

Pacific Economic Monitor: July 2013

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ADB Pacific Economic Monitor
MIDYEAR REVIEW

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The Monitor provides an update of developments in Pacific economies and explores topical policy issues.

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Highlights

- Emerging risks to growth. Midway through the year, the economies of ADB's 14 developing member countries in the Pacific are performing broadly in line with earlier growth projections, with regional growth expected to moderate slightly in 2013. The expected slowdown is more pronounced than anticipated at the start of the year, with growth in the region now projected to moderate to 5.0% in 2013, down from 7.8% in the previous year. The 2013 growth projection for Timor-Leste has been downgraded as government spending was well below budgeted levels in the first quarter. Similar risks to near-term growth prospects are emerging in Papua New Guinea (PNG).
- Growth in the Pacific islands (i.e., the Pacific region excluding PNG and Timor-Leste) is now projected to slow to 2.0% in 2013 from 2.5% last year. The outlook has softened from earlier in the year, mostly due to a substantial downgrade in the growth projection for Solomon Islands, which, in turn, is driven by weaker-than-expected gold production in early 2013. Growth projections for Kiribati and Nauru have also been downgraded, reflecting continuing delays in the implementation of planned infrastructure projects in the former, and heightened political risks and a more subdued outlook for phosphate exports in the latter.
- Inflation in the Pacific region is now projected to accelerate to 5.7% in 2013, as rising public expenditure and weakening regional currencies are seen to fuel price pressures. Inflation expectations, however, have lessened compared with earlier in the year, primarily because the impact of Cyclone Evan on prices in Fiji and Samoa has been lower than anticipated. In contrast, the 2013 inflation projection for Solomon Islands is raised owing to heavy price pressures at the start of the year.
- Higher growth in 2014 in line with improved global prospects. The International Monetary Fund's latest assessment of 2013 global growth prospects is slightly more subdued, with growth now projected to be about the same pace as last year. This reflects the negative impact of public spending cuts on US growth and lingering issues in the Euro area as it heads into a second consecutive year of recession. A recovery is expected in 2014 due to higher growth in Asia and the US, and a projected end of the recession in Europe.
- The more positive global economic outlook is expected to spill over into the Pacific and increase growth in the region to 5.5% in 2014. Commencement of PNG's liquefied natural gas exports, along with post-cyclone reconstruction efforts and infrastructure work in a few smaller Pacific islands, prompt the higher growth forecast. Inflation is projected to accelerate to 5.9% in 2014 with increased economic activity.
- Changing economic ties. The briefs in this issue consider regional cooperation and integration (RCI) developments in the Pacific. The first brief examines the rising importance of trade between the economies of the South Pacific and developing Asia. The second brief, contributed by the East-West Center, considers the performance of North Pacific economies in historical context, and assesses their economic prospects after the expiration of the compact of free association with the US. The third brief offers new estimates of trade costs in the Pacific, comparing these with existing indicators. The final contribution, from the Crawford School of Public Policy, outlines RCI efforts in the Caribbean and possible lessons these hold for the Pacific.

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This edition of the Pacific Economic Monitor updates 2013 and 2014 GDP growth and inflation projections for ADB's Pacific developing member countries. The theme of the policy briefs included in this issue is regional cooperation and integration.