SOUTH PACIFIC ECONOMIES

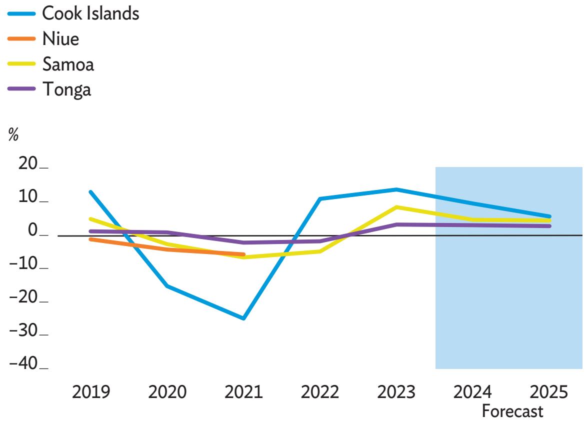
Growth resumed in Samoa and Tonga after borders reopened in fiscal year 2023 (FY2023, ended 30 June for all South Pacific economies), and the Cook Islands economy continued to expand as tourism remained strong. Tourism, as well as construction—mainly public infrastructure projects—will sustain growth in the near term. Inflation fell in FY2023 as international food and fuel prices continued to moderate. To maintain growth, targeted policies are needed to address local labor gaps and sustain remittance flows.

Cook Islands

Growth accelerated in FY2023 to 13.3% and, driven by strong tourism recovery, should remain positive in FY2024 and FY2025 (Figure 2.39.1). Tourist arrivals exceeded 70% of FY2019 levels, with 81.3% coming from New Zealand. Infrastructure projects, notably upgrades to the Rarotonga airstrip and health facilities on Rarotonga and the outer islands, also supported growth. Growth for FY2024 is projected to be 9.1% and 5.2% for FY2025, again driven by tourism and infrastructure investments. An acute labor shortage, delays in infrastructure projects, and natural hazards are downside risks to recovery.

Figure 2.39.1 Gross Domestic Product Growth

Growth in 2023 was driven by a recovery in tourism and resumption of construction projects.



Note: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Niue Statistics Office; Samoa Bureau of Statistics; Tonga Department of Statistics; and Asian Development Bank estimates.

Inflation peaked in FY2023 and is projected to fall as fuel and food prices stabilize. The Russian invasion of Ukraine disrupted supply and escalated global fuel prices and transportation costs. This caused inflation to increase from 3.6% in FY2022 to 13.2% in FY2023 (Table 2.39.1). Inflation is expected to fall in FY2024 and FY2025 to 2.3% as imported fuel and food prices stabilize.

The fiscal deficit is projected to narrow over the medium term. The government's fiscal deficit fell to the equivalent of 2.4% of GDP in FY2023 because of underspending on capital projects delayed by the pandemic. Their resumption is projected to bring the deficit slightly higher, to 2.7% of GDP in FY2024, even if tax revenue is expected to rise. In FY2025, a 1.8% of GDP fiscal surplus is forecast, supported by a 5.6% growth in tax revenue. Public debt equaled 44.0% of GDP at the end of FY2023 but is projected to fall below 35.0% by the end of FY2025.

This chapter was written by Lily-Anne Homasi and Isoa Wainiqolo of the South Pacific Subregional Office, ADB, Suva; Cara Tinio of the Pacific Department (PARD), ADB, Manila; and Ana Isabel Jimenez and Anna Jennifer Umlas, PARD consultants.

Table 2.39.1 Selected Economic Indicators, %

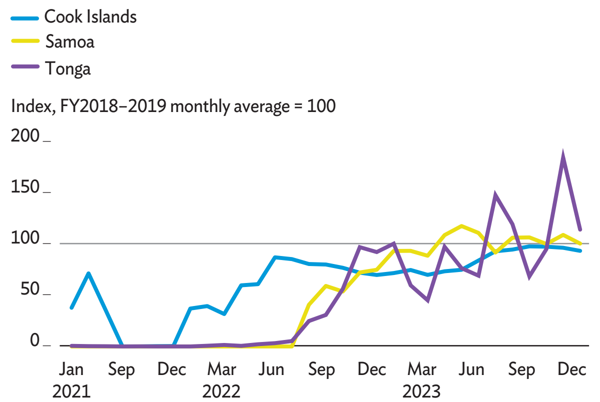
Recoveries have commenced, but inflation was near record highs in 2023.

	2022	2023	2024	2025
Cook Islands				
GDP growth	10.5	13.3	9.1	5.2
Inflation	3.6	13.2	2.3	2.3
Samoa				
GDP growth	–5.3	8.0	4.2	4.0
Inflation	8.8	12.0	4.5	4.3
Tonga				
GDP growth	–2.2	2.8	2.6	2.3
Inflation	8.2	9.7	4.5	4.2

GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Source: Asian Development Bank estimates.

Figure 2.39.2 Visitor Arrivals, Relative to Pre-pandemic Levels

Visitor arrivals recovered significantly across the South Pacific.



Note: Years are fiscal years ending on 30 June of that year.
Sources: Cook Islands Ministry of Finance and Economic Management; Samoa Bureau of Statistics; Tonga Department of Statistics.

Samoa

Growth resumed in FY2023 after 3 years of contraction. After contracting by 5.3% in FY2022, GDP grew by 8.0% as the reopened border revived tourism and infrastructure projects were implemented. However, GDP was still only 92.1% of the FY2019 level.

Tourism is catching up to pre-pandemic levels, while remittances continued strong growth. After 3 quarters of open borders, visitor arrivals in FY2023 were 76.1% of their FY2018–FY2019 levels (Figure 2.39.2) and tourism receipts reached 78.0% of their pre-pandemic value. These factors helped narrow the current account deficit from the equivalent of 13.5% of GDP in FY2022 to 4.9% in FY2023. Meanwhile, remittances continued their strong growth, increasing by 13.6% during the fiscal year.

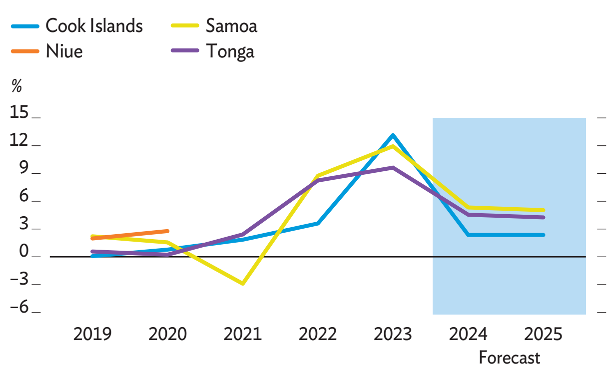
Tourism and construction should continue to drive growth in the near term. GDP is projected to grow by 4.2% in FY2024, moderating slightly to 4.0% in FY2025. Besides continued implementation of public infrastructure projects, hosting international events—such as the Commonwealth Heads of Government Meeting (CHOGM) in October 2024—should boost economic activity and visitor arrivals. In addition, cruise ship tourism is increasing with 26 ships scheduled to visit Samoa through the end of 2024. However, accommodation and labor constraints may limit growth.

Inflation will moderate from recent highs. Inflation spiked to 12.0% in FY2023, the highest in decades, from 8.8% in FY2022 (Figure 2.39.3). Moderating international commodity prices were slow to reach Samoa. Inflation is projected to decline to 4.5% in FY2024 and 4.3% in FY2025 as both international and local price pressures ease, although international price volatility remains a significant risk.

The fiscal position remains in surplus and external debt is decreasing. The government's fiscal surplus was equivalent to 3.8% of GDP in FY2023 compared with 6.4% in FY2022. Revenues rose by 10.0%, driven

Figure 2.39.3 Inflation

More moderate inflation is expected in 2024 and 2025 as lower international commodity prices pass through to consumers.

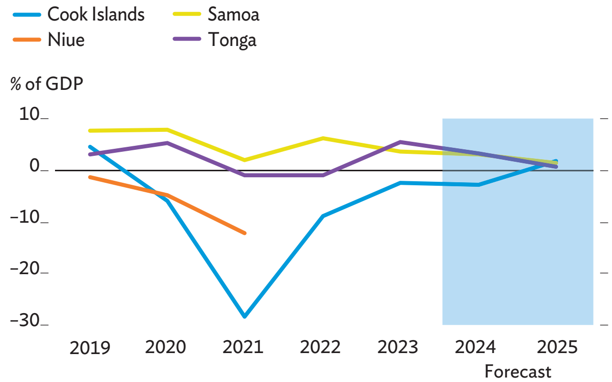


Note: Years are fiscal years ending on 30 June of that year.
Sources: Cook Islands Ministry of Finance and Economic Management; Samoa Bureau of Statistics; Tonga Department of Statistics; Asian Development Bank estimates.

by a 27.4% spike in value-added tax (VAT). Although some capital expenditures deferred in FY2022 were allotted in FY2023 and recurrent spending increased, expenditures rose by a modest 5.5%. Domestic revenues are expected to continue growing in the near term, while expenditures would peak in FY2024 because of preparations for CHOGM, before declining in FY2025. These should result in fiscal surpluses equivalent to 4.7% of GDP in FY2024 and 6.0% in FY2025. Public external debt continues to decline, falling to 42.2% of GDP at the end of FY2023 from a high of 56.5% in FY2021, and will likely fall further to 38.1% in FY2024 and 31.6% by the end of FY2025.

Figure 2.39.4 Fiscal Positions

Fiscal surpluses are expected to continue in Samoa and Tonga, with the Cook Islands rising out of deficit.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Samoa Bureau of Statistics; Tonga Department of Statistics; Asian Development Bank estimates.

Tonga

The economy rebounded in FY2023. After 2 years of contraction, the economy grew by 2.8%. The August 2022 border reopening revived tourism and public investment projects. Remittances grew by 12.0% from FY2022 levels.

Construction is seen to support post-pandemic growth. The economy is projected to grow by 2.6% in FY2024 and 2.3% in FY2025, driven by continued construction activity as the government pursues major infrastructure projects and investments in climate resilience. Reconstruction and rehabilitation following the January 2022 volcanic eruption and tsunami are also continuing. Visitor arrivals—which in FY2023 were 62.9% of FY2018–FY2019 levels—should continue to grow but remain below pre-pandemic levels during the forecast period because of limited flight connections and tourist accommodations. Shortages of skilled labor may also constrain overall economic activity.

Inflation is expected to moderate, but price pressures remain. Inflation was 9.7% in FY2023, higher than 8.2% in FY2022, pushed up by a 12.2% increase in local prices arising from supply bottlenecks and higher local food costs. Inflation is forecast to moderate to 4.5% in FY2024 and 4.2% in FY2025 as international food and fuel prices decline.

Fiscal surpluses are expected to continue in the near term. The government had a fiscal surplus equivalent to 5.6% of GDP in FY2023, reversing the 0.9% deficit in FY2022 (Figure 2.39.4). Improved compliance, revived business activity, and higher VAT collections supported a 12.0% increase in internal revenue collections and increased budget support from development partners helped boost grant inflows. These offset a 1.5% rise in expenditures. Surpluses are projected to be equivalent to 3.3% of GDP in FY2024 and 0.9% of GDP in FY2025. This is despite planned fiscal expansion as revenue collections and grants are expected to remain strong. External debt should decline from the equivalent of 31.7% of GDP in FY2023 to 25.8% in FY2024 and 21.3% in FY2025.

Niue

The economy improved as borders reopened and tourism returned. Tourism picked up further in FY2024 as flights doubled to 2 per week starting November 2023. But visitor arrivals remained well below pre-pandemic levels.

The fiscal deficit in FY2023 widened to 26.4% of FY2021 GDP. Revenue increased by 20.0% in FY2023 consistent with improving economic activity but fell short of the 26.1% growth in expenditure. Capital expenditure increased significantly as the border reopened and trade resumed. Higher fuel prices raised government subsidy expenditure.

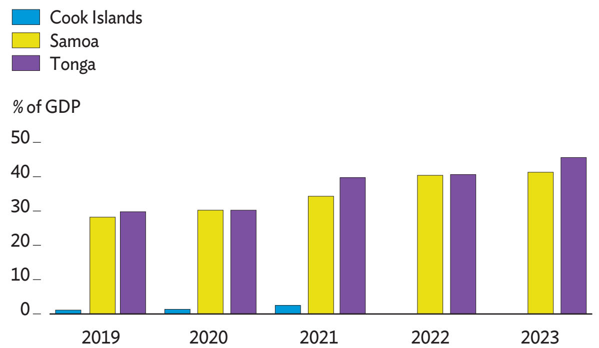
Inflation reached 8.6% in FY2023. Higher prices for frozen chicken, fuel, and imported beer were major contributors. Apart from cost increases in communications and education, there were increases averaging 8.2% across all other subcategories. High global inflation affected prices in most categories. Imported inflation increased by 9.6% in 2023, nearly four times faster than domestic price growth.

Policy Challenge—Charting Conducive Labor Market Conditions

South Pacific labor migration has increased. Attracted by higher wages and seasonal work opportunities in Australia and New Zealand, increasing numbers of South Pacific islanders are seeking overseas employment. This is on top of liberal migration policies accorded to South Pacific citizens, such as those under the Cook Islands' and Niue's free association arrangements with New Zealand.

Figure 2.39.5 Remittance Inflows

Remittances became more important as an income source during the pandemic, particularly in Samoa and Tonga.



GDP = gross domestic product.

Notes: Years are fiscal years ending on 30 June of that year. Data not available for the Cook Islands, from 2022 onwards, and Niue.

Sources: Cook Islands Ministry of Finance and Economic Management; Central Bank of Samoa; Tonga Department of Statistics; Asian Development Bank estimates.

Although the rise in overseas workers has boosted remittances, it has also depleted local labor supply. Remittances are a significant income source for many households in Samoa and Tonga, and strong inflows helped them weather the economic downturn during the pandemic (Figure 2.39.5). However, the Tongan government is having difficulties in filling vacancies in its civil service. The acute labor shortage in the Cook Islands is constraining output across many economic sectors.

Remittance dynamics may change dramatically if labor mobility policies expand, and without appropriate measures to shore up labor supply. Migration flows would likely increase as it becomes more possible for migrant workers to become permanent residents and have their families join them. Entire families living abroad reduces the social issues associated with families living apart for long periods, but it also reduces the propensity to remit funds to the source country. With many residents abroad, governments and local businesses in the Cook Islands and Niue have turned to migrant labor to fill the gap. Niue is also piloting an intra-Pacific labor mobility program in its health sector to address labor shortages. The pilot is anticipated to help design a broader and longer-term labor mobility scheme with other Pacific islands. Remittance flows in these countries have also reversed, with local families supporting relatives living abroad (e.g., for school expenses) and migrant workers sending money to their home countries.

Policymakers need to balance the need to address domestic labor shortages with the economic benefits of overseas worker remittances. Remittances support economic resilience in the worker's home country. Maintaining remittance inflows requires the continued deployment of new workers overseas to help preserve home-country ties and thus a worker's desire to send money home. To achieve this while ensuring an adequate supply of quality local labor, South Pacific economies should continue to invest in health and education to build a higher quality, skilled workforce. Aligning skills training with national development plans, meeting local business needs, and establishing clear employment pathways could encourage graduates to work in their home country. In addition, improving the business climate would encourage migrants and remittance recipients to develop and invest in local enterprises. It may still be necessary to maintain the flow of new migrant workers into South Pacific economies to help augment limited capacity—particularly in the Cook Islands and Niue where the workforce is small—and this may provide opportunities for knowledge transfer.