Preface

The implementation of monetary and fiscal policies in small states is affected by their inherent vulnerability, which stems from a high dependence on a narrow range of exports and on strategic imports such as food and fuel. These features render small states disproportionately exposed to external economic shocks. Other characteristics which pose disadvantages for small states include their limited ability to exploit economies of scale, and limited opportunities for diversification. These features have constrained policy implementation and success in small states and increased the importance and influence of external reserves, external financing, foreign investment and the international economic climate on domestic policy.

This book examines the implementation of monetary and fiscal policies in the Pacific island countries and the policies' impact on growth and development in these countries. It also identifies the monetary and fiscal policy options most suited for Pacific island countries. For small developing states with little ability to identify new financial resources in periods of stress and during episodes of exogenously induced crisis, monetary and fiscal policies remain among the few policy levers available to policy-makers. The choice of policy, in turn, is crucial for these countries in successfully warding off and more typically mitigating the impacts of crisis. Getting these choices right depends on policy circumstance, institutional constraints, the range of additional policy levers available to governments and some good fortune. The book carefully sets out both the policy and institutional constraints in monetary and fiscal policy management for an important set of small states, and provides a rich illustration of policy implementation in practice, in small Commonwealth Pacific island states.

Among the 14 PICs, six have independent currencies and the accompanying central banks which have been statutorily empowered to issue currencies, and formulate and implement monetary policies with the objectives of growth with domestic price stability and exchange rate stability. These six PICs are Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. The other eight are dollarised economies: Kiribati, Nauru and Tuvalu using the Australian dollar; Cook Islands and Niue the New Zealand dollar; and Federated States of Micronesia, Republic of Marshall Islands and Palau the United States dollar. The monetary policy section of the book draws upon various official documents, including those of the central banks and the International Monetary Fund as well as past research studies undertaken by TK Jayaraman.

The section on fiscal policy examines the effect of slow economic growth rates, persistent budget deficits, increasing civil service wage bill and political instability and democracy on the success of fiscal policies in the Pacific island countries. It proposes a number of policy options to address the constraints faced.