

Growth Developments

Recent economic performance in the APD small states was uneven in the first few months of 2014 ([Figure 1](#)).

- Most tourism-oriented economies experienced a robust increase in arrivals, partly reflecting such country-specific factors such as the resumption of direct flights to Palau from emerging Asia and postcyclone recovery in Fiji and Samoa, as well as regional trends such as a steady increase in tourist arrivals from Asia (especially China) in Fiji and Maldives. Fiji is preparing for a return to a democratically elected government and the run-up to the elections has contributed to increased confidence in the economy.
- But natural disasters hit four APD small states in the first few months of 2014 (see [Special Topic](#)): Tonga and Fiji in January (Cyclone Ian); Vanuatu in March (Cyclone Lusi); and Solomon Islands in April (flash floods). These have undermined short-term growth to different degrees as noted in the country notes on [Solomon Islands](#) and [Tonga](#).
- Among commodity exporters ([Bhutan](#), Solomon Islands, and Timor-Leste) and other APD small states, growth remains uneven: robust activity in Bhutan was driven mainly by hydropower-related construction activities; Solomon Islands experienced a continuing decline of logging stocks and a short-term disruption of gold production; and Timor-Leste's ongoing depletion of oil reserves has led to a tighter budget constraint and lower government spending in the non-oil sector. In the other small states, growth is being supported by externally financed infrastructure projects. In Tuvalu, for example, donor-financed energy projects are supporting outer island development, and a large airport and road rehabilitation projects are expected to bring foreign investments of about 40 percent of GDP in the medium term.

Outlook

- In 2014, growth in APD small states is expected to pick up slightly to about 2½ percent. However, the small Pacific island countries on average will continue to underperform other small states in other regions.
- Investment in infrastructure and steady growth in emerging Asia, Australia, and New Zealand will underpin APD small states' short- and medium-term performance. APD small states urgently need structural reforms to bridge infrastructure gaps, strengthen productivity, and lift potential growth. In the near term, elections on September 17 in Fiji and later this year in Solomon Islands, introduce some uncertainty to the outlook.

APD Small States: Real GDP Growth

(Year-on-year percent change)

	2012	2013	2014	2015
		Est.	Proj.	Proj.
Bhutan	6.5	5.0	6.4	7.6
Fiji	1.7	3.6	3.8	2.5
Kiribati	2.8	2.9	3.0	2.7
Marshall Islands	3.2	0.8	3.2	1.7
Maldives	0.9	3.7	4.2	4.5
Micronesia	0.4	0.6	0.6	0.6
Palau	5.5	-0.2	1.8	2.2
Samoa	2.9	-0.3	1.6	1.9
Solomon Islands	3.8	3.0	0.1	3.5
Timor-Leste ¹	7.7	5.4	6.6	6.8
Tonga	0.7	0.3	1.4	3.4
Tuvalu	0.2	1.3	2.2	2.5
Vanuatu	1.8	2.8	3.5	4.5
APD small states ²	2.5	2.0	2.6	3.1
Small Pacific Island Countries ²	2.3	1.5	2.1	2.5
Small states (excl. APD) ²	1.7	2.2	2.7	3.0

1/ Non-oil GDP.

2/ Simple average.

Sources: IMF, World Economic Outlook database; IMF staff reports; and IMF, staff estimates and projections. Data for Bhutan, Micronesia, the Marshall Islands, Palau, Samoa, and Tonga are reported on a fiscal year basis.

