PACIFIC ISLANDS FORUM SECRETARIAT

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2024 FORUM ECONOMIC MINISTERS MEETING
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AGENDA ITEM 3: REGIONAL UPDATE ON ECONOMIC STATE OF PLAY & OUTLOOK

Purpose and Recommendations	

Purpose

This paper provides an update to the Forum Economic Ministers Meeting (FEMM) on the economic state of play and outlook for the region based on the key economic indicators of: (i) real Gross Domestic Product (GDP) growth rate, (ii) rates of consumer price inflation, (iii) debt to GDP ratios, and (iv) external debt service to export revenues. The details on a country basis are contained in **Annex 1**.

The paper also draws attention to the continuing economic impact of the war in Ukraine, the risks associated with the conflict between Israel and Hamas and those risks associated with climate change induced shocks.

Summary

Prior to the outbreak of the COVID-19 pandemic in early 2020 the Pacific Island economies had in aggregate, between 2014 and 2019, recorded an annual average growth rate in real Gross Domestic Product (GDP) of 4.7%. This positive trend was reversed during 2020 and 2021 with an average annual contraction rate of 4.0%. Only Kiribati and Nauru ended 2021 with their GDP higher than in 2019. With the gradual opening of borders in 2022, Cook Islands and Fiji recorded positive growth as tourist numbers recovered, while most other economies continued to struggle to stimulate non-tourism economic activity.

The average annual growth rate of Pacific GDP declined between 2022 and 2023 due largely to the contraction in Papua New Guinea's resource sector, which more than offset the tourism-related recovery in many of the Forum Island Countries (FICs). Tourism revenues continued to improve while remittances increased marginally but were above the pandemic levels. Tourism was the primary driver of growth in overall Pacific GDP with some economies, notably Fiji and Samoa, seeing tourism number exceeding pre-pandemic levels.

Consequently, by the end of 2023 only half of the FICs had seen their GDPs recover to the 2019 pre-COVID level. By end of 2025, the levels of GDP in Cook Islands, Palau, Samoa and Solomon Islands are expected to be still below the 2019 levels. Recovery in GDP levels is underway in all countries, but some have some way to go before returning to pre-COVID levels. In 2024 the average annual growth rate across the region is forecast to be 3.3% and to reach 4.0% in 2025.

With low rates of growth in GDP and populations continuing to increase, especially in the Melanesian countries, GDP per capita in 2024 will also likely remain below the 2019 levels in half the FICs. It is estimated that GDP per capita will still fall short of the 2019 levels in real terms in Solomon Islands,

Vanuatu and PNG, as well as in the Cook Islands, Palau and Samoa even by the end of 2025.

The lack of economic opportunities in the domestic economies of FICs coupled with the growing number of opportunities for overseas migration, both permanent and under labour mobility schemes, add to the uncertainties around the prospects for domestic economic recovery in many countries.

The number of FICs experiencing a high risk of debt distress remains significant, but the ratios of gross debt to GDP are expected to decline in most countries during the 2024 to 2026 period. Success will depend on the easing of fiscal pressures as economies continue to recover and governments implement fiscal consolidation measures as recommended in recent International Monetary Fund (IMF) Article IV consultations.

A. Problem Statement/Context

For many Member countries, sustained economic growth remains elusive. Recovery in GDP levels is underway in all countries, but some still have some way to go before getting back to their pre-COVID levels. By end of 2023 only half of FICs had seen their GDPs recover to the 2019 pre-COVID levels.

2. The number of FICs experiencing a high risk of debt distress remains significant, but the ratios of gross debt to GDP are expected to decline in most countries during the 2024 through 2026 period. Success will depend on the easing of fiscal pressures as economies continue to recover and governments implement fiscal consolidation measures as recommended in recent IMF Article IV consultations.

3. Disasters frequently impede economic progress, while over the longer term, climate change is forecast to impact key sectors of growth such as tourism, fisheries, and agriculture. Geopolitical competition and global conflicts continue to complicate economic opportunities for the region and therefore make it difficult to predict the likely inflationary and growth trends for coming years.

4. Continuing geopolitical tensions in Europe and the Middle East together with climate-related disruptions in the Pacific region could result in renewed commodity price volatility, particularly for fuel and food prices. Although consumer price inflation has been moderate in most FICs over the pandemic influenced period, the cumulative affects of low economic growth, job losses for many in the tourism sector have exacerbated the impact of even moderate inflationary pressures. The likely inflationary trend for the coming years is difficult to predict within the context of the global risk environment.

B. Linkages to 2050 Strategy for the Blue Pacific Continent

5. The *2050 Strategy for the Blue Pacific Continent* (2050 Strategy) identifies seven thematic areas including one on Resources and Economic Development (RED) and another focused on Climate Change and Disasters.

6. The RED thematic area highlights the importance of accelerating the region’s economic priorities and aspirations. To support these aspirations, the proposed Pacific Roadmap for Economic Development (PRED) attempts to articulate the key regional economic priorities and their associated priority actions that aims to grow and diversify the economic base of FICs and strengthen and improve their financial and fiscal resilience.

7. The 2050 Strategy also recognises the multifaceted impacts of climate change and disasters on Pacific peoples, the statehood of FICs and their economies. Climate induced disasters negatively

affect the financial and fiscal resilience of FICs and therefore timely access to climate finance and disaster risk finance to support adaptation and mitigation is a priority.

8. To be effective in accessing and managing existing and new sources of financing, key prerequisites include expanding the available climate finance landscape and options, the ability to mobilise private sector finance, robust Public Financial Management (PFM) systems at national level, prioritising capacity building and supplementation, and consolidating individual country efforts towards a regional approach. The establishment and capitalisation of the Pacific Resilience Facility (PRF) would be a game changer for the region in this regard.

C. Macroeconomic policy analysis

Real GDP Growth Rates

9. Until the onset of the COVID-19 pandemic, annual real GDP growth rates for FICs averaged around 4% between 2014 - 2019, with a high of 9.6% growth in 2014 and a low of 1.0% in 2018. During the COVID-19 inspired lockdowns and border closures, and reduction in economic activities, average regional GDP growth was negative 6.2% in 2020 and a further negative 1.9% in 2021. With the end of border closures in late 2021 and into 2022, the real GDP growth rate for the region recovered quickly to reach 7.9% in 2022, and but declined to 3.5% in 2023 as the recovery in tourism stabilised. Real GDP growth rate is forecast to be around 3.3% in 2024 and to increase to about 4.0% in 2024. This is shown below in Figure 1.

10. The post-COVID-19 recovery is underway in most FICs. Growth is forecast to be around 3.3% in 2024 and 4.0% in 2025, down from an annual average of 5.7% in 2022 and 2023. The post-pandemic recovery is being supported primarily by a continued rebound in tourism, especially in Palau, Fiji and Cook Islands. However, there is significant divergence in prospects between even the tourism-dependent economies, with the strength of the recovery depending on various country-specific factors, including flight availability and tourism infrastructure and related services readiness.

Figure 1: Pacific Real GDP Annual Average Growth Rate

Source: ADB Key Indicators; World Bank, IMF & National Statistics Offices

11. Despite the tourism-led recovery being experienced in many countries, those that experienced some of the most severe economic impacts from COVID-19, including Palau, Samoa and Cook Islands, may not return to pre-pandemic levels of real GDP until 2025 or even later. Other non-tourism economies, including Solomon Islands, are similarly not expected to reach their pre-pandemic GDP level until 2025 or later. In the case of the Solomon Islands, this may be due to declines in logging and agriculture productivity. By contrast, some PNA countries, where fishing license revenue is a dominant contributor to national income, such as Tuvalu, Nauru, Kiribati and RMI, GDP is expected to surpass pre-pandemic levels by end 2024. **Table 1** provides for country specific real GDP growth rates and near-term projections, and **Figure 2** for estimates of when GDP recovery will reach pre-Covid levels.

12. With their generally high dependence on imports, FICs are vulnerable to fuel prices and shipping costs. Attacks on commercial ships heading for the Suez Canal have resulted in many shipping lines rerouting trade around the Cape of Good Hope, tending towards a push up in freight costs and increasing shipping times. Continued disruptions to supply chains could raise the costs of trade and add to inflationary pressures that could be especially detrimental for FICs, which are both highly import dependent and poorly connected to global shipping networks.

13. The average annual growth rate amongst FICs is expected to decline slightly in 2024 and pick up again in 2025**.** The economy of the region is projected to expand by 3.3% in 2024 before rising to 4.0% in 2025. In Papua New Guinea growth is projected to increase from the lower level of 2.0% achieved in 2023 to 3.3% in 2024 and 4.6% in 2025, driven by increased mining activity with the reopening and increased output of major gold mines. This will offset a lower rate of recovery and expansion in Fiji's tourism sector. In other FICs, growth will be sustained by continued tourism recovery, stimulus from public infrastructure projects and other country specific factors, including the renewed activity in the migrant processing centres in Nauru, fishing license fees, returns from sovereign wealth and trust funds, as well as increased remittances as new labour mobility opportunities are opened. On the negative side growth in 2024 and 2025 may be constrained in Vanuatu with the halt to operations of Air Vanuatu and in New Caledonia by recent civil unrest.

14. As ever, FICs are vulnerable to natural disasters and regular climate events such as the current El Niño (which may reverse to la Niña later in 2024), that continues to have potential implications for economic growth and inflation.

Table 1: Pacific Real GDP Growth Projections

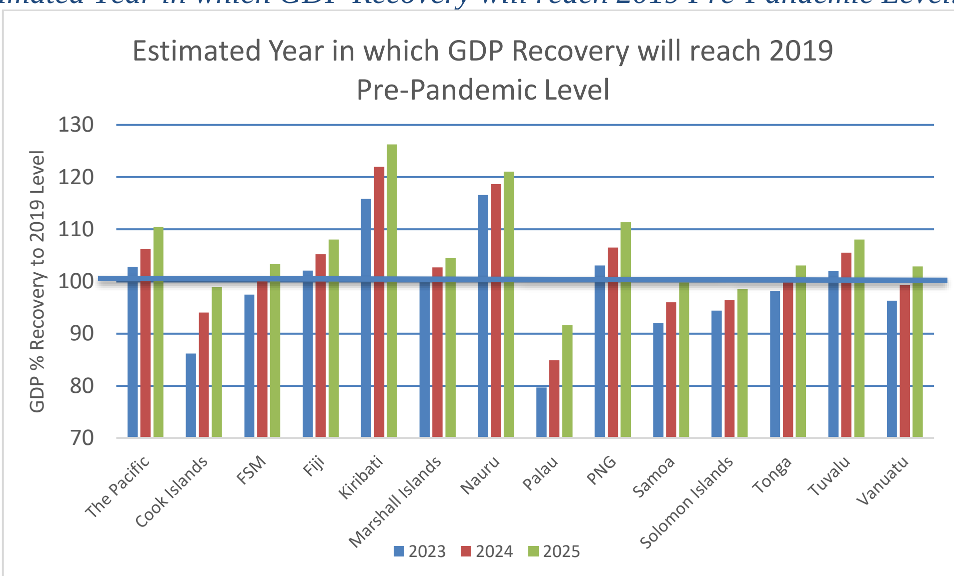
Table 1 Growth rate of GDP (% per year)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	average 2014-2019	average 2020-2021	average 2022-2023
The Pacific	**9.6**	**8.0**	**2.5**	**4.0**	**1.0**	**3.2**	**-6.2**	**-1.9**	**7.9**	**3.5**	**3.3**	**4.0**	4.7	-4.0	5.7
Cook Islands	3.2	4.5	6.0	6.8	8.9	3.6	-35.3	-0.8	21.1	10.9	9.1	5.2	5.5	-18.1	16.0
Federated States of Micronesia	–2.2	5.0	0.7	2.7	0.1	2.4	-3.1	-1.4	-0.6	2.6	3.1	2.8	2.2	-2.2	1.0
Fiji	5.6	3.8	0.7	5.4	3.8	-0.6	-17.0	-4.9	20.0	7.8	3.0	2.7	3.1	-11.0	13.9
French Polynesia	0.6	1.7	2.4	4.4	1.8	2.7	-7.1	2.1	4.5	...	...	...	2.3	-2.5	4.5
Kiribati	–0.7	10.4	5.1	–0.2	5.3	-2.1	-1.4	8.5	3.9	4.2	5.3	3.5	4.7	3.6	4.1
Marshall Islands	–0.7	–0.6	1.8	3.3	3.6	10.4	-2.8	1.1	-0.7	2.5	2.7	1.7	4.8	-0.9	0.9
Nauru	36.5	2.8	10.4	–5.5	5.7	9.1	4.1	7.2	2.8	1.6	1.8	2.0	12.9	5.7	2.2
New Caledonia	...	...	...	...	4.0	-1.4	-2.4	-2.1	3.5	...	...	...			
Niue	...	...	...	2.4	6.5	-1.7	-4.7	-6.2	...	...	...	...	2.4	-5.4	
Palau	3.1	10.4	0.5	–3.3	–0.1	1.3	-6.7	-13.0	-1.7	-0.2	6.5	8.0	3.8	-9.8	-0.9
Papua New Guinea	12.5	10.5	2.0	3.5	–0.3	4.5	-3.2	-0.8	5.2	2.0	3.3	4.6	6.6	-2.0	3.6
Samoa	1.2	1.7	7.2	1.1	–1.2	4.5	-3.1	-7.1	-5.3	8.0	4.2	4.0	3.1	-5.1	1.3
Solomon Islands	1.8	2.6	3.4	5.3	3.9	1.7	-3.4	-0.6	-4.2	2.5	2.2	2.2	3.1	-2.0	-0.8
Tonga	2.1	3.7	3.1	3.3	0.3	0.7	0.4	-2.7	-2.2	2.8	2.6	2.3	2.2	-1.1	0.3
Tuvalu	2.2	9.1	3.0	3.4	1.6	13.8	-4.3	1.8	0.7	3.9	3.5	2.4	5.5	-1.3	2.3
Vanuatu	2.3	0.2	3.5	6.3	2.9	3.2	-5.0	-1.6	2.0	1.0	3.1	3.6	3.1	-3.3	1.5

... = data not available.

Sources: ADB ADO 2024, World Bank WDI 2024 & National Statistics Offices

Figure 2: Estimated Year in which GDP Recovery will reach 2019 Pre-Pandemic Level.



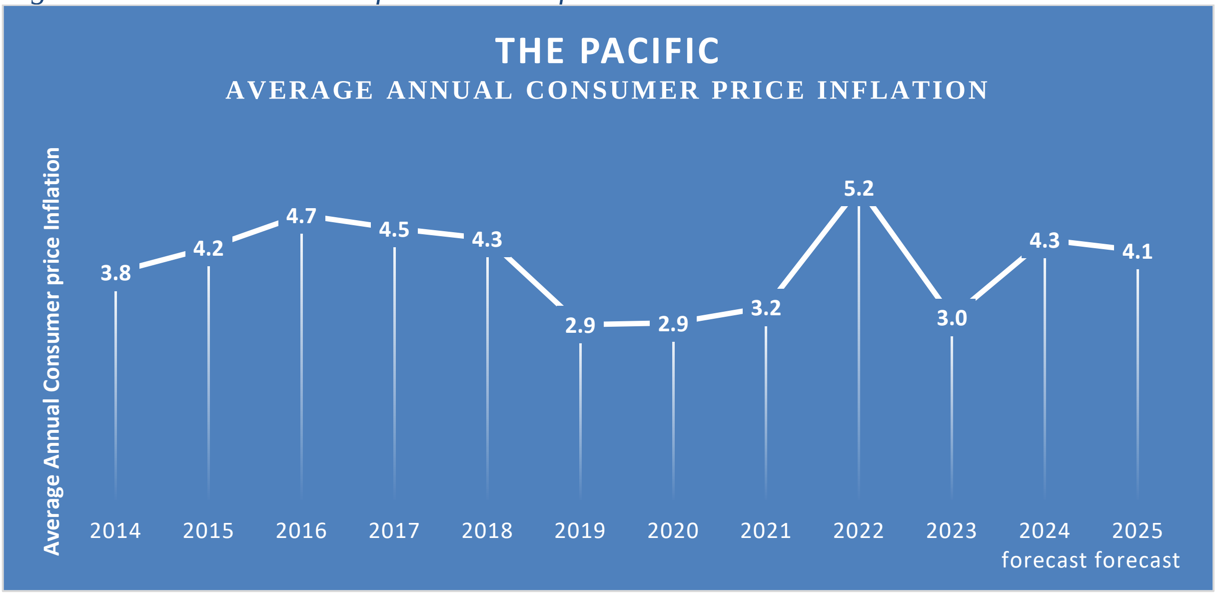
Source: ADB ADO April 2024 and National Statistics Offices

Inflation

15. Between 2014 and 2019, the rate of consumer price inflation averaged 4.1% per annum across the region, see Figure 3. During the two years of COVID lockdowns and supply chain disruptions the average annual rate fell to 3.1%. In the most recent two years, 2022 and 2023, the average annual rate has returned to its pre-COVID rate of 4.1%.

16. However, whilst in the pre-COVID period the variance between the individual country rates was relatively small, in the most recent period the rates of inflation for individual countries have widened from a low of 3.3% and 3.4% per annum in Nauru and Fiji to 10.4% and 12.3% in Samoa and Palau respectively, see Table 2.

Figure 3: Consumer Price Inflation in Pacific Island Countries



Source: ADB ADO April 2024

17. For 2024 and 2025 rates of inflation are expected to stabilise at an average of around 4.2% per annum. However, many uncertainties and risks to the global economy remain. Any escalation in the war in Ukraine, or the conflict in the Middle East including disruptions to shipping could once again push up global commodity prices. The impacts of election results in Europe and the USA could also pose global risks that could have serious consequences for FICs.

18. Continuing geopolitical tensions in Europe and the Middle East together with climate-related disruptions in the Pacific region could result in renewed commodity price volatility, particularly for fuel and food prices. Although consumer price inflation has been moderate in most FICs over the pandemic affected period, the cumulative affects of low economic growth, job losses for many in the tourism sector have exacerbated the impact of even moderate inflationary pressures. The likely inflationary trend for the coming years is difficult to predict within the context of the global risk environment.

19. According to the ADB's Social Protection Indicator (SPI) increases in social protection expenditure provided some relief for those most affected in some FICs. These measures included special access to retirement saving (Fiji), unemployment benefits (Kiribati), increases in pensions for elderly persons (Nauru), food grants and utility subsidies in several countries. These additional welfare benefits have assisted in alleviating the effects of inflation for some families.

20. For the FICs, crude oil prices are of considerable importance in influencing the costs of all forms of transport as well as much of the private sector through fuel costs for fishing vessels, business inputs and product distribution. **Error! Reference source not found.** illustrates how the cost of crude o il has fluctuated widely over the last decade from a low point in 2020 at the onset of Covid, through to a high in 2022 with the Ukraine war. For the past twelve months the price has stabilised somewhat at around USD80 per barrel but is nevertheless still at a level not otherwise seen since 2015.

Table 2: Pacific Consumer Price Inflation projections (annual average %)

Pacific Islands Average Annual Rates of Inflation (% per year)							
	2019	2020	2021	2022	2023	2024 Forecast	2025 Forecast
The Pacific	**2.9**	**2.9**	**3.2**	**5.2**	**3.0**	**4.3**	**4.1**
Cook Islands	0.0	0.7	1.8	3.6	13.2	2.3	2.3
Federated States of Micronesia	1.3	-0.3	5.4	5.0	5.3	4.1	3.5
Fiji	1.8	-2.6	0.2	4.3	2.4	3.7	2.6
French Polynesia	1.5	-0.9	1.7	8.5	3.3	...	...
Kiribati	-1.9	2.5	2.1	5.3	9.7	4.0	3.0
Marshall Islands	-0.1	-0.7	2.2	3.2	6.5	5.5	3.7
Nauru	4.1	0.7	1.7	1.5	5.2	10.3	3.5
New Caledonia	0.3	-0.5	0.6	3.7	1.7	...	...
Niue	2.4	2.3	3.4	3.1	8.6	...	...
Palau	0.4	0.7	-0.5	13.2	12.4	5.5	1.0
Papua New Guinea	3.6	4.9	4.5	5.3	2.3	4.5	4.8
Samoa	2.2	1.5	-3.0	8.8	12.0	4.5	4.3
Solomon Islands	1.8	2.7	0.8	5.4	4.6	3.2	2.7
Tonga	0.5	0.2	2.3	8.2	9.7	4.5	4.2
Tuvalu	3.5	1.6	6.7	12.2	7.2	3.0	3.0
Vanuatu	2.8	5.3	2.3	6.7	13.5	4.8	2.9

Source: ADB ADO April 2024 & National Statistics Offices

Figure 4: Crude Oil Prices 2015-2024

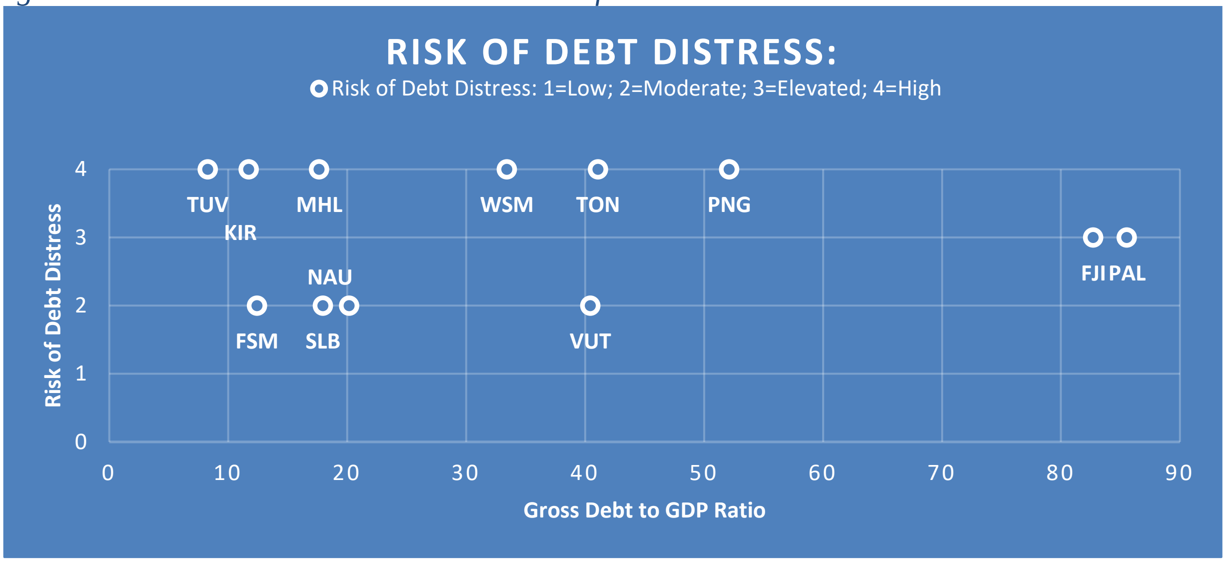
Source: Trading Economics: [Crude Oil - Price - Chart - Historical Data - News (tradingeconomics.com)]

Debt distress

21. Debt distress levels in the Pacific remain high but according to the IMF, these are expected to decline in most FICs as the post-pandemic recovery continues. As illustrated in Figure 5, six low-income FICs - Kiribati, Marshall Islands, PNG, Samoa, Tonga and Tuvalu - are rated as being at high risk of debt distress. FSM, Nauru, Solomon Islands and Vanuatu are rated as being at moderate risk

of debt distress, but it is noted by the IMF that these FICs have limited capacity to absorb shocks. For the upper middle-income countries of Fiji and Palau, the IMF assessment shows that whilst debt is high, and the risk elevated, the debt situation is sustainable.

Figure 5: Overall debt distress in selected Pacific Island Countries



Sources: IMF World Economic Outlook & ADB ADO April 2024

22. The ADB has noted that Tonga, Samoa and Vanuatu are proportionately among the world's most indebted countries to China. In 2020, these countries had outstanding bilateral debt to China of more than the equivalent of US$1.5 billion. Over 55% of Tonga's total external debt was under this bilateral arrangement putting it in the high-risk category of debt distress.

Debt to GDP ratios for selected FICs are illustrated in

23. Table 4; this indicates that gross debt of four FICs, Fiji, Palau, PNG and Solomon Islands was higher in 2023 than in 2019 while in the other countries debt levels were either stable or lower.

Table 3: General Government Gross Debt % of GDP

General Government Gross Debt % of GDP							
Country	2019	2020	2021	2022	2023	2024 est	2025 proj
Fiji	49.0	63.6	83.3	91.0	82.7	81.1	80.6
Kiribati	19.0	17.2	14.1	13.3	11.7	9.9	13.7
Marshall Islands	25.2	21.8	20.1	19.4	17.7	17.3	17.8
Micronesia, Federated States of	19.8	21.5	17.0	14.6	12.4	10.6	10.6
Nauru	59.6	56.3	20.5	22.2	20.2	23.4	20.9
Palau	30.5	52.4	70.7	68.4	85.5	80.0	67.0
Papua New Guinea	40.6	48.7	52.6	48.3	52.1	52.1	52.0
Samoa	44.3	43.2	46.3	43.7	33.4	29.1	29.7
Solomon Islands	7.9	13.5	15.9	17.3	18.0	19.8	21.1
Tonga	41.3	43.6	47.5	45.4	41.1	43.8	50.0
Tuvalu	11.5	12.3	11.5	10.1	8.3	7.0	5.9
Vanuatu	45.1	48.0	48.5	44.1	40.4	44.0	47.6
Source: IMF World Economic Outlook April 2024							

24. However, according to World Bank data most of the external debt of FICs is with multilateral agencies on generally concessional terms and not to bilateral creditors. The Asian Development Bank is the major creditor for countries such as Fiji, Samoa, Solomon Islands, Tonga and Vanuatu, holding about 38 percent of all external debt, the World Bank (13 percent), and Australia and Japan (6 percent). Bilateral loans from China are less than half of the total of external debt in Fiji, PNG, Vanuatu and Samoa.

The costs of debt service relative to the value of exports of goods and services (including tourism) is shown in

25. Table 4. Countries that experienced sharp declines in tourism revenues during the lockdowns saw their debt service ratios increase in 2020 and 2021, notably Fiji, Palau, Tonga and Samoa, but debt service ratios fell in 2022 as post-covid economic recovery began.

Table 4: Selected FICs Debt Service Ratios

Selected FICs Debt Service Ratios					
% of exports of goods and services					
Country	2019	2020	2021	2022	2023
Cook Islands	4.5	6.6	9.8	–15.5	–1.9
Federated States of I	6.3	9.3	8.0	...	...
Fiji	1.9	4.3	19.7	1.5	3.1
Kiribati	4.5	6.0	7.7	8.1	7.6
Marshall Islands	8.9	7.8	5.6	5.9	...
Nauru	1.0	1.1	0.8	0.7	4.1
Palau	7.5	14.8	58.8	31.5	31.9
Papua New Guinea	1.3	1.5	0.8	0.8	1.6
Samoa	8.4	11.3	25.6	23.7	12.8
Solomon Islands	1.1	1.5	1.6	0.4	0.8
Tonga	8.2	13.0	19.1	19.7	...
Vanuatu	7.7	18.6	38.3	23.5	9.9
Source: ADB ADO April 2024 & IMF Article IV Reports					

Impact of Conflicts in Ukraine and the Middle East

26. The war in Ukraine has been raging for more than two years. The initial sharp increases in food, fuel and commodity prices experienced in 2022 have now stabilized as the global economy has adjusted supply chains to the conflict situation. However, the more recent conflict between Israel and Hamas in Gaza, that now involves other internationally proscribed organisations, including those based in Yemen and Lebanon, has begun to disrupt shipping services from Asia to Europe and the rest of the world. Increases in shipping times and consequently shipping costs inevitably impact on consumer prices in FICs.

27. Increasing rates of consumer price inflation are felt most keenly by poor households in urban areas in the Pacific region, as well as those who live in the most remote communities where transport costs can add significantly to retail prices.

28. But in so far as higher import prices encourage greater domestic food production and consumption, this too may have a positive impact on FIC food security and domestic agriculture. But for those who have no option but to purchase imported items, including those in urban areas with little or no access to home gardens, and in atoll countries including Nauru with limited domestic agricultural potential, higher import prices will likely increase levels of hardship and poverty, and

worsen levels of nutrition especially for children.

29. Another often overlooked consequence of both the pandemic and the disruptions to global shipping has been the loss of employment opportunities for seafarers, especially from Tuvalu and Kiribati. Whilst the loss of employment in the tourism sectors across the region has been much discussed, the loss of seafarer employment has been equally dramatic for these two countries. Seafarer employment never really recovered from the global financial and economic crisis of 2008-2010, and with increased costs of mobilizing seafarers from the Pacific to distant ports, the pandemic lockdowns and the decline in shipping trade during the pandemic, the loss of employment and associated remittances has been significant .

30. The new Australian Pacific Engagement Visas plus the special programme for migration to Australia under the Tuvalu Falepili Treaty will greatly assist in providing new migration and employment opportutnties for the otherwise redundant seafarers.

31. When fiscal space permits, governments can mitigate the impacts of consumer price increases by, for example, setting maximum prices for essential items, by providing subsidies for energy prices or establishing poverty targeted social protection programmes that either provide cash or food vouchers to poor households. Fiji's Poverty Benefit Scheme and Cook Islands Destitute Allowance are examples of the latter. Other options are to provide free meals to children at school, as are provided in Nauru, or a universal elderly persons benefit as is provided now in many FICs.

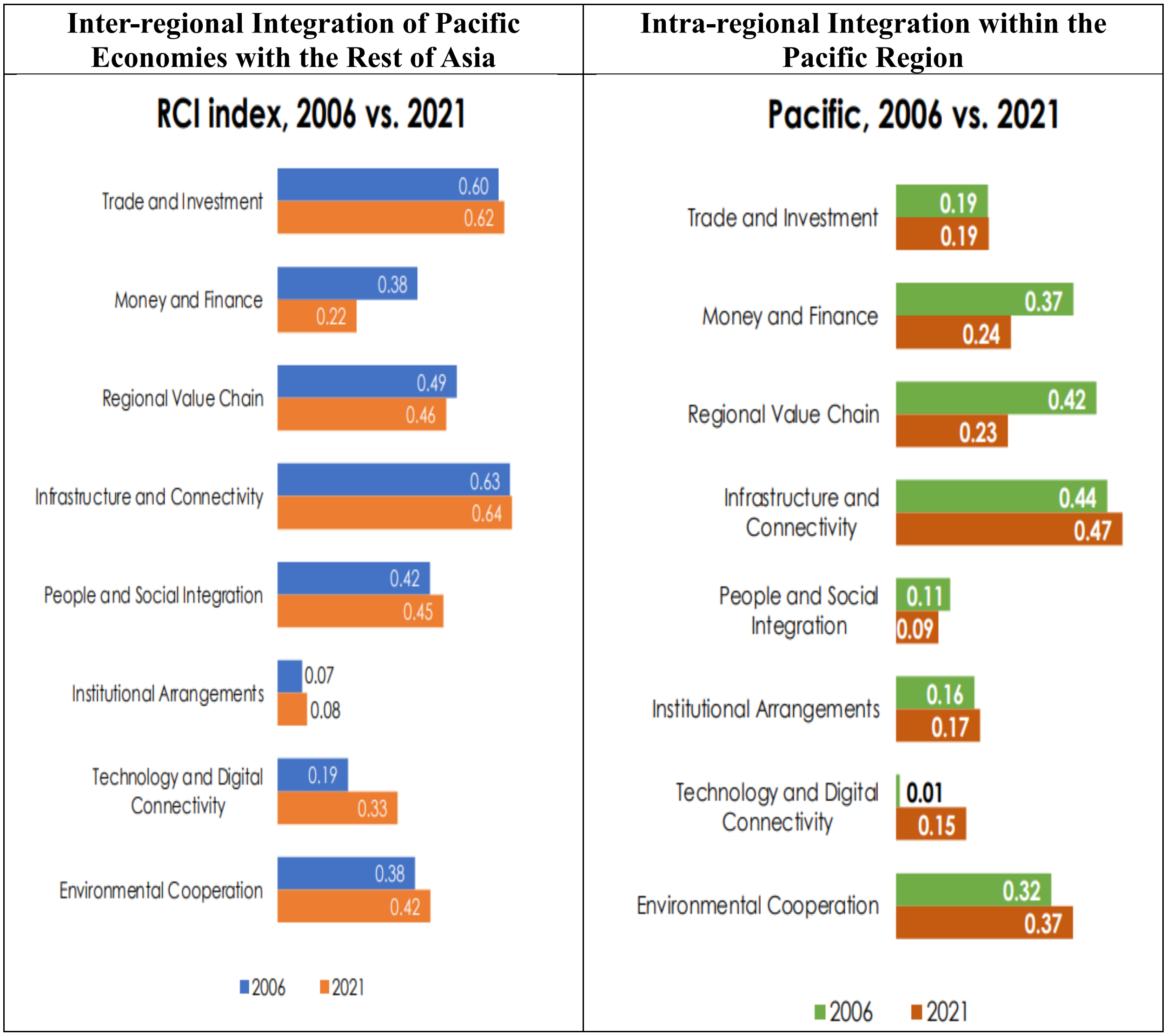
32. Whatever option might be chosen it comes with a significant budgetary cost. During the pandemic many FICs increased, expanded or introduced new social protection measures to assist in alleviating the increased hardship and poverty being experienced.

33. Whilst economic recovery is now occurring in most FICs, fiscal weaknesses remain as revenues lag behind improvements in economic activity. To boost fiscal space to continue with these programmes and to maintain public debt sustainability, various fiscal and financing policy options have been recommended by IMF and other agencies. Most focus on improving domestic resource mobilization through improving compliance with tax legislation, introducing broader consumption taxes, removing tax and duty exemptions and modernising revenue collection systems through increased digitisation and e-commerce.

34. Across the region greater cooperation, standardisation and integration of legislation and systems would also create greater opportunities for intra-FIC trade and investment. Harmonising the "ease-of-doing-business" legislation and regulations would also serve to achieve cost savings and lead to greater investment and creation of domestic employment. The ADB's Asia–Pacific Regional Cooperation and Integration Index (ARCII) now includes digital connectivity and environmental cooperation among other innovations for monitoring progress towards these objectives.

35. Whilst FICs lag behind their Asian neighbours in both inter and intra-regional integration progress is being made through the implementation of FEMM initiatives and RCAs. **Error! Reference source not found.** illustrates the ADB's regional cooperation and integration indicators across the eight dimensions of the ARCII index. There is much work still to be done to realise the full benefits of both intra and inter-regional cooperation and integration as identified in both the 2050 Strategy and the PRED.

Figure 6: Regional Cooperation and Integration Index for Selected FICs



Source: ADB-Asian Think Tank Development Forum 2023 Pacific Island Economies: Aiming for Sustainable Economic Development in the Midst of Growing Uncertainties, Suva, 26-27 September 2023

36. As lockdowns were eased, borders opened, and trade and tourism were beginning to recover, the world was impacted by the geopolitical events of Russia and Ukraine in early 2022. This caused a massive spike in the price of crude oil, as illustrated in **Error! Reference source not found.**, as w ell as in the price of commodities notably wheat and the other staples produced by Ukraine.

37. As global markets were coming to terms with the Ukraine situation, in late 2023 the conflict between Israel and Hamas resulted in new disruptions to supply chains, increased shipping costs and consequently increases in the cost of living.

38. Although inflationary pressures appear to have eased, and interest rates have begun to decline, for FICs the ever-present threats of natural disasters and climate-change create additional policy uncertainties and areas of further risk to economic recovery and sustained and sustainable

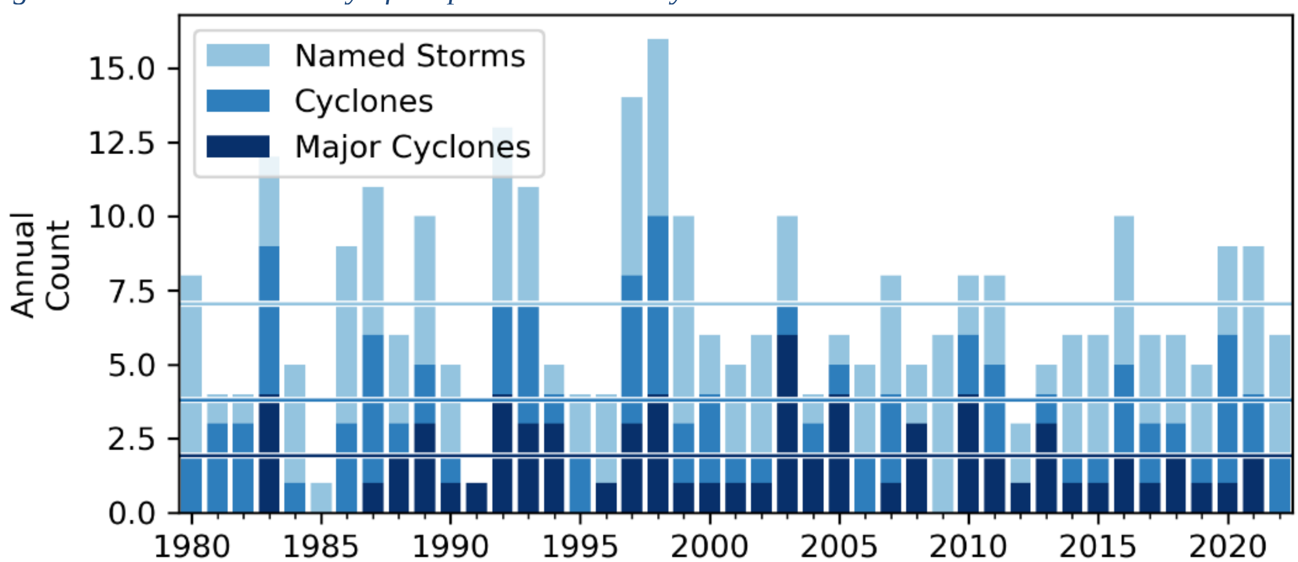
economic growth.

National budgets remain under pressure, Pacific economies struggle to regain pre-Covid levels of GDP, and many families also continue to struggle to find employment and to meet their basic needs. It is therefore essential that national governments continue to take the necessary steps to implement the policies, measures and actions as set out in the Blue Pacific Strategy, the 2050 implementation Plan and the PRED. These all prioritise economic growth and employment creation strategies that address the constraints and challenges that face families every day.

The Impact of Climate Change Shocks on Inflation and Growth

39. In the last decade FICs have been severely impacted not only by global events but also the ever-present risks of the increasing frequency and severity of climate-related and other disasters. These impact all aspects of FIC economic and social activity and result in loss and damage to property, crops, infrastructure and livelihoods. The regular occurrence and increased severity of tropical storms, cyclones and major cyclones over the years between 1980 and 2022 is illustrated in Figure 7.

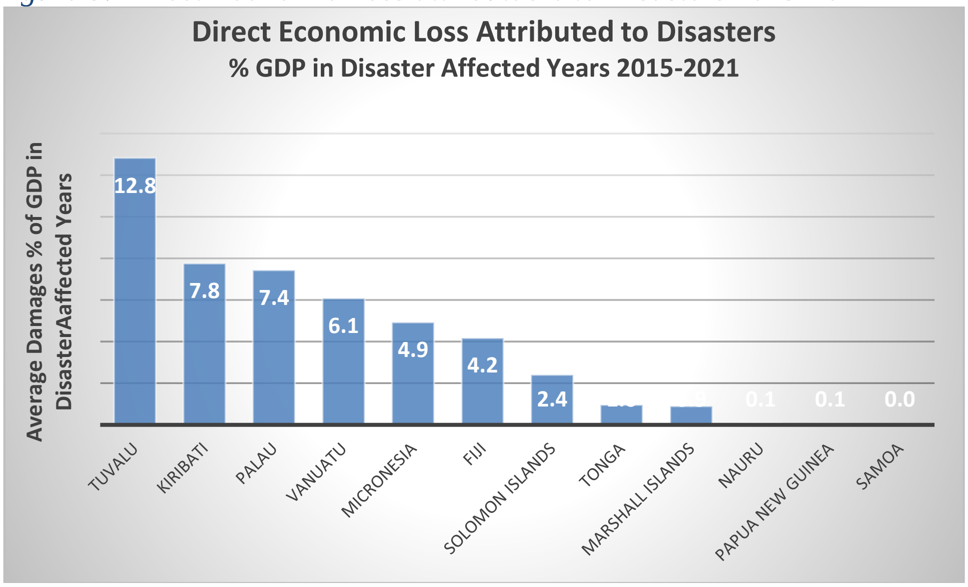
Figure 7: Number & Severity of Tropical Storms & Cyclones 1980-2022



Source: [Annual 2022 Tropical Cyclones Report | National Centers for Environmental Information (NCEI) (noaa.gov)]

40. Figure 8 illustrates the direct economic losses attributable to disasters between 2015 and 2021, the latest data for which data is available, and therefore excludes the 2022 volcanic eruption in Tonga and the twin cyclones that hit Vanuatu in 2023. The data clearly indicates that the worst affected by natural disasters since 2015 have been Kiribati and Tuvalu, followed by Palau, with Vanuatu, Micronesia and Fiji the next most affected.

Figure 8: Direct Economic Loss attributable to Disasters 2015-2021



Source UNESCAP Data Explorer: SDG 1.5.2 & GDP data from IMF World Economic Outlook April 2024

41. A recent (2023) study by the IMF[1]indicates that climate-induced disasters have differential and opposing effects on inflation and growth through multiple channels, including domestic agricultural production, consumer prices, labour productivity, dampening economic activity, reducing wealth, income, consumption and investment as well as adversely impacting infrastructure and transport. The study noted that these transmission channels vary significantly with the level of economic development and diversification across countries. The authors also note that the results reflect demographic and structural differences and weaker fiscal and institutional capacity in developing counties to adapt to and mitigate the consequences of climate shocks.

42. Accordingly, the study suggests there are several important implications for economic policy in the wake of accelerating climate change: *"First, this will make inflation and growth dynamics more volatile, with potential feedback effects across all sectors of the economy. Second, the differing patterns of inflation and growth response to climate shocks will lead to greater heterogeneity in the level of inflation and income growth experienced by different segments of the society within a country. In other words, households whose consumption basket consists of goods and services that are more likely to experience an increase in inflation and loss of income in the aftermath of natural disasters will be more adversely affected compared to households whose consumption is proportionately less dependent on such products and income is not subject to a negative shock."*

43. Combining the frequency and region-wide dispersion of climate-related disasters means that many FICs are in an almost constant cycle of impact, response and recovery. As reported by the IMF[2], these make the region's climate financing needs substantial, estimated at 6.5 % - 9.0 % of GDP or almost US$1 billion annually. Current estimated financing of around US$220 million[3] annually for FICs falls far short of the financing requirement. Implementation capacity, often limited

[1] Cevik. S & Jalles JT, 2023, Eye of the Storm: The Impact of Climate Shocks on Inflation and Growth, IMF Working Paper
[2] IMF. 2021. Unlocking Access to Climate Finance for Pacific Island Countries. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/09/23/Unlocking-Access-to- Climate-Finance-for-Pacific-Islands-Countries 464709
[3] Consolidated figure from PIFS climate finance assessment reports completed in 11 PICs.

accessibility to disaster-struck or disaster-prone areas, institutional constraints and lack of implementation for mitigation and adaptation have therefore been uneven across the region.

D. Next Steps

44. The Forum Secretariat will continue to work with partners including ADB, UNESCAP, the World Bank and IMF to provide key economic indicator updates to Forum Economic Ministers.

Pacific Islands Forum Secretariat
19 July 2024

Annex 1: Key Indicators for selected Forum Island Countries

Cook Islands	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	3.6	-35.3	-0.8	21.1	10.9	9.1	5.2
Inflation	0.0	0.7	1.8	9.5	9.1	2.3	2.3
Debt to GDP ratio	…	…	…	…	…	…	…

*Projected

Fiji	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	-0.6	-17.0	-4.9	20.0	7.8	3.0	2.7
Inflation	1.8	-2.6	0.2	4.3	2.4	3.7	2.6
Debt to GDP ratio	49.0	63.6	83.3	91.0	82.7	81.1	80.6

Kiribati	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	-2.1	-1.4	8.5	3.9	4.2	5.3	3.5
Inflation	-1.9	2.5	2.1	5.3	9.7	4.0	3.0
Debt to GDP ratio	19.0	17.2	14.1	13.3	11.7	9.9	13.7

Marshall Islands	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	10.4	-2.8	1.1	-0.7	2.5	2.7	1.7
Inflation	-0.1	-0.7	2.2	3.2	6.5	5.5	3.7
Debt to GDP ratio	25.2	21.8	20.1	19.4	17.7	17.3	17.8

Micronesia (Federated States of)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	2.4	-3.1	-1.4	-0.6	2.6	3.1	2.8
Inflation	1.3	-0.3	5.4	5.0	5.3	4.1	3.5
Debt to GDP ratio	19.8	21.5	17.0	14.6	12.4	10.6	10.6

Nauru	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	9.1	4.1	7.2	2.8	1.6	1.8	2.0
Inflation	4.1	0.7	1.7	1.5	5.2	10.3	3.5
Debt to GDP ratio	59.6	56.3	20.5	22.2	20.2	23.4	20.9

Palau	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	1.3	-6.7	-13.0	-1.7	-0.2	6.5	8.0
Inflation	0.4	0.7	-0.5	13.9	11.6	5.5	1.0
Debt to GDP ratio	30.5	52.4	70.7	68.4	85.5	80.0	67.0

Papua New Guinea	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	4.5	-3.2	-0.8	5.2	2.0	3.3	4.6
Inflation	3.6	4.9	4.5	5.3	2.3	4.5	4.8
Debt to GDP ratio	40.6	48.7	52.6	48.3	52.1	52.1	52.0

Samoa	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	4.5	-3.1	-7.1	-5.3	8.0	4.2	4.0
Inflation	2.2	1.5	-3.0	8.8	12.0	4.5	4.3
Debt to GDP ratio	44.3	43.2	46.3	43.7	33.4	29.1	29.7

Solomon Islands	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	1.7	-3.4	-0.6	-4.2	2.5	2.2	2.2
Inflation	1.8	2.7	0.8	5.4	4.6	3.2	2.7
Debt to GDP ratio	7.9	13.5	15.9	17.3	18.0	19.8	21.1

Tonga	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	0.7	0.4	-2.7	-2.2	2.8	2.6	2.3
Inflation	0.5	0.2	2.3	8.2	9.7	4.5	4.2
Debt to GDP ratio	41.3	43.6	47.5	45.4	41.1	43.8	

Tuvalu	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	13.8	-4.3	1.8	0.7	3.9	3.5	2.4
Inflation	3.5	1.6	6.7	13.7	4.5	3.0	3.0
Debt to GDP ratio	11.5	12.3	11.5	10.1	8.3	7.0	5.9

Vanuatu	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024*	FY2025*
Real GDP Growth	3.2	-5.0	-1.6	2.0	1.0	3.1	3.6
Inflation	2.8	5.3	2.3	6.7	13.5	4.8	2.9
Debt to GDP ratio	45.1	48.0	48.5	44.1	40.4	44.0	47.6

Source: ADB Asian Development Outlook April 2024 & IMF World Economic Outlook April 2024