

**High-level Regional Policy Dialogue on
"Asia-Pacific economies after the global financial crisis: Lessons learnt,
challenges for building resilience, and issues for global reform"**

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Country Experiences 4: LDCs and SIDS

Presentation

**Experiences of the Pacific Islands Developing Economies during
the Global Financial Crisis: Lessons Learnt and Challenges**

by

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Outline

- Introduction
- Brief Background
- Lessons Learnt
- Current Challenges
- The Way Forward

Introduction and Background

- Three groups in the PICs- Melanesian, Polynesian and Micronesian;
- Melanesian- bigger and resource rich;
- Polynesian- smaller coral Atolls and with some resources;
- Micronesian- resource poor- only fisheries;
- History of poor economic growth rates.

Key Characteristics

	Population '000	Population Growth % Change/year	Population Density	Urban Population	GDP per person
Melanesia and Timor Leste					
Fiji	853	1.0	47	51	3,306
PNG	5,995	2.5	13	14	943
Solomon Islands	489	2.8	17	17	684
Vanuatu	215	2.7	18	24	1,799
Timor-Leste	1,029	3.2	69	27	346
Polynesia					
Cook Islands	22	0.6	91	70.2	7,549
Niue	1.8	-2.2	6.9	33	4,364
Samoa	186	0.8	66	23	2,277
Tonga	102	0.4	142	24	2,176
Tuvalu	10	1.6	381	48.1	1,346
Micronesia					
FSM	111	2.0	159	22	2,205
Kiribati	101	2.2	138	48	703
Marshall Islands	65	1.9	636	67	2,363
Nauru	10	0.6	482	100	3,500
Palau	20	2.0	85	12	671
Comparators					
Low Income countries		2.0	85	12	671
Middle income Countries		1.1	45	53	6,564

Rates of economic growth and inflation in selected Pacific Island economies, 2009 to 2012

	Real GDP growth				Inflation		
	2009	2010	2011	2012	2009	2010	2011
Oceania Region	1.0	2.9	3.4		1.9	2.8	2.9
Pacific island developing economies	1.7	5.1	4.2		6.3	5.6	6.1
Cook Islands	-0.1	0.6	2.0		6.7	3.5	4.2
Fiji	-2.5	1.9	2.0	2.0	4.0	4.0	3.0
Kiribati	-0.7	0.5	1.0		6.6	5.4	4.2
Marshall Islands	0.0	0.5	1.5		2.8	4.5	2.4
Micronesia, Fed. States of	-1.0	0.5	1.0		7.4	3.5	3.0
Nauru	0.0	0.0	4.0		2.2	2.3	2.4
Palau	-2.1	0.5	2.0		6.1	3.8	3.4
Papua New Guinea	4.5	8.0	9.3	6.0	6.9	7.1	8.0
Samoa	-4.9	-2.8	3.0	2.2	14.4	-0.2	3.0
Solomon Islands	-2.2	3.4	5.2	8.5	7.0	4.8	6.2
Tonga	-0.4	-0.5	1.7	1.8	5.0	2.2	4.2
Tuvalu	1.5	1.6	1.6		3.8	3.5	3.2
Vanuatu	3.8	4.0	4.0	4.0	2.8	5.0	5.0
Aggregate growth of Australia and New Zealand	1.0	2.9	3.4		1.8	2.8	2.9
Australia	1.2	3.0	3.5		1.8	2.9	2.8
New Zealand	-0.4	2.0	2.6		2.1	2.0	3.3
Source: based on various forecasts by ADB, ESCAP and various governments							

Lessons Learnt

- PICs are vulnerable to external shocks;
- PICs need strong balance sheets;
- PICs need to build up adequate foreign reserves for buffer against demand and terms of trade shocks;
- Overall fiscal position will have to strengthened so that there is room to mitigate against the crisis.

Lessons Learnt

- Transmission Mechanism- the direct and the indirect effects;
- the PICs were more resilient to the GFC and its aftermath compared to the Asian Financial Crisis;
- Source of Resilience and Policy responses- nature of financial institutions, Most PICs have some forms of capital controls.

Indicators of financial depth in 2007

	Liquid Liabilities (M2)	Private Credit by Deposit Money Banks	Private Credit by Deposit Money Banks and Other Financial Institutions
Fiji	56.8	44.1	48.3
Kiribati	0.0	0.0	0.0
Samoa	46.5	44.1	44.1
Solomon Islands	43.8	28.5	33.0
Tonga	58.5	65.8	65.8
Vanuatu	107.5	47.2	47.2
Average	52.2	38.3	39.7

Foreign ownership of banks



Country	Number of banks (foreign-owned)	Assets of foreign-owned banks (%)	Assets of state-owned banks (%)
Fiji	6 (6)	100.0	0.0
Kiribati	1 (1)	100.0	0.0
Samoa	4 (3)	85.7	14.3
Solomon Islands	3 (3)	100.0	0.0
Tonga	3 (3)	100.0	0.0
Vanuatu	4 (3)	88.0	12.0

Source: IMF Article IV, various issues.

Foreign ownership of banks



Country	No. of banks (foreign- owned)	Foreign banks	Domestic banks
Fiji	6 (6)	ANZ, Westpac, Bank of Baroda, Habib Bank, Bank of Hawaii (US), NBF Asset Management Bank	
Kiribati	1 (1)	ANZ	
Samoa	4 (3)	ANZ, Westpac, Samoa Commercial Bank	National Bank of Samoa (S)
Solomon Islands	3 (3)	ANZ, Westpac, Bank of South Pacific (PNG)	
Tonga	3 (3)	ANZ, Westpac, Malaysian Banking Finance	
Vanuatu	4 (3)	ANZ, Westpac, Credit Corporation (PNG)	National Bank of Vanuatu (S)

Sources: IMF Article IV, various issues.

Challenges

- PICs are small, diverse and remote;
- PICs face rising inflation;
- Growth rates are generally low;
- Borrowing is down and banks have high liquidity;
- Still vulnerable to external shocks.

Monetary and Exchange R policy

- Most PICs have maintained cautious monetary policy;
- Bank liquidity has to be managed;
- For some PICs further tightening of monetary policy will be needed;
- Some PICs are directing lending but this may not work;
- Prudent Exchange Rate policy to promote tourism, export and low levels of inflation will be important.

Monetary Policy Frameworks in PICS



Country	Monetary Objectives	Monetary target	Main Monetary Instruments	Exchange rate Regime
Fiji	Promote monetary stability and a sound financial structure; foster credit and exchange conditions conducive to an orderly and balances economic development	Broad money (M2)	OMO; discount windows; policy rate	Pegged to a basket (USD, AUD, Euro, etc)
PNG	Achieve and maintain price stability and financial system stability, and promote macro-economics stability and economic growth	Broad money (M3)	OMO; discount windows; policy rate	Float
Samoa	Promote sustainability real economic growth by maintaining price stability and international reserves viability	Broad money (M2)	OMO; discount rate reserve requirements; repos	Pegged to a basket within a ± 2 percent band (NZL, AUS, US, Euro)
Solomon Islands	Promote monetary stability and a sound financial structure; foster financial conditions conducive to orderly and balanced development.	Broad money (M3)	Liquid asset requirement; foreign exchange surrender	De facto peg to the US dollar
Tonga	Maintain internal and external monetary stability; promote a sound and efficient financial system; support macroeconomic stability and economic growth.	Broad money (M2)	OMO: statutory reserve deposit; credit ceilings	Pegged to a basket with monthly adjustment band of up to 5 percent
Vanuatu	Maintain low and stable inflation rate and maintain a sufficient level of official foreign exchange reserves.	Broad money (M2)	Statutory reserve deposit; OMO; rediscount rate	Adjustable peg, linked to an undisclosed transactions-weighted basket

Source: Yang et al (2011: 5)

Fiscal policy and structural reforms



- Fiscal Consolidation is needed in most PICs;
- Prioritizing expenditure is vital;
- Improve Financial Management;
- Reduce debt levels;
- Continued structural reforms are needed in SOEs, tax regimes, land tenure, regulatory systems etc.

Table 14: Fiscal Balance (% of GDP) 2010-2013

	2010e	2011	2012	2013
Fiji	-4.4	-8.5	-6.5	-5.5
PNG	0.7	0.0	1.0	1.1
Samoa	-7.0	-10.2	-6.5	-6.7
Solomon Is	-1.9	-2.8	-3.5	-3.3
Timor-Leste	-1.0	-1.0	-1.3	-1.3
Tonga	-4.0	-5.2	-4.2	-4.0
Vanuatu	-0.1	0.2	0.2	0.2

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Current Account Balance (%) 2010-2013

	2010e	2011	2012	2013
Fiji	-14.0	-13.0	-11.0	-9.5
PNG	-26.2	-45.9	-43.0	-37.0
Samoa	-8.0	-13.4	-8.8	-7.0
Solomon Is	-23.0	-21.0	-20.0	-19.0
Timor-Leste	227.1	196.9	167.6	104.82
Tonga	-9.4	-11.3	-11.2	-11.1
Vanuatu	-5.9	-5.7	-6.0	-6.0

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Way forward

- PICs need to take advantage of external favourable environment- ANZ;
- Need to continue to structural reforms to enhance growth;
- Focus on stable macroeconomic policy,
- Investment in infrastructure;
- Develop appropriate adaptation strategies to natural disasters and impacts of climate change.

THANK YOU