Regional Economic Outlook
Launch of the July 2015 issue of the Pacific Economic Monitor

2015 Pacific Update Conference

Christopher Edmonds
Senior Economist
Pacific Department, ADB
Suva, Fiji
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Pacific Economic Monitor is ADB’s bi-annual update on regional developments and topical policy issues. July 2015 issue is the 18th issue since 2009.

Outline

- Overview of international and regional developments of importance to Pacific
- Country developments
- Policy briefs: Economic and Fiscal Impacts of Disasters
International & Regional Developments

- Global growth strengthening, but with continuing downside risk
  - Greece debt & default (GrExit?)
  - Middle East and other global flashpoints
  - Weaker-than-expected US Q1 performance
  - PRC slowing
- Soft international commodity prices prevail
- Tourism to the Pacific maintains momentum

Commodity prices
(March 2011 = 100, quarterly)

Growth outlook: Midyear review

- Disasters (TC Pam and Typhoon Maysak in March) damp growth outlook
- But, 2015 still seen to be a relatively good year for the Pacific
- Average growth set for a one-off spike due to PNG’s LNG exports

GDP growth (% annual)

- World
- Developing Asia
- Pacific DMCs
- Australia
- Japan
- New Zealand
- Eurozone
- United States

DMC = developing member country, GDP = gross domestic product, p = projection.
Note: Developing Asia and Pacific DMCs based on ADB definition. 2014 figures are based on ADB estimates for developing Asia, Pacific DMCs, and the world.
Sources: ADB. 2015. Asian Development Outlook 2015. Manila; CEIC; Economist Intelligence Unit; International Monetary Fund; Organisation for Economic Co-operation and Development.
Severe Tropical Cyclone Pam

- Damage equivalent to 64% of Vanuatu’s annual GDP
- Main export crops (copra, coconut oil, kava, cocoa) largely destroyed
- Tourism impacts:
  - 2 large tourism facilities closed until end-2015
  - Reduced flight schedules
  - But, cruise ship calls resumed quickly

➢ Economy projected to contract by 0.5%

Photo credits: commons.wikipedia.org, www.abc.net.au
Typhoon Maysak

- Around 29,000 people affected in the FSM
- 90% of food crops in Chuuk and Yap wiped out
- Disrupted food and water supplies, severely damaged houses, schools, and sanitation and power facilities
- Sharp agricultural contraction to be offset by reconstruction, 0% growth expected this year

Photo credit: www.abc.net.au
Positive outlook in other Pacific economies

- Half of the Pacific DMCs set for growth acceleration

- **Palau:** Strong tourism continues
  - Over 50% increase in visitor arrivals over first 7 months of FY2015
  - Six-fold increase in tourists from the PRC
  - Concerns about carrying capacity of attractions, environment

- **Samoa, Solomon Islands, & Tonga:** Recovery from recent disasters (cyclones and flooding)

- **Cook Islands & the RMI:** Stimulus from development partner-funded projects
PNG’s LNG exports

- LNG exports commenced early in May 2014
- 2015 will be the first full year of LNG exports for PNG, resulting in one-off spike in GDP growth
- But, government has already cut its official growth forecast citing more subdued expectations of LNG’s growth impact
- Growth in non-mineral sector projected at about 5%

GDP growth (% per annum)
Forecast for 2016

- Growth in **Pacific region** to ease back to 5.0% in 2016, from a one-off spike to 9.9% this year
- Steady improvement in smaller **Pacific islands** (from 2.6% in 2014 to 3.1% in 2015 to 3.9% in 2016)

![GDP growth (p.a.) graph](image)

*Pacific islands = Pacific region excluding Papua New Guinea and Timor-Leste*
Inflation outlook

- More benign price pressures from international commodity markets
- Nonetheless, inflation seen to rise this year (to 4.7%) reflecting stronger economic activity, before moderating (to 4.0%) in 2016

Pacific islands = Pacific region excluding Papua New Guinea and Timor-Leste
Main factors influencing growth prospects

- **Tourism**
  - Rising PRC arrivals in Palau
  - Fiji and other south Pacific destinations next?

- **Development projects**
  - Fiji: infrastructure projects likely to commence in 2016

- **Regional initiatives**
  - Continuing success of PNA VDS and other schemes
  - Fiji re-engagement to re-ignite stalled efforts?

- **Resource exports, others**
Policy Theme: Economic and Fiscal Impact to Disasters

- Near- and longer-term Pacific economic outlook is influenced by region’s high exposure to natural hazards

GLOBAL DISASTER RISKS: Highest in the Pacific

- Only 0.1% of world population
- But experience 2.3% of global disasters

Typhoons/Cyclones
- Tropical cyclone belt

Undersea earthquakes, eruptions, tsunamis
- Australia-Pacific tectonic boundary

10 of top 30 with highest potential losses
- In average annual losses relative to GDP (World Bank-PCRAFI)

5 of top 15 with highest risk from disasters
- From exposure to natural hazards and vulnerability of society (UNU-EHS World Risk Index)
Impact of disasters in the Pacific

DIRECT IMPACTS: Damage and losses

Average life-years lost per person*

- High-middle income: 0.2
- Low-middle income: 0.3
- Low income: 0.4
- Pacific average*: 1.2
- Vanuatu: 1.3

*Cook Islands (4.3), Tuvalu (3.8), and Samoa (1.8) with highest estimated losses

- Damage from disasters can be so severe that these can effectively undo, or even reverse, development gains
- Enhance resilience through:
  - Good governance and sound economic management
  - Disaster risk reduction and climate change adaptation
http://www.adb.org/publications/series/asian-development-outlook
www.adb.org/pacmonitor

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel + 632 632 4444
## Appendix 1. Growth outlook

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Appendix 2: Inflation outlook

Inflation

- Nauru: 3.0% (2015p), 0.4% (2016p)
- Papua New Guinea: 5.0% (2015p), 4.0% (2016p)
- Vanuatu: 4.0% (2015p), 2.0% (2016p)
- Palau: 4.0% (2015p), 2.0% (2016p)
- Solomon Islands: 3.0% (2015p), 2.5% (2016p)
- Fiji: 3.0% (2015p), 2.0% (2016p)
- Cook Islands: 2.4% (2015p), 2.4% (2016p)
- Tuvalu: 2.0% (2015p), 2.0% (2016p)
- Samoa: 2.0% (2015p), 2.0% (2016p)
- Timor-Leste: 1.8% (2015p), 3.0% (2016p)
- Marshall Islands: 1.3% (2015p), 1.4% (2016p)
- Kiribati: 1.5% (2015p), 1.0% (2016p)
- FSM: 1.0% (2015p), 1.0% (2016p)
- Tonga: 1.0% (2015p), 1.0% (2016p)

Change in consumer price index (% annual average)

- Pacific region
- Pacific islands

2011: 9
2012: 6
2013: 3
2014: 2
2015p: Blue line
2016p: Orange dotted line