



# Recent Global Economic Developments and Implications for Pacific Island Countries

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# Plan of the presentation

- The Global Context
- The Regional Context: Asia
- Implications for PICs
- PICs and the IMF

# The global recovery will continue in 2011-12: Different speeds across regions

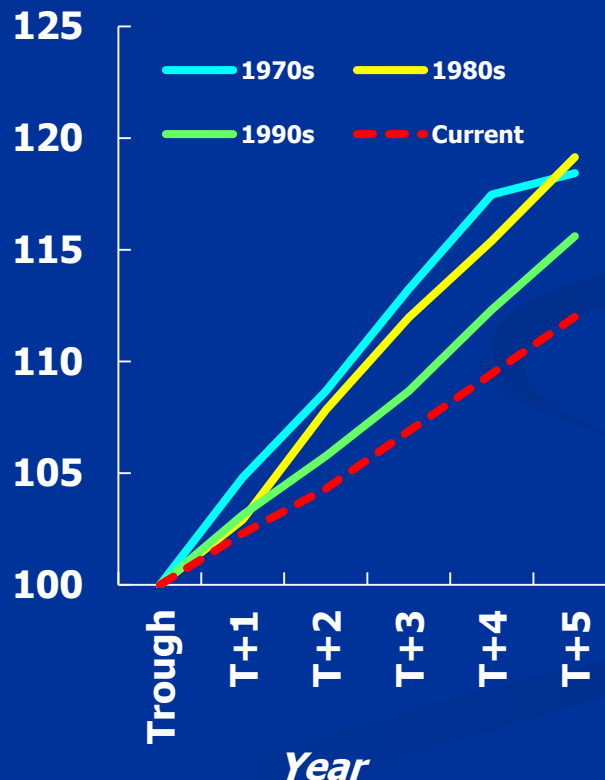
## World GDP Growth Projection

(Year-on-year, in percent)

	2010	2011	2012
World	5.0	4.4	4.5
Advanced economies	3.0	2.5	2.5
Emerging and Developing economies	7.2	6.5	6.5
Asia	8.2	6.8	6.8

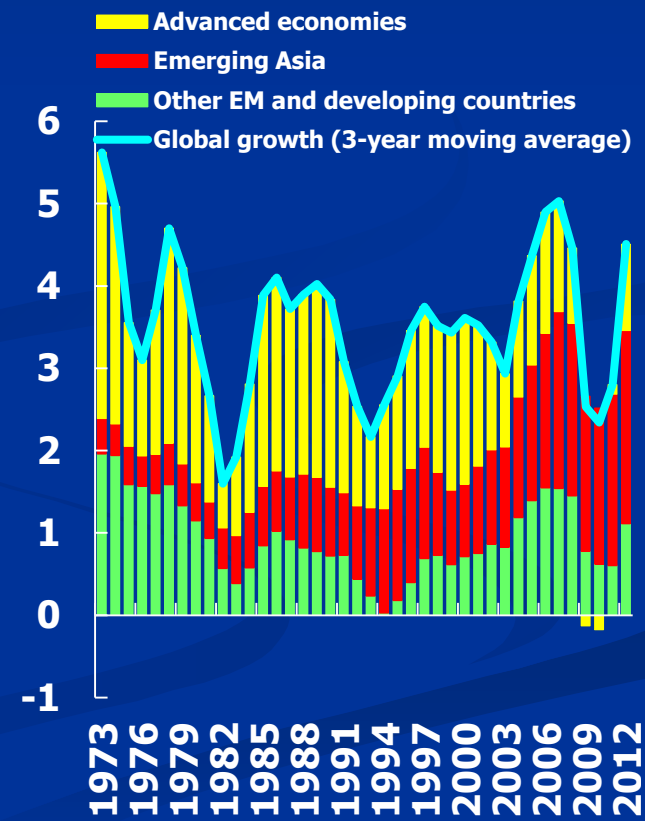
## Advanced Economy Real GDP during Global Recovery

(trough of recessions =100)



## Contributions to Global Growth

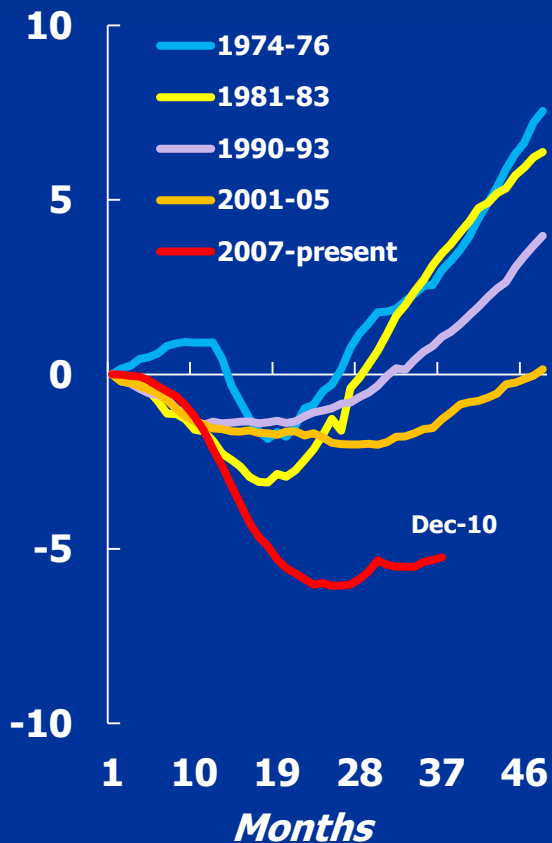
(In percentage points)



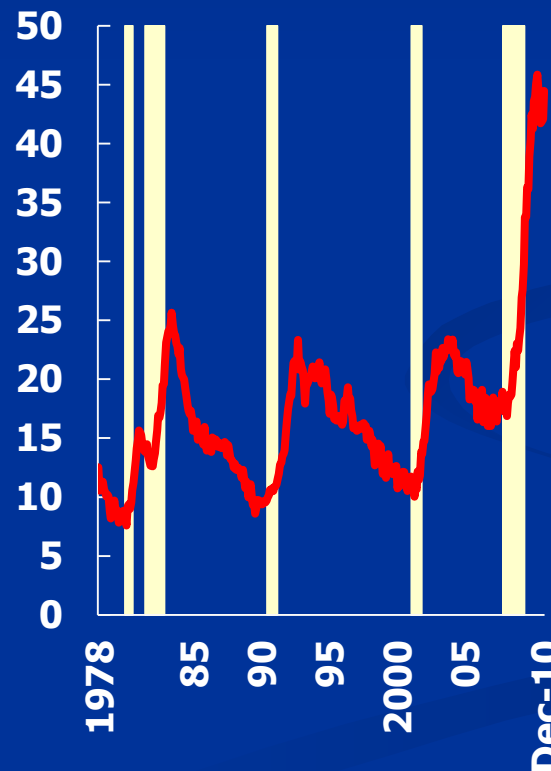
# United States:

## Weak labor and housing markets hinder the recovery

**U.S. Nonfarm Employment**  
*(Percent change since peak of business cycles)*

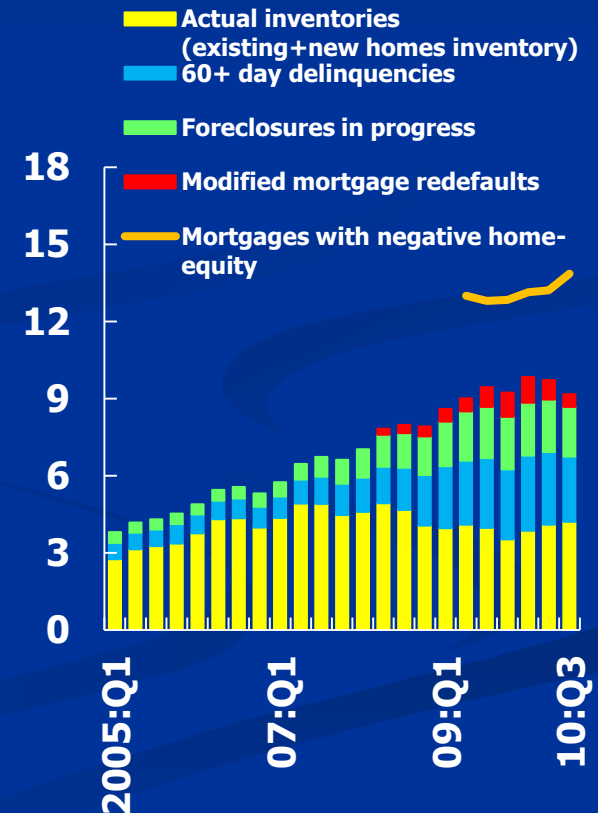


**U.S. Long-term Unemployment<sup>1</sup>**  
*(In percent of total unemployed)*



<sup>1</sup> Unemployed for 27 weeks or more.

**U.S. Housing Inventories and Foreclosures**  
*(In millions of units)*

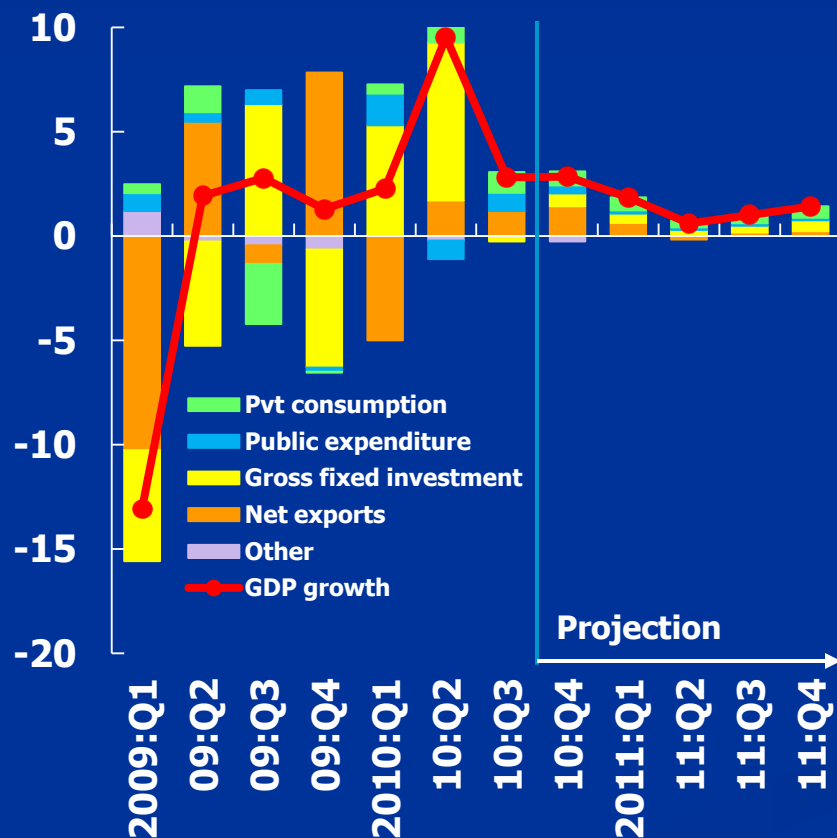


# Europe:

## Fiscal consolidation may stem recent momentum

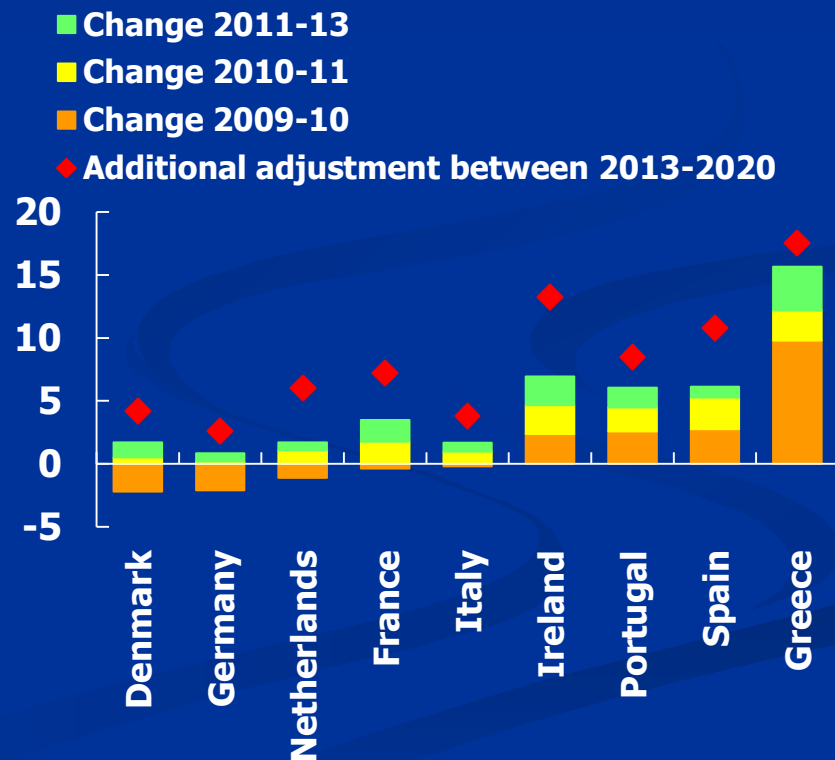
### Germany: Contributions to Growth

(In percentage points; q/q SAAR)



### Projected Change in Cyclically Adjusted Primary Balances

(In percent of potential GDP)



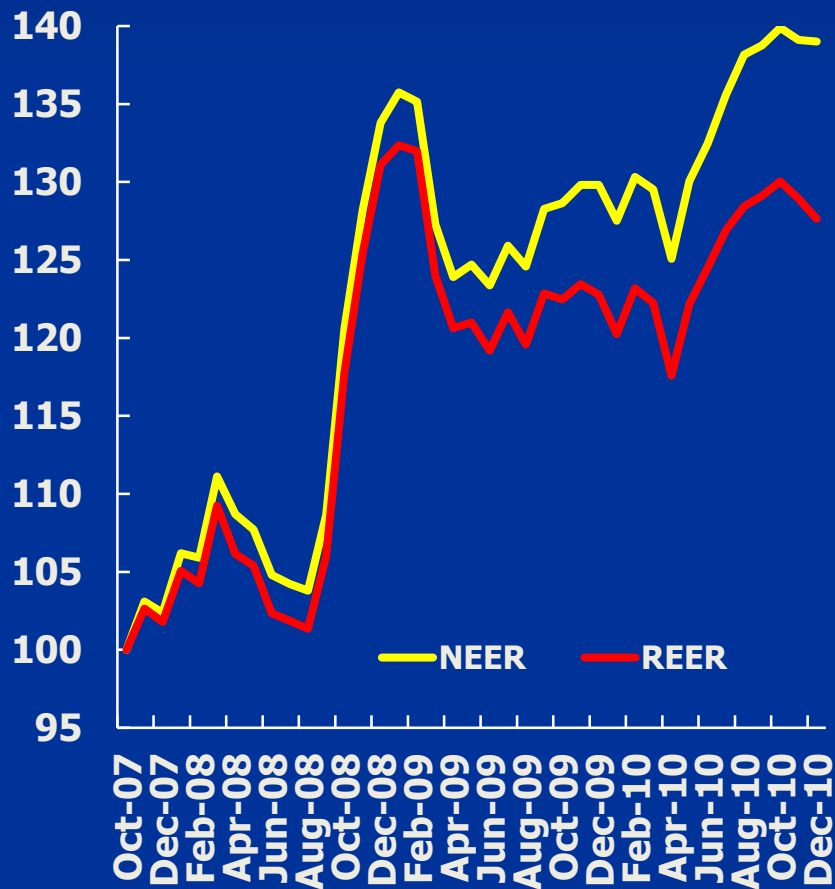
Note: Additional adjustment is defined as adjustment needed to bring public debt ratios to prudent levels.

# Japan:

## A strong yen could slow recovery and prolong deflation

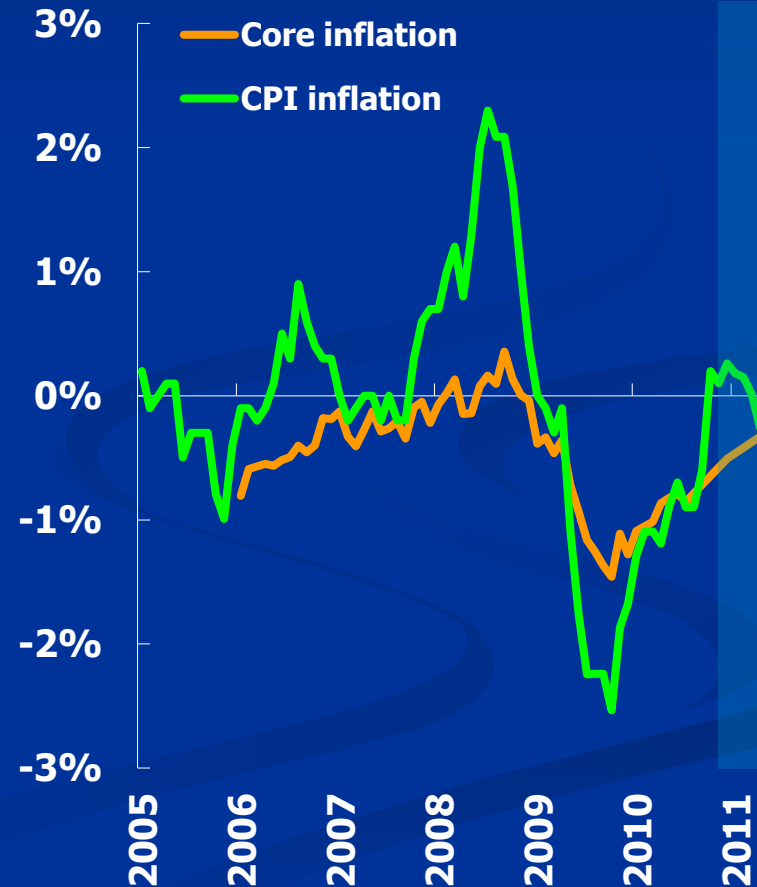
### Japan: Effective Exchange Rates

(October 2007=100)



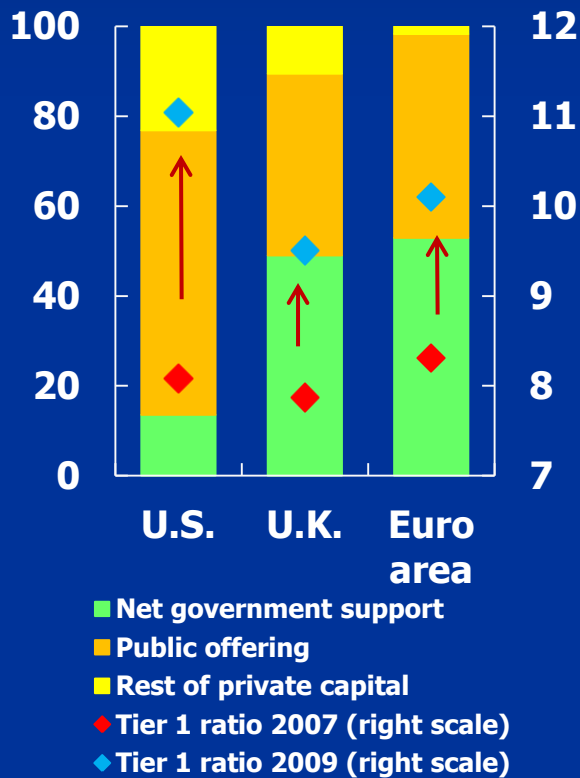
### Japan: Inflation Rates

(Year-on-year; in percent)



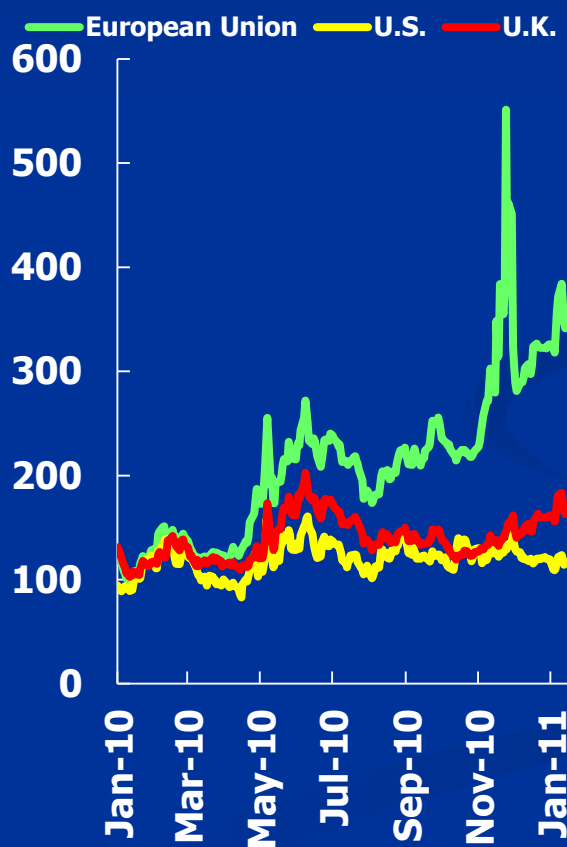
# Advanced Economies: Progress on financial repair, but still challenges ahead

**Capital raised by banks and Tier 1 ratios<sup>1</sup>**  
(In percent)

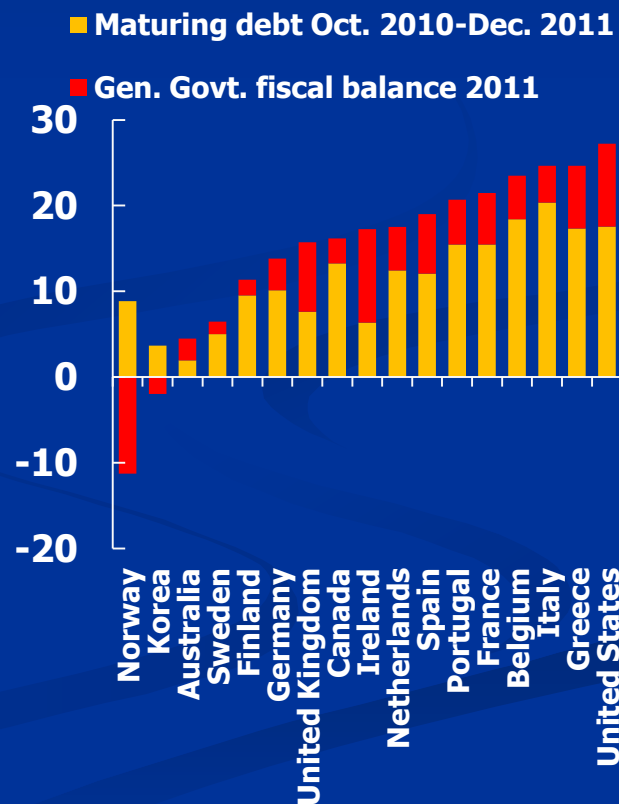


<sup>1</sup> Capital raised between 2008:Q1 and 2010:Q2.

**Banking Sector CDS Swap Spreads**  
(In basis points)



**Sovereign Financing Needs**  
(In percent of 2011 GDP)



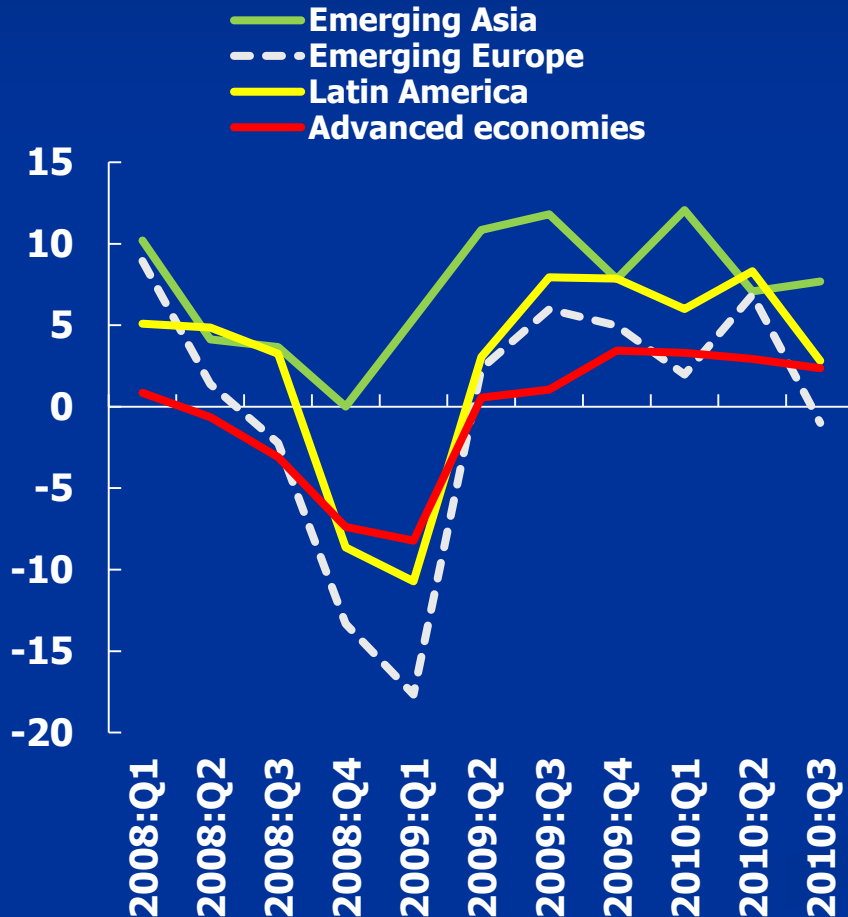
# The Regional Context: Asia



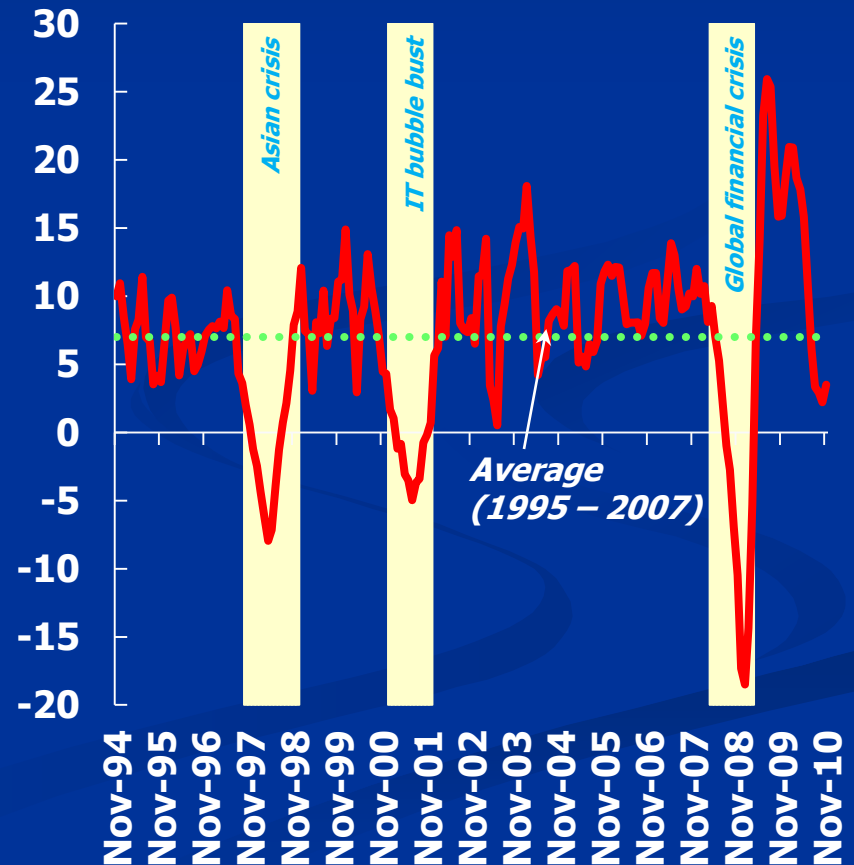
# Emerging Asia:

After strong growth in 2010 H1, some moderation in activity

**Global Growth**  
(Q/Q, in percent; SAAR)



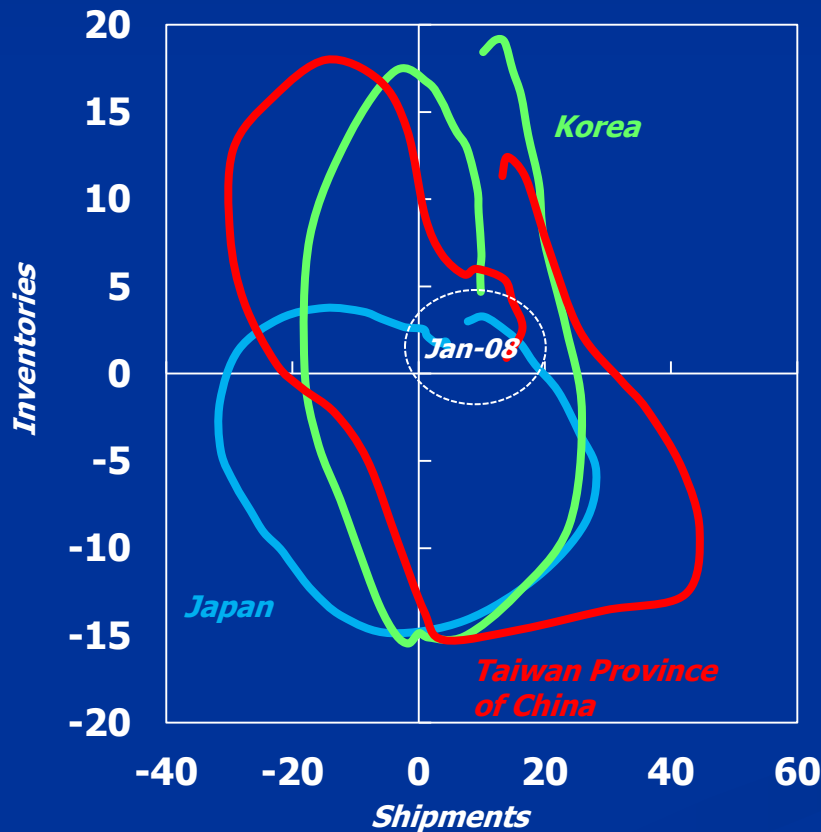
**Asia: Industrial Production**  
(3-month percent change of 3-month moving average, SAAR)



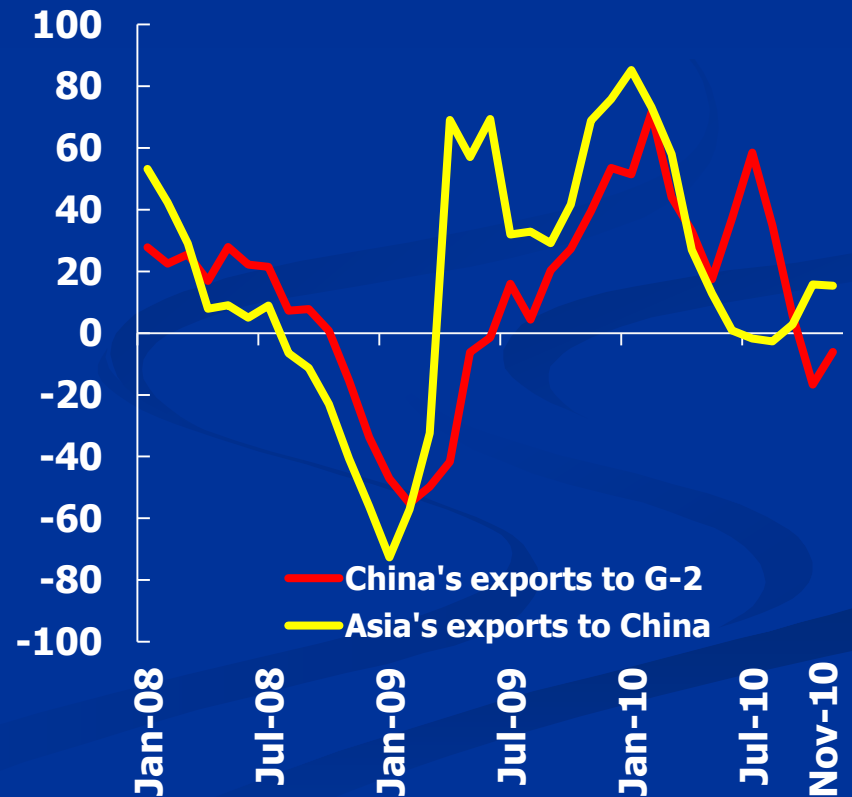
# The inventory cycle is nearing completion

## Spillovers from China's final demand have moderated

**Selected Asia: Manufacturing Inventories and Shipments**  
 (3-mma of year-on-year percent change, SA)



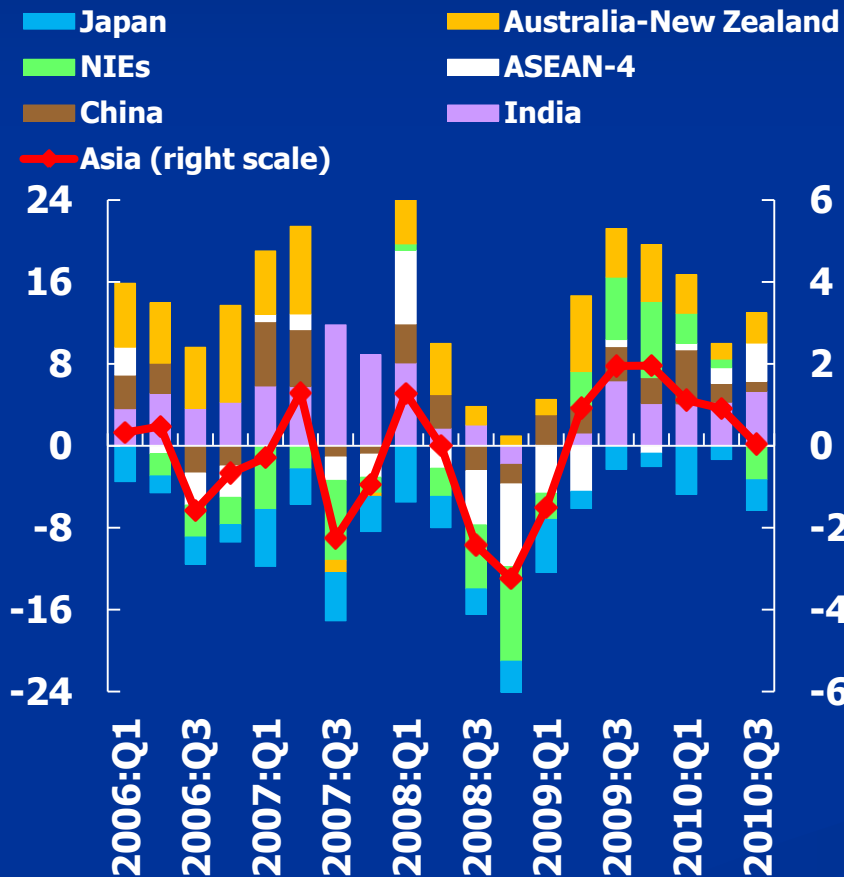
**Asia: Exports**  
 (3-month percent change of 3-month moving average, SAAR)



# Sustained by large capital inflows, REERs have appreciated

## But they are still at close to early 2000 levels

**Asia: Net Capital Inflows**  
(In percent of GDP)



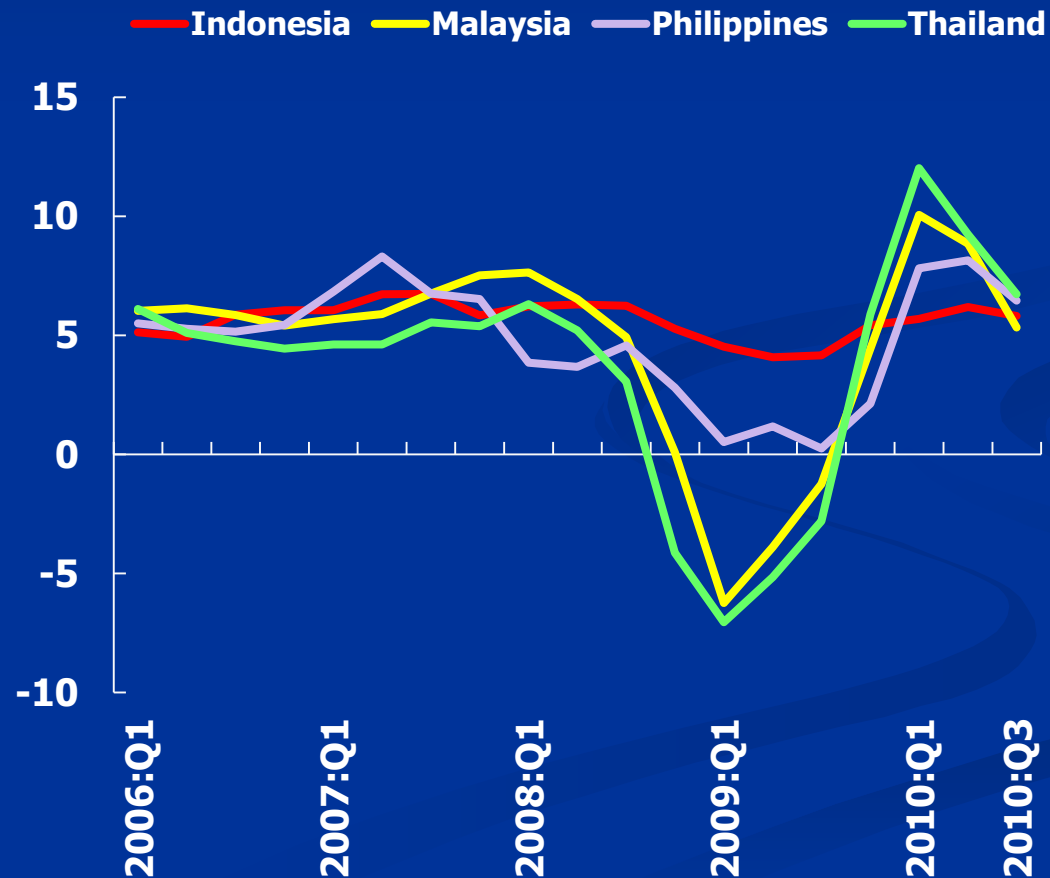
**Selected Asia: REER**  
(2002=100)



## ASEAN-4:

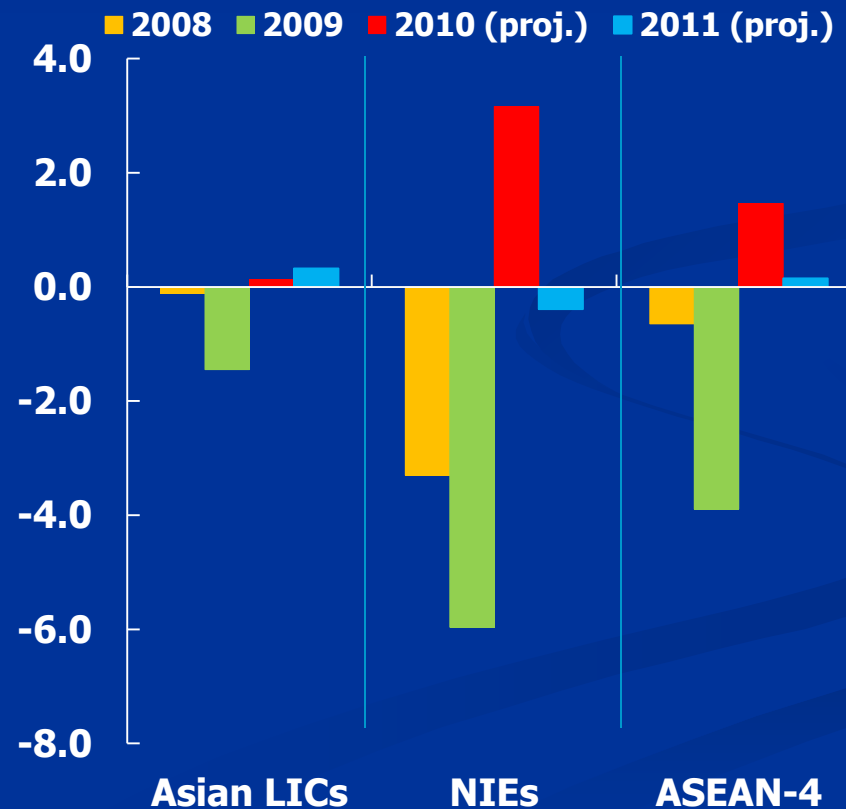
Strong rebound, helped also by robust domestic demand

**Real GDP Growth** (Year-on-year, in percent)



# Asian LICs/PICs: Recovering slowly, but some tensions have emerged

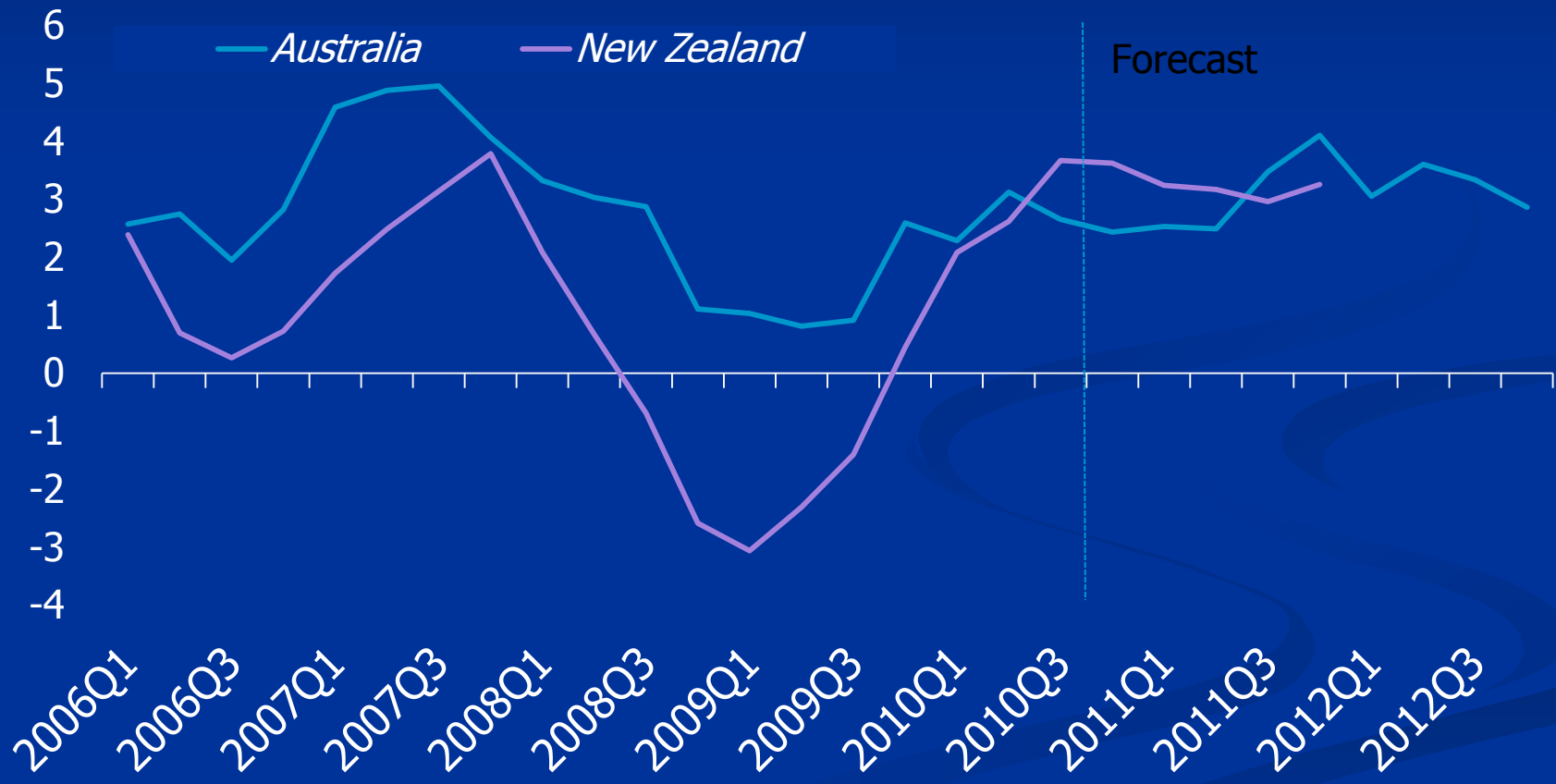
**Real GDP Growth: Relative to  
Average Growth During 2000-07**  
*(In percentage points)*



# Australia and New Zealand:

## Strong growth prospects

(Year-on-year percentage change)



# Growth Forecasts:

## Robust growth in 2011-2012, but downside risks remain

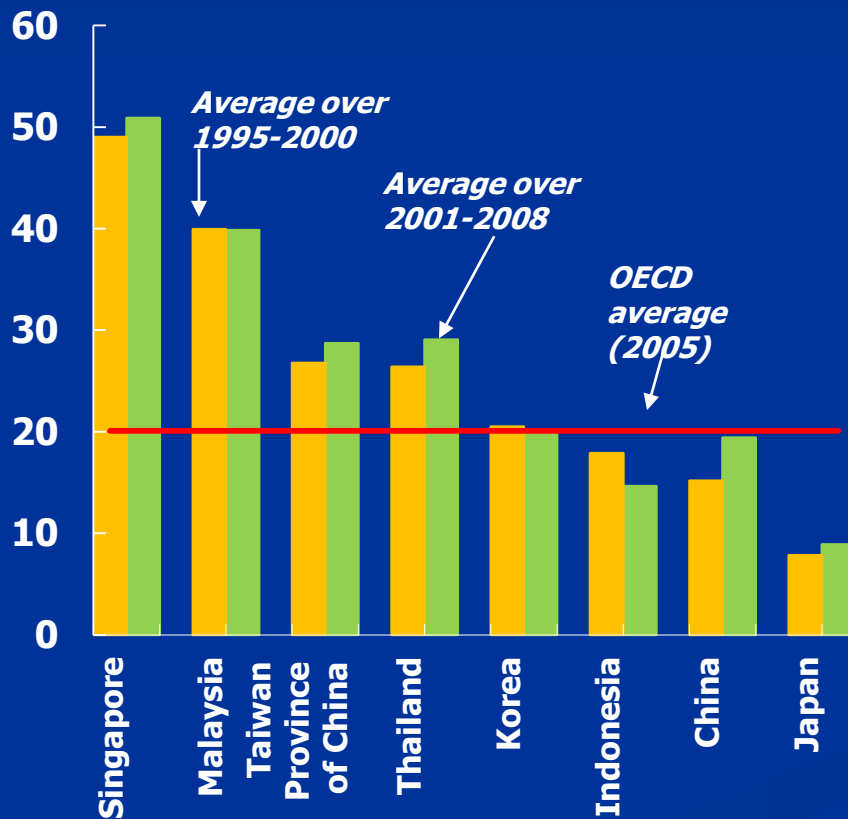
### Asia: Real GDP Growth (Year-on-year; in percent)

	2009	2010	2011	2012
<b>Asia</b>	<b>3.5</b>	<b>8.2</b>	<b>6.8</b>	<b>6.8</b>
<b>Industrial Asia</b>	<b>-4.9</b>	<b>4.0</b>	<b>1.9</b>	<b>2.0</b>
Japan	-6.3	4.3	1.6	1.8
Australia	1.3	2.6	3.2	3.2
New Zealand	-1.6	3.0	3.2	3.1
<b>Emerging Asia</b>	<b>5.9</b>	<b>9.5</b>	<b>8.1</b>	<b>8.0</b>
China	9.2	10.3	9.6	9.5
India	5.7	9.7	8.4	8.0
NIEs	-0.9	8.3	4.7	4.3
ASEAN-5	1.7	6.7	5.5	5.7

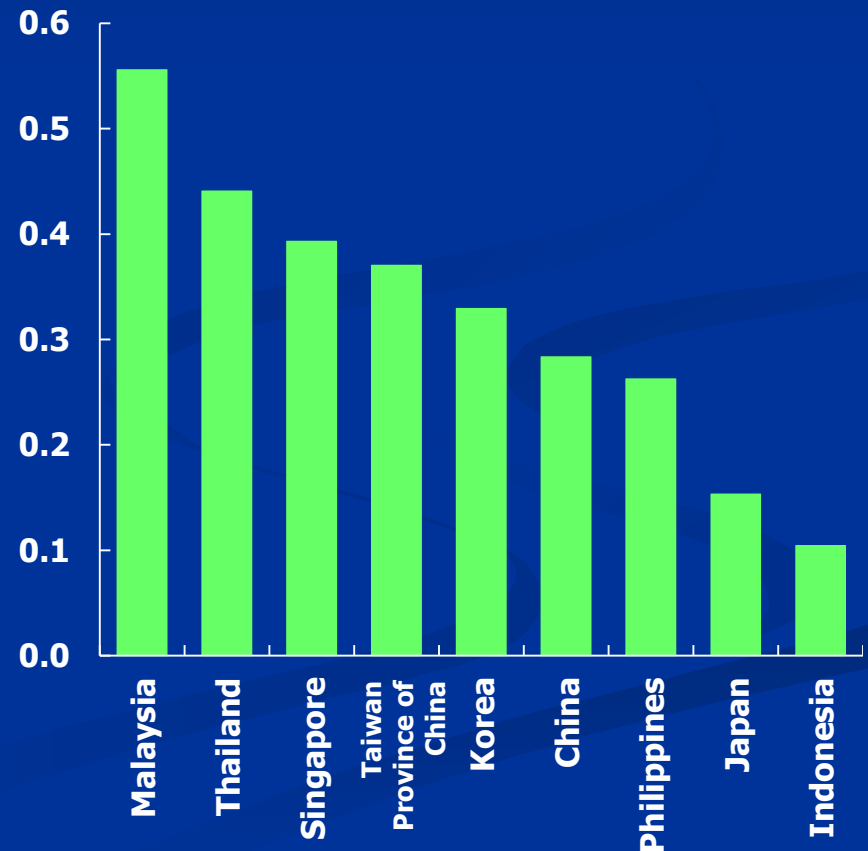
# Risks to the outlook:

Mainly external, from renewed weakness in external demand

**Asia's Dependence on Demand from Outside the Region**  
(In percent of GDP)



**Selected Asia: Impact of 1 ppt Decline in G-2 Final Demand on GDP Growth**  
(In percentage points)



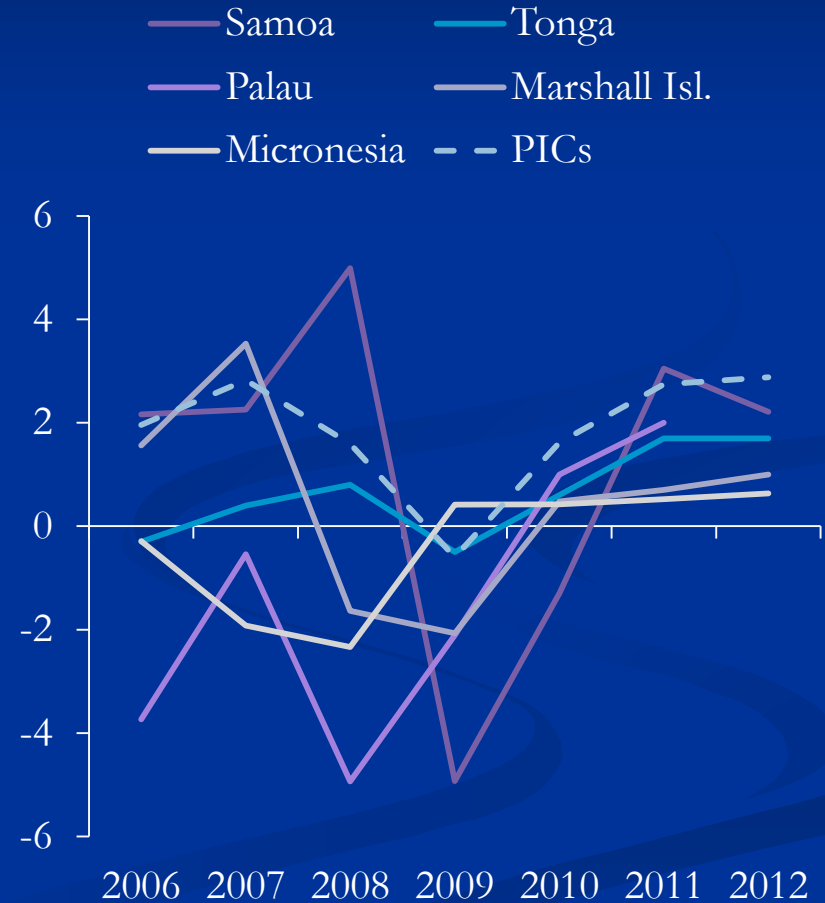
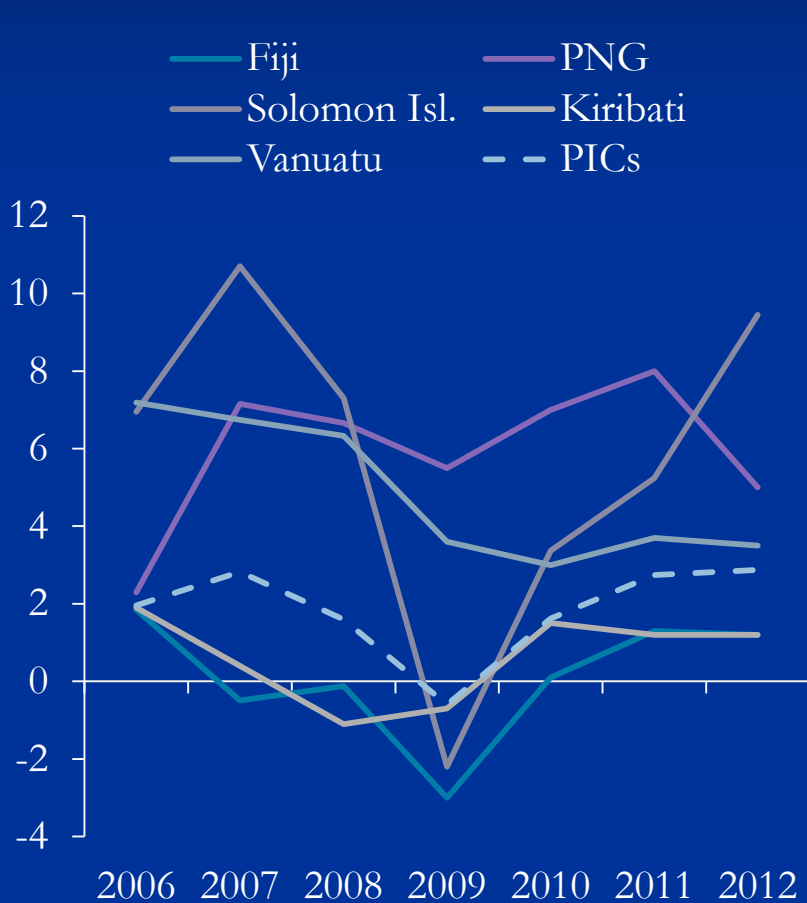


# Implications for PICs

# PICs:

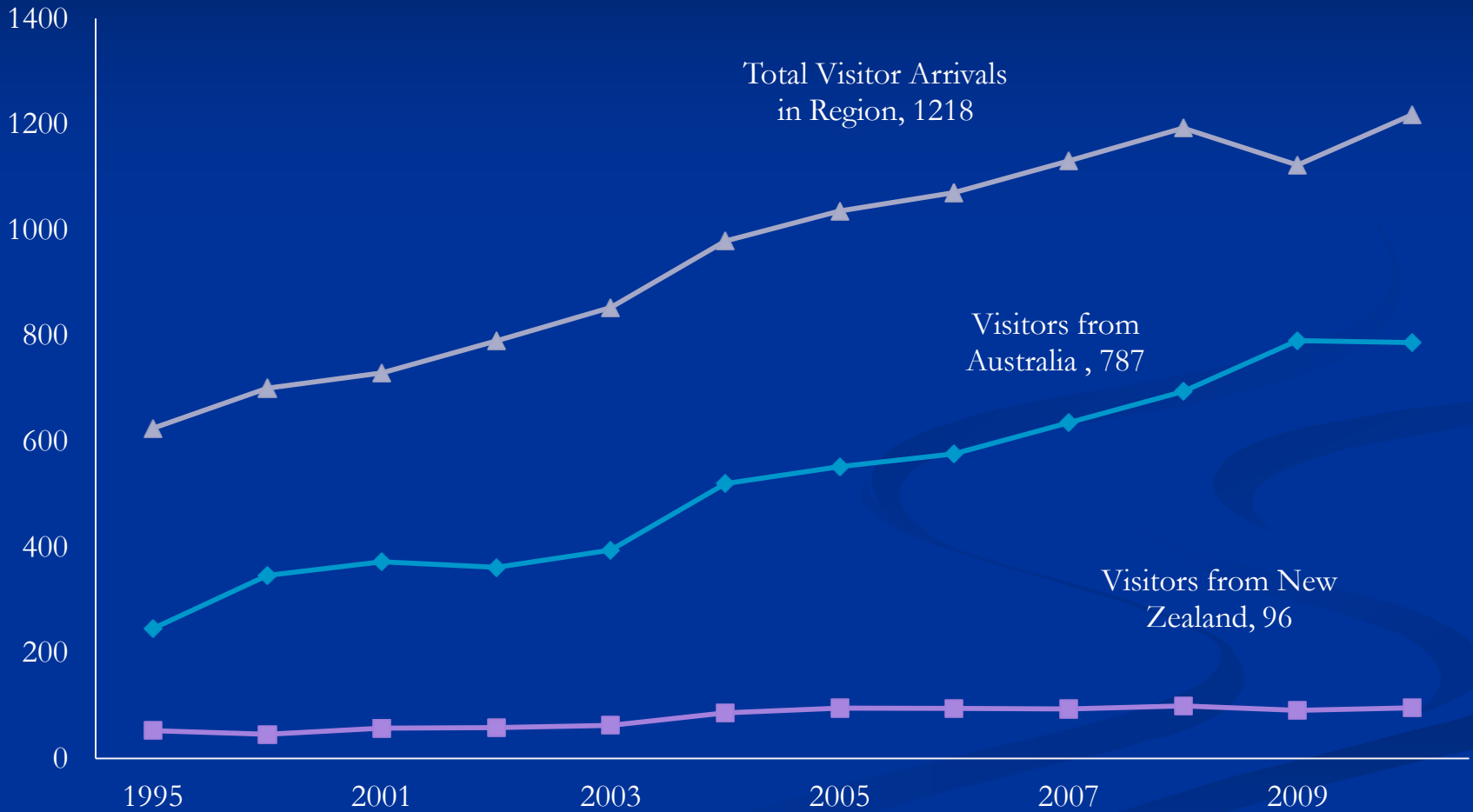
Recovery will continue, but prospects uneven

*(Year-on-year percentage change)*



# Inbound Tourists:

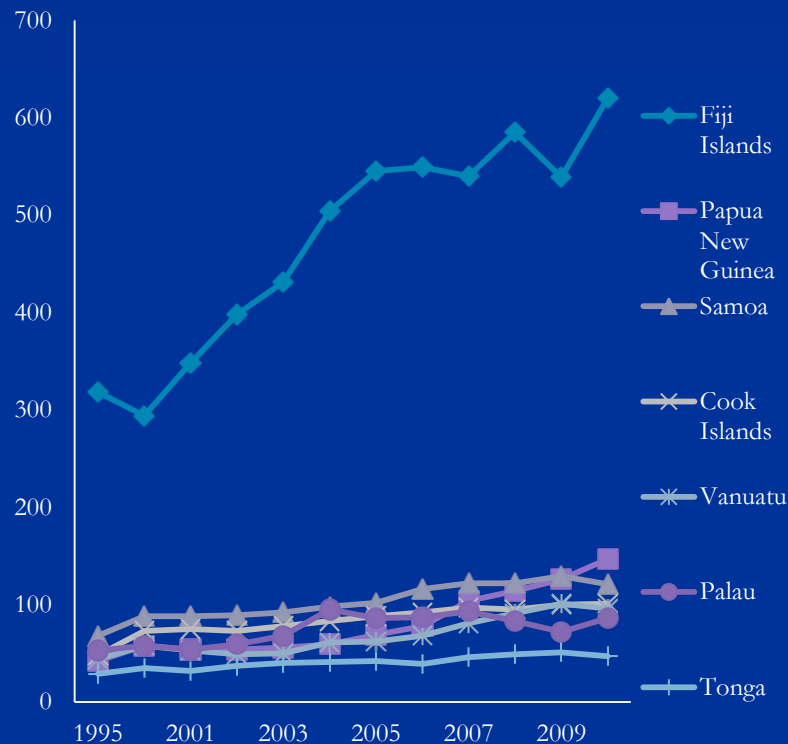
Almost back to trend, likely to grow and support PIC growth  
*(In thousands)*



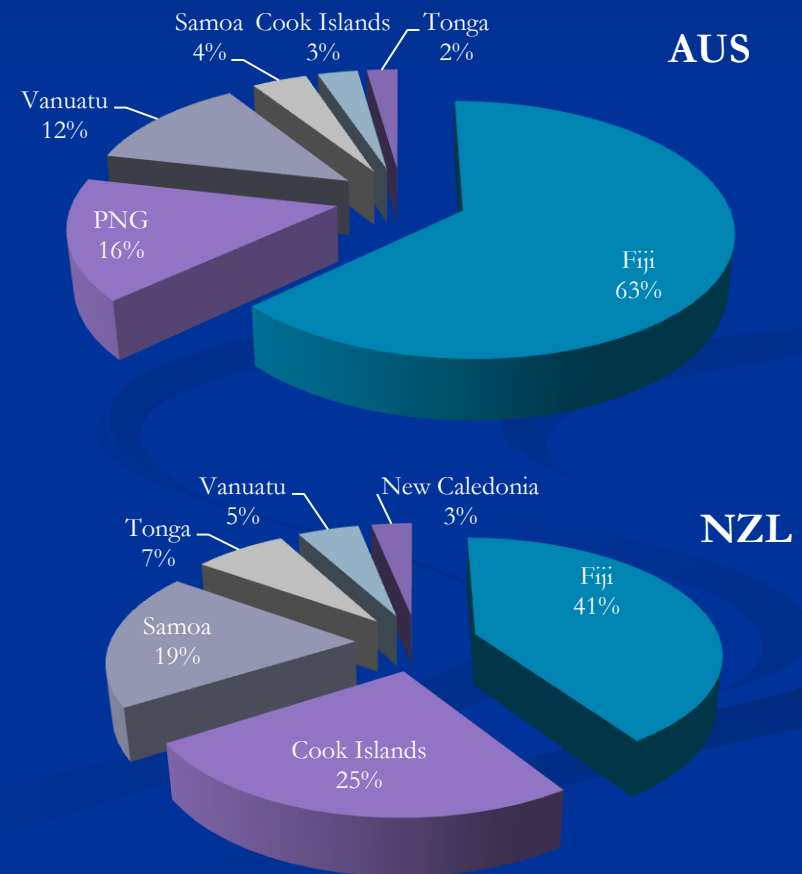
# Tourist Arrivals by Country:

## Uneven performance. Substitution among PICs?

**Recovery Has Been Uneven**  
(In thousands)



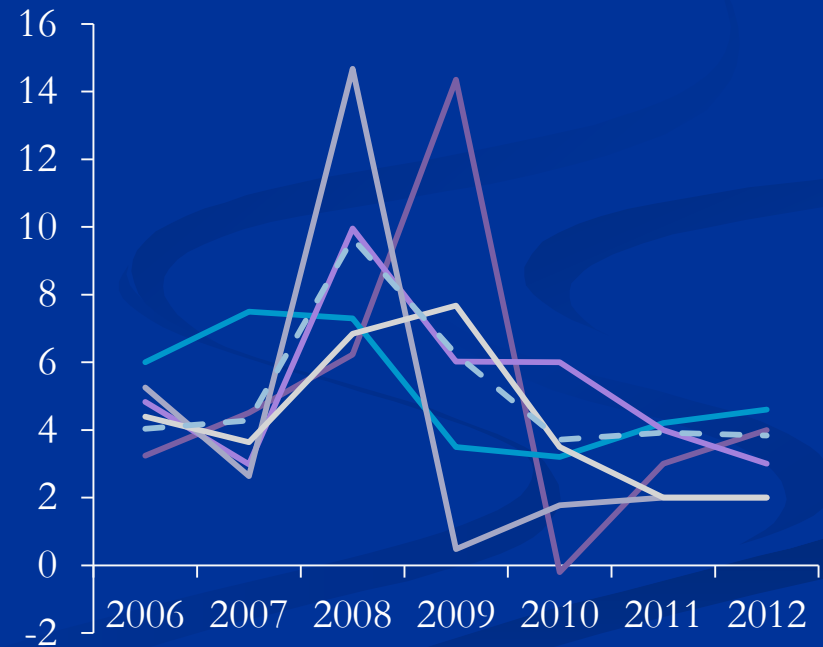
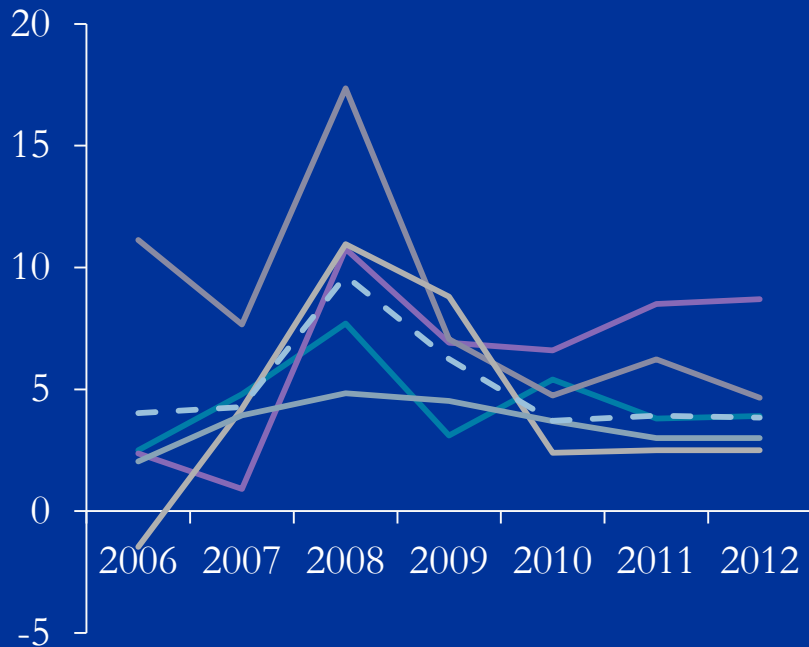
**Fiji Dominates**  
(Percent of Australian and NZL Arrivals)



# Inflation Outlook in PICs:

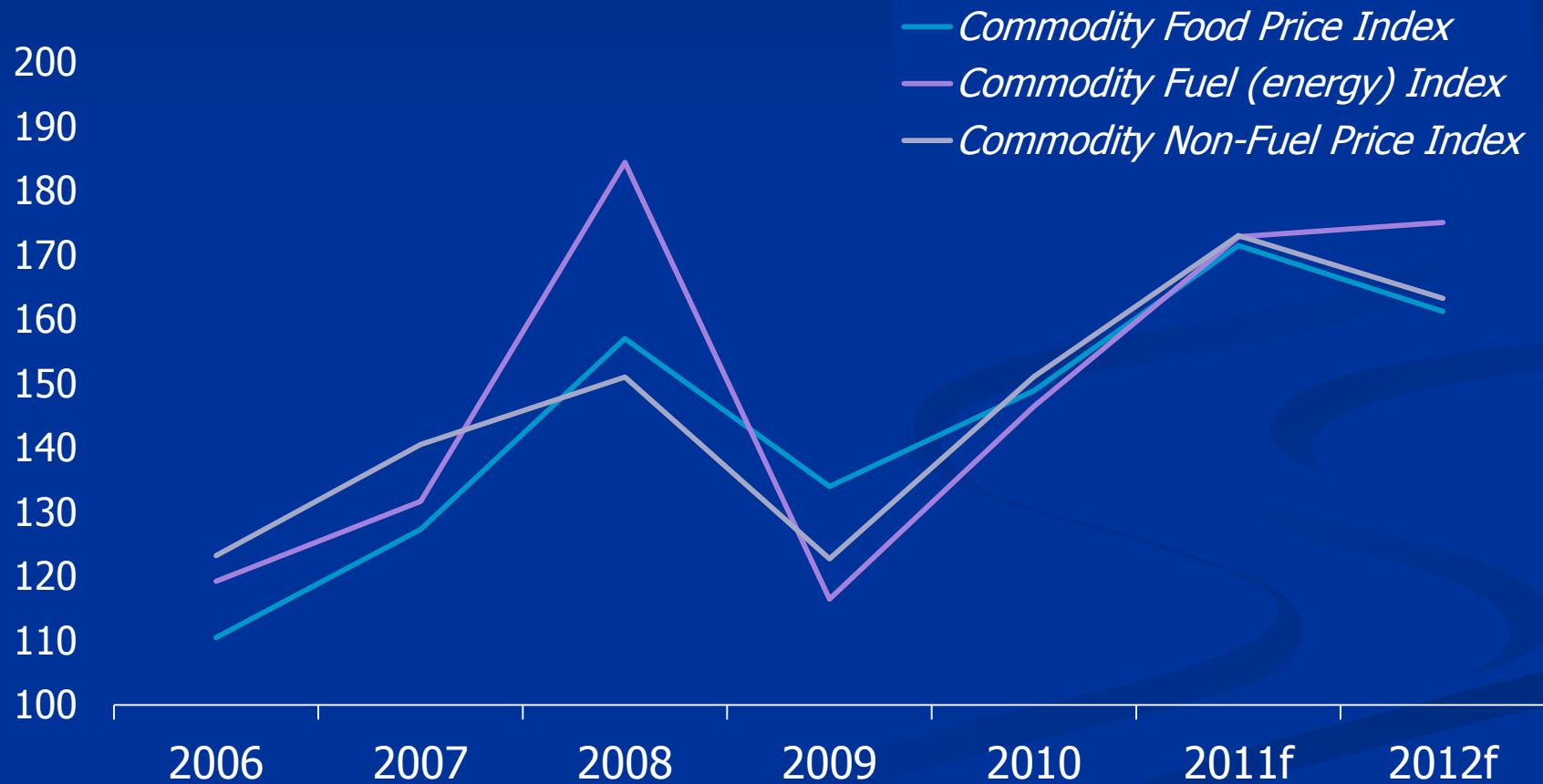
## Fallen sharply from 2008, but risk remains

*(Year-on-year percentage change)*



# Global Commodity Prices: A key inflation risk

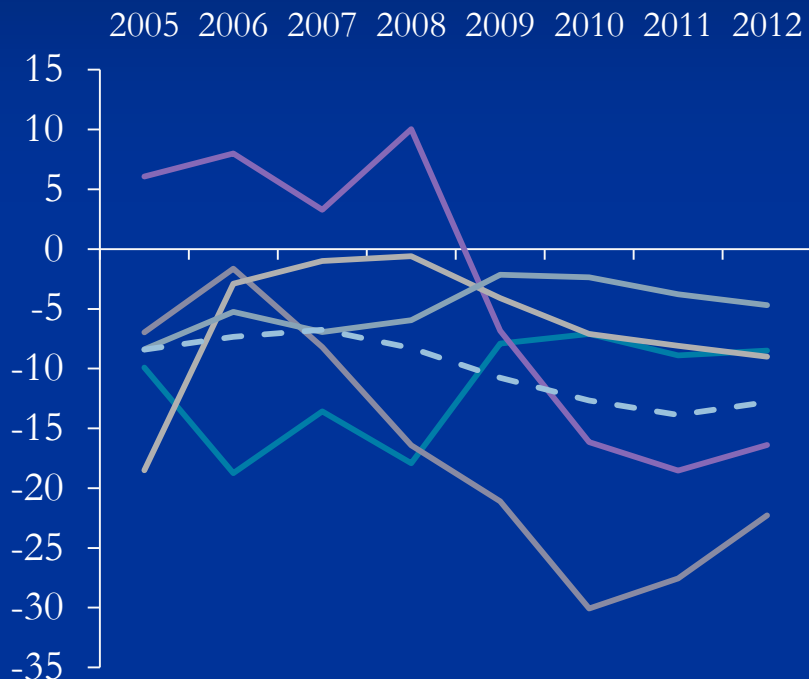
*(2005 = 100)*



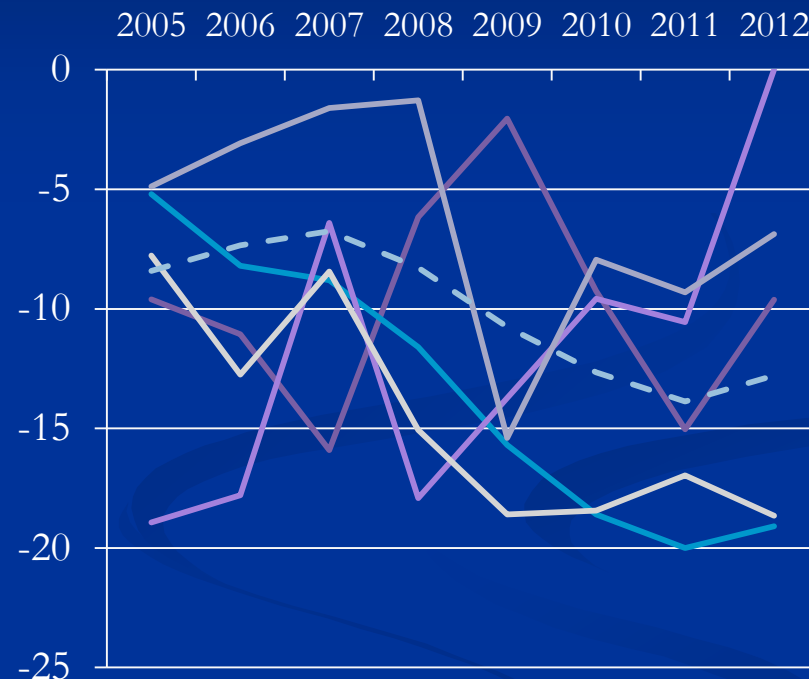
# External Current Account:

Continued to worsen and my face greater pressure

*(In percent of GDP)*



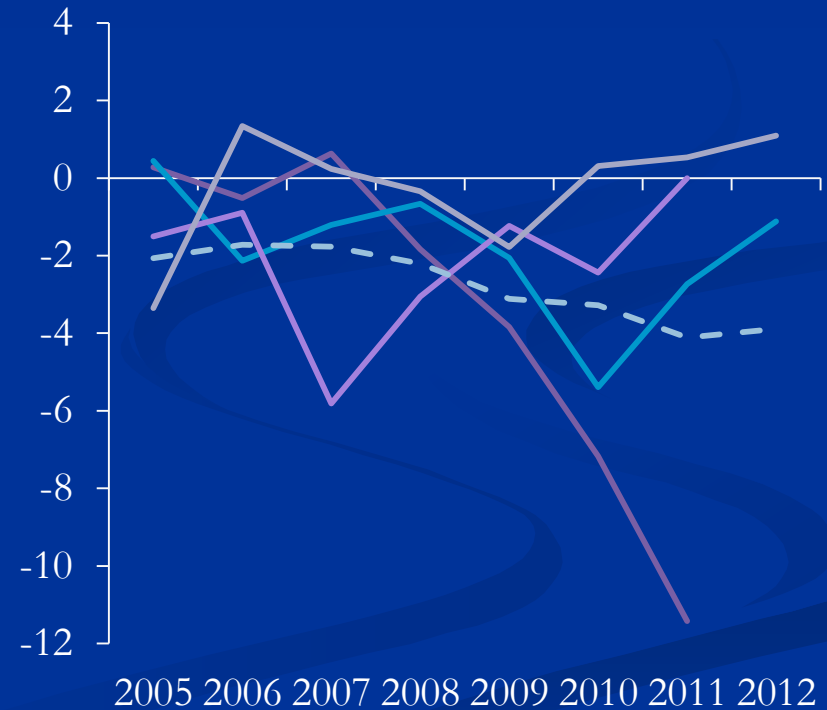
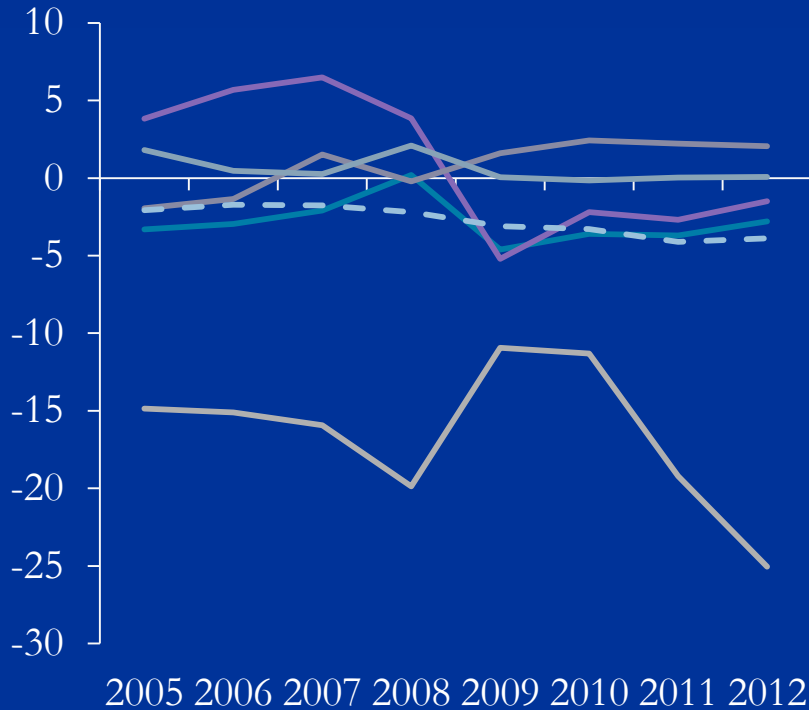
- Fiji
- PNG
- Solomon Isl.
- Kiribati
- Vanuatu
- - PICs



- Samoa
- Palau
- Micronesia
- Tonga
- Marshall Isl.
- - PICs

# Fiscal Outlook in PICs

*(In percent of GDP)*





## Policy Challenges for PICs

- Growth is recovering, but need to be sustained with macroeconomic stability. Downside risk remains.
- Re-surgency commodity prices pose risk to inflation; monetary policy needs to be prudent.
- Most PICs need to rebuild buffers through fiscal consolidation, including via re-prioritizing spending.
- With rising commodity prices, there could be renewed pressure on current accounts and reserves; exchange rate flexibility could help.

# PICs and the IMF

# IMF Reform: Some Highlights

- **Improving surveillance and technical assistance**
- **Overhaul of lending framework**
  - More flexible facilities to tailor to country needs
  - Streamlined conditionality—no more structural performance criteria
  - More attention to social protection
- **Revamp of concessional lending**
  - More resources, greater access
  - Higher concessionality (zero interest until end-2011)
  - Post-Catastrophe Debt Relief Trust

# Strengthening Engagement with PICs

- **A New Resident Representative Office for PICs**
  - <http://www.imf.org/external/region/pis/rr/index.htm>
- **New macroeconomic advisor in PFTAC; expanded resources for next funding cycle**
  - <http://www.pftac.org/>
- **Ready to provide financial support: Solomon Islands (Standby Credit Facility)**
  - <http://www.imf.org/external/country/SLB/index.htm>
- **Increased dialogue with all stakeholders**



*Thank You*