Policy challenges and responses in the Pacific: a PFTAC perspective

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Outline

- Current situation and outlook
- Near term outlook & challenges
- Longer term challenges and policies
Near term outlook and challenges

A generally favorable situation and outlook:

- Moderate global growth. April WEO showing global growth at 3.3% in 2014, rising to 3.7% in 2015, and 3.8% in 2016.

- Favorable terms of trade for most PICs—lower oil and other import prices.

- Strong increases in fishing revenues, PNG energy exports.
Some downside developments & risks:

- Climate-related shocks – cyclone Pam damage and risk of more cyclones or drought.
- Possibly more downturn in Chinese & Australian economies – weaker demand but favorable prices.
- Possible strengthening of US$ vs. other currencies – cuts 2 ways.

Overall picture is favorable for the region, but for how long is uncertain.
In the near term, the main challenge is how to make best use of stronger revenues:

- Do not assume that the higher revenues are here to stay—avoid long-term spending commitments.
- Build buffers (less debt, more reserves) for managing future adverse developments;
- Invest in projects (infrastructure, education) with high returns (must be greater than value of strong buffers).
Longer term challenges & policies

Need also to consider challenges & appropriate policies over a longer horizon. Key risks & challenges:

- Frequent natural disasters: too common and too big to ignore, but how to plan for these?
- Volatile terms of trade: how to cope with a roller coaster?
- NCDs and demographics: potential bombs for the budget.
Policies:

- A more medium-term approach to fiscal policy and budget making: Need good data; integration with planning; good budget execution & monitoring.

- Build fiscal buffers: low debt/GDP targets; contingency funds; disaster risk insurance; international reserves.

- Strengthen revenue for key public investment: close tax loopholes & improve compliance; focus investment carefully on priority areas; get incentives for private sector investment right.
Comprehensive approaches to demographic and NCD challenges: incentives to save and insure; public health systems & infrastructure; education and disease prevention.

Public policies to promote growth: education and infrastructure; incentives for private sector development & investment; financial inclusion and gender equality in the workforce; stable legal systems; sound financial systems.

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