

In this issue of the APD *Small States Monitor*...

The outlook for the small states is improving against the backdrop of a near-term pick-up in global growth, some support from higher oil prices for commodity exporters such as PNG and Timor Leste, and the continued recovery in Fiji and Vanuatu following cyclones Winston and Pam.

Following his recent visit to Fiji and Vanuatu, DMD Tao Zhang highlights the increased focus which the IMF has on the big challenges that Small States face from natural disasters and climate change. This will also be the theme of the High Level Dialogue to be held April 7 in Fiji, jointly organized by the IMF and the Government of Fiji with funding from the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA) and the IMF's Regional Office for Asia and the Pacific (OAP).

Also in this issue, the IMF welcomed the Republic of Nauru as its newest member on April 12, 2016 and the first Article IV consultation mission led by Mr. Tubagus Feridhanusetyawan concluded on March 24, 2017. We report on some staffing changes to the APD Small States Division, with the appointment of Ms. Alison Stuart as Division Chief and Mr. Scott Roger as Deputy Division Chief; and to PFTAC where Mr. David Kloeden has replaced Mr. Scott Roger. Mr. Odd Per Brekk, who joined APD as Deputy Director in July 2016, oversees the work of the division

"Given the utter unpredictability of natural disasters, the IMF is committed to be agile in its response to the members' changing needs."

Tao Zhang, IMF Deputy Managing Director



DMD Zhang being briefed on Cyclone Winston in Fiji, November 2016

Contents

- 2** Economic Developments and Outlook
[Regional Developments and Outlook](#)
- 6** DMD Zhang on Small States Challenges
[Small States Confront Big Challenges with Natural Disasters and Climate Change](#)
- 8** Nauru: IMF's 189th Member
[The IMF's Latest Small State Member](#)
- 10** Alison Stuart joins Small States Division
[Interview with Alison Stuart New Division Chief](#)
- 12** Changes to APD Small States
[Senior Staff Changes](#)
- 13** Resident Representative's Corner
[Dispatch from Suva](#)
- 14** PFTAC News and Events
[David Kloeden joins PFTAC](#)
- Recent Publications
15 [Recent Research and Publications](#)
- Country Notes
16 [Latest IMF Missions to Micronesia, Samoa, and Timor-Leste](#)
- Recent and Upcoming Events
18 [Small States-related events](#)
- Recent IMF Missions and Engagements
18 [Photo Gallery](#)

By APD Small States Division

Si Guo (Project Leader)

Gabriel Alvim (Project Coordinator)

The analysis and policy considerations discussed in this publication are those of the IMF staff and do not represent official IMF policy or the views of IMF Executive Directors or their national authorities.

Please send questions and comments to

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Economic Developments

- **Growth in APD small states in 2016 was dampened somewhat by the lackluster expansion of global economy.** Global output growth remained steady at 3 percent (annualized rate) in 2016 Q3. After a weak first half of 2016, activity rebounded in the United States. For the two other major economies affecting the small states, Australia experienced slightly slower growth in 2016 relative to 2015, while New Zealand's growth picked up. Growth in APD small states and Pacific Islands slowed to 3.1 percent in 2016.
- **Natural disasters continued to affect economic activities.** Fiji, the second largest economy of the region, was hit severely by Cyclone Winston in February 2016. The direct economic damage was estimated to be about 30 percent of GDP. As a result, the 2016 GDP growth in Fiji slowed down to about 2 percent.
- **The tourism sector has become a more important driver of economic growth.** The decline in the number of tourists from Australia was more than offset by the increase in the tourist arrivals from China, EU and New Zealand in 2016. In Fiji, annual tourist arrivals from China and New Zealand increased by 22 percent and 18 percent, respectively. In Samoa, for the first 3 quarters of 2016, the number of tourists from EU and New Zealand surged by 51 percent and 9 percent, respectively. In Vanuatu, there has been a significant increase in the number of tourists from EU in recent years. The strong rebound of the tourism sector in Fiji and Vanuatu boosted the recovery from Cyclone Winston (February 2016) and Cyclone Pam (March 2015).
- **The impact of the low oil price has been mixed.** Papua New Guinea (PNG), an oil exporter and the largest economy of the region, was hit hard by the low oil prices, with real GDP growth rates estimated to have slowed from 6.6 percent in 2015 to 2.5 percent in 2016. However, on a positive note, a number of Pacific small states who are energy importers benefited from the low oil prices that helped narrow current account deficits. The heterogeneous impact of the low oil prices on the region can also be seen in the dynamics of reserve accumulation: while PNG as an oil exporter experienced reserve loss in 2016, there was a modest increase in reserves in other countries. In addition, inflation rates in the region, which can be volatile, were broadly moderate in most countries in 2016 due to the pass-through from the low oil prices.
- **Fiscal performance weakened in a number of countries.** For PNG and Timor-Leste, the deteriorating fiscal balance was associated with the lower oil-related revenues and ambitious public investment. For Fiji, Palau and Vanuatu, the change of fiscal balance was mainly a reflection of supportive fiscal policy which was necessary following natural disasters. For Kiribati, the temporary positive shock to fishing revenue in 2015 has been waning. Nonetheless, the public debt-to-GDP ratios generally remained low in most Pacific small states, especially when compared with their peers in the Caribbean.
- **Credit continued to grow rapidly.** Although most small states have a relatively low domestic credit-to-GDP ratio due to the limited extent of financial development, the growth of domestic credit to the private sector has been significantly faster than GDP growth in recent years for Tonga, Bhutan, Fiji and Maldives and calls for continued vigilance.

Outlook and Risks

- In 2017, growth in APD small states is expected to pick up to 3.4 percent, from 3.1 percent in 2016.** Global economic activity is projected to pick up in 2017 and 2018, including in the United States. The moderate strengthening of oil prices will generally support the growth of PNG. Recovery from cyclones Pam and Winston will continue to support growth in Fiji and Vanuatu. Growing tourist arrivals from China will contribute to the GDP growth and external balances of countries in the region, especially Fiji, Palau and Vanuatu. Northern pacific countries are likely to continue to benefit from relatively high revenues from fishery activities. Inflation is likely to remain subdued in most countries due to the still-low non-oil commodity prices.
- Natural disasters remain the main downside risk to the region.** Environmental shocks (cyclones, droughts and earthquakes) appear to have become more frequent and damaging in recent years. In each of the past three years, at least one country in the region has been severely hit by a cyclone. Other risks include 1) the possibility of slower growth in Australia (perhaps as a result of a slowdown in the Chinese economy); 2) the decline of foreign grants over the medium term; 3) the potential loss of correspondent banking relationships, which would especially affect countries with high remittances (such as Samoa and Tonga); and 4) a too-ambitious scale up of infrastructure investments could run up against capacity, fiscal and external constraints.

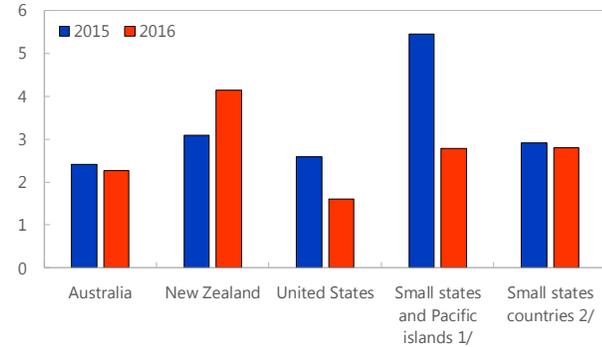
APD Small States: Real GDP (Year-on-year change; in percent)				
	2015	2016	2017	2018
	Est.	Est.	Proj.	Proj.
Bhutan	5.2	6.0	6.4	11.3
Fiji	3.6	2.0	3.7	3.7
Kiribati	3.5	3.2	2.8	2.0
Maldives	2.8	3.9	4.1	4.7
Marshall Islands	1.4	1.8	1.8	1.6
Micronesia	3.7	2.0	2.0	2.0
Nauru	2.8	10.4	4.0	-4.0
Palau	9.3	0.1	5.0	5.0
Papua New Guinea	6.6	2.5	3.0	3.2
Samoa	1.6	6.6	2.1	0.9
Solomon Islands	1.8	3.5	3.0	3.0
Timor-Leste ¹	4.3	5.0	4.0	6.0
Tonga	3.4	2.7	2.4	2.7
Tuvalu	2.6	4.0	2.3	2.3
Vanuatu	-0.8	4.0	4.5	4.0
APD small states and Pacific islands ²	5.2	3.1	3.4	4.0
Small Pacific island countries ^{2,3}	2.9	2.9	3.4	3.2
1/ Non-oil GDP.				
2/ Weighted average by nominal GDP.				
3/ Includes Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.				

Regional Developments and Outlook

The region's growth has been somewhat dampened by global conditions,

Real GDP growth

(In percent)



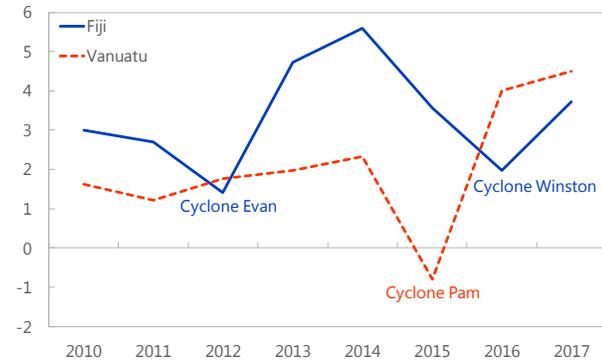
1/ Weighted average by nominal GDP.

2/ Excluding Papua New Guinea and Timor-Leste.

This was especially the case for Fiji and Vanuatu.

Real GDP growth - Fiji and Vanuatu

(In percent)

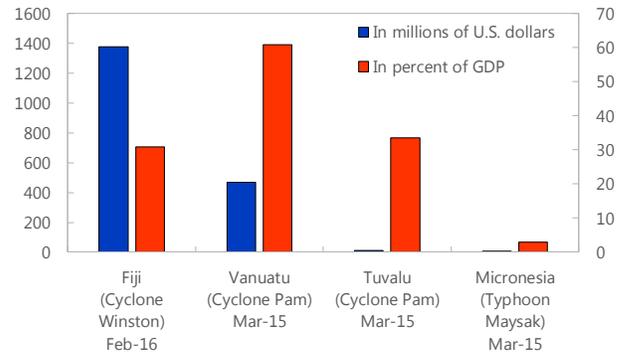


and hit by natural disasters.

Economic Damage and Losses from Recent Natural Disasters

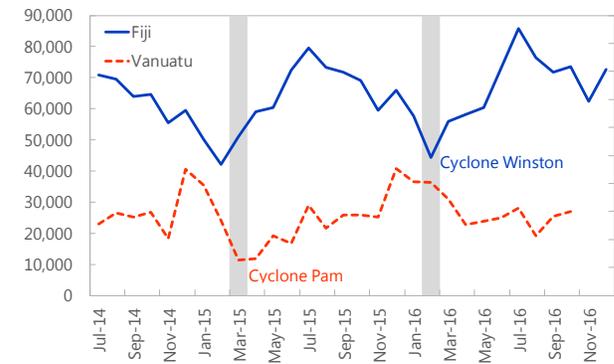
(In millions of USD)

(In percent of GDP)



Fortunately, tourism sector, boosted by Chinese tourists, recovered quickly.

Tourist Arrivals - Fiji and Vanuatu

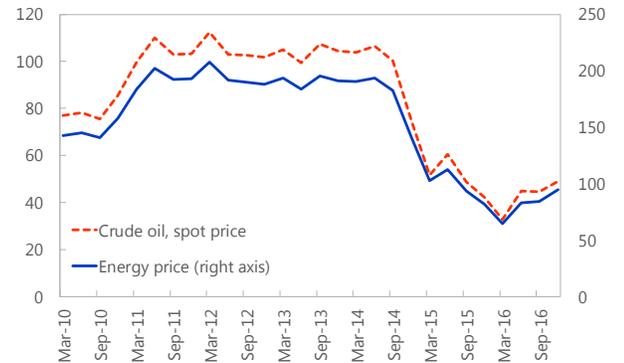


Oil prices continued to be at low levels,

Energy prices

(In USD)

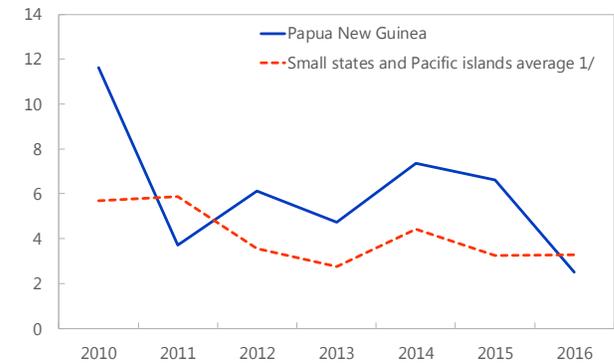
(Index, 2005=100)



which hit PNG's growth severely

Real GDP growth - PNG and small states average

(In percent)



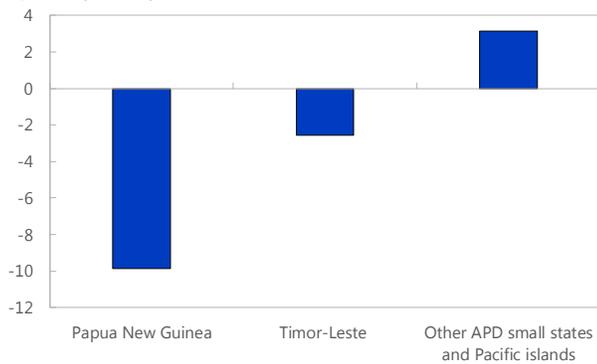
1/ Weighted by nominal GDP

Sources: Countries authorities; and IMF staff calculations.

and partly explained the divergent patterns of reserve accumulation between oil exporting vs. importing countries.

Reserve levels - changes from 2015 to 2016

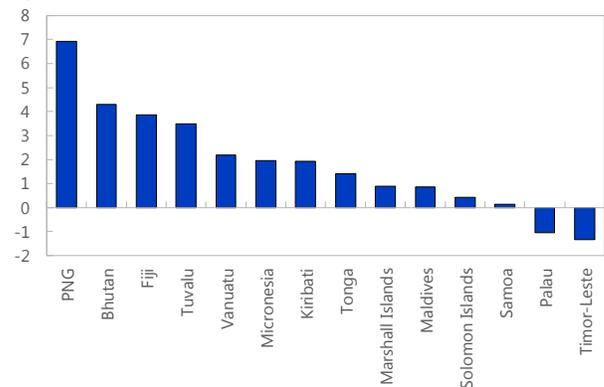
(In percent, year-on-year)



Low oil prices helped keep inflation moderate in most countries.

Inflation - APD small states and Pacific islands, 2016

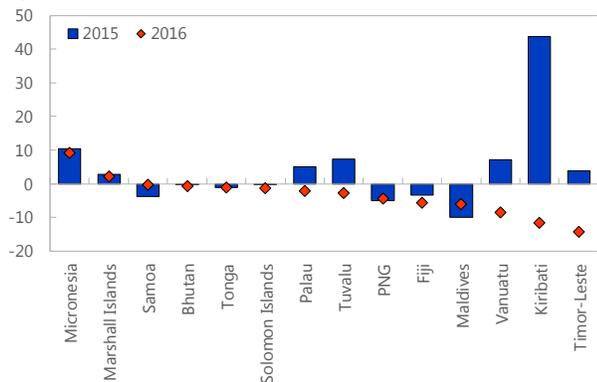
(In percent)



Fiscal performance deteriorated in most countries,

Overall Balance - APD small states and Pacific islands

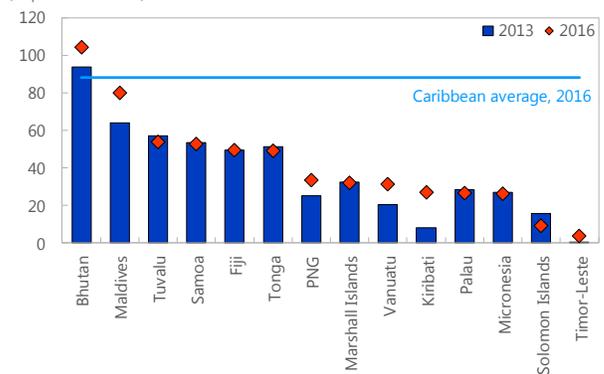
(In percent of GDP)



But public debt-to-GDP ratios generally remain relatively low.

Total Public Debt - APD small states and Pacific islands

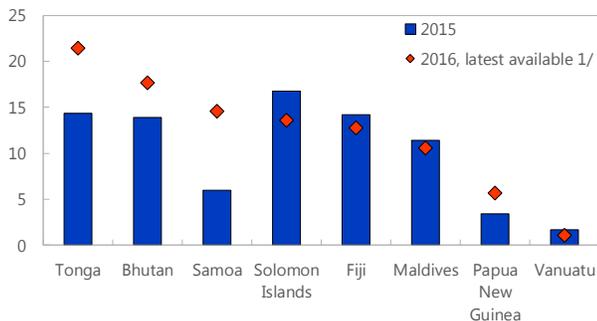
(In percent of GDP)



Credit expansion was still fast,

Growth of Domestic Credit to Private Sector

(In percent, year-on-year)

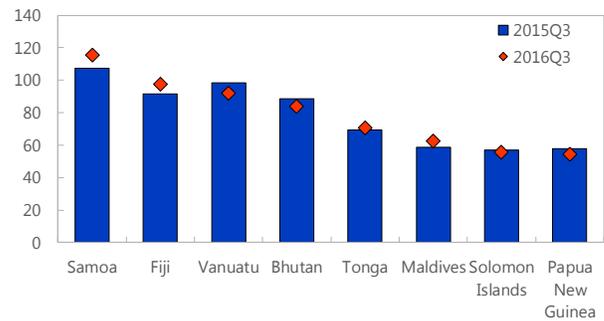


1/ December for Fiji and Maldives; November for Tonga; October for Bhutan, Samoa, Solomon Islands and Vanuatu; September for PNG.

Which put pressure on already high loan-to-GDP ratios in some countries.

Loan-to-Deposit Ratio

(In percent)



Sources: Countries authorities; and IMF staff calculatoin.

Small States Confront Big Challenges with Natural Disasters and Climate Change



Deputy Managing
Director Tao Zhang

Small states are far more vulnerable than other countries to natural disasters and climate change. On average, the annual cost of disasters for small states (economies with a population of less than 1.5 million) is more than four times that for larger countries, in relation to GDP. These countries—whether landlocked nations or small island states—need a range of approaches to deal with catastrophe, including not only better disaster response but also more focus on risk reduction and preparedness.

In a [new study](#), we look at the special challenges of small countries and show what countries and the international community can do to help prepare for disasters and cope once they strike.

Exposed to the elements

Visiting Fiji and Vanuatu on a recent trip to Asia, I was struck by the enormous size of the destruction the storms had caused, and the huge impact on their economies. What makes them so exposed?

Many small states are located in high risk locations—zones subject to hurricanes, cyclones, and earthquakes. For example, in the Pacific, Vanuatu, which I just visited, experienced a devastating cyclone in 2015, while Samoa was similarly affected in 2013. And the Caribbean, Dominica, St. Lucia, and St. Vincent and the Grenadines have all seen major storm damage since 2010.

For a country with a large land area, a disaster can severely impact one region, but leave large parts of the economy untouched. But, when a small island is hit by a cyclone, virtually all of its crops, housing, and other infrastructure can be destroyed. This magnifies the size of the disaster relative to the size of the economy and its resources. Administrative capacity is also an issue in small countries, which tend to have less income and fewer public employees for risk management programs. Moreover, three out of four small states are islands or widely dispersed multi-island states. These small island economies are highly vulnerable to the rising sea levels associated with climate change. These vulnerabilities entail significant costs, our analysis finds. Nearly one in ten disasters causes damage amounting to more than 30 percent of GDP, compared to fewer than one in a hundred for larger states. The average annual cost of disasters for small states is nearly 2 percent of GDP. This greater exposure to natural disasters inevitably worsens public finances, reduces investment and growth prospects, and increases poverty. To make matters worse, one-third of small states will be highly



DMD Zhang meets the Hon. Aiyaz SAYED-KHAIYUM, Attorney General and Minister of Economy

vulnerable to climate change within a generation. And these countries typically do not have the resources to invest in the costly projects needed to help them adapt to climate change.

Building Resilience

How can governments mitigate the effects of natural disasters?

Countries can take a number of proactive steps to reduce the human and economic cost of natural disasters. These include identifying and quantifying key aspects that make them vulnerable, and then investing in risk reduction infrastructure and projects. They should develop contingency action plans and financing arrangements for risks they cannot avoid.

The IMF can help countries with the economic aspects of disaster risk management. For example, to design frameworks for managing the budget, public investments, and public borrowing. We can also share best practices and build policymakers' capacity in these areas. I saw firsthand in Suva, Fiji, the work our Pacific Financial Technical Assistance Center is already doing in this area.

But it is impossible to avoid risk entirely, so when disaster strikes, countries have recourse to IMF financing. Our [Rapid Credit Facility](#) and [Rapid Financing Instrument](#), which small states have already used, provide quick access to financing following disasters. Vanuatu tapped these funds in 2015 following Cyclone Pam, for example, and Samoa borrowed from both (in 2009 after an earthquake and tsunami and in 2013 after a cyclone). Other small states, such as Dominica, have done so on multiple occasions (four times over the period 2008-2015).

We are looking to further strengthen our support to small states through these financing instruments. But current annual borrowing limits for these facilities are small in relation to the disasters these countries can potentially face. That's why our Executive Board recently indicated that it would consider higher access limits for countries subject to particularly large disasters starting in early 2017.

We can also work with small states as they contribute to confronting climate change under the [Paris Agreement](#). Macroeconomic policies can play an important role in national plans for mitigating carbon emissions through carbon taxation and energy subsidy reforms. They can also help the process of adjusting to climate change by efficiently managing costly public risk reduction investments. On a pilot basis, the IMF is ready to conduct assessments of the macroeconomic aspects of climate change policies of small states. These assessments could help showcase small states' policy efforts and improve their access to global climate funding.

We also will continue to communicate and collaborate closely with the World Bank and other organizations with critical expertise on natural disasters and climate change that can complement our macroeconomic engagement. Given the utter unpredictability of natural disasters, the IMF is committed to be agile in its response to the members' changing needs.



DMD Zhang and Governor Simeon Athy (Vanuatu)

Nauru: IMF's Newest Member

The IMF welcomed the Republic of Nauru as its newest member on April 12, 2016. The island adds its name to the list of 188 other IMF member countries.

Mr. David Adeang, Minister of Finance of Nauru, signed the Articles of Agreement of the IMF at a ceremony held at the State Department in Washington, D.C. IMF officials witnessed the signing ceremony.

"I am very pleased to welcome Nauru as a member of the IMF," said Christine Lagarde, the IMF's Managing Director. "As Nauru faces a number of challenges common to small island economies, including its geographical remoteness and climate change, it will benefit from participating fully in the economic cooperation of our global membership. The IMF stands ready to assist the government and people of Nauru in achieving their development objectives in cooperation with other partners in the international community," she added.

Small state

Measured by its [quota](#), Nauru will be the second smallest member of the Fund, after Tuvalu. This will be the case after it pays its quota increase under the [14th General Review](#) (which will increase its quota to SDR 2.8 million). Nauru has an initial subscription of SDR 2 million, or about \$2.81 million. It has a population of about 10,500 and a land area of about 8 square miles, compared with 68 square miles for Washington DC. Nauru is also the smallest sovereign state in the world after the Vatican City in terms of both population and area. The Australian dollar is the legal tender. There had been virtually no bank in the country during the past decade until the opening of Bendigo Bank agency in June 2015.

Nauru's economy relies on revenue from phosphate mining, the Australian Regional Processing Center (RPC) for asylum seekers, and fishing license fees. In recent years, growth has been strong, mainly driven by the RPC operations and phosphate exports, although it has moderated in 2015 due to problems with the seaport that lowered phosphate exports. The country faces a number of challenges common to small islands: small population, remoteness, climate change, narrow production base, high cost of public goods, and insufficient infrastructure. The key priorities include strengthening public finances, improving basic infrastructure, and diversifying its sources of growth.

Membership benefits

Membership allows the Fund and other development partners—the country has also joined the World Bank—to help the authorities implement economic reforms and tackle the development challenges facing Nauru. The country can now benefit from an annual review or "health check" of its economy by the IMF (called the Article IV consultation), cross-country analysis and access IMF lending. Nauru will continue to



IMF Managing Director Christine Lagarde welcoming the Republic of Nauru, represented by Finance Minister David Adeang, as the IMF's 189th member.



Finance Minister David Adeang signs the IMF's Articles of Agreement at the U.S. State Department, on April 12, 2016.

Nauru: IMF's Newest Member

receive technical assistance through Pacific Financial Technical Assistance Center (PFTAC) based in Fiji. Nauru can now also attend the joint IMF-World Bank Spring and Annual Meetings as a full member of the Bretton Woods family, where the authorities can meet and exchange views with other delegations. The 2016 Spring Meetings were held during April 15–17.

A two-year process

The Republic of Nauru applied for membership to the IMF and the World Bank in April 2014. IMF staff then worked intensively with the authorities through the IMF's Resident Representative for the Pacific Islands and the PFTAC to manage the membership process for the past two years. A joint IMF-World Bank membership mission took place in May 2015. A Membership Committee composed of members of the IMF Executive Board was formed and discussed Nauru's proposed quota in August 2015. The IMF Board of Governors adopted a membership resolution in November 2015 offering admission to the country.

IMF Membership process

To be considered for membership, an applicant must be a country in control of its own foreign affairs and willing and able to meet the obligations of membership contained in the IMF's Articles of Agreement.

The membership process includes several steps:

- Once a country submits an application, and the Executive Board decides to proceed with the application, the IMF sends a fact-finding mission to collect the necessary data for quota calculations and to prepare documentation on the economy. At the same time, the mission acquaints the authorities about the IMF's rules and policies, as well as about the steps of membership.
- The mission uses the information gathered to prepare a "quota paper." A Membership Committee composed of members of the Executive Board considers the staff's recommendations on the size of the quota and other terms and conditions of membership.
- Once the applicant agrees to the quota recommended by the committee, the Executive Board as a whole considers the application and submits a draft membership resolution to the Board of Governors for a vote.
- After the resolution is approved, the country must enact any legislation and take any other steps necessary to enable it to sign the Articles of Agreement, after which it can become a member. The signing ceremony takes place at the U.S. State Department where the original Articles of Agreement are located.



Finance Minister Adeang, Executive Director Sterland, and IMF Director Rhee with the IMF Nauru team at the signing ceremony at the U.S. State Department.

Inaugural Article IV Consultation

In January 2017 the first IMF Article IV mission visited Nauru, and the IMF Board Discussion took place on March 24, 2017. For more information about Nauru's first Article IV consultation, see the [Res. Rep. corner section](#), [Press Release 17/28](#), and 17/xx.

Interview with New Division Chief Alison Stuart

Newly appointed as Chief of the Small States Division in Asia and Pacific Department, Alison Stuart describes recent staffing changes and looks ahead at the key issues for IMF engagement with the Pacific Islands.



APD Small States Monitor: Can you describe the organizational changes to APD’s small states work?

Alison Stuart: The IMF has increased its engagement with small states in recent years and is coordinating its work across regions better and more efficiently. In November 2016, the APD small states unit was made into a division. The Division comprises: a chief, a deputy (Scott Roger who has just returned from PFTAC and has extensive knowledge of the region), four economists, two research analysts and two coordinators (see opposite and Picture). Deputy Director of APD, Odd Per Brekk oversees the work of our division. He has recently returned from a three-year stint from leading the Regional Office of Asia and Pacific in Tokyo. The expansion of the unit into a division is a testament to the innovative work of outgoing unit chief Patrizia Tumbarello who drew small states issues to the attention of APD and IMF management. The recent publication of the book: “Resilience and growth in the Small States of the Pacific” is the end product of a large body of cross-country analyses on the Pacific small states which highlights the challenges and potential policy responses, and is an important foundation for our work going forward.

Small States Work in Asia and Pacific Department	
Oversight: Deputy Director APD	Odd Per Brekk
The Division	
Division Chief	Alison Stuart
Deputy Division Chief	Scott Roger
Economists	Si Guo Fazurin Jamaludin Dongyeol Lee Hidetaka Nishizawa
Research Analysts	Irene Zhang Chau Nguyen
Coordinators	Antoinette Kanyabutembo Gabriel Alvim

APD Small States Monitor: How will the Fund engage with the small states going forward and what are your priorities?

Alison Stuart: We plan to keep in place the successful model the Unit developed in close coordination with our Resident Representatives Office (led by Tubagus Feridhanusetyawan) and PFTAC (led by David Kloeden). Pacific Island States face multiple challenges in increasing the growth potential of their economies as well as dealing with their vulnerability to natural disasters and the effects of climate change. Narrow production bases, small populations, remote locations and capacity constraints are also important challenges. We hope that by channeling our cross-country experience and familiarity with best practice policy advice, tied together with understanding your unique challenges we can tailor our advice to meet your needs. For the year ahead we will have a strong focus on building resilience to natural disasters and climate change.

- A High Level Dialogue on April 7 co-hosted by the IMF and the Government of Fiji (with funding support from the Asian Development Bank, the Japan International Cooperation Agency and the IMF’s Regional Office for Asia and the Pacific) will address this issue. The High Level Dialogue will be preceded by a three-day workshop for officials responsible for the medium-term budgetary framework or planning and will be attended by IMF mission chiefs.
- Our regular monitoring of small states economies (Article IV surveillance) will highlight policies that can help in terms of ex-ante disaster risk management. We will look at the impact on medium term projections, of frequent but unpredictable nature of disasters. The IMF has also recently discussed improving its emergency financing facilities and instruments for countries coping with the aftermath of a natural disaster.
- We will also be looking at the issue of the loss of correspondent banking services which is a major concern for some economies in the Pacific—especially those with high levels of remittances. The IMF has an important role to play in monitoring these risks and advising members on policies that can help to address or mitigate the adverse impact of the withdrawal of correspondent banking services.
- We will also look at the drivers of growth to help refine our policy recommendations for the medium term (complementing the Pacific Possible initiative of the World Bank).

APD Small States Monitor: Any final remarks?

Alison Stuart: I am excited by the challenge of working on the Pacific Islands and I am very much looking forward to developing close ties with you all to hear your concerns and to see how the IMF can help.



APD Small States Division (from left to right): Fazurin Jamaludin, Alison Stuart, Hidetaka Nishizawa, Dongyeol Lee, Scott Roger Irene Zhang, Si Guo, Chau Nguyen, Gabriel Alvim, and Antoinette Kanyabutembo.



APD Small States Mission Chiefs (from left to right): Ding Ding, Yu Ching Wong, Chris Papageorgiou, Alison Stuart, Jaime Guajardo, Scott Roger, Pablo Lopez Murphy, Elena Loukoianova, and Joong Shik Kang.

APD Small States Senior Staff Changes



Odd Per Brekk, a Norwegian national, has been the Deputy Director of the IMF's Asia and Pacific Department since July 2016; with oversight responsibilities for Australia, Brunei, Fiji, Japan, Kiribati, Malaysia, Marshall Islands, Micronesia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Singapore, Solomon Islands and Small States, as well as APD's capacity building work (including PFTAC) and external communications activities. Previously, he was the Director of the IMF's Regional Office for Asia and the Pacific for three years. Odd Per joined the IMF in 1987 and has held several senior positions in the European and Asia and Pacific Departments, including mission chief to Indonesia and Lithuania, and Senior Resident Representative in Turkey and Russia. During 2005–09, he was the Advisor to the First Deputy Managing Director. Earlier in his career, Odd Per worked in the African and Central Banking Departments of the IMF. Before joining the IMF, he was a senior economist at the Bank of Norway. He holds a graduate degree in economics from the University of Oslo.



Alison Stuart, a British national, joined as Division Chief for the Small States Division and Senior Budget Manager in Asia and Pacific Department in November 2016. Prior to this she was Mission Chief for Hong Kong SAR and Deputy Division Chief for China (2016), Deputy Division Chief in the Australia and New Zealand Division (2013-2015) and mission chief for Maldives (2014-2016). Before joining APD, Alison worked in the Strategy, Policy and Review Department of the IMF. Prior to joining the IMF in 2005, Alison worked as an economist at the Bank of England and has also worked for the UK Treasury, and the UK Executive Director's Office to the IMF and World Bank. She holds a Masters in Economics from Birkbeck, University of London.



Scott Roger joined APD's Small States Division in January 2017, after four years as Coordinator at PFTAC in Suva, Fiji. In addition to bolstering continuity in APD's links to the Pacific islands, we hope that this will also strengthen the integration of surveillance and technical assistance in the region. Scott is also taking over from Clinton Shiells as APD's mission chief for Papua New Guinea.



Pablo Lopez Murphy is the Deputy Division Chief for the Regional Studies Division in APD and Mission Chief for Fiji. He previously worked on Thailand, Greece, Spain, Mexico, Lebanon, Macedonia, Sri Lanka, and Bolivia. He also spent four years in our Fiscal Affairs Department where he worked on tax policy, short-term expenditure rationalization, and macro fiscal issues.



Joong Shik Kang is mission chief for the Republic of the Marshall Islands. He is a Senior Economist in the Asia and Pacific Department of the IMF. Prior to this, He worked in the Research Department on several multilateral surveillance issues, including the World Economic Outlook, G20 surveillance, and commodities. His research focuses on international risk sharing, internal devaluation in the Euro area, and Japanese/Chinese economies. He has worked on various countries at the Fund, including Japan, China, and Hong Kong SAR. He holds a Ph.D. in economics from University of Wisconsin at Madison and B.A. in economics from Seoul National University.

Country Work and Missions. The main event for the RR Office over the past six months was the visit by DMD Tao Zhang to Fiji and Vanuatu in December, where the DMD met the Prime Minister, Ministers, Central Bank Governors, development partners, the Media, and private sector representatives. Other missions include Article IV consultations and staff visits in the region. The Article IV mission to Papua New Guinea took place in September, and Mr. Shelvin Karan (Local Economist) was part of the mission team. The mission team also visited local governments and the private sector in West New Britain province. Mr. Tubagus Feridhanusetyawan (RR) led the inaugural Article IV mission to Nauru (see below), and Ms. Reshika Singh (Local Economist) was the main desk economist, Mr. Alex Massara from the IMF's statistics department was also on the mission team. The Article IV mission to Samoa took place in February, and Ms. Reshika Singh participated as the desk economist. Staff visit to Micronesia took place in November. Other upcoming missions and staff visits include Solomon Islands and Tonga in March, and Fiji in April.



Mr. Feridhanusetyawan presenting at USP

Outreach and Presentations. In October, the RR Office met with head of departments and senior lecturers from the University of the South Pacific (USP) and Fiji National University to discuss potential areas of collaboration such as research and capacity building seminars and lecturers. The RR made a presentation on the role of the IMF in the Pacific in the USP Labasa campus located in Fiji's Northern Division. In November, the RR also participated in the Heptagon Pacific donor coordination meeting in Sydney, and had a close discussion on Pacific economic developments with the Development Policy Centre or Australian National University in Canberra. In December, the RR attended the 31st Meeting of South Pacific Central Bank Governors in Dili, Timor-Leste, and made a presentation on the Pacific economic outlook and policy priorities.



Nauru's President and the entire Cabinet, Mr. Choi and Ms. Preston (OED), and the Nauru team during the mission dinner

Nauru's Inaugural Article IV Consultation. The January mission had a strong engagement with the authorities who were enthusiastic about their first Article IV consultation after Nauru joined the IMF and the World Bank Group in April 2016. The mission made presentations to President Waqa and the entire Cabinet, and the mission's assessments and recommendations were discussed openly in Parliament and publicly broadcast. The IMF mission's dinner was well attended by the President, the entire Cabinet, senior officials, and development partners. The authorities organized various site visits, including to the Australian Regional Processing Center for asylum seekers, phosphate mine, seaport, and new hospital, and invited the team to join their deep-ocean fishing trip. There are many restaurants run by the refugees living and working in Nauru, and the team managed to follow the mission's rule of not eating in the same restaurant twice during the mission. IMF Executive Director Mr. Choi and Ms. Preston (OED) joined the mission.



Res. Rep. staff and families during Diwali celebration, October 2016

In early February David Kloeden joined APD when assigned to Fiji to succeed Scott Roger as PFTAC coordinator. Although the Pacific is a new region for David, he is hoping to draw on his experience from the Caribbean where he was CARTAC coordinator from mid-2014. While there are many differences between the two regions, both share the challenges of small mostly open economies that are particularly vulnerable to shocks, whether from environmental or economic causes. This includes our approach to technical assistance that must adjust to small state circumstances given the size of institutions and their absorptive constraints. Before the move to the Pacific via the Caribbean, David had almost 20 years of FAD experience as a revenue administration specialist, the first decade as a resident advisor in various countries, and more recently delivering and managing Fund TA programs.

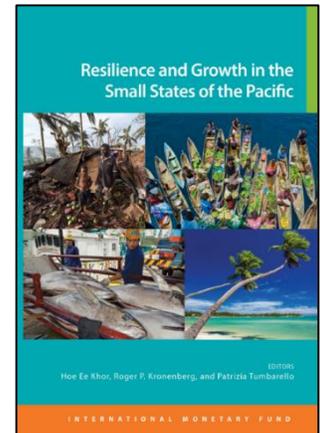


PFTAC just held its annual Steering Committee meeting in Honiara, Solomon Islands on March 15 – 16. Amongst several firsts, the meeting was the first gathering of our 16 member countries, donors, development partners, and the IMF since the start of the fifth operational and financing phase on November 1, 2016. Also new, member countries are promising to financially contribute to PFTAC operations to the tune of about 10 percent of the targeted budget of US\$ 35 million, with most members having promised or have actually signed Letters of Understanding affirming their financial commitment. Donor commitments similarly firm up with large contributions on track from Australia and New Zealand plus support from Korea and the ADB with promising discussions ongoing with the EU. Steering Committee governance is also evolving, with the position of the chair now rotating each year to the country hosting the annual meeting, broadening participation and oversight from the long-standing chairmanship of Fiji for which we express our gratitude to our hosts, the Reserve Bank of Fiji and Governor Barry Whiteside. For 2018, Tonga has kindly offered to host the next meeting which will be an opportunity to celebrate PFTAC's 25th Anniversary, an historic milestone given PFTAC was the first of what has grown to a global network of ten IMF regional technical assistance centers.

Three informative and engaging sessions were held on the second day of the meetings covering issues around macroeconomic statistics, domestic revenue mobilization, and PFM reforms, with an interesting mix of speakers and panel discussions from member countries and regional institutions, PFTAC staff, and development partners.

The team of PFTAC resident advisors now numbers seven following several recent changes. Three of the team focus on fiscal issues (Chita Marzan and Richard Neves for PFM and Stan Shrosbree on revenue), two on macroeconomic statistics (Richard Wild on national accounts and Barend de la Beer on GFS), Ben Stefanou covering financial sector supervision and Iris Claus on macroeconomic management. The SC meeting endorses our work program for FY18 that includes initiatives that cut across sectors. Our activity and achievements over FY17 plus the plans for FY18 are documented in our FY2017 Annual Report that has just been issued and can be found at the recently redesigned and relaunched [PFTAC website](#). Finally, the PFTAC team looks to further integrate our capacity development efforts with Fund surveillance through close collaboration with APD mission chiefs and teams.

Book: Resilience and Growth in the Small States of the Pacific. Economic growth in the small island states of the Pacific has been disappointing for more than a decade. Among Pacific island countries recovery from the global financial crisis has also generally lagged that in Asian low-income and emerging market economies. This book examines the factors that have contributed to the low rates of economic growth in the region and seeks to identify policies that could help enhance resilience and raise growth performance in a way that is both inclusive and sustainable. Chapters in this book are grouped into four sections, examining growth and resilience, spillovers and vulnerabilities, macroeconomic policy, and structural impediments to growth. The main message is that there is scope for the Pacific island countries to strengthen the policy environment and improve growth performance.



Board Paper: IMF Executive Board Discusses Small States' Resilience to Natural Disasters and Climate Change and the Role of the Fund. On

December 1, 2016, the Executive Board of the International Monetary Fund (IMF) discussed a staff paper on "[Small States' Resilience to Natural Disasters and Climate Change—Role for the Fund](#)", which explores how the Fund's

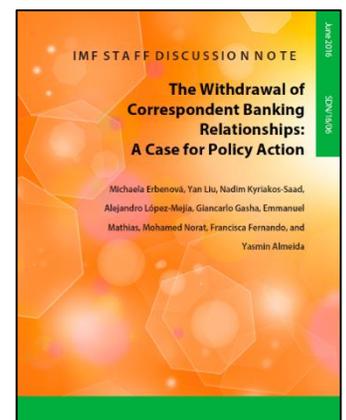
macroeconomic policy advice, capacity building support, and lending facilities and instruments can help meet the evolving needs of small states facing risks from natural disasters and climate change. The staff paper provides a range of data and analyses highlighting the particular vulnerability of small states to both natural disasters and climate change. It outlines the key elements of a

risk management framework which, if adopted ahead of disasters, can reduce their economic and human cost. It further describes the role of macroeconomic policies within this framework. On financing, the paper highlights the importance of developing contingent financing plans ahead of the impact of a disaster and the need for access to climate change financing for risk mitigation programs.

Working Paper: The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action. The paper focuses on the withdrawal of correspondent banking

relationships (CBRs) in some jurisdictions post-global financial crisis. It describes existing evidence and consequences of the withdrawal of CBRs and explores drivers of this phenomenon drawing on recent surveys and select country information. While the withdrawal of CBRs has reached a critical level in some affected countries, which can have a systemic impact if unaddressed, macroeconomic consequences have not been identified so far at a global level. The paper presents responses from the international community to address this phenomenon, and explains the role that the IMF has been playing in this global effort, especially with regards to supporting member countries in

the context of surveillance and technical assistance, facilitating dialogue among stakeholders, and encouraging data gathering efforts. The paper concludes by suggesting policy responses by public and private sector stakeholders needed to further mitigate potential negative impacts that could undermine financial stability, inclusion, growth and development goals.



Source: [The Withdrawal of Correspondent Banking Relationships Press Release. June, 2016](#)

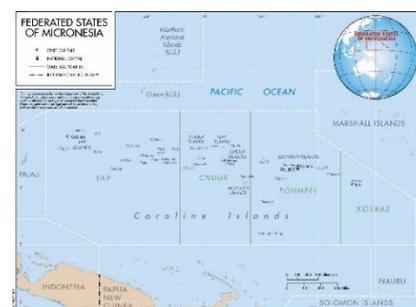
Working Paper: Challenges in Correspondent Banking in the Small States of the Pacific. Access to financial services in the small states of the Pacific is being eroded. Weaknesses in Anti-Money Laundering and Combating the Financing of Terrorism compliance in the context of high levels of remittances are contributing to banks' decisions to withdraw corresponding banking relationships and close bank accounts of money transfer operators. In this paper, IMF staff gather evidence on these developments in the small states of the Pacific, discuss the main drivers, and the potentially negative impact on the financial sector and macroeconomy. The paper then identifies the collective efforts needed to address the consequences of withdrawal of corresponding banking relationships and outline policy measures to help the affected countries mitigate the impact.

Source: Challenges in Correspondent Banking in the Small States of the Pacific Press Release, March, 2017

Federated States of Micronesia

Country Note

IMF staff concluded visit to the Federated States of Micronesia in November 2016. Growth in the Micronesian economy returned to positive territory in FY2015 (ending September 30), as the fishery sector expanded. Output grew by 3.7 percent, while inflation dropped to -0.2 percent, amid falling oil and utility prices. The fiscal balance recorded a surplus of about 10 percent of GDP, due to higher fishing license fees. The strong growth momentum is estimated to have carried into FY2016, with GDP growth expected to be around 2 percent during FY2016-17. Despite these positive developments, extreme weather-related events (in the context of climate change), further delays in the implementation of infrastructure projects, and declining U.S. Compact grants pose risks to growth. Securing fiscal sustainability, building resilience to natural disasters and climate change, and promoting private sector growth remain the policy priorities.



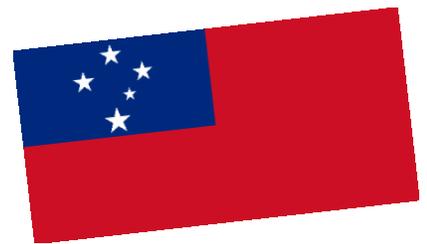
Source: [IMF Federates States of Micronesia Staff Visit Press Release, November 2016](#)

Samoa

Country Note

IMF staff concluded Article IV visit to Samoa in February 2017. The Samoan economy continues to perform well and activity picked up in FY 2015/16 (ending June 30). Tourism arrivals increased; a new processing plant helped boost fishing revenues; and agriculture benefitted from government initiatives and new export markets. Looking ahead, GDP is expected to grow at around 2 percent annually, driven by construction activity, infrastructure development and improvements in the business environment. However, this outlook is subject to downside risks related to natural disasters, strains in correspondent banking relationships, and elevated contingent liabilities from public financial institutions (PFIs) and state owned enterprises (SOEs). The closure of the largest manufacturing employer is also likely to adversely affect growth.

Samoa's remittance sector is facing challenges and many money transfer operators (MTOs) are experiencing difficulties in accessing and maintaining financial services – referred to as derisking. Remittances are approximately 18 percent of GDP and about 80 percent are channeled through MTOs. Derisking is increasing the fragility of the remittances sector and is likely to further increase the cost of remittances. The Samoan authorities have taken important steps to address derisking, including active engagement with global stakeholders. Recent publication of the national strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) was an important step and the mission encourages continued efforts to enhance compliance with global AML/CFT standards. The mission welcomes the authorities' commitment to establish a database, referred to as Know-your-Customer utility, which can help facilitate remittances by enhancing compliance. The IMF is supporting the government's efforts through a proposed pilot project and an IMF technical assistance mission is planned for June 2017.



Source: [IMF Samoa Article IV Visit Press Release, February 2017](#)

IMF staff concluded visit to Timor-Leste in October 2016. Economic activity is expanding at a satisfactory pace and is likely to maintain the momentum into next year. Real non-oil GDP in 2016 is expected to grow at 5 percent, supported by government spending. The external current balance is expected to turn to a deficit of 9.9 percent of GDP in 2016 due in large part to a sharp increase in imports related to the increase in public investments.

The near-term outlook remains generally favorable with a continuing non-oil growth recovery accompanied by low inflation. The medium-term outlook however depends critically on economic diversification as oil fields in operation are expected to be depleted by around 2020. While the impact of current low oil prices to the PF is limited, as projected withdrawals from the Petroleum Fund (PF) are above the estimated sustainable income levels, the PF balance is expected to decline over the medium-term. Moreover, the investment returns of the PF are exposed to the volatility of global financial markets. Medium-term risks lie in whether the front-loading of public investment would generate sufficient social and economic returns, which would help achieve inclusive growth.



Source: [IMF Timor-Leste Staff Visit Press Release, November 2016](#)



Recent and Upcoming Events on Asia and Pacific Small States

Upcoming Events

Spring Meetings of the WBG and the IMF
April 21-23, Washington DC, USA

2017 Pacific Update Conference (ADB)
June, Suva, Fiji

Annual Meetings of the WBG and the IMF
October 13-15, Washington DC, USA

Heptagon Pacific Donor Coordination Meeting
November, TBD

South Pacific Central Bank Governors Meeting
December, Nuku'alofa, Tonga

Recent Events

Annual Steering Committee
March 15-16, Honiara, Solomon Islands

The Pacific Islands Forum Economic Ministers Meeting
April 4-6, Suva, Fiji

High-Level Pacific Islands Dialogue
April 4-7, Suva, Fiji

Recent IMF Missions and Small State Events



DMD Zhang together with the Pacific Islands Resident Representative Office and PFTAC staff in Suva, Fiji, December 2016



Scott Roger receiving a gift during a Pacific Central Bank governors meeting in Timor-Leste. December, 2016



DMD Zhang talking to STA-FTAC workshop participants in Nadi, Fiji, December 2016



DMD Zhang visiting school reconstruction project after cyclone Winston. Nadi, Fiji, December 2016

Recent IMF Missions and Small State Events



DMD Zhang accompanied by his former advisor Tarhan Feyzioglu; and APD Small States Division Chief, Alison Stuart discussing economy with Governor Barry Whiteside at the Reserve Bank of Fiji, December, 2016



Vanuatu Prime-Minister Charlot Salwai; DMD Zhang; and Min. of Finance Gaetan Pikioune in Port Vila, Vanuatu, December, 2016



DMD Zhang being interviewed by Mr. Stevenson Liu from "Television Blong Vanuatu". Port Vila, Vanuatu, December, 2016

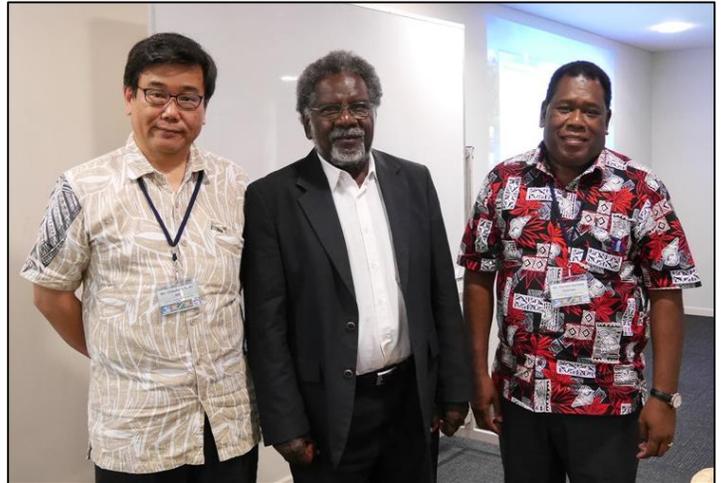


DMD Zhang visiting port development project in Port Vila, Vanuatu, December 2016

Recent IMF Missions and Small State Events



David Kloeden (PFTAC), Minister Tevita Lavemaau (Tonga), Minister Snyder Rini (Solomon Islands), Governor Denton Rarawa (Solomon Islands), and Tubagus Feridhanusetyawan (RR PIC) at the PFTAC Steering Committee Meeting in Honiara, Solomon Islands, March 2017



Mr. Sumi (OAP), Minister Snyder Rini, and Governor Denton Rarawa (both Solomon Islands) at the PFTAC Steering Committee in Honiara, Solomon Islands, March 2017



PFTAC 2017 Steering Committee group photo, Honiara, Solomon Islands, March 2017.