

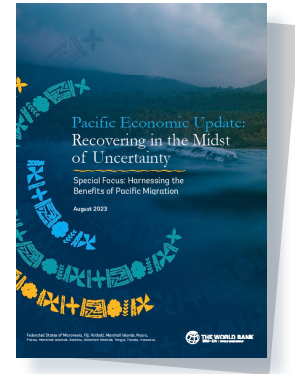
Summary & Key Findings:

Pacific Economic Update

Recovering in the Midst of Uncertainty Special Focus: Harnessing the Benefits of Pacific Migration

August 2023

The World Bank's *Pacific Economic Update* provides a twice-yearly assessment of 11 Pacific Island economies: **the Federated States of Micronesia (FSM), Fiji, Kiribati, Nauru, Palau, Republic of the Marshall Islands (RMI), Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.**



The August 2023 *Pacific Economic Update* describes a return to growth for the region, largely due to the resumption of tourism, higher public investment and construction.

In 2023, an average **Gross Domestic Product (GDP) growth of 3.9%** is projected for the Pacific region (excluding PNG), up from 2.0% in 2022. Growth is projected to slow to 3.3% in 2024 as the initial demand boost — particularly in tourism — dissipates.

However, risks are tilted to the downside amid fragile global economic conditions. While global conditions have gradually improved since the COVID-19 pandemic and Russia's invasion of Ukraine, progress on reducing inflation in major economies has proven to be more challenging than expected. This has resulted in persistently higher inflation in Pacific Island countries.

Slower global growth in major trading partners may present headwinds to the Pacific's recovery prospects, especially for countries that are highly dependent on tourism and remittances.

The new *Pacific Economic Update* also includes a special analysis of international labour migration, which was an important income source for the region during the pandemic. The report emphasizes that there is a significant opportunity for Pacific countries to maximize its benefit.

Headline Findings



3.9% growth projected for the Pacific in 2023



Reopening borders has driven economic growth



Fragile global economic recovery presents a risk to the Pacific's outlook



Inflation is expected to **remain elevated at 6.0%** in 2023



Labour migration can significantly contribute to Pacific economies



Opportunity to **maximize the positive impacts** of labour migration



Key Findings



Average growth of 3.9% projected for 2023

The Pacific region is enjoying a period of economic growth following the COVID-19 pandemic, with 2.0% growth in GDP estimated for 2022, building to an estimated 3.9% in 2023. The growth rate is anticipated to slow in 2024 to an average of 3.3% as the initial demand boost dissipates.



Reopening borders has driven economic growth

Fiji was the first Pacific country to reopen its borders to tourism and led the region's economic recovery with a strong rebound of 18.6% growth in GDP in 2022. When other Pacific countries started to reopen their borders in late 2022, the region's recovery gained momentum. A strong rebound is expected in 2023 due to pent-up demand, albeit at a varying pace across the region. Most Pacific countries are projected to reach their pre-pandemic GDP by 2024, except for Palau, Samoa, and Solomon Islands.



Fragile global economic recovery presents risks to the Pacific's outlook

The Pacific's recovery could weaken if global growth is slower than expected and persistent inflation spurs further monetary policy tightening by major central banks. If Australia and New Zealand consumer spending slows, tourism recovery may suffer in economies such as Fiji, Samoa and Vanuatu.

Weakened economic prospects in large economic markets may also dampen demand for Pacific migrant workers and income prospects for the Pacific diaspora. This would result in lower remittance inflows, which is a key source of support for economies such as Fiji, RMI, Samoa, Tonga, and Vanuatu.



6.0%

Inflation is expected to remain high, and is projected at 6.0% in 2023, posing a risk to poverty levels

Inflation remained stubborn at an average of over 6.7% in 2022, a substantial increase of 5.2% compared to the 2019-21 average, despite the steepest global interest hike cycle in four decades. With softening global commodity prices and inflation in trading partner countries, inflation in Pacific countries is expected to decline in 2023 but remain elevated at an average of 6.0%, before subsiding gradually over the medium-term.

If international food and energy prices stay elevated for longer than expected, it will create prolonged price pressures on the region. Many Pacific countries rely heavily on energy and food imports and persistently elevated international food and energy prices will create prolonged price pressures on the region, with the potential to push vulnerable populations into poverty.



Labour migration delivers a significant contribution to Pacific economies

Alongside the natural resource and tourism sectors, international labour mobility has been one of the Pacific Islands' most important income sources. International migration has made an important economic contribution to Pacific countries through remittances and knowledge sharing.

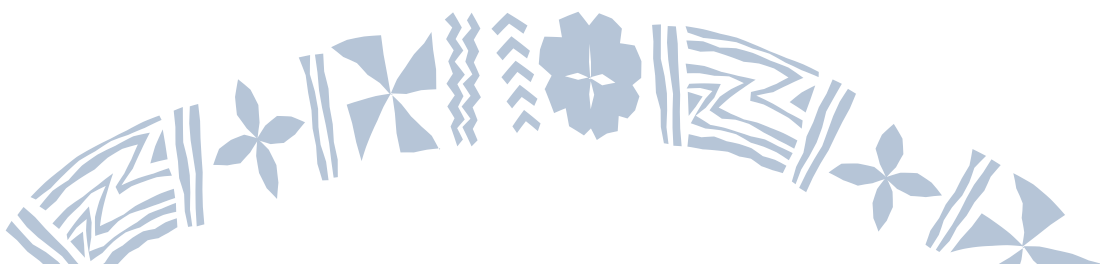
Migrant workers earn significantly more overseas than they would at home and remittances have provided a critical source of financing for households, especially during periods of economic shock.



There are opportunities to maximize the positive impacts of temporary labour migration for the region

Maximizing the economic benefits from migration requires appropriate investment in education, inclusivity of migration access, protection of migrants' welfare in host countries and management of migrants' return and reintegration.

Governments should explore opportunities to lower the costs of international remittance transfers, both individually and collectively.



Country Snapshots*

Federated States of Micronesia**

Federated States of Micronesia (FSM)'s economy contracted for three consecutive years during the COVID-19 pandemic but is forecast to see a return to growth of 3.2% in 2023, supported by border reopening and resumption of construction and capital projects.

Inflation is expected to remain elevated in 2023 and subside from 2024 onwards. The country's fiscal balances are expected to deteriorate slightly as grant revenue returns to a more normal level.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	0.6	3.2	3.4
Inflation forecast:	5.4	4.1	1.8

Fiji

Fiji led the Pacific's economic recovery after being the first in the region to reopen its borders. GDP is estimated to have grown 18.6% in 2022, buoyed by resurgent demand in the tourism sector. Tourist arrivals are now roughly aligned with 2019 pre-pandemic levels. Fiji is forecast to continue a stable growth trajectory with output expected to reach pre-pandemic levels this year. Inflation is expected to fall below 2% through 2023.

Fiji's share of public debt is among the highest in the region at approximately 87% of GDP in 2022. Increased revenues underpin a decline in Fiji's fiscal deficit over 2023-24 and is expected to help reduce high debt levels.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	18.6	7.7	4.0
Inflation forecast:	3.3	1.6	2.4

Kiribati

Kiribati's GDP surpassed pre-pandemic levels in 2021 because its strong fishing sector was less impacted by border closures. However, fishing revenues declined in 2023 due to weather conditions, leading to a deficit of 20% of GDP, the largest fiscal deficit as a share of GDP in the region.

Kiribati's fiscal balance is expected to improve in 2023 and 2024 as fishing revenues return to historical averages, and its economy is expected to register modest growth in those years. If global prices stay elevated for longer than expected, it will create prolonged pressures in Kiribati, potentially pushing between 2,800 and 8,100 more people into poverty.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	1.2	2.5	2.4
Inflation forecast:	5.3	8.6	4.5

Marshall Islands, the Republic of**

Largely due to robust fishing revenues and grants, the Republic of Marshall Islands (RMI) was one of the few countries in the Pacific to experience just one year of economic contraction (2020). The economy surpassed pre-pandemic GDP levels in 2021 and the recovery momentum is expected to continue to expand through 2023 and 2024.

Inflation is expected to ease to 3.4% in 2023. Fiscal balances are projected to remain in surplus in Marshall Islands in 2023 and 2024. While grants are expected to decline moderately, tax and non-tax revenues are expected to rise in line with the economic recovery and fishing license revenues are expected to remain strong.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	1.7	1.9	2.2
Inflation forecast:	5.3	3.4	3.5

Nauru

Nauru was the only Pacific country that avoided a contraction due to stable activity related to the Regional Processing Centre, funded by Australia, and its stable fishing revenues. However, revenues from the Centre are expected to decline in the coming years, which will weigh on economic growth. Nauru will therefore need to diversify its fiscal revenues.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	2.3	0.8	2.0
Inflation forecast:	2.9	4.3	4.4

Palau**

Following two consecutive years of contraction, Palau's economy is set to rebound in 2023. As direct flight routes resume — including the opening of new routes — and markets improve, tourism growth is expected to drive the recovery. Inflation has remained high in 2023 due to elevated global commodity prices and firms passing off higher taxes to consumers.

Palau's debt-to-GDP ratio climbed to approximately 90% of GDP, limiting its capacity to respond to future shocks. However, new debt is highly concessional, provided by development partners via a policy lending program.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	0.4	10.3	8.4
Inflation forecast:	9.6	6.9	3.5



Samoa

Pre-pandemic GDP levels may not return in Samoa until 2025 due to the ongoing economic impact of the 2019 measles outbreak, a weaker tourism base prior to the pandemic, and prolonged border closures.

Samoa is forecast to return to growth in 2023, supported by the recovery in tourism and spillovers to other sectors, and resumption of capital projects. However, the country will continue to be challenged by the highest inflation in the region, reaching 10% in 2023 before easing in 2024.

Greater capital expenditure and improved budget execution is expected to put pressure on fiscal balance, which is forecast to flip from surplus to deficit in 2023 as revenues and grants fall to normal levels.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	0.0	5.5	4.2
Inflation forecast:	11.0	10.0	7.0

Solomon Islands

After three consecutive years of negative economic growth, Solomon Islands' economy is forecast to return to growth in 2023, buoyed by a normalisation of borders and the resumption of major infrastructure projects. Economic recovery is supported by the 2023 Pacific Games and large energy and transport projects.

Large-scale investments for the 2023 Pacific Games and expenditure for the 2024 elections will add to existing budget pressures, contributing to a widening fiscal deficit. Inflation is expected to ease in 2023 and further decline from 2024 onwards.

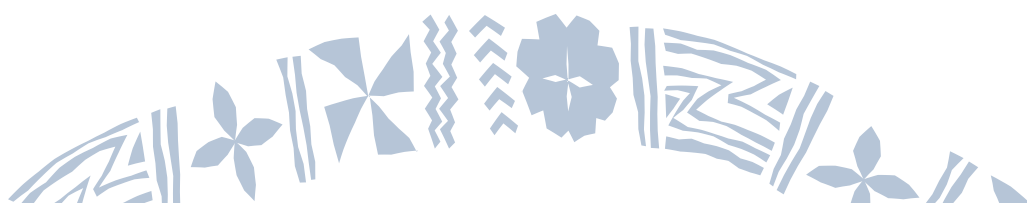
	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	-4.1	2.5	2.4
Inflation forecast:	5.5	4.8	3.7

Tonga

Reconstruction from the Hunga Tonga–Hunga Ha'apai disaster and rebound in agriculture and commerce are expected to be the key drivers for recovery in Tonga. However, fiscal accounts are projected to remain in deficit due to the spending needs for reconstruction and recovery, with significant debt service cost over the next few years.

Inflation remains elevated in 2023 due to higher global prices and domestic supply disruption but is set to ease in 2024.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	-0.9	2.9	2.7
Inflation forecast:	9.7	8.6	3.9



Tuvalu

Modestly sized, the Tuvalu economy grew only 0.7% in 2022 based on the limited border reopening in September and a slow resumption of infrastructure projects. Inflation spiked to double digits in 2022 due to high commodity prices, despite the expansion of the list of price-controlled products. However, this is expected to gradually subside.

After a weak recovery in 2022, the economy is expected to rebound by 3.9% in 2023 and 3.5% in 2024. Recovery is based on dividends from December 2022's border reopening, elevated current spending, full resumption in infrastructure projects as well as disbursement of donor commitments.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast:	0.7	3.9	3.5
Inflation forecast:	11.5	5.9	3.7

Vanuatu

Vanuatu's economy is expected to grow through 2023 as tourism arrivals are expected to increase throughout the year. However, the effects of the twin cyclones which occurred in early March 2023 caused downward revisions on growth, as the impact on tourism and agriculture negatively affected the economy. Reconstruction will stimulate economic activity, but growth is expected to remain modest in 2023 and accelerate over the medium-term.

Fiscal accounts in Vanuatu are projected to remain in deficit, due to significant spending following recent natural disasters. Remittances are expected to remain buoyant, supporting the improvement in current account balance together with the tourism and economic recovery.

	2022 (Est.)	2023 (Proj.)	2024 (Proj.)
GDP growth forecast	1.9	1.5	2.6
Inflation forecast	4.6	8.3	5.6

*All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

**Projections for the Federated States of Micronesia, Palau and Republic of Marshall Islands assumes the Compact Agreement with the US expires in FY23. An agreement for renewal has been reached between the US and the three countries, however US Congress approval is pending. The timing of the approval will impact each country's economic outlook.



