DEVELOPMENT
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POLICY BRIEF 22
OCTOBER 2022


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Emerging from COVID, slowly: a Pacific update

Stephen Howes and Huiyuan Liu

SUMMARY

- The Pacific and Timor-Leste economies have been among the worst hit in the world. On average, they contracted by an estimated 5.4% over the past two years (2019 to 2021). Nine of the 13 Pacific economies for which data is presented in this brief experienced negative growth over this period, three in double digits. Other regions, such as sub-Saharan Africa and the developing countries of Asia, achieved positive growth despite COVID-19 between 2019 to 2021.
- Pacific economies have done well to contain government debt increases and maintain strong external positions, but remain vulnerable to rising domestic inflation, slowdowns in the major economies, and further pandemic outbreaks.
- The biggest concern that emerges from the analysis is a return to slow growth. Current projections show no real growth in per capita income in the Pacific from 2019 to 2027.
- The prospect of a lost decade highlights the need to protect the most vulnerable households, exploit migration opportunities, and undertake reforms to increase trend growth.

The Development Policy Centre is part of Crawford School of Public Policy at The Australian National University. We undertake research and promote discussion on Australian aid, Papua New Guinea and the Pacific and global development policy.

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Emerging from COVID, slowly: a Pacific update

INTRODUCTION

More than two years have passed since the start of the COVID-19 pandemic. Countries all around the world continue to face outbreaks. The world is, nevertheless, transitioning from a pandemic to a post-pandemic or endemic phase, in which life is returning to normality, and borders are re-opening. This update reports on the challenges and risks the Pacific will face post-pandemic.

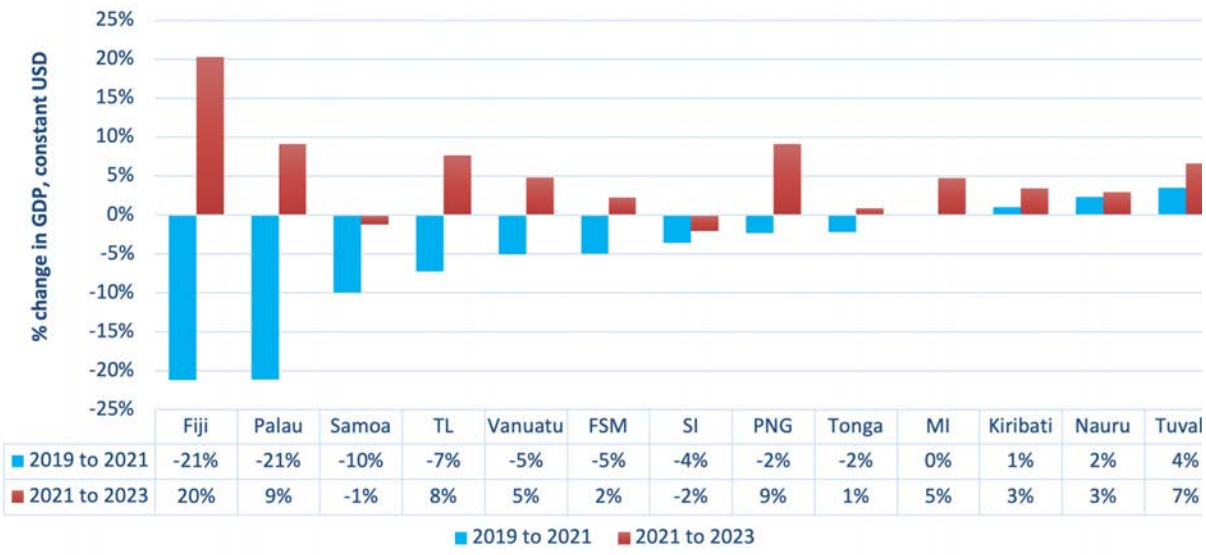
GROWTH HIT AND REBOUND

While Pacific island countries have largely escaped the catastrophic impact the pandemic has had on life and health in some countries, most have suffered large economic losses, and face the prospect of a lost decade.

The tourism-dependent Pacific economies – Fiji, Palau, and Samoa – have taken the largest hits, with Fiji and Palau each losing a quarter of its economy between 2019 and 2021. Timor-Leste, which we include in our analysis, has seen the fourth biggest loss, losing 7% of its output between 2019 and 2021 due to the floods of 2021, and low public spending because of the delay in the 2020 budget. Kiribati, Nauru and Tuvalu notched up modest GDP growth despite the pandemic.

In April 2022, the International Monetary Fund (IMF) predicted that those countries which have been hardest hit would see the strongest rebound. But just six months later, the IMF revised its forecasts and predicted that many Pacific economies may fail to quickly return to their pre-pandemic level or even continue to deteriorate. As this analysis shows, there are several risks to a rebound in Pacific countries, which have led to revisions to the IMF's forecasts and could further impact Pacific countries' ability to deliver the projected growth.

Figure 1. GDP cumulative growth, 2019 to 2021 and 2021 to 2023

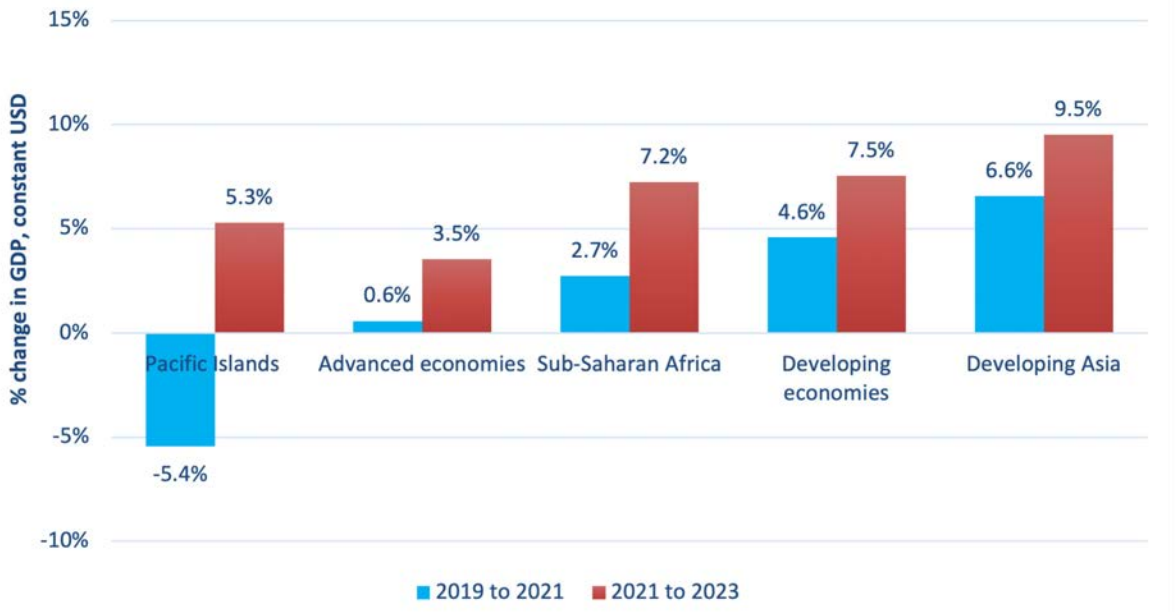


	Fiji	Palau	Samoa	TL	Vanuatu	FSM	SI	PNG	Tonga	MI	Kiribati	Nauru	Tuval
2019 to 2021	-21%	-21%	-10%	-7%	-5%	-5%	-4%	-2%	-2%	0%	1%	2%	4%
2021 to 2023	20%	9%	-1%	8%	5%	2%	-2%	9%	1%	5%	3%	3%	7%

Source and notes. International Monetary Fund (IMF) World Economic Outlook Database October 2022. All countries for which data available are included. Growth rates are over two years: 2021 over 2019 and 2023 over 2021; 2019 to 2021 growth rates are actuals and estimates, and 2021 to 2023 growth rates are projections.

Looking at the region as a whole, Pacific economies contracted on average by 5.4% over the past two years. All other regions and groups of economies saw, at worst, stagnation or, at best, modest growth over these two years (Figure 2). The region is predicted to have positive economic growth of 6.9% over this and next year. This is similar to the projected rates for the other groups of economies shown, but would still leave the Pacific behind in terms of the overall pandemic hit.

Figure 2. Regional comparisons of GDP cumulative growth, 2019 to 2021 and 2021 to 2023



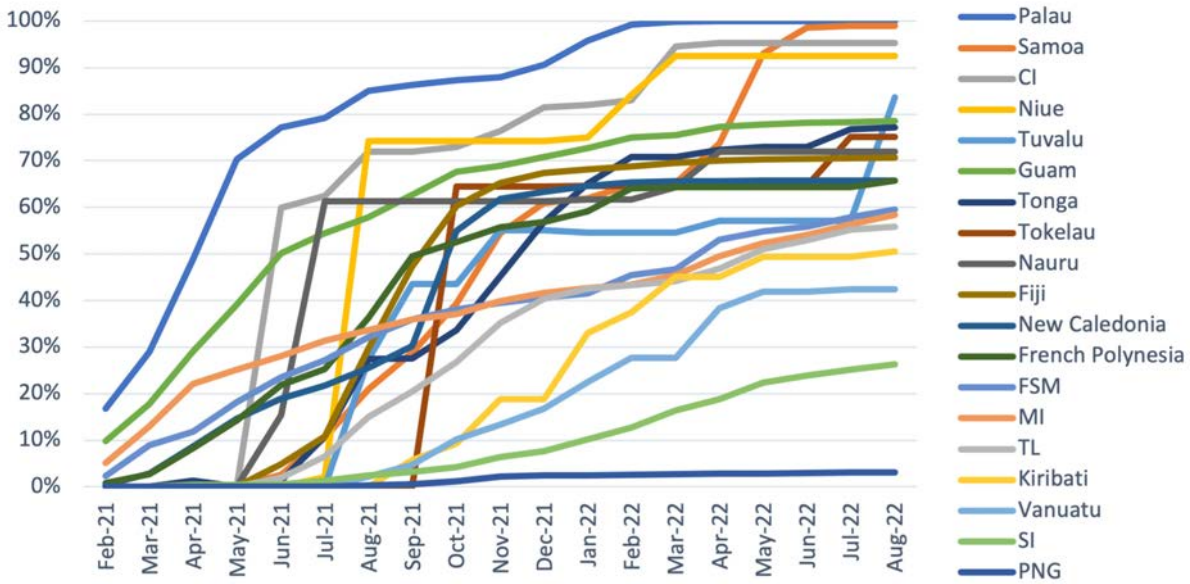
Source and notes. International Monetary Fund (IMF) World Economic Outlook Database October 2022. Pacific Islands growth is average of the country growth rates in the first figure. Also see notes to Figure 1.

There are seven risks that could hamper or in some cases even derail an economic recovery in the Pacific: 1) ongoing pandemic risks; 2) commodity price shocks; 3) inflation; 4) global slowdown; 5) government debt; 6) balance of payment risks; and 7) slow trend growth.

ONGOING PANDEMIC RISKS

There is enormous variation within the region in terms of both vaccination trajectories and coverage achieved (Figure 3). By late August of this year, half of the Pacific countries and territories for which data are available had achieved the 70% vaccination target set by WHO. Papua New Guinea is far behind, with only 3% of its population fully vaccinated, reflecting a very high level of vaccine hesitancy.[1] Solomon Islands and Vanuatu are also laggards, achieving less than 50%.

Figure 3. Fully vaccinated as a percentage of the whole population

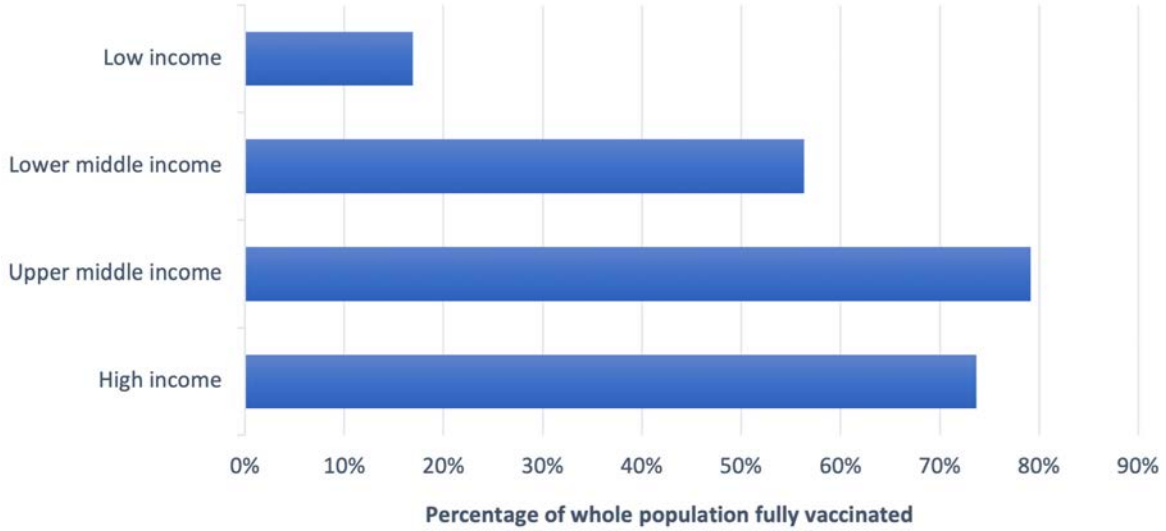


Source and notes. TL: Our World In Data, using people fully vaccinated as a percentage of the whole population; alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having one dose of a two-dose protocol, are not counted. Other Pacific Islands: Pacific Data Hub, using number of second doses administered as a percentage of the population.

[1] Wood, T., 2021, 'Public Opinion on COVID-19 Vaccines in PNG', *Devpolicy Blog*, 26 November.

Most Pacific countries have achieved a level of vaccination similar to or higher than the average for lower middle-income countries, while some have outperformed the upper middle-income and even high-income groups (Figure 4). However, Papua New Guinea is a clear outlier, with a vaccination rate significantly lower than even the average for low-income countries.

Figure 4. Global comparisons of vaccination rate as of August 2022

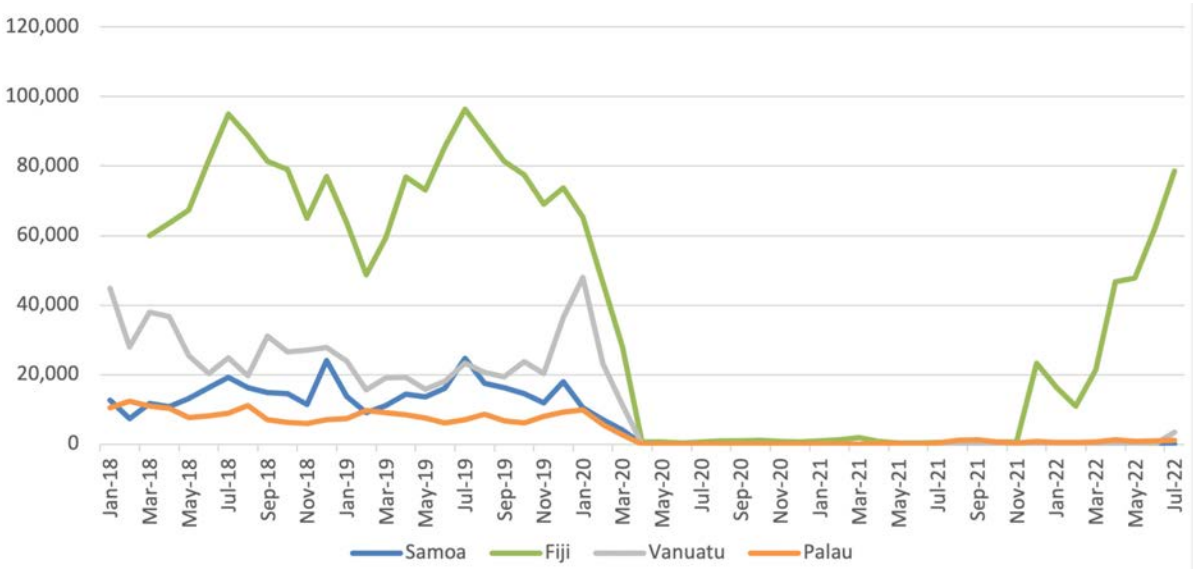


Source and notes. TL: Our World In Data, using people fully vaccinated as a percentage of the whole population. Other Pacific Islands: Pacific Data Hub, using number of second doses administered as a percentage of the population.

Pacific countries, especially those that are reliant on tourism, face risks of further outbreaks abroad as well as at home. Visitor numbers fell to zero when the pandemic took off in early 2020, and two years later, only Fiji has started to show signs of recovery (Figure 5).

Visitor numbers have yet to pick up in Vanuatu and Samoa as both countries only reopened their borders to international travellers in July and August 2022, respectively. Palau by contrast was an early mover. It opened its borders in April 2021, but has not received as many tourists as expected: tourists to Palau are mainly from East Asian countries and their trips have been reduced due to recurring outbreaksin their home countries. Fiji started allowing international tourists to arrive in the country in November 2021, and its major source markets – Australia, New Zealand, and United States – have responded enthusiastically, driving a rapid recovery in tourism.

Figure 5. Visitor arrivals

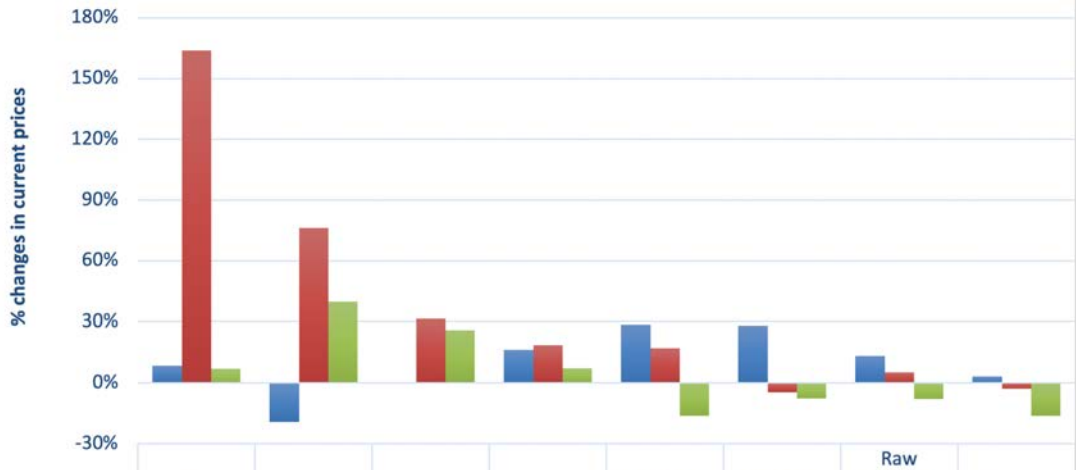


Source and notes. Fiji: Fiji Bureau of Statistics. Vanuatu: Reserve Bank of Vanuatu. Palau: Government of Republic of Palau. Tonga: Tonga Statistics Department.

COMMODITY PRICE SHOCKS

Prices of most major commodities are now well above their pre-pandemic levels (Figure 6). Fertilisers had the largest increase with prices rising by 164% in 2021 and remaining high through to September of this year. Energy prices fell in 2020 due to low demand, but quickly climbed due to economic recovery and supply shortages and climbed further due to the Russia-Ukraine war. Most other commodities experienced price increases during the pandemic, though not timber.

Figure 6. Changes in commodity prices



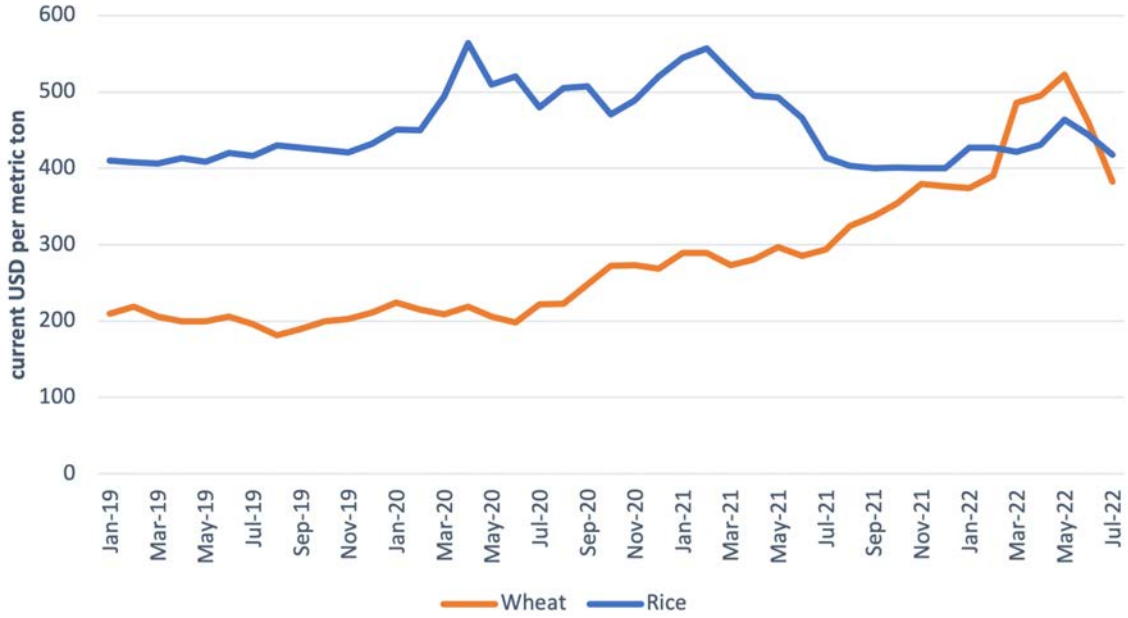
	Fetilizers	Energy	Beverages	Food	Metals & minerals	Precious Metals	Raw material (excl. timber)	Timber
2019 Dec to 2020 Dec	9%	-19%	0%	16%	29%	28%	13%	3%
2020 Dec to 2021 Dec	164%	76%	32%	19%	17%	-5%	5%	-3%

Source and notes: World Bank Commodity Markets 'Pink Sheet' Data (Monthly prices) 2022.

Commodity price hikes have had mixed effects on Pacific economies. Commodity importers suffer, but Papua New Guinea and Timor-Leste benefit as commodity exporters. The effects also depend on

the specific types of goods that a country trades, with wheat importers, such as Fiji, suffering more than rice importers, such as Papua New Guinea (Figure 7).

Figure 7. Rice vs wheat

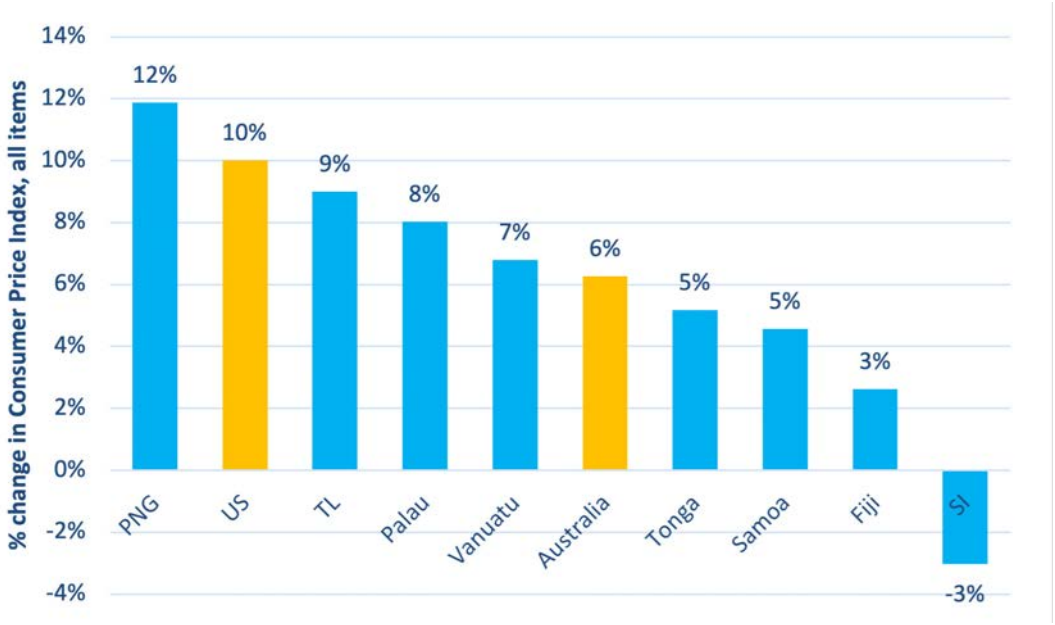


Source and notes: Index Mundi.

INFLATION

Inflation in the Pacific has been moderate since the start of COVID-19 (Figure 8). Papua New Guinea has had the highest rate of price increase, but this was true before COVID as well. Solomon Islands even saw its price level drop during the period. Nevertheless, with the rising commodity prices, global inflation has increased and many Pacific Island countries have started to feel the pain. Fiji's price level increased by 3.7% from the end of 2021 to mid-2022.[2]

Figure 8. Inflation change from 2020Q1 to 2022Q1



Source and notes. TL: National Statistics Office. Other countries: International Monetary Fund (IMF) Consumer Price Index. For Vanuatu and Tonga, the latest available period is 2021Q4 and 2021Q3 respectively.

GLOBAL SLOWDOWN

As central banks raise interest rates to tackle inflation, major economies could slip into recession. The World Bank has noted that the global economic recovery faces severe risks including "intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply strains, and worsening food security".[3] On the US economy specifically, the former US Secretary of the Treasury, Lawrence Summers predicted that the US is very likely to fall into recession with its current inflation above 4% and unemployment below 4%.[4] China is another large economy that is an important driver of growth and export destination in the Pacific. The IMF recently downgraded its economic growth to 3.3% only,[5] well below China's growth target of 5.5%.[6] Ongoing lockdowns in China will lead to further disruptions of global supply chains, and act as a drag on global growth.[7]

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[2] Reserve Bank of Fiji, 2022, Consumer Price Index. https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/#1595821819948-9e993ac2-6598

[3] World Bank, 2022, *Global Economic Prospects*, World Bank Group Flagship Report, June. doi: 10.1596/978-1-4648-1843-1.

[4] Transcript, 2022, 'The path forward: the US economy with Lawrence H. Summers', *Washington Post*, 31 May.

[5] ANI, 2022, 'IMF revises China's growth by 1.1 percent, predicts major global spillovers', *Economist Times*, 26 July.

[6] Taplin, N., 2022, 'China's 5.5% growth target is a big reach', *Wall Street Journal*, 9 March.

[7] Transcript, 2022, 'IMF Managing Director Kristalina Georgieva press briefing on GPA', International Monetary Fund (IMF), 20 April.

GOVERNMENT DEBT

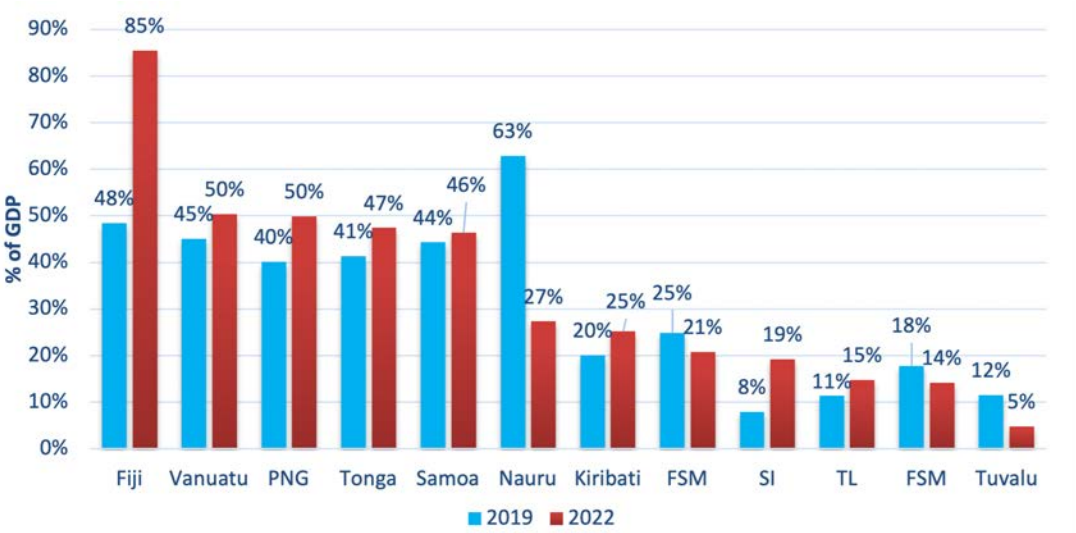
To deal with economic fallout from the pandemic, Pacific governments have issued various funding packages. So far, however, most Pacific governments appear to be in a reasonable debt position.[8]

Most Pacific countries only saw mild increases in gross public debt relative to GDP between 2019 and 2022 (Figure 9). There are two main reasons for this: Pacific countries have limited borrowing capacity; and many entered the pandemic with strong fiscal positions thanks to increasing revenues from fishing fees (Figure 12) or other reasons (such as Vanuatu's citizenship sales, and the Nauru Regional Processing Centre).

Quite a few Pacific countries have even managed to improve their debt positions. One noticeable example is Nauru. It more than halved its public debt by implementing its Debt Action Plan to repay legacy obligations.[9]

Fiji is an exception, with its debt level increasing from 48% in 2019 to an expected 85% in 2022. However, Fiji has relied on loans from domestic and concessional multilateral sources, as has PNG, which limits risks for both countries.

Figure 9. Gross public debt as a percentage of GDP



Source and notes: International Monetary Fund (IMF) Fiscal Monitor, October 2022. 2022 figures are projections.

BALANCE OF PAYMENT RISKS

Many developing countries have lost foreign exchange reserves because of the pandemic. This does not seem to be a problem in the Pacific (Figure 10). Pacific countries have increased their official reserves over the last two years, and their foreign exchange rates have been stable. Drops in tourism receipts and commodity export volumes have been offset by reduced imports. In recent months, surging commodity prices have helped the commodity exporters of the Pacific.[10]

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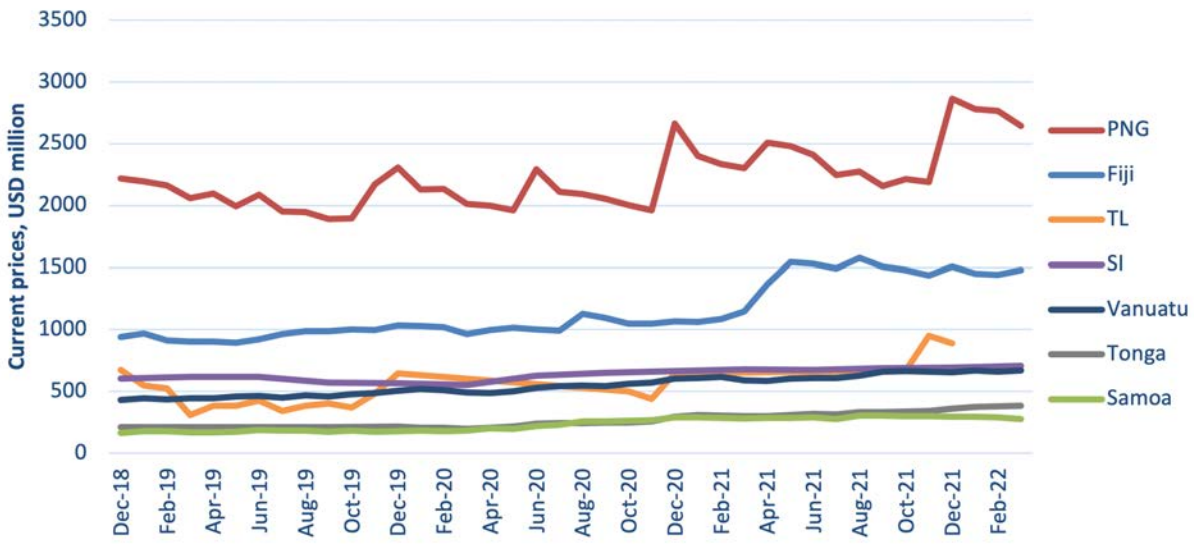
[8] Howes, S. & Surandiran, S., 2020, 'COVID-19 spending across the Pacific: the self-funded, the aid-financed, and the constrained', *Devpolicy Blog*, 20 August.

[9] Department of Finance, 2021, Republic of Nauru Debt Report, Republic of Nauru. https://naurufinance.info/republic-of-nauru-debt/

[10] Howes, S. & Liu, H., 2022, 'Pacific foreign exchange reserves: increasing during the pandemic', *Devpolicy Blog*, 2 February.

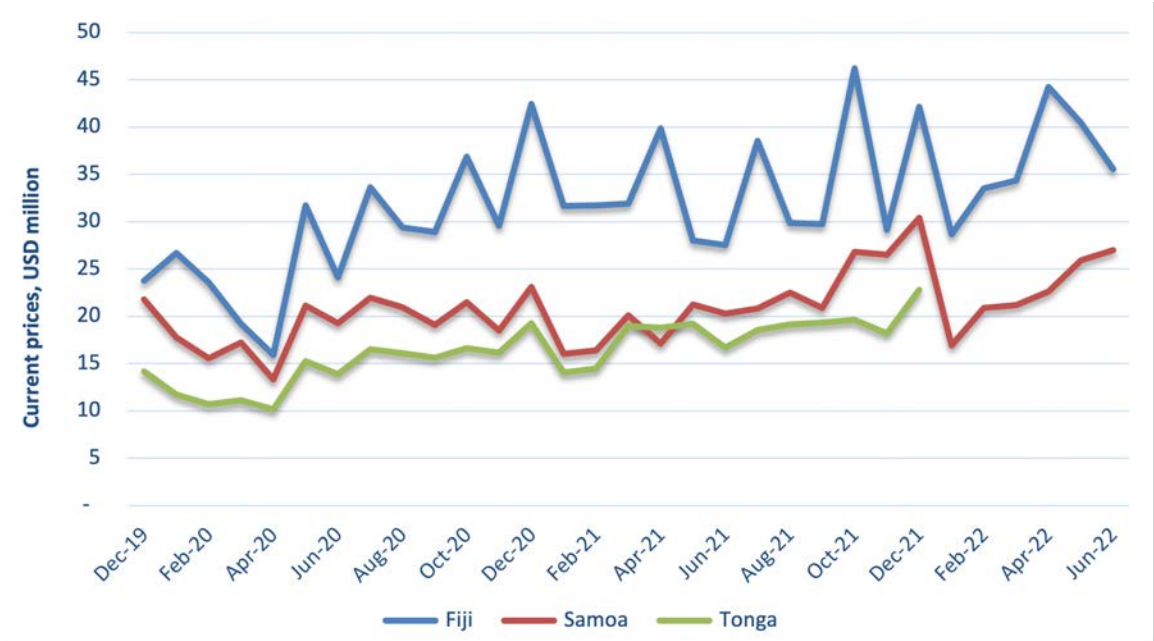
Figure 10. Foreign exchange reserves



Source and notes. PNG: Bank of Papua New Guinea. Fiji: Reserve Bank of Fiji. TL: Statistics Timor-Leste; SI: Central Bank of Solomon Islands; Vanuatu: Reserve Bank of Vanuatu; Tonga: National Reserve Bank of Tonga; Samoa: Central Bank of Samoa.

Contrary to expectations, remittance inflows have not fallen during the pandemic and in some cases have increased (Figure 11). While it remains a question whether the positive trends in official remittances reflect an absolute increase in remittances or instead the increasing use of formal channels to transfer funds, growing remittance flows through official channels have bolstered foreign reserves in several Pacific Island countries.

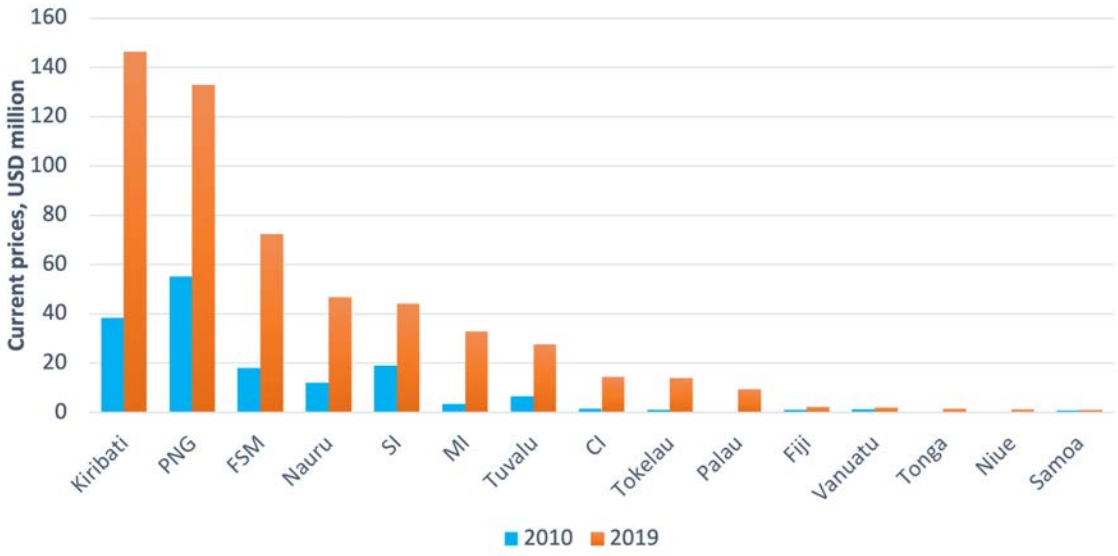
Figure 11. Remittances



Source and notes: Fiji: Reserve Bank of Fiji; Samoa: Central Bank of Samoa; Tonga: National Reserve Bank of Tonga.

Revenues generated from selling the rights to fish in the Pacific have grown rapidly over the past decade following the introduction of the Nauru Agreement in October 2010 (Figure 12). We lack data on these flows during the pandemic, but any decline in fishing licences is likely to be modest.

Figure 12. Fishing licence and access fee revenue, 2010 and 2019



Source and notes: Pacific Islands Forum Fisheries Agency (FFA) Economic and Development Indicators and Statistics.

The Pacific is the world's most aid-dependent region, and received increased development assistance from Development Assistance Committee (DAC) donors and the multilaterals to respond to COVID-19 and its effects (Figure 13). Aid to Marshall Islands and Palau more than doubled from 2019 to 2020 supported by the US and Japan's COVID-19 funding packages. PNG received the largest absolute increase in aid, with USD367 million in interest-free loans from the International Monetary Fund's Poverty Reduction and Growth Trust. Australia also provided its first budget support grant in the past two decades to PNG, and also provided budget support to several other Pacific countries.

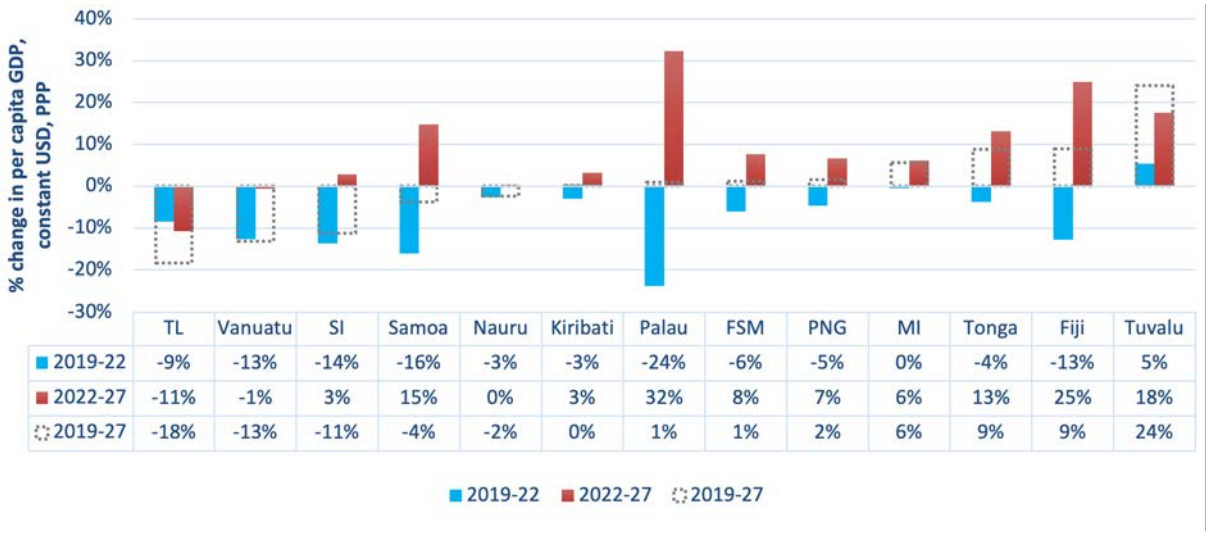
Figure 13. Aid in 2020 relative to 2019

Source and notes: OECD Development Statistics (DAC2a). Only includes aid disbursements from DAC and multilateral donors. Y-axis indicates the ratio of aid in 2020 relative to aid in 2019 (calculated from constant prices). Column labels indicate the amount of aid in 2020 in USD million (in constant prices).

SLOW TREND GROWTH

The shock of COVID-19 notwithstanding, the major risk to economic development in the Pacific remains low real growth in per capita income in the longer term. Output per capita in most Pacific countries in five years is projected to be at or below pre-pandemic levels (Figure 14). This means that many Pacific countries are facing a lost decade. For the region as a whole (Figure 15), per capita income is expected only to have returned to pre-COVID levels by 2027. Only Tuvalu is excepted to match the average growth for developing economies.

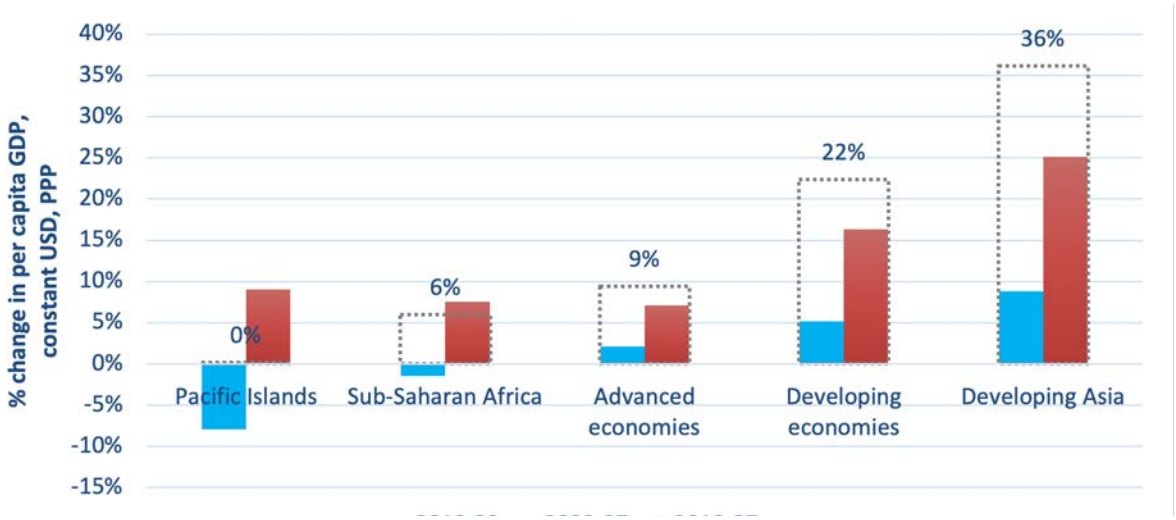
Figure 14. Cumulative real growth in per capita GDP from 2019 to 2027



	TL	Vanuatu	SI	Samoa	Nauru	Kiribati	Palau	FSM	PNG	MI	Tonga	Fiji	Tuvalu
2019-22	-9%	-13%	-14%	-16%	-3%	-3%	-24%	-6%	-5%	0%	-4%	-13%	5%
2022-27	-11%	-1%	3%	15%	0%	3%	32%	8%	7%	6%	13%	25%	18%
2019-27	-18%	-13%	-11%	-4%	-2%	0%	1%	1%	2%	6%	9%	9%	24%

Source and notes: International Monetary Fund (IMF) World Economic Outlook Database October 2022. Actuals and estimates to 2021, and projections thereafter. Growth rates are over multiple years: 2022 over 2019, 2027 over 2022, and 2027 over 2019.

Figure 15. Regional comparison of cumulative real growth in per capita GDP



Source and notes: International Monetary Fund (IMF) World Economic Outlook Database October 2022. See notes to Figure 14.

CONCLUSION

On the whole, the Pacific and Timor-Leste economies have been harder hit by COVID-19 than other regions, and face the prospect of slow growth and, therefore, a lost decade, as researchers from Lowy, Alexandre Dayant and Roland Rajah, first warned in December 2020.[11]

While most Pacific countries have done well in containing government debt increase and maintaining strong external positions, they remain vulnerable to rising inflation and a global slowdown. Further outbreaks of COVID-19 at home and/or abroad are another risk, especially for those countries where vaccination progress has been slow or that are reliant on tourism.

It is unlikely that Pacific countries will get the AUD2 billion aid boost from Australia that Dayant and Rajah recommend, and unclear from past experience that this would do much to help growth. Given the dire outlook, aid directed to households will help cushion the ongoing COVID-19 blow, labour mobility strategies will be important to create employment opportunities, and the challenge of undertaking domestic economic reform to increase long-term trend growth rates is more critical than ever.

[11] Dayant, A. & Rajah, R., 2020, 'Avoiding a "lost decade" in the Pacific', *Interpreter*, 16 December.

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This research was supported by the Pacific Research Program, with funding from the Department of Foreign Affairs and Trade.

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