



PACIFIC PULSE

Highlights from Small Island Nations



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This is our first report covering the small island nations in the Pacific region. It summarizes what transpired in 2024 among these small nations and our outlook for this year. This report is a key product of our Pacific Research Team where we briefly cover nine small Pacific Island countries and have plans to expand coverage to other small island nations in the future.

These small nations, with little to no global influence, faced many challenges last year. They dealt with rising geopolitical tensions, higher commodity and freight costs, migration, and loss of land due to climate change and natural disasters. Recently, the Pacific region has gained renewed interest from major global economic players. This has provided opportunities to secure funding and development assistance through grants and concessional funding arrangements.

In 2024, several significant events occurred for small nations in the Pacific region. The COP29 negotiations concluded successful, however, did not fulfill the

climate financing needs of these nations. Elections took place in Kiribati, Solomon Islands, and Tuvalu. A rugby league team from Papua New Guinea was announced to join the Australian NRL. The Commonwealth Heads of Government meeting was held in Samoa, with 56 nations participating. All in all, 2024 concluded with a devastating earthquake in Vanuatu, resulting in loss of lives and damages to critical infrastructure. 2025 will also mark general elections in Nauru, Tonga and Vanuatu. More details are provided in the rest of the report, beginning with Fiji.

Fiji showed great resilience in 2024. Key sectors, including tourism, rebounded in the second quarter of last year, leading Westpac Fiji to raise its growth forecast to 3.0% from earlier 2.5% after higher-than-expected arrivals from key markets. Visitor arrivals projected to have just closed under the one-million mark in 2024 and we expect this feat to be achieved in 2025. Fiji is starting 2025 with strong momentum, with growth expected to return to the historical trend of 3.4%, helped by lower global inflation and investment projects in pipeline. However, it remains vulnerable to severe weather events being in the cyclone season. It is still uncertain how proposed Trump tariffs will affect Fiji's key exports which includes mineral water to the

Country features

Country	Tourism dependent	High remittance	Income classification	Grant reliant	Population	Per-capita GDP (US\$)	Currency
Fiji	x	x	Upper middle		936,375	5,699	Fiji Dollar
Papua New Guinea			Lower middle		10,329,931	2,483	Kina
Solomon Islands			Lower middle	x	740,424	2,099	Solomon Islands Dollar
Vanuatu	x	x	Lower middle	x	334,506	2,517	Vatu
Tonga	x	x	Upper middle	x	107,773	4,357	Tongan Pa'anga
Samoa	x	x	Lower middle		225,681	3,822	Samoa Tala
Tuvalu			Upper middle	x	11,396	4,112	AUD
Kiribati			Lower middle		133,515	1,991	AUD
Nauru			High income		12,780	7,848	AUD

Note: World Bank income classification as gross national income per capita - low income, US\$1,145 or less; lower middle income, US\$1,146 to US\$4,515; upper middle income, US\$4,516 to US\$14,005; and high income, more than US\$14,005. Remittances dependent when personal remittances exceed 10% of country's GDP. Tourism dependent if tourism receipts exceed 10% of country's GDP. Grant reliant if grant received exceeds 20% of Government revenue. Source: World Bank

US and whether they will hinder progress on reducing inflation. Additional direct flight announcements to Dallas, US and Cairns, Australia will add to current arrivals and drive an increase in earnings.

Papua New Guinea faced several challenges earlier in 2024. These included civil unrest and riots over misunderstandings about civil service pay, a landslide in May that caused around 2,000 deaths, ongoing foreign exchange shortages, and an unsuccessful no-confidence vote. Despite these issues, the country achieved resilient growth. In our [Q3 2024 Westpac Wailis](#) report we projected growth of 3.7% for 2024 and a higher expected growth of 5.7% in 2025 on the back of industrial expansion. Resource-based sectors helped kick-start growth in 2024 after a 1.6% drop in 2023. Non-resource sectors like public administration, information and communications, wholesale and retail trade, and construction were crucial. The long-awaited restart of the Porgera mine boosted economic optimism, with PNG well-positioned to benefit from the current gold rally. The 2025 budget focuses on increased funding for education, health, and law and order, while aiming for a budget surplus by 2027. The fiscal deficit is expected to decrease to 2.2% of GDP in 2025 in line with Government's broader objective.

Solomon Islands' May 2024 elections made way for Jeremiah Manel, the former foreign minister, to be appointed as the new Prime Minister. The incoming PM pledged to continue the existing relations initiated by the previous Government, adhering to the motto of friend to all, enemy to none. The Solomon Islands' economy remains sound with the recent IMF Article IV Staff visit projecting the economy to grow by 2.5% in 2024 and 2.8% in 2025. The discovery of the world's largest coral in Solomon Islands was a moment to cherish for a country of 740,000 citizens.

Vanuatu experienced a devastating 7.3 magnitude, earthquake on December 17, causing extensive damage to key infrastructure, at least 14 deaths and affected an estimated 80,000 people, mainly in the capital, Port Vila. Australia and New Zealand quickly provided essential resources for rescue missions, with Australia giving \$2 million in immediate aid. Commercial flights were cancelled, stranding several tourists, and internet services were disrupted due to damage to undersea cables. Earlier in 2024, Vanuatu faced major challenges. Air Vanuatu filed for bankruptcy in May, unable to meet financial commitments of over AUD100 million, impacting thousands of tourists. The airline, struggling post-COVID-19, went into voluntary liquidation. The tourism sector faced disruptions from cyclones and the

lingering effects of the pandemic, leading to Air Vanuatu's bankruptcy. On a positive note, Vanuatu is investing in renewable hydroelectric energy, with Luganville, a city of 18,000 people, set to fully switch to hydro power by 2027. We project Vanuatu's economy slowed to 1.4% in 2024 due to major challenges, including two tropical cyclones in 2023. We anticipate growth to rebound to 2.0% in 2025, though the December earthquake will dampen progress.

Tonga has a stable stock of foreign reserves, enough to cover a year's worth of imports. This helps the Reserve Bank of Tonga protect the Tongan Pa'anga. However, the country remains largely vulnerable, for example, the islands of Va'vau and Ha'apai were without internet for almost two weeks in July due to earthquake damaging fiber cables. Starlink couldn't provide secondary communication as it awaited a license from the Tongan Government. Tonga relies heavily on remittances, which make up 45% of its GDP, making it one of the most remittance-dependent countries in the world. In 2024, the Prime Minister resigned before a no-confidence vote in parliament, surprising the public after losing the King's confidence. Tonga's economy grew by an estimated 2.0% in 2023, likely grew by 1.9% in 2024, and is expected to grow by 2.3% in 2025.

Samoa's economy grew by 8.0% in 2023, with services and tertiary industries making up over 60% of total output, followed by primary and public administration sectors. In 2024, the economy grew by an estimated 10.4%, with a 9.9% increase by June 2024. This growth was driven by a 17.1% rise in commerce activity and a 3.0% increase in visitor arrivals by October 2024. Samoa is the fourth most remittance-dependent country, with remittances making up around 28% of its GDP, or WST4,024/ USD1,438 per capita, supporting foreign reserves for over a year of imports. In 2024, Samoa received 174,967 visitors, earning WST603.04 million/ USD 215.44 million, contributing nearly 30% to the economy. The tourism sector also nearly reached pre-COVID-19 arrival numbers and fully recovered its losses this year.

Tuvalu announced the Falepili Union agreement with Australia, allowing 280 Tuvaluans to settle in Australia each year. However, there are concerns about potential social issues like brain drain and mass migration. This agreement gives Australia a say in Tuvalu's future security agreements. As part of the deal, Australia will provide AUD86.7 million in grants for telecommunications development, education, fiscal support, health, and connectivity, and will offer support during natural disasters, health crises, and military

aggression. In 2024, Tuvalu's largest revenue source was fishing licenses, bringing in AUD33.9 million, followed by AUD18.9 million from general budget support and AUD11.9 million from taxation. The government also earned AU\$6.5 million from the dot tv marketing agreement, contributing 12% to its revenue in 2023, an important income source since 1998. Facing the loss of 95% of its land in the next century, Tuvalu has started digitally backing up a copy of its country, from houses to trees.

Kiribati, with a population of 133,515, is the poorest nation in the region, with a per-capita GDP of AUD2,734. The country relies heavily on exporting fish and copra while mostly importing petroleum and rice. In 2024, Kiribati held successful parliamentary elections in August and presidential elections in October, with the Tobwaan Kiribati Party winning 33 out of 44 seats. The nation faces high inflation, with headline inflation reaching 8.0% annually. Food and beverage prices, both alcoholic and non-alcoholic, have risen by double digits due to high freight costs. Kiribati is at risk of prolonged high consumer prices because of its distance and supply constraints, as most food items are imported. Kiribati's economy grew by an estimated 5.8% in 2024 and is expected to further grow by 4.1% in 2025.

Nauru has one of the highest per capita incomes in the region at AUD10,192, with a population of 12,780. It uses the Australian Dollar as its official currency. Like other distant small states, Nauru faces high inflation, with the latest update in December 2023 showing an 8.8% annual inflation rate due to higher imported food prices. The next elections are set for 2025. On December 9, 2024, Australia signed a AUD140 million agreement with Nauru for the next five years. This agreement gives Australia veto rights over third-country deals in exchange for funding for development needs like education, health, social services, policing, and security pacts. Overall, we project Nauru's economy grew by a subdued 1.7% in 2024 and growth is expected to slightly improve to 1.9% in 2025.

COP29 outcome and what it means for the Pacific

- The 2024 United Nations Climate Change Conference, or COP29, was held over two weeks in November in oil-rich Baku, Azerbaijan, with over 300 delegates from the Pacific attending.
- Pacific Island countries, at the forefront of the climate change crisis, attended to stress the importance of staying within the 1.5-degree Celsius global warming target. Finance was the main focus of COP29.

- The conference ended with developed countries pledging USD300 billion per year in climate finance to developing countries, including Pacific Island countries, by 2035. This aims to reduce greenhouse gas emissions and protect vulnerable populations from climate change impacts, working towards a \$1.3 trillion goal, possibly through private investment.
- Early estimates suggest Pacific Island countries need around USD1.5 billion per year in climate finance to address climate issues, with current grants and concessional financing falling short.
- Papua New Guinea's Prime Minister, James Marape, expressed disappointment over the lack of progress on finance and the commitment to reverse deforestation by 2030, as agreed in COP28. He sent a smaller delegation and withdrew himself.
- Australia announced \$50 million in support for the Australia-Pacific Partnership for Energy Transition to help Pacific countries shift from fossil fuels to renewable energy, and \$75 million through the Australian Infrastructure Financing Facility for off-grid and renewable energy in remote areas.

Number of delegates from the Pacific

Countries	Party Delegates
Fiji	59
Papua New Guinea	28
Samoa	46
Tonga	28
Vanuatu	44
Solomon Islands	35
Kiribati	20
Tuvalu	32
Nauru	20

Source: Carbon Brief

Economic and financial statistics

Foreign exchange forecast

Cross Rates	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
AUD/USD	0.6241	0.67	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD/USD	0.5641	0.59	0.59	0.59	0.59	0.60	0.60	0.61	0.61
FJD/USD	0.4261	0.44	0.44	0.45	0.45	0.45	0.45	0.46	0.46
PGK/USD	0.2486	0.25	0.24	0.24	0.24	0.24	0.25	0.25	0.25
WST/USD	0.3570	0.36	0.36	0.36	0.37	0.37	0.37	0.37	0.37
TOP/USD	0.4182	0.42	0.42	0.42	0.42	0.42	0.42	0.43	0.43
USD/VUV	122.96	118.89	117.80	116.95	116.09	115.02	114.87	113.80	113.83
SBD/USD	8.4372	8.45	8.39	8.38	8.34	8.31	8.27	8.22	8.21

Source: Westpac Economics

Economic growth

Country	2020	2021	2022	2023	2024	2025	2026	2027
Fiji	-17.0	-4.9	19.8	7.5	3.0	3.4	3.3	3.3
Papua New Guinea	-3.2	-0.8	5.2	2.9	3.7	5.1	4.7	4.3
Solomon Islands	-3.4	2.6	2.4	3.1	2.4	2.5	2.6	3.0
Vanuatu	-5.0	-1.6	1.9	2.2	1.4	2.0	2.1	2.5
Tonga	1.3	-1.3	0.0	2.0	1.9	2.3	2.0	1.6
Samoa	-3.1	-7.1	-5.3	8.0	10.4	6.1	2.5	2.1
Tuvalu	-3.4	0.2	0.4	3.9	3.5	2.7	2.5	2.2
Kiribati	-0.6	8.5	3.9	4.1	5.8	4.1	3.3	2.5
Nauru	2.0	7.2	3.0	0.6	1.7	1.9	1.6	1.6

Source: Westpac Fiji and PNG

Average inflation

Country	2020	2021	2022	2023	2024	2025	2026	2027
Fiji	-2.6	0.2	4.3	2.3	4.6	3.0	3.1	3.0
Papua New Guinea	4.9	4.5	5.3	2.3	3.8	4.5	4.8	4.6
Solomon Islands	2.9	0.2	5.4	5.1	3.4	2.9	3.3	3.3
Vanuatu	5.3	2.3	6.7	11.2	4.9	3.4	2.1	2.0
Tonga	0.4	1.4	8.5	10.2	4.6	3.7	3.0	2.8
Samoa	1.5	-3.0	8.7	12.0	3.9	3.4	3.0	3.0
Tuvalu	1.9	6.2	11.5	7.5	3.2	3.1	3.2	3.1
Kiribati	2.6	2.1	5.3	9.3	4.2	3.2	2.5	2.0
Nauru	0.9	2.0	1.1	4.8	4.5	4.0	3.7	3.5

Source: Westpac Fiji and PNG



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