Pacific economic update
Can we get back to where we were?

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Topics

1. Pandemic damage - context
2. Where we’re at?
3. What’s next?
4. Future monetary & fiscal policy environment
5. Can we get back to normal? If so, when?
Pacific amongst the hardest hit by the pandemic
Fiji and Cook Islands in a group of 20 worst hit economies

GDP: per cent change over 2020, World bottom 20 countries

Source: IMF WEO Database, ANZ Research
With little relief in 2021
Cook Islands, Samoa, Fiji, Vanuatu Tonga & Timor-Leste amongst a small list of countries still in recession in 2021

GDP: per cent change over 2021, World bottom 20 countries

Source: IMF WEO Database, ANZ Research
Disproportionate pandemic-induced shock

Now a population of 2 million has to absorb the economic fallout. Of countries with the most severe economic downturn, 20% come from the South Pacific.

GDP: cumulative per cent change over 2020 and 2021, World bottom 20 countries

Source: IMF WEO Database, ANZ Research
Managing the economic crisis very difficult

Narrow industry structure and limited growth drivers means the pandemic sucked 20-60% of the oxygen out of Pacific economies.

- Massive job losses
- Limited fiscal firepower
- Policy levers to improve competitiveness and exports redundant

Softening the blow:

- Remittances softened the blow
- Development partner budget support loans and grants
So, what’s going on? Where we’re at?

‘Immunity walls’ are developing, so economies can open international borders and revive industry to get people back to jobs.

**Vaccine rollouts:** some places doing better than others.

- Fiji and Cook Islands are leading vaccination coverage. Their international borders are already open to travel partner countries.
- Samoa, Tonga, Vanuatu, Kiribati, Timor-Leste are progressing well on vaccine rollout.
- Solomon Islands has some catching up to do.

**Remittances** and **development partner assistance** are still major supports of demand.
Open borders are key, even to economies not totally dependent on tourism

**Fiji**
- Will outperform the rest of Pacific. Being one of the first countries to open, it is in the box seat to capitalise on the latent demand for overseas leisure holiday.
- Expect 2022 GDP to be close to the 2019 level.

**Samoa, Tonga, Vanuatu, Kiribati and Timor-Leste**
- H2 to be better assuming borders open by June.
- Expect a pandemic reset strategy, from zero-COVID to endemic COVID.

**Solomon Islands**
- Faces a difficult 2022 as the timing of border reopening remains uncertain.

**Cook Islands**
- Government’s ambition will determine the economic prospects in 2022. Almost all adults have received two doses of Pfizer vaccine.
- However, border is only open to New Zealand currently with tourists from Australia allowed from 13 April.
Late in, late out of the tightening cycle

Less monetary and fiscal stimulus from 2023 onwards. Monetary and fiscal policy paths to tighten from 2023. Timing depends on economic recovery.

Overseas experience tells us that freer movement of people lifts **confidence** and a snap back in economic activity.

As economies return to solid footing, expect **wages** to pick up in 2023, resulting in broad-based domestic price pressures. Inflation once again will become a problem.

**Foreign reserves** will fall as economies strengthen.

Taken together, this could prompt the central banks to respond by commencing its **tightening** phase of monetary policy.

Governments will have to start the process of budget repair (belt tightening) to reduce deficits and debt.
So, can we get back to where we were?

Timing of an effective ‘immunity wall’ and open borders the key to returning to where we were.

Confident Fiji will get there this year. The rest in 2023.

The good news is that most of the tourism infrastructure has been preserved. Limited exits of critical firms.

This means that in an economic reboot, spare labour will be absorbed quite quickly.

**That said, medium-term challenges remain**

Population growth for some economies, including Fiji, has slowed, weighing on economic growth.

Broadening of growth drivers a priority.

Once tourism matures, a large construction project could be a game changer as it would sustain momentum in the second half of the decade.

Reducing carbon emissions and building more resilient infrastructure that can better weather events.
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