asian Development Outlook 2014* (released in April)
- Regional growth strengthening in 2014 & 2015
- Inflation also rising
- PNG and other larger economies lead regional growth trend
- But, in a few economies, growth outlook diminished by country-specific developments in early 2014 (despite improving global economy)

Pacific Outlook: Growth



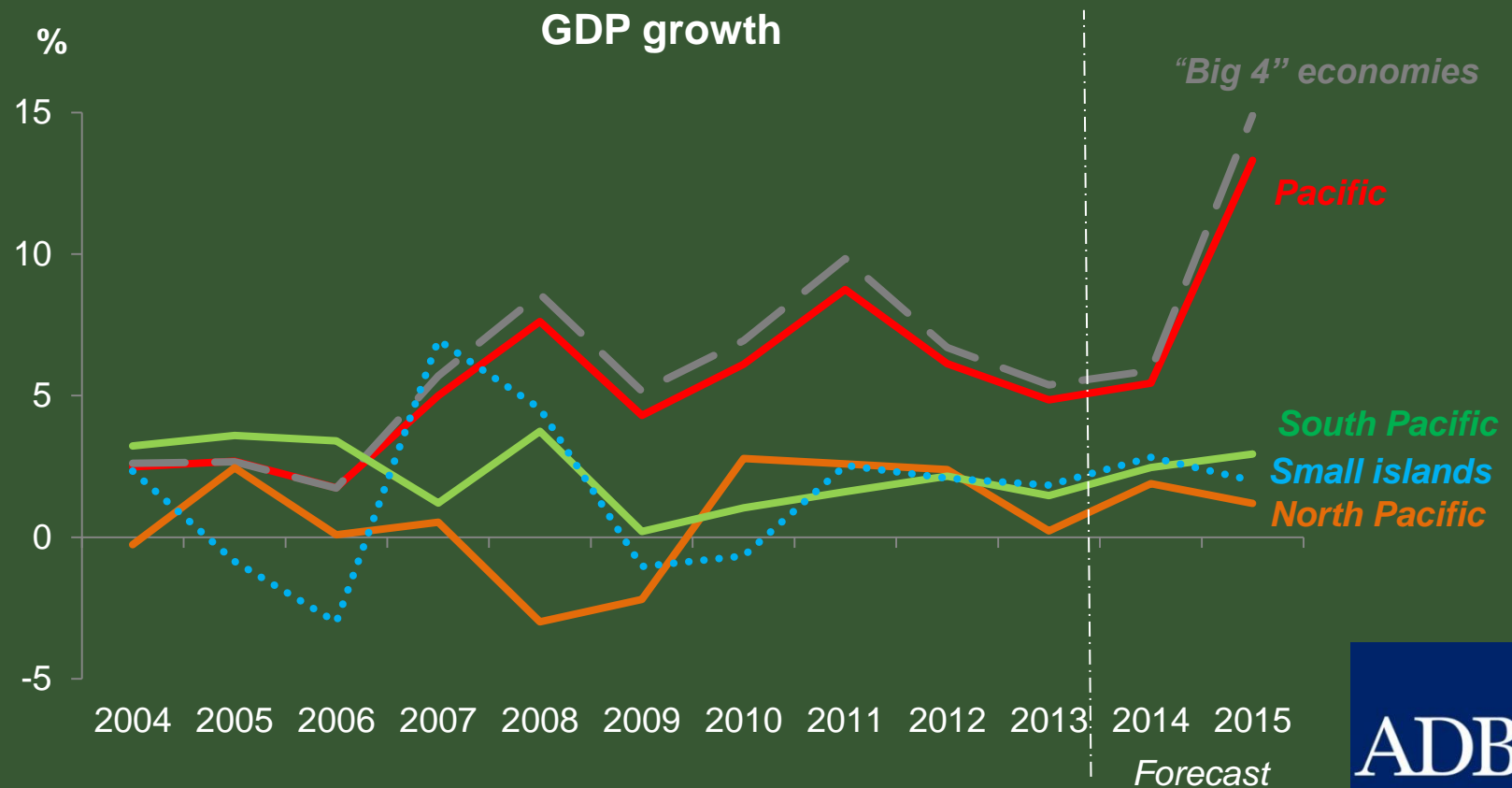
Assessment based on early 2014 indicators

- Slightly weaker regional growth outlook
- Modest rates of growth to continue in smaller islands



Growth by subgroup

- Regional average masks low growth in smaller economies...



Five growth drivers in the Pacific

- Trends in resource exports and resource depletion
- Public sector performance
 - Expenditure efficiency, delivery public goods (especially basic transport and communication infrastructure to improve connectivity)
- Tourism sector growth and leakage
- Overseas employment and remittances
- Evolving aid levels and relationships

Largest Pacific economies

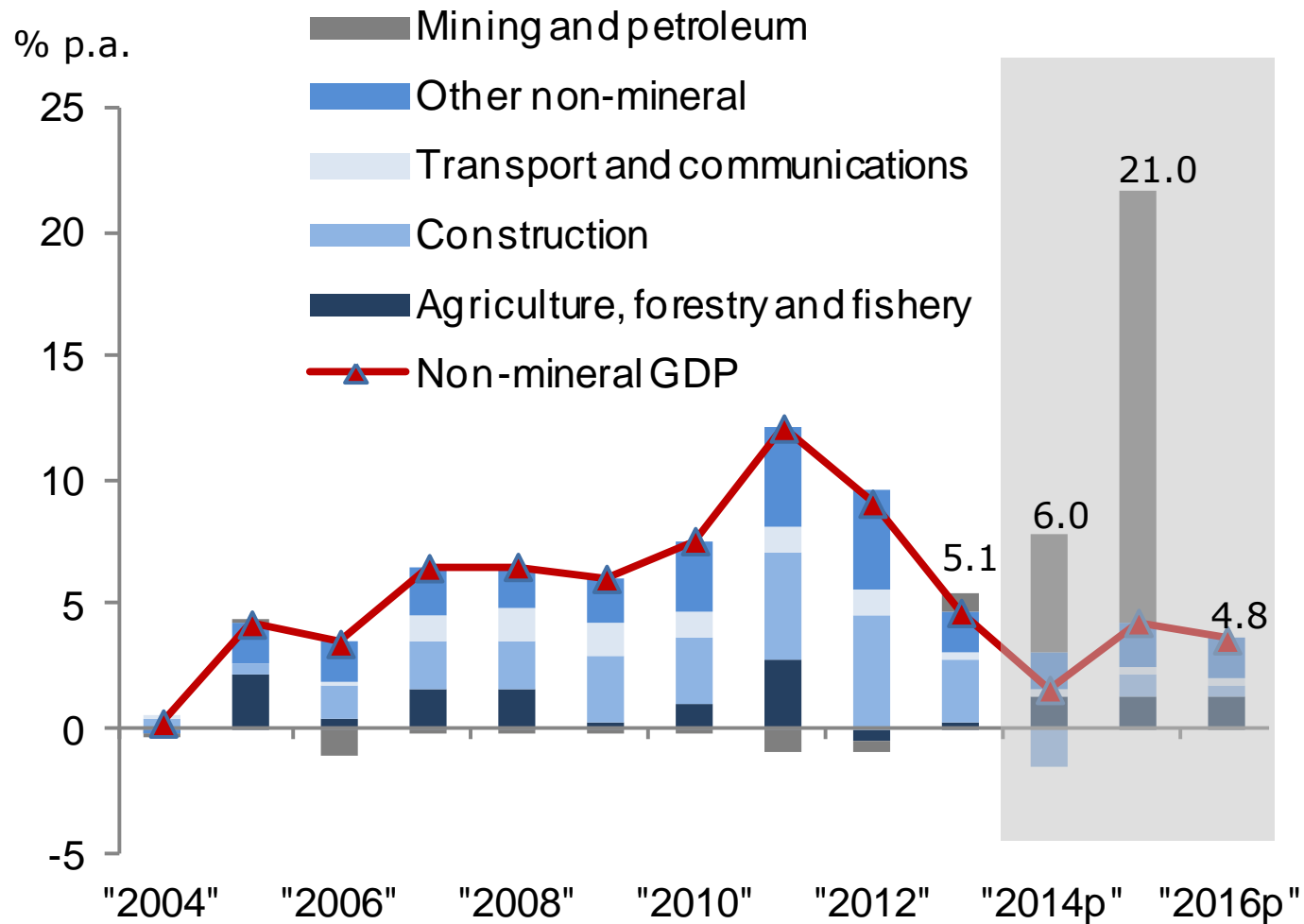
(Fiji, Papua New Guinea, Solomon Islands, Timor-Leste)

- For largest economies, challenge is to sustain growth and broaden the distribution growth benefits



	GDP growth (% p.a.)			
	2012	2013	2014	2015
The Pacific	6.1	4.8	5.4	13.3
The Pacific excl. PNG	4.4	4.6	4.8	4.9
Fiji	1.7	3.6	2.8	3.0
Papua New Guinea	7.7	5.1	6.0	21.0
Solomon Islands	4.8	2.9	3.0	3.0
Timor-Leste	8.2	8.0	8.5	8.5
North Pacific	2.4	0.2	1.9	1.2
South Pacific	2.2	1.5	2.5	2.9
Small islands	2.1	1.8	2.8	2.0

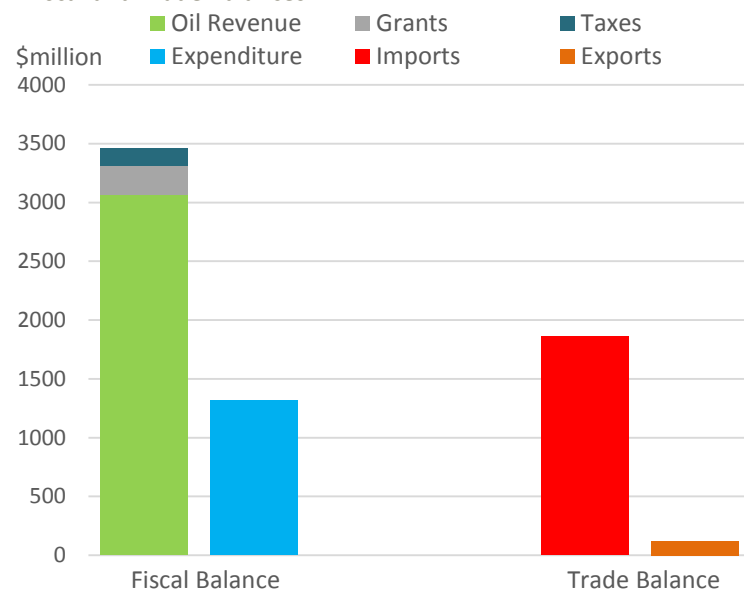
PNG's to achieve record growth but any optimism tempered by slow down in non-mineral economy...



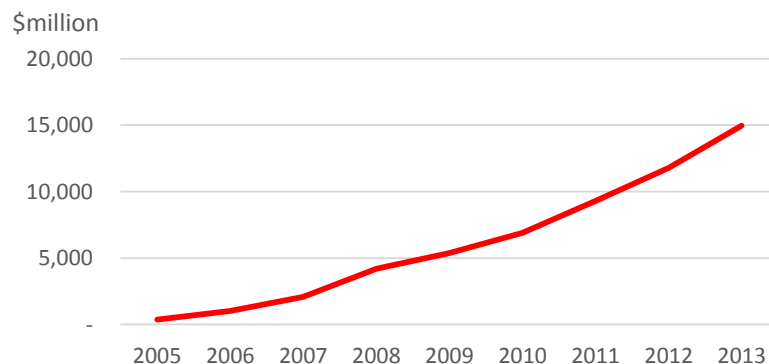
Timor-Leste's growth and drivers of growth

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Timor-Leste	8.2	8.0	8.5	8.5

Fiscal and Trade Balances



Petroleum Fund Balance



2013

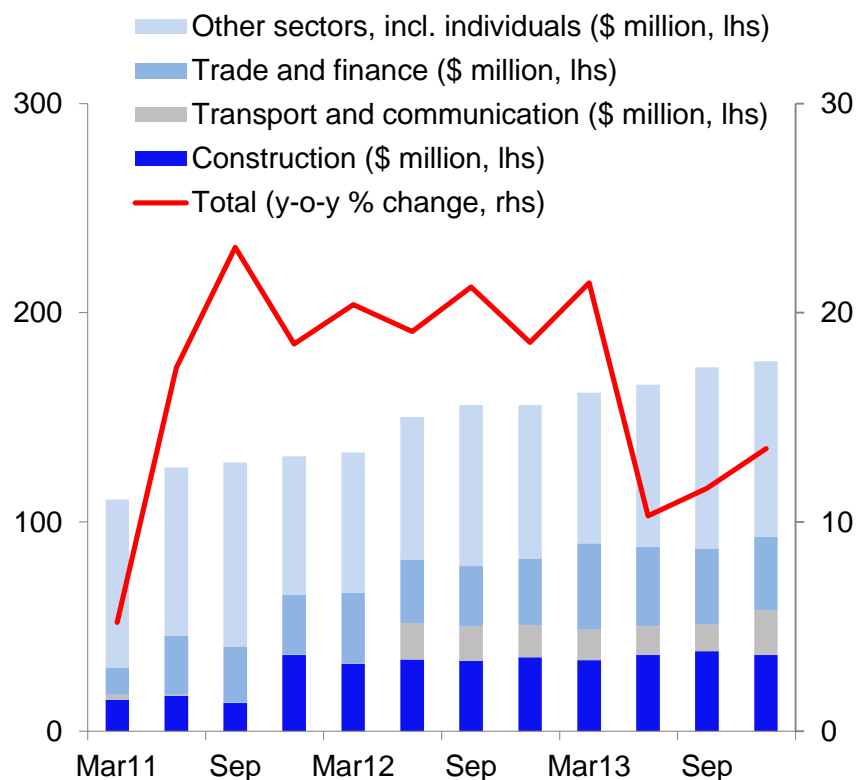
- Oil revenue \$3.1 billion, other taxes \$150 million.
- Budget surplus \$2.1 billion
- Petroleum Fund + \$14.9 billion.
- Exports of goods and services increased but imports grew faster → trade deficit +\$1.74 billion.
- Deficit financed with oil royalties
Current Account surplus \$1.9 bil. (125% non-oil GDP)

2014 & 2015

- Capital investment plans scaled back, but 2014 budget is still ambitious: 38% increase in recurrent and 47% increase in capital spending
- Non-oil GDP growth at 8.5% in 2014 and 2015.
- Growth and inflation outcomes highly dependent on budget execution.

Private sector growth moderating in 2014 as external and internal balances shifting

Credit to the private sector (quarterly)

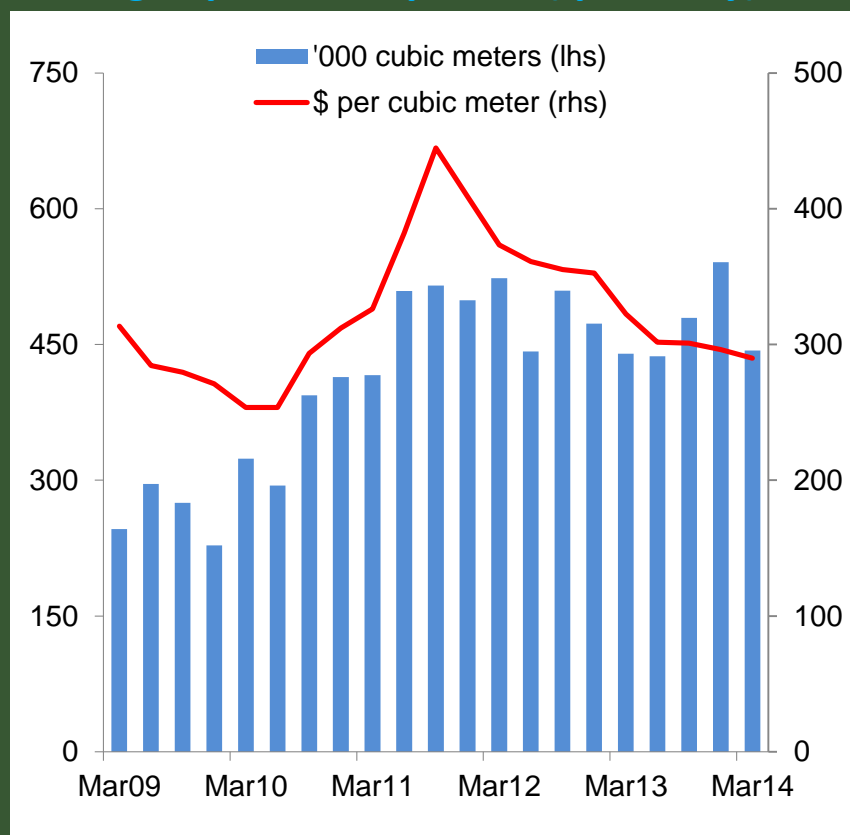


- Private sector activity appears to be slowing...
 - Fall in rate of growth credit to the private sector
 - Tax revenues down
- Public spending recovering, but from low base
 - 2013 Budget underspent
 - Broader economic impact of underspending still uncertain (recent revisions to historical figures in Natl. Accounts)
- Shifting long term balances

Solomon Islands: Economy hurt by severe flooding adding to resource export troubles

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Solomon Islands	4.8	2.9	3.0	3.0

Log exports and prices (quarterly)



- Problems in resource exports -- declining logging stocks and mining growing but prices low
- Declining fiscal space
- Tropical Cyclone Ita hit in April, affecting the capital and neighboring provinces
- Production of key commodities was generally strong before the cyclone
- Damage to infrastructure links seen to depress economy for next few months (at least)

Fiji

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Fiji	1.7	3.6	2.8	3.0

- Economy picking up ahead 17 September election
- Credit and investment expansion
- Concerns about fiscal sustainability of recent government policies
- Development partner and investor re-engagement
- “Game changer” for the Pacific in coming years?

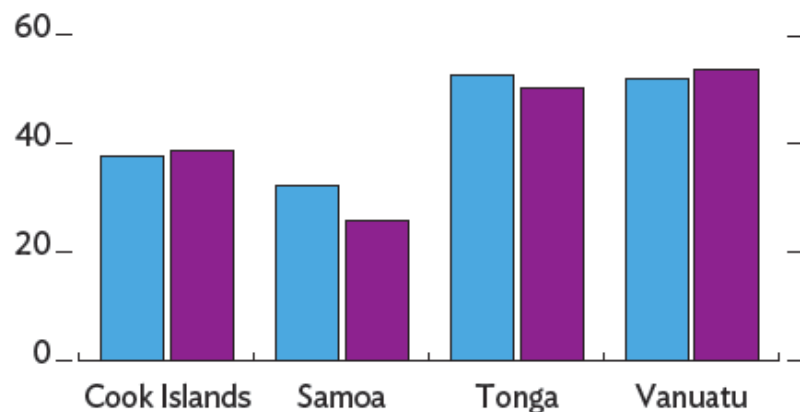
South Pacific: Cook Islands, Samoa, Tonga, and Vanuatu

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Cook Islands	4.4	3.2	2.2	2.5
Samoa	2.7	-0.5	2.0	2.5
Tonga	0.8	0.3	1.5	2.0
Vanuatu	1.8	3.2	3.5	4.0
South Pacific	2.2	1.5	2.5	2.9

Subsidies and public wages

■ 2013
■ 2014

% of total expenditure

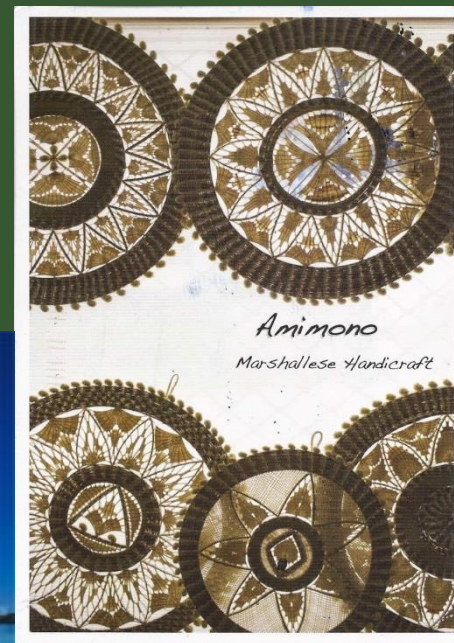


- Economies generally “underperforming”
- Relatively large public sectors limiting fiscal space
 - SOE reforms to level playing field, foster competition, and reduce fiscal burden
 - Business environment and regulatory reforms
- Fiscal space needed to increase resilience to external shocks

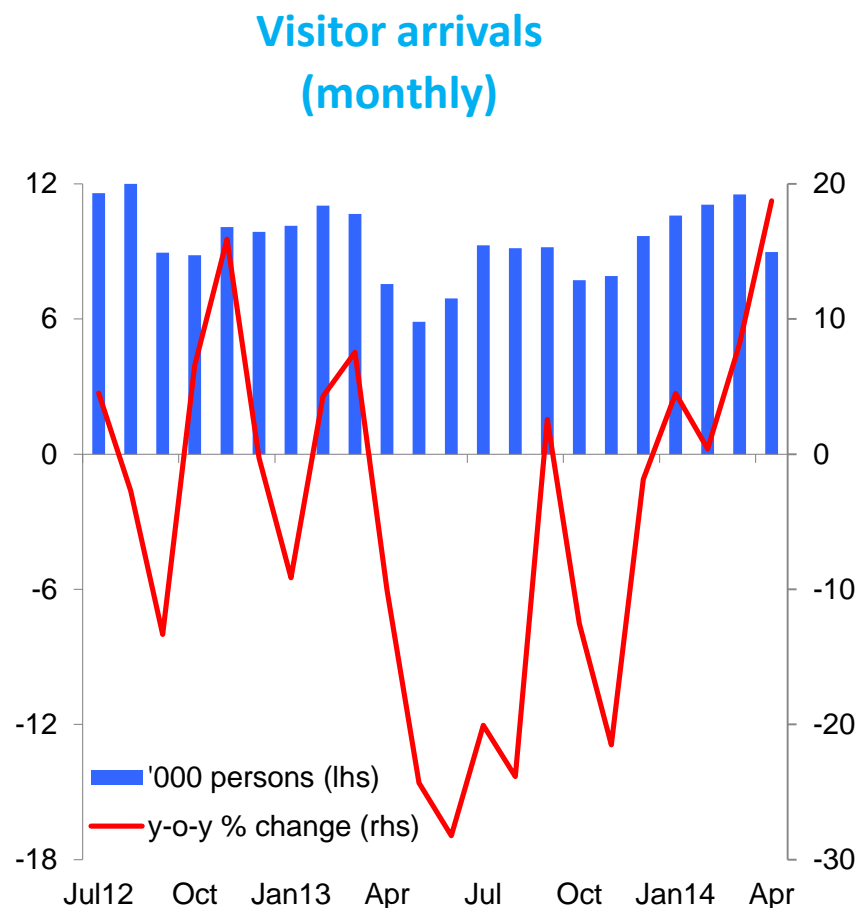
North Pacific: RMI, FSM, and Palau

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Marshall Islands	3.2	0.8	3.0	1.5
Micronesia, Fed. States	0.4	0.6	0.5	0.5
Palau	4.8	-1.0	3.0	2.0
North Pacific	2.4	0.2	1.9	1.2

- Struggle to develop greater private sector sources of growth
- Improve connectivity (ports, ICT)
- Carving out niche markets
 - Niche products profitable despite high transport costs
 - Palau: high-end ecological and diving destination tourism
- Fiscal adjustments to prepare for 2023.



Palau: Slower than expected tourism rebound

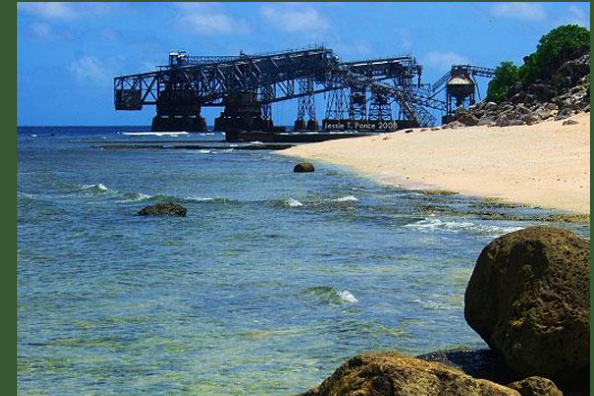


- Visitor arrivals remained weak in the 1st quarter of (fiscal) year
- Early signs of recovery in recent months
- Resumption of previously suspended flight connections seen to spur arrivals
- Capacity constraints in increasing tourism arrivals?

Small island economies: Kiribati, Nauru, and Tuvalu

	GDP growth (% p.a.)			
	2012	2013	2014	2015
Kiribati	2.5	2.0	3.0	2.0
Nauru	4.9	4.5	10.0	8.0
Tuvalu	0.2	1.1	2.0	2.0
Small islands	2.1	1.8	2.8	2.0

- Vessel day scheme boosting fishing license revenues – creating opportunity to restore fiscal buffers
 - Reduce reliance on ODA
 - Intergenerational equity
- Nauru – RPC windfall
 - primary phosphates almost mined out; secondary reserves projected to last 10 - 20 years

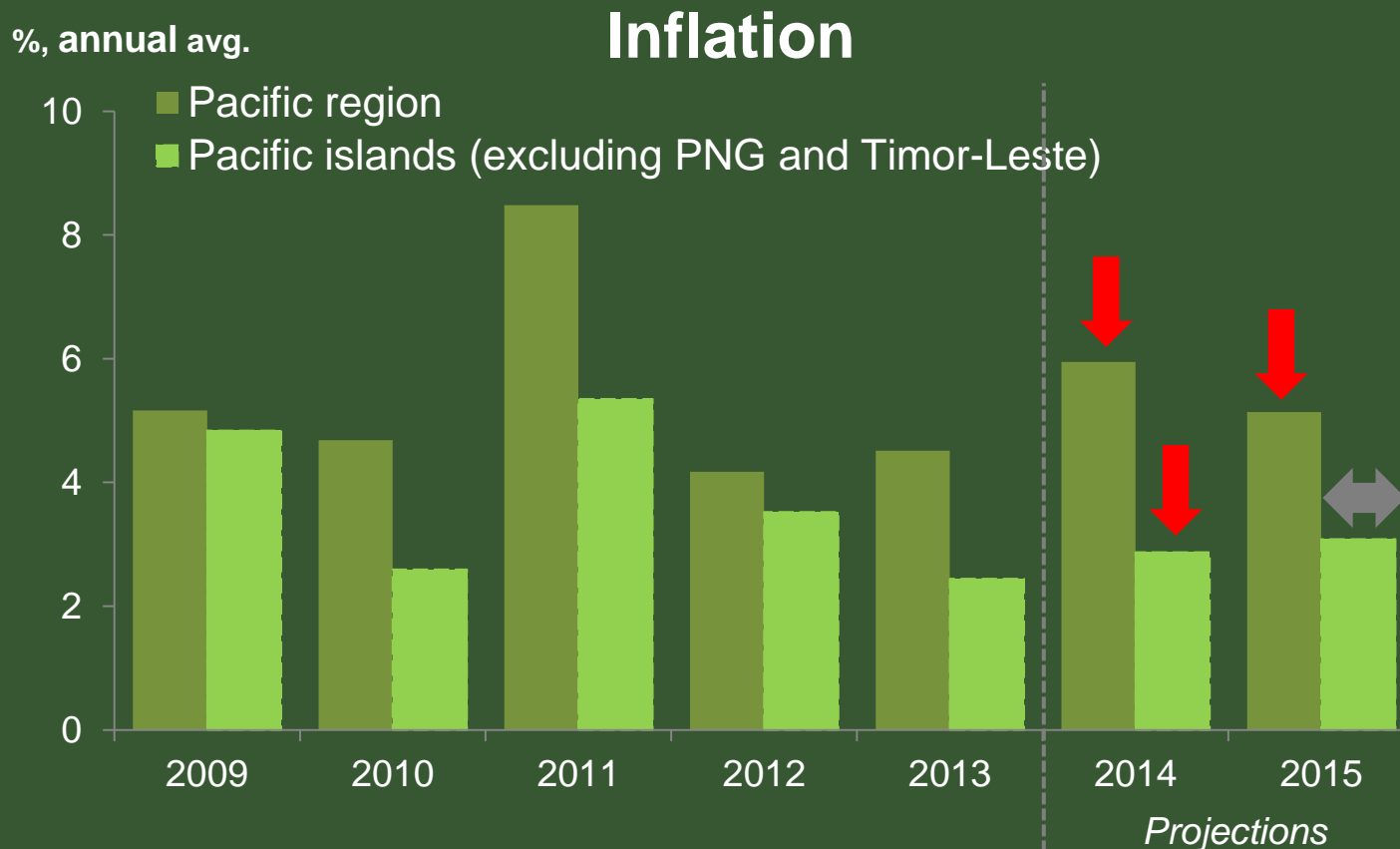


Pacific Outlook: Inflation

- Lower-than-expected price pressures in a few economies
 - **Timor-Leste**: slowing growth (and the effect of methodological adjustments)
 - Also in **Cook Islands, PNG, and Samoa**
- Conversely, upward pressures in other countries
 - **Palau**: adjustments in tobacco taxes, medical fees
 - **Solomon Islands**: supply disruptions from flooding

Pacific Outlook: Inflation summary

- Lower price pressures also seen to accompany the weaker growth outlook



Risks and issues

- Australia's economic performance
- Elections – Fiji, Solomon Islands, Tonga
- Fragility
 - Natural disasters, undiversified exports, global climate change impacts
- Major commodity price changes
- Impact of global economic developments
 - First and second round effects

Final words... A longer view

- Outside resource export fueled growth, the near-term growth outlook for Pacific economies continues to be modest – but there are new/growing opportunities
- ADB research into longer run growth engines in the Pacific (Evolving economic linkages research):
 - Trends in resource exports and resource depletion
 - Public sector performance – public service delivery including infrastructure for connectivity
 - Tourism sector
 - Overseas employment and remittances
 - Evolving aid levels and relationships

Final words... A longer view

- ADB working with countries to fund projects and programs, and work on technical assistance, to sustain current drivers of growth, and identify and develop new growth engines

Fa'afetai, Kommol, Tenkyu, Vinaka...



*Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel + 632 632 4444*

FOR MORE INFORMATION

PEM: <http://www.adb.org/publications/series/pacific-economic-monitor>
ADO: <http://www.adb.org/publications/series/asian-development-outlook>
PEM TA: <http://www.adb.org/projects/47342-001/activities>

Pacific Economic Management Technical Assistance

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