

SOUTH PACIFIC ISLANDS

Key conditions and challenges

Table 1

WSM TON VUT

	WSM	TON	VUT
Population, million	0.23	0.11	0.33
GDP, current US\$ billion	0.93	0.55	1.10
GDP per capita, current US\$	4114	5156	3323
LMIC poverty rate (\$3.65)	10.5 ^a	1.6 ^b	34.9 ^c
Gini index	38.7 ^a	27.1 ^b	32.3 ^c

Source: WDI, World Bank, and official data.
 Notes: The actual year for the table data is 2023.
 Abbreviations: LMIC = Lower middle-income;
 WSM = Samoa; TON = Tonga; VUT = Vanuatu.
 a/ Most recent value (2013), 2017 PPPs.
 b/ Most recent value (2021), 2017 PPPs.
 c/ Most recent value (2019), 2017 PPPs.

The economies of Samoa, Tonga, and Vanuatu expanded, largely driven by a resurgence in travel and reconstruction activities, while benefitting from remittances. Although economies are projected to recover to pre-pandemic levels in 2024-25, uncertainties in the global environment pose risks to the outlook and the pace of economic growth. To increase potential growth, governments must embark on structural reforms that can boost investment, and adapt fiscal policy to promote resilience to mitigate future shocks.

Due to their high exposure to tourism and travel, the countries are susceptible to external shocks such as those caused by COVID-19. Combined with the natural disasters, shocks have resulted in significant setback in economic growth and fiscal sustainability. Supply bottlenecks, particularly in the aftermath of disasters, amid heightened demand, including for reconstruction, continue to exert pressures on prices and threaten livelihoods. Fiscal policy should aim to support more adaptive and targeted social protection systems while continuing to build fiscal space to mitigate vulnerability to external shocks. Finally, boosting potential growth through increased investment will require implementing structural reforms that foster a conducive environment for business and the private sector. In the near term, this includes ramping up reconstruction efforts in Tonga and Vanuatu following recent natural disasters.

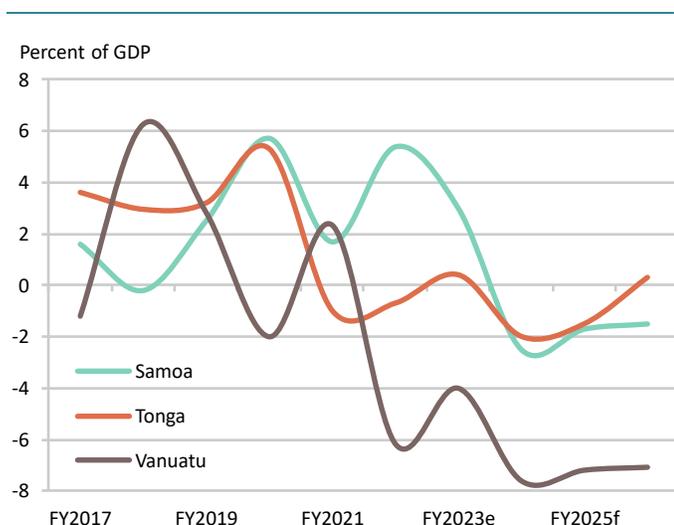
Recent developments

In FY23, for the first time since the pandemic, all three countries experienced positive economic growth. Headline inflation surged but began to recede in the later months.

In Samoa, growth rebounded strongly by 8 percent in FY23, following three consecutive years of economic contraction. Growth was fueled by a strong pick-up in tourism post-border reopening and robust remittance inflows supporting consumption. Inflation surged to 12.0 percent in FY23 but has been easing in recent months. The current account deficit narrowed significantly to 4 percent of GDP in FY23 compared to 11.3 percent of GDP in FY22, primarily on account of strong tourism earnings and remittances. The government recorded another year of fiscal surplus of around 3 percent of GDP in FY23, supported by buoyant revenue collections and lower recurrent expenses. A recently published report on the 2022 Samoa Labor Force Survey showed positive employment trends between 2017 and 2022, with unemployment dropping from 14.5 percent to 5.0 percent, youth unemployment (ages 15-24) dropping from 31.9 percent to 13.4 percent, and informality dropping from 37.3 percent to 25.3 percent.

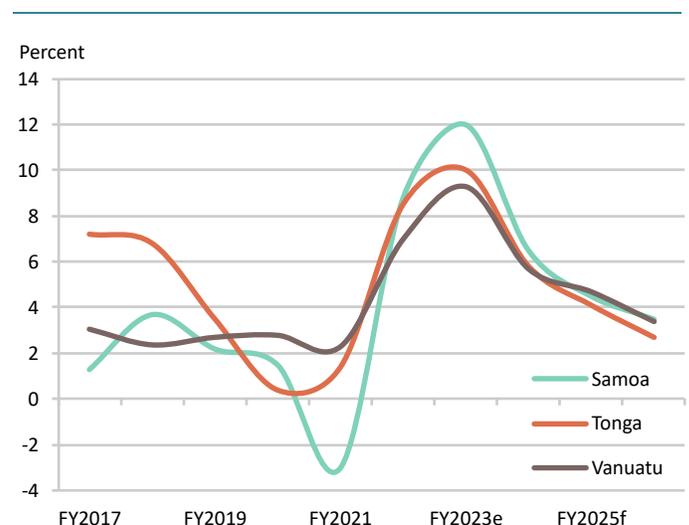
In Tonga, the economy expanded by an estimated 2.6 percent in FY23, rebounding from a contraction in FY22. As borders reopened, strong domestic demand supported by remittances and a pick up in tourist arrivals bolstered growth. Inflation reached about 10 percent in FY23, driven by prolonged domestic supply disruptions. The current account deficit widened to 7.9 percent in FY23 as imports increased to support reconstruction and recovery. The fiscal accounts showed a small surplus of 0.4 percent of GDP in FY23, primarily due to increased grants and slower-than-expected execution of expenditures related

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation (annual average)



Sources: National sources and World Bank projections.

to reconstruction. World Bank phone surveys conducted in late 2023 reveal that about half the households were worried about their finances in the upcoming month. About 11 percent of the poorest group are facing severe food insecurity, as opposed to 3 percent in the richest group, reflecting the influence that persistent high inflation may have on livelihoods. According to the 2021 Household Income and Expenditure Survey (HIES), the poverty rates were 1.6 percent based on the lower-middle-income poverty line of \$3.65 (2017 PPP USD) and 21.5 percent based on the upper-middle-income poverty line of \$6.85 (2017 PPP USD).

In **Vanuatu**, despite the impact of twin cyclones earlier in the year and growth initially being downgraded, growth reached 2.5 percent in FY23. Economic activity was mainly attributed to the industry and services sectors, especially as tourist arrivals improved, reaching 65 percent of pre-covid levels as of 2023. In the agriculture sector, the contraction from cyclone damage was less severe than anticipated, as economic activity is concentrated in the north, which was less affected by the cyclones. Inflation is estimated to have averaged 9.3 percent, mainly owing to domestic supply chain disruptions caused by the cyclone impacts, minimum wage factors, and high food prices. A current account deficit of 4.1 percent of GDP is estimated, as pick up in remittances and tourism increased demand for imports. Vanuatu faced an estimated fiscal deficit of 4 percent of GDP bolstered by strong Value Added Tax (VAT) revenue amid delayed project spending an improvement from 2022. The government is working towards rolling out the Universal Cash Transfer (UCT) initiative, which aims to support household recovery from the dual cyclones.

Outlook

A gradual economic recovery is expected, with Tonga and Vanuatu potentially returning to pre-pandemic GDP levels by 2024, and Samoa by 2025. Adverse global economic growth, trade, and tourism development; geopolitical tensions; and persistent threats to natural disasters present downside risks. These factors could slow economic recovery, hampering progress in poverty reduction.

In **Samoa**, the economy is projected to grow by a further 4.5 percent in FY24, followed by an average growth of 3.3 percent in FY25 and FY26. The continued recovery in tourism and spillovers to construction and other service sectors, combined with increased public investment are expected to drive growth. Inflation is estimated to halve in FY24 and continue to decline over the medium term. The current account deficit is expected to narrow to 3.0 percent of GDP over the medium term, supported by tourism recovery and continued remittance inflows. A fiscal deficit of 2.5 percent of GDP is estimated for FY24 as grants revenue normalizes and expenditure increases to support the hosting of the Commonwealth Heads of Government Meeting scheduled for October 2024. The fiscal deficit is expected to narrow to approximately 1.5 percent of GDP over the medium term. While direct projections of poverty rates are not available, regional peers with a similar trajectory of economic recovery are expected to return to pre-pandemic poverty levels in FY25.

In **Tonga**, growth is projected to maintain its upward momentum, reaching 2.5 percent, before subsequently easing in FY25 and further down in FY26. The short-term growth is underpinned by the ramping up

of reconstruction activities, coupled with recovery in agriculture and tourism. Inflation is anticipated to subside in FY24 and reach below the 5 percent reference rate in FY25. The current account deficit is forecasted to persist at a high level of 7.1 percent of GDP in FY4, driven by substantial imports amid modest export performance. The fiscal balance is anticipated to swing back into deficit in FY24-25, due to normalization in grants and upsurge in expenditure related to reconstruction efforts. Following sluggish execution in FY23, reconstruction projects are expected to gather momentum in FY24 with this trend continuing in FY25. With the projected steady economic growth, the poverty rate measured with the upper-middle-income poverty line is likely to decline to 16.7 percent in 2026.

In **Vanuatu**, the economy is projected to grow by 3.7 percent in 2024, mostly driven by the infrastructure investment, such as the upgrade of airports and roads construction, significantly scaled up in the 2024 budget. As the implementation of the capital budget is expected to continue over 2024-2026, expansionary fiscal policy will continue to support growth. Reconstruction efforts are expected to stimulate economic activity over the medium term. Inflation is projected to remain above the reserve bank band of 0-4 percent in the near term. A current account deficit of 4.5 percent of GDP is projected for 2024, partially offsetting the modest recovery of tourism and goods exports. The fiscal deficit is projected at 7.6 percent of GDP due to higher capital expenditures, despite improved fishing revenues. The poverty rate measured with the lower-middle-income poverty line is projected to remain high, around 43 percent until 2026. Given the country's relatively high population growth, the growth in per capita income is not strong enough to reduce poverty.

TABLE 2 South Pacific Islands / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022e	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices						
Samoa	-7.1	-5.3	8.0	4.5	3.6	3.0
Tonga	-2.7	-2.0	2.6	2.5	2.2	1.6
Vanuatu	0.6	1.9	2.5	3.7	3.5	3.1
Poverty rate^{a,b}						
Tonga (Upper-middle income poverty rate, \$6.85 in 2017 PPP)	21.5	22.3	21.1	18.7	17.3	16.7
Vanuatu (Lower-middle income poverty rate, \$3.65 in 2017 PPP)	41.5	42.4	43.2	42.8	42.6	42.9

Sources: World Bank and IMF.

Notes: e = estimate; f = forecast. Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release.

a/ Calculations based on EAPPOV harmonization, using 2021-HIES for Tonga and 2019-NSDP for Vanuatu.

b/ Projection using neutral distribution with pass-through = 1 (High) based on GDP per capita in constant LCU.