

Lifting Potential Growth in the Pacific Islands

Welcome Remarks at the High-Level Pacific Islands Conference
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As Prepared for Delivery

Good morning,

1. I am delighted to be here with you in Port Vila today.

I would like to express my sincere gratitude to the government of Vanuatu for co-hosting this event and for its warm hospitality. I would also like to thank the authorities of all the Pacific island countries gathered here, together with their main development partners and representatives of the private sector, academics, and senior management of the international financial institutions. Finally, I am grateful to our keynote speaker, Professor Lino Briguglio, a renowned expert on small-state economic issues, and to Professor Stephen Howes, a leading expert on climate change, a key concern for the Pacific region.

2. This conference is a unique opportunity to share experiences and best practices on policies, and jointly explore how governments can effectively implement the reforms needed to raise potential growth in the region. Needless to say, the roles of the private sector and development partners are also critical.

Let me say a few words first on the global and regional outlook

3. Global growth is in low gear and downside risks persist. Advanced economies are recovering, but overall recovery is slow and is hindered by constraints on both the demand and the supply sides. Emerging markets are still in the lead, although they are slowing down from elevated levels in recent years. Growth for Asia is forecast to be around 5 – 5½ percent in 2013–14. In the case of emerging Asia, output is expected to grow at around 6¼ - 6½ percent in these two years. A key source of risk to growth and financial stability in several of these economies is tapering of the unconventional monetary policies in advanced economies.

4. A growth slowdown in the region will undoubtedly also affect the Pacific islands. These are small open economies, whose business cycle is increasingly dependent on the regional cycle. On the upside, their location puts them in a

more favorable position than other small states because growth in Asia will remain solid. But growth remains a challenge. This is why we are here.

From Samoa to Vanuatu: Taking stock

5. A key goal of this conference is to build on last year's discussions in Samoa, at which we focused on resilience, by turning our attention to the *policies* needed to lift potential growth in the Pacific islands, taking into account their high vulnerability to shocks, among other things.

• **One of the takeaways of the Samoa conference was that we had to find "a Pacific way" to overcome the vulnerabilities facing the Pacific island states, while recognizing that all small states faced similar problems.**

Indeed, a recent analysis by the IMF's Asia and Pacific Department shows that the challenges are even more acute for small Pacific islands, especially the micro states. These states are subject to greater vulnerability, macroeconomic volatility, and aid dependency than other small states.

• **The second takeaway was that policies matter.** While we must acknowledge the serious constraints and challenges faced by island economies—including geography—we have also seen that countries that pursued structural reforms in recent years succeeded in strengthening their external and fiscal positions and building more resilience and fiscal space to cope with the global downturn. We have learned that economic and structural policies must be better tailored to conditions in the Pacific islands so that they can most effectively help the authorities tackle their problems. We are here today to talk about these policies and find pragmatic solutions for policymakers.

Let me say a few words about the IMF's work on the small states as background for this conference.

6. Since we last met, our efforts on behalf of small states have expanded considerably. At our meeting in Samoa, we promised that the IMF would bring the small-states agenda forward to both deepen our understanding of these countries' circumstances and ensure that the international community better understands that small states do not necessarily mean small problems. We have raised awareness among the IMF's membership and shareholders about the challenges faced by small states. Believe me, these challenges were not widely understood. And our Executive Board discussed in March three board papers on macroeconomic issues in small members—one of which focused on the Pacific islands. Another board paper, discussed in April, granted Poverty Reduction and Growth Trust (PRGT) eligibility, which means lending at favorable terms, to three additional Pacific islands countries (Marshall Islands, Micronesia, and Tuvalu) should they request Fund assistance; with the eligibility of these three states, all micro states in the Pacific region now qualify for IMF assistance on favorable terms.

The IMF's work on growth has confirmed two main messages about prerequisites for growth:

7. Macroeconomic policies matter. During the global financial crisis, we have seen that countries with sound macro fundamentals and healthy buffers fared better and rebounded much faster than others.

8. Do what it takes to raise growth. Growth is essential for addressing fiscal imbalances and for enhancing resilience. Indeed economic growth is the best source of resilience. But growth without jobs is not sustainable. So growth is important for resilience but it should also be inclusive to be sustainable.

9. What is to be done?

- First, improve the business environment and boost investor confidence. Indicators on business environment are weaker in the Pacific islands than in some comparators and weak private sector development impedes sustainable growth. Public investment in infrastructure could help crowd-in private investment, thereby attracting FDI.
- Second, design and implement development plans that support sustainable growth. While most Pacific islands have solid development plans, they need to be integrated into budget frameworks to prevent pro-cyclical spending, ensure consistency of expenditure, and prioritize scarce resources.
- Third, strengthen technical capacities, laws and institutions to improve governance. Strengthening institutions and improving governance should be a key part of governments' reform agenda. Bolstering public institutions, particularly through public finance management reforms, would also improve expenditure efficiency; and
- Fourth, pursue regional collaboration, coordination to address common problems, including natural disasters. A regional approach can help individual countries mitigate the challenges associated with their small size and high dispersion. Regional approaches can also encourage the alignment of regulations and laws across the Pacific and lower transaction costs.

10. The IMF's deeper engagement with small states was welcomed by the international community at the recent annual meetings. Such engagement will allow the IMF to better reflect these states' needs in program design and technical assistance. The work on small states is also part of the IMF's global policy agenda, recently discussed by the IMF Executive Board and during the annual meetings.

Work program for the Pacific and other small states

11. In response to the small-states board papers, the IMF Executive Board set out the following work agenda to accurately reflect the IMF's various levels of engagement:

- Continue a *targeted research/analytical work program* on small states to strengthen its surveillance work;
- Ensure that *program design* meets small states' needs;

- Continue *capacity building* through technical assistance;
- Improve *collaboration with other IFIs*; and
- Undertake more *outreach*.

12. The analytical and research agenda for the Pacific islands, as endorsed by the Executive Board, includes several studies:

One focuses on the need to leverage regional integration with neighboring countries to achieve sustainable growth. APD staff is also working on a study that underscores the need for stronger fiscal frameworks to sustain potential growth rates. Both of these papers will be presented today. Finally, the Pacific island economies must move up the value chain to increase their competitiveness and income levels. While economic diversification may be a challenge, the potential for tapping fishing resources through joint ventures for marine processing and attracting foreign direct investment (FDI) remains huge. Moving up the value chain is also important for making growth more inclusive in resource-rich countries. We discussed the preliminary findings of an ongoing study on this issue at a conference APD hosted last month in Timor-Leste. At a more operational level, the IMF is preparing a *Guidance Note* for staff to ensure that policy advice and surveillance are tailored to the needs of small states.

13. On program design, we have been able so far to meet our small members' needs. The current Extended Credit Facility (ECF) arrangement with Solomon Islands has succeeded in restoring macroeconomic stability and catalyzing donor support. And Samoa received emergency financing earlier this year following a destructive cyclone. Given the centrality of growth to sustainability, "ensuring that program design meets small states' needs" must translate into more focus on growth in our programs. We should be straightforward in acknowledging this. Hence we propose to ask all IMF mission chiefs to small states with Fund-supported programs to include an explicit growth agenda. Obviously the content will depend on each government's preferences and capacity.

14. Technical assistance and capacity development are a key part of our job in the Pacific and our engagement has increased. Between the year 2009 and 2013, TA delivery to the Pacific islands has more than doubled, while the share of the total TA to small states has increased from 12 percent to 15 percent. During the same period, IMF training to the Pacific islands has increased by 60 percent.

15. The IMF delivers technical assistance in various ways. PFTAC, our regional technical assistance center based in Fiji, will continue to play a vital role in building Pacific island capacities. I should note that PFTAC was the first ever RTAC founded by the IMF twenty years ago and I was pleased to hear that yesterday's PFTAC steering committee meeting was a productive one. We are looking at innovative ways to integrate technical assistance in our day-to-day work. We strongly encourage PFTAC members to sustain their

commitments to the Pacific islands countries. They can best do this by maintaining their leadership roles in the region in terms of aid, given their deep accumulated knowledge and their important role in capacity building and in promoting stability in the region. In addition to PFTAC, technical assistance is also provided through IMF staff missions sent from headquarters. On capacity development, the IMF has launched its first online training course for member country officials on financial programming and policies. This pilot course is open to all member country officials. In the coming months we will add more courses and next year will open the program to a wider internet audience; this could be particularly beneficial to such small states as the Pacific islands but internet access will be key!

16. We have also increased synergies with other international institutions, the World Bank—our sister institution—and the Asian Development Bank (ADB).

I want to thank the World Bank's country director for the Pacific islands and the ADB's regional director for being here today to ensure our support for the Pacific islands is coherent, coordinated and effective. The staffs of our institutions have worked closely together on the Pacific islands, with WB and ADB colleagues regularly joining IMF missions to that part of the world.

17. Our outreach agenda on small states has become quite active:

In 2012 we organized two high-profile conferences, one in Samoa and the other in Trinidad and Tobago. And in September, we hosted a conference in the Bahamas on the growth challenges faced by the Caribbean islands; we also hosted very recently a conference in Timor-Leste, on commodity producers. Our regional resident representative, based in Suva, is also very active in liaising with regional organizations and facilitating an exchange of best-practice policies across the islands.

Let me make some final comments on the topics to be addressed at this conference.

18. Our first session will acknowledge that while the Pacific islands differ from one another, they all face a growth challenge that demands strong corrective policies.

In the 10 years preceding the 2008–09 global financial crisis, Pacific islands' growth averaged just 2 percent a year—much lower than the Asian low-income countries (which grew 6 percent annually), the Eastern Caribbean Currency Union countries (4 percent), and other small states (4½ percent). The first session will set the scene on what policies are needed to lift growth.

19. In session 2 we will discuss practical solutions that some Pacific islands could implement to better leverage their integration with the rest of the Asian and Pacific region.

Globalization seems not to have helped the Pacific islands as much as other countries, including low-income countries in Asia, despite the islands' proximity to the most vibrant region in the world. We need to identify those policies that have helped ease constraints on private sector

development and consider ways to boost financial sector development, including through financial inclusion and leveraging public-private partnerships. We need a growth strategy that engages all Pacific island stakeholders and development partners to enhance connectivity.

20. Session 3 will focus on policies and schemes to help build resilience against natural disasters and climate-change shocks. How can domestic and international policies help the PICs prepare for, and adapt to, climate change? What policies or schemes can address the fiscal costs of climate change?

21. Finally, in session 4 we will discuss policies to enhance macro-fiscal stability and institutions. From a macro-stability perspective, the key challenges to achieve and sustain potential growth and reduce poverty in the region are insulating the budget from the revenue volatility associated with external shocks, creating room for pro-growth spending programs, and ensuring medium-term fiscal sustainability. A key question in this connection is whether fiscal rules are useful in small states. Strengthening institutions, including fiscal frameworks and governance, and ensuring a better composition of public spending need to be key elements development partners' capacity-building programs. We want to hear from development partners on these important issues.

Thank you

22. I want to thank you all again for coming here, to this beautiful island—Vanuatu— and I am gratified by the large presence of development partners and shareholders. We at the IMF want to signal our commitment to work in partnership with the Pacific islands authorities, together with other IFIs and development partners to better serve our small members and effectively leverage our joint knowledge and comparative advantages. Let me reiterate that we are here to listen to your views and to learn more about your countries. Ultimately, my hope is that we will all have fruitful and stimulating discussions that result in a customized action plan, that is, a "Pacific vision," for the next decade. Let's get to work. Takio tumas!

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