

Pacific Economic Monitor

BUDGET ANALYSIS

December 2014

www.adb.org/pacmonitor

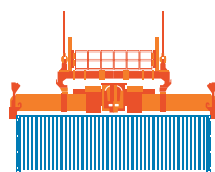
The *Monitor* provides an update of developments in Pacific economies and explores topical policy issues.

Contents

Highlights	1
The economic setting	3
Country updates	5
Policy briefs	
Long-run growth forecasts for Asia: Opportunities and challenges for the Pacific economies	18
Fiscal management challenges in Papua New Guinea and Timor-Leste	21
Update on fiscal modeling efforts in the Pacific	26
Economic indicators	28

Highlights

- Robust revenue collections in smaller Pacific economies.** Rising rates under a regional vessel day scheme continue to support strong fishing license revenues in Kiribati, the Republic of the Marshall Islands, the Federated States of Micronesia, Nauru, and Tuvalu. Increased economic activity and improved compliance are also pushing tax revenue collections higher in Fiji, Palau, Tonga, and Vanuatu.
- Limited 2015 expenditure growth planned in larger economies.** High revenues have underpinned expanding budget allocations in large resource-rich economies, but low implementation rates limit the development gains. For 2015, Papua New Guinea plans fiscal consolidation to reduce its deficit, while Timor-Leste is budgeting a minimal increase in total expenditure to bring budgeted and actual expenditures closer.
- Seizing new opportunities.** This issue's policy briefs consider longer-run opportunities and challenges facing Pacific economies from changing external conditions. Efforts to utilize scarce public resources more effectively in developing the infrastructure and institutional capacity needed to harness emerging opportunities are explored—focusing on efforts to improve fiscal planning and management.



ASIAN GROWTH

Nearly **40%** of global output by 2030

5.6% growth per annum over next 2 decades



PACIFIC OPPORTUNITIES

Harness rising demand from Asia through the following channels

CONTINUING GROWTH IN DEMAND FOR RESOURCE-BASED COMMODITIES

PACIFIC TRADE WITH ASIA

over 9 times expansion from 2000 to 2012

From **\$2 billion** in 2000 TO **over \$19 billion** in 2012



TRADITIONAL PACIFIC EXPORTS

Responding to global demand for primary commodities (e.g., crude oil, timber, cash crops, fisheries)



PRIORITY ACTIONS ▶▶▶ Developing policies and institutional capacity to manage resources and ensure sustainable use

ASIA'S GROWING MIDDLE CLASS

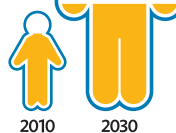
Over half of world's middle class will be in Asia

Asia Rest of the World

2.6 BILLION



Greater demand for luxury goods and services



2010 2030

NICHE PRODUCTS

Unpolluted tropical environments ideal for tourism and production of some high-value goods (e.g., South Sea pearls, artesian water, cosmetics, handicrafts)



PRIORITY ACTIONS ▶▶▶ Investing in transport, logistics, and other public infrastructure to enable producers to profitably export niche products and tourism operators to provide internationally competitive services.

POPULATION AGING IN ASIA

About **17%** of Asian population over 60 by 2030



Asian population over 60: To increase by about **400 million**



PACIFIC AS A POTENTIAL RETIREMENT DESTINATION AND SUPPLIER OF SKILLED ELDERCARE LABOR

Favorable climate, pristine environments, hospitable people



PRIORITY ACTIONS ▶▶▶ Investments in public services—particularly healthcare systems and human resource development