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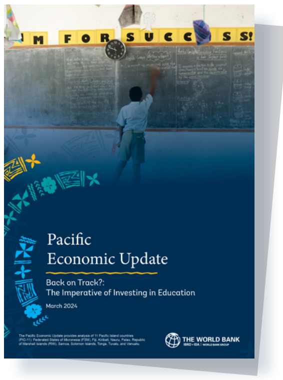
Summary & Key Findings:

Pacific Economic Update

March 2024

Back on Track?
The Imperative of Investing in Education



The World Bank's ***Pacific Economic Update*** provides a twice-yearly assessment of 11 Pacific island economies: **Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu,** and **Vanuatu.**[1]

The March 2024 ***Pacific Economic Update*** outlines the economic status of Pacific island countries, four years after the initial COVID-19 shock. Growth decelerated to 5.5% in 2023 after a historically high growth rate of 9.1% in 2022—the first year of the recovery. This moderation reflects slowing economic activity in Fiji, which accounts for more than half of the region's output. When Fiji is excluded, the remaining Pacific island countries experienced accelerated growth in 2023, after three years of contracted output.

Average inflation declined from a peak of 7.5% in 2022 to 6.5% in 2023, reflecting significant labour and supply shortages in tourism and remittances-led countries (Palau, Samoa, Tonga, and Vanuatu); nations that have grappled with pressures on the cost of goods and services.

In 2023, growth slowed to a still robust **5.5%**

Outlook

Pacific island countries are expected to see slower growth in 2024 and 2025, as the boost from the pandemic recovery fades and fiscal policies gradually tighten. Short-term risks have become more balanced since the August 2023 ***Pacific Economic Update***, with global commodity prices and inflation declining. However, shifts in global economic growth, trade, and international tourism pose significant challenges to economic prospects and poverty reduction, risks that could heighten due to geopolitical tensions.

Despite the ongoing economic recovery, Pacific island countries still face formidable challenges. Medium-term growth prospects have worsened, with output significantly below the pre-pandemic trend. More than half of Pacific countries in the report are projected to see slower per capita growth than advanced economies, leading to widening income gaps and deteriorating prospects for poverty reduction.

Growth is expected to **slow in 2024 and 2025**

Investing in education

The March 2024 edition of the ***Pacific Economic Update*** includes a special analysis on how investment in education can support long-term development and improve medium-term growth prospects. The report emphasizes that well-educated people are the most important asset for the Pacific. Improvements in education can be made through stronger teacher training and more cost-effective investments in infrastructure and resources.

Investment in education yields big long-term returns

[1] This group will herein be referred to as ***Pacific island countries***. Papua New Guinea is the focus of a separate twice-yearly analysis.

Key Findings

In 2023, growth in Pacific island countries slowed to a still robust 5.5%

Growth in Pacific island countries decelerated from 9.1% in 2022 to a still-robust 5.5% in 2023. The reduction in growth is due to the group's largest economy—Fiji—moving towards its long-term growth rate after a strong rebound from the pandemic in 2022.

Excluding Fiji, the rest of the Pacific island countries experienced a noteworthy rebound of 2.7% growth in 2023, following three consecutive years of contraction. The bounce-back was bolstered by the gradual resumption of economic activity and travel, as well as strong remittances and grants.

Average inflation decreased from its peak of 7.5% in 2022 to 6.5% in 2023

By 2023, the average inflation across Pacific island countries decreased to 6.5% from its peak of 7.5% in 2022. This decline reflects a broad trend, with inflation moderating in almost three-quarters of the countries covered in this report. However, Pacific island countries witnessed their peak median inflation in 2023. Tourism and remittances-led countries, such as Palau, Samoa, Tonga, and Vanuatu, have faced substantial inflationary pressures, averaging around 10% annually between 2022 and 2023 and exerting significant cost-of-living pressures on families.

Fiji's growth rate slowed after a strong 20% rebound in 2022

Fiji's economy accounts for more than 50% of the region's output and was the hardest hit during the COVID-19 pandemic. In 2022, Fiji made an impressive post-pandemic rebound with growth reaching 20%. Tourism, household consumption, and remittances bolstered growth. In 2023, growth slowed to a still-robust 8%, helping output to surpass pre-pandemic levels.

Fiji's growth is poised to decelerate to its medium-term trend of around 3%. This reduction comes as the initial post-pandemic demand for tourism gradually subsides, new source markets are constrained by limited hotel capacity, and fiscal policies gradually tighten.

Debt levels generally improved, but public debt remained high in Fiji at 83%

DEBT

Debt dynamics improved across Pacific island countries in 2023 due to a trend toward fiscal consolidation, coupled with a rebound in growth. Public debt as a share of GDP decreased in eight of the Pacific island country economies, driven by economic recovery and enhanced government revenues. In Fiji, public debt declined after peaking at more than 90% in 2021, but remained 30 percentage points higher than pre-COVID levels. Public debt-to-GDP ratios increased slightly in Solomon Islands and Vanuatu due to continued fiscal policy support amid remaining negative output gaps. The share of public debt-to-GDP in Nauru increased marginally, reflecting slower growth.

Growth in Pacific island countries is anticipated to slow further in 2024 and 2025

Pacific island countries are anticipated to experience a continued deceleration in growth to 3.5% per cent in 2024 and 3.3% in 2025. While the region surpassed pre-pandemic output levels in 2023, this is due to Fiji's significant contribution. Excluding Fiji, output in Pacific island countries is only projected to surpass pre-pandemic levels in 2025, lagging many other emerging markets and developing economies.

The region faces big development challenges

Despite a commendable rebound in growth following the pandemic, Pacific island countries are essentially reverting to their 2019 output levels, posing challenges to sustained development. Furthermore, the medium-term growth prospects for the region have fallen from 3.2% per year in 2000-11, to 2.7% in 2012-19. More than half of the Pacific island countries covered in the report are projected to grow more slowly in per capita terms than advanced economies, resulting in a widening income gap.

Investment in education yields big long-term returns

A special focus in this edition of the ***Pacific Economic Update*** is on education in the Pacific island countries. Investing in people and developing their skills through education will allow Pacific countries to find solutions to economic challenges and make the most of available resources.

Once in school, teachers are key to developing this 'human capital'. Education contributes to higher growth because it increases people's income and employability, improves economic mobility, and enables families to escape poverty. It also increases individuals' and families' resilience to shocks. In economies with large informal sectors, education is associated with greater access to full-time, formal sector jobs. It also facilitates greater productivity, technology adoption, and innovation.

Pacific island countries can improve student learning by investing in teachers

The effectiveness of education reform will rely on a broader set of efforts, aimed at ensuring that spending translates into better student learning. Such spending needs to be directed towards interventions that have been proven to have an impact. Interventions aimed at improving teaching is likely to have the bigger returns. For instance, an intervention focusing on improving teaching in Tonga dramatically improved student learning. Estimates show that for every US$1 spent on the intervention, a students' future income could increase by more than US$12.

Country Snapshots

Federated States of Micronesia

Federated States of Micronesia (FSM)'s economy returned to growth in 2023, supported by the reopening of borders, resumption of capital projects and an increase in national government wages. The contraction caused by the pandemic has been more muted in FSM than other countries, due to the economy being dependent on the public sector, fishing, and captive insurance revenues, which held up relatively well and were further supported by the government's stimulus package.

After reaching a decade high in 2022, inflation moderated in 2023 and is projected to continue to gradually subside from 2024. The country's fiscal balances are expected to deteriorate slightly amid declining fishing revenues and as grant revenue returns to a more normal level.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	-0.2	0.9	1.3	1.5
CPI inflation (percent)	6.3	3.3	3.0	2.8
Public debt-to-GDP ratio	13.4	13.1	16.8	20.8

Fiji

Despite suffering the deepest pandemic-induced recession among Pacific island countries and fourth worst globally, Fiji led the Pacific's recovery as the first in the region to reopen its borders. GDP grew by 20% in 2022 and 8% in 2023, buoyed by demand in tourism. Fiji reached pre-pandemic output levels in 2023—one year earlier than expected.

Fiji managed to contain price pressures with inflation dropping to around 2.4% in 2023. However, inflation is projected to temporarily accelerate in 2024 when the VAT increase and other taxes impact prices. As demand moderates in line with softening growth, price pressures are projected to ease in 2025 towards the Reserve Bank of Fiji's target of 3%.

Fiji's share of public debt is among the highest in the region, at 83% of GDP in 2023. Increased revenues underpin a decline in Fiji's fiscal deficit over 2024-26 and are expected to help reduce debt levels. However, debt is expected to remain above 80% over the medium-term, which is around 30% higher than pre-COVID levels.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	20.0	8.0	3.6	3.3
CPI inflation (percent)	4.3	2.4	5.5	3.4
Public debt-to-GDP ratio	85.6	83.0	83.2	82.5

Kiribati

Kiribati's GDP surpassed pre-pandemic levels in 2021 because its strong fishing sector was less impacted by border closures. Fishing revenues, however, declined in 2022 due to adverse climate conditions, leading to a deficit of 16% of GDP, the largest in the region. Inflation spiked to more than 9% in 2023, the highest among Pacific sovereign rent-led countries. The fiscal deficit was estimated to have declined to 4% of GDP in 2023.

Kiribati's fiscal balance is expected to worsen again in 2024 due to a large increase in public sector wages. Fiscal consolidation is needed to safeguard sustainability, and spending should be refocused towards investments in physical and human capital.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	3.9	4.2	5.6	2.0
CPI inflation (percent)	5.3	9.2	3.5	2.5
Public debt-to-GDP ratio	12.6	11.0	9.3	12.3

Marshall Islands

Growth in Marshall Islands accelerated to 3% in 2023, driven by a recovery in fisheries and domestic demand for services. The positive momentum is anticipated to continue in 2024, fuelled by the expansion of fisheries production and construction.

Inflation eased in 2023 after reaching a peak of 5% in 2022. Projections indicate a continued downward trend as global commodity prices continue to moderate. Fiscal balances are projected to remain in surplus in 2024, which brings public debt down to around 20% of GDP.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	1.4	3.0	2.7	1.9
CPI inflation (percent)	5.0	4.2	2.9	2.4
Public debt-to-GDP ratio	23.6	22.0	20.9	21.3

Nauru

Nauru was the only Pacific nation that managed to sidestep economic contraction in 2020. This is due to the consistent activity associated with the Regional Processing Centre (RPC), which is financially supported by Australia, and steady income from fishing. However, a decline in RPC revenue in coming years poses a challenge to economic growth. Nauru faces the imperative of diversifying its fiscal revenues to mitigate the impact.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	1.7	1.0	1.3	1.9
CPI inflation (percent)	3.2	4.4	4.3	3.7
Public debt-to-GDP ratio	31.4	32.7	29.7	29.7

Palau

Following a sharp contraction in output due to the pandemic, Palau's economy experienced modest growth in 2023. Tourism is expected to drive the recovery as direct flights resume, new routes open, and markets improve.

In 2023, Palau faced the highest inflation in the region, at 12.7%. This surge was caused by heavy reliance on imported energy and challenges in curbing imports amid the U.S. dollar-pegged exchange rate. Challenges were exacerbated by escalating import prices for food and fuel, the Palau goods and services tax, and a significant one-off utility tariff increase.

Palau achieved the largest reduction in debt among the countries in this report. The debt-to-GDP ratio fell from around 70% in 2022 to around 60% in 2023 as debt acquired during COVID was partially serviced. The new debt linked to Palau's COVID-19 response is highly concessional, provided by development partners through a policy lending program.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	0.1	3.7	12.3	9.6
CPI Inflation (percent)	15.1	12.7	4.3	1.7
Public debt-to-GDP ratio	70.8	59.7	55.7	49.4

Samoa

Samoa experienced a strong rebound in 2023, supported by recovery in tourism and the resumption of capital projects. However, pre-pandemic GDP levels may not return in Samoa until 2025 due to the impact of the 2019 measles outbreak and prolonged border closures. Despite a slight easing in 2023, inflation persists at a relatively high 7.9% and is projected to gradually decline, reaching the central bank's target of below 3% in the medium term.

The fiscal balance is expected to turn to a deficit in 2024 from a small surplus in 2023. This is attributed to the anticipated rise in capital expenditure, overall budget execution, expenses related to the Commonwealth Heads of Government meeting in October 2024, and a return of grants to normal levels. Recent fiscal surpluses, regular debt repayments and an increase in nominal GDP led to a reduction in public debt.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	0.0	5.6	4.3	3.7
CPI inflation (percent)	11.0	7.9	5.0	4.0
Public debt-to-GDP ratio	39.2	33.5	29.3	27.1

Solomon Islands

In 2023, after three consecutive years of negative growth, Solomon Islands' economy returned to growth due to the reopening of borders, the resumption of major infrastructure projects, and investments in the 2023 Pacific Games. Growth is expected to average 3% in 2024-2025, driven by large energy and transport infrastructure projects.

Inflation eased in 2023 and is expected to further decline. Large-scale investments for the 2023 Pacific Games and expenditure for the 2024 elections will add to budget pressures. Public debt increased to almost 20% of GDP due to a rising primary fiscal deficit.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	-4.1	1.9	2.8	3.1
CPI inflation (percent)	5.5	4.7	3.7	3.3
Public debt-to-GDP ratio	16.9	19.9	23.5	25.5

Tonga

Tonga's economic output grew by three percent in 2023, underpinned by major reconstruction activities, an increase in tourist arrivals, and remittance inflows that support domestic demand. However, supply was constrained by tourism facilities being damaged by a volcanic eruption in January 2022, which impeded further growth.

Inflation, which surged to double digits in 2022, eased in 2023 and is expected to continue retreating towards the National Reserve Bank of Tonga's target (5 percent) in 2024. However, core inflation is projected to remain high, reflecting supply bottlenecks amid significant migrant outflows and heightened domestic demand. Public debt exceeded 40 percent of GDP in 2023, with significant debt service costs over the next few years.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	0.4	3.0	2.3	1.9
CPI inflation (percent)	10.3	8.0	4.6	3.6
Public debt-to-GDP ratio	44.7	43.7	40.8	40.3

Tuvalu

Tuvalu experienced modest growth of 0.4% in 2022, primarily due to the partial reopening of borders in September and a gradual resumption of infrastructure projects. In 2023, the economy rebounded by a more significant 2.1% due to increased construction, finance, public administration, and service activities.

Inflation, which peaked at 12.1% in 2022, has decreased to a still-elevated 5.9% in 2023. Inflation is expected to further decrease to 3.7% in 2024, aligning with easing global commodity prices. Notably, public debt declined to approximately 5% of GDP in 2023, driven by higher nominal GDP and debt repayments.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	0.4	2.1	1.8	2.4
CPI inflation (percent)	12.1	5.9	3.7	3.4
Public debt-to-GDP ratio	6.9	5.4	4.5	3.7

Vanuatu

In 2023, Vanuatu's economy is expected to grow as tourism arrivals increase. However, the effects of twin cyclones in March 2023 caused downward revisions on growth. 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. Public debt reached 47% of GDP in 2023, the highest among the Pacific's tourism and remittances-led countries. Remittances are expected to remain solid, supporting the improvement in the current account balance together with the tourism and economic recovery.

	2022	2023 (Est.)	2024 (Proj.)	2025 (Proj.)
GDP growth (percent)	1.9	1.5	2.6	3.9
CPI inflation (percent)	4.6	8.3	5.6	4.7
Public debt-to-GDP ratio	43.5	47.6	51.0	54.1

Notes:
Box 1 of main report provides insights into the country classification of Pacific island countries.
GDP growth reflects the average annual change in real GDP.
CPI inflation represents the average annual change in the consumer price index.
GDP growth, inflation, and public debt-to-GDP ratios for all countries in this note are presented on a calendar year basis.
Baseline projections for FSM, Marshall Islands and Palau assume the new compact agreement with the United States goes into effect in FY25.

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