

Pacific Economic Monitor: December 2012

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The Monitor provides an update of developments in Pacific economies and explains topical policy issues.

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Highlights

- Mixed but modest impacts of weak global economy on the Pacific. Global economic prospects remain weak due to persistent fiscal and banking difficulties in the Eurozone, coupled with emerging slowdowns in developing economies. However, the impact of this sluggishness on Pacific economies has, so far, been limited to declines in agriculture and forestry export earnings. Domestic infrastructure spending is seen as driving fluctuations in growth in the larger resource exporting economies—Papua New Guinea (PNG) and Timor-Leste. Tourism to the Pacific generally remains robust. Growth in Australia—the region’s leading economic anchor—remains strong despite depressed global prices for its commodity exports. Weaker prices are due to lower demand from the People’s Republic of China and other leading manufacturing economies.
- Shifting fiscal trends across the region. The December issue of the Monitor focuses on government budget outcomes and plans. In 2012, better than expected revenue collections have helped improve fiscal positions in several smaller Pacific island economies. Fishing license revenues were higher in Kiribati, Nauru, and Tuvalu due to both policy (a new licensing scheme) and transitory (the positive effect of El Niño on fish stocks) factors. Budget balances in Samoa and Tonga also improved due to higher revenues and continued progress in fiscal consolidation. Fiji is expected to achieve a narrower deficit than budgeted with the adoption of an advance payment scheme for company taxes. In contrast, revenue collections in PNG and Solomon Islands are tracking below budget, mainly due to lower commodity export earnings attributable to weak global demand. Lower revenue collections in Vanuatu have prompted measures to control expenditure and keep fiscal balances close to the budget target.
- The Cook Islands, the Federated States of Micronesia, Palau, PNG, and Solomon Islands all passed supplementary budgets in 2012. The Republic of the Marshall Islands also had extra off-budget expenditure to cover one-time expenses. In contrast, capital expenditures in Timor-Leste will be lower than planned in the country’s historically large 2012 budget, as major projects have been postponed and funds reallocated to recurrent spending. PNG’s 2013 budget plans a similar shift from new capital expenditure to recurrent spending on priority social sectors and infrastructure maintenance. In contrast, the Fiji’s 2013 budget allocates a substantially higher proportion of expenditure to capital works. Both budgets project larger fiscal deficits for 2013—raising concerns about long term sustainability of their fiscal paths.
- Economic policy and management. The policy briefs in this issue focus on growth prospects in smaller Pacific economies. These economies generally face weak growth prospects, independent of current low global growth. Noting the limits of stimulus over the long-run, a brief contributed by International Monetary Fund’s Resident Representative Office in the Pacific Islands argues structural reforms to complement short-term macroeconomic policy responses are critical. An analysis of evolving economic linkages in the North Pacific shows that these economies are increasing ties with Asia at different rates, but argues that Asian economies will likely become more important channels of resource and income flows to support future growth. The last brief reflects upon past development efforts in the small island states of the Pacific, concluding that these economies have growth potential—despite their small sizes and remote locations—but unlocking this requires the development of appropriate institutional environments.

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The December 2012 edition of the Pacific Economic Monitor examines the fiscal position of ADB's Pacific developing member countries and their budget plans for 2013. Special articles included in this issue focus on economic management and growth prospects in smaller Pacific island economies.