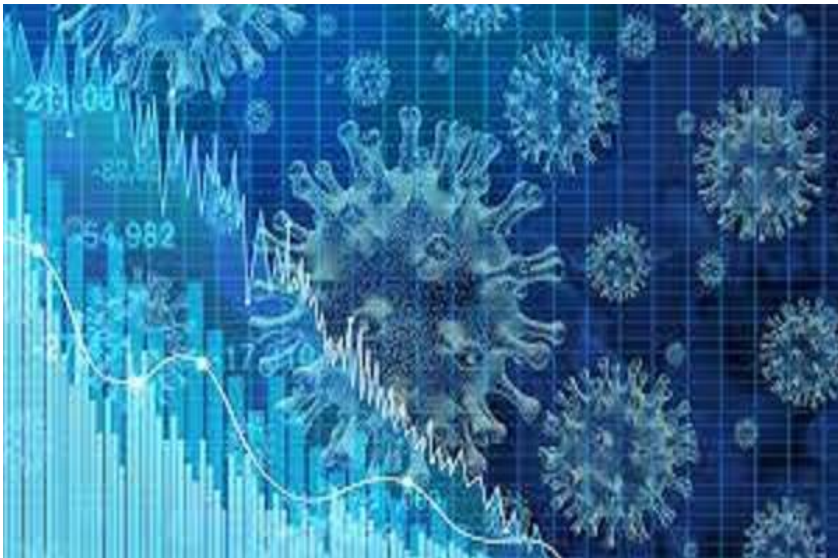




ASIA & PACIFIC Pacific Islands Monitor

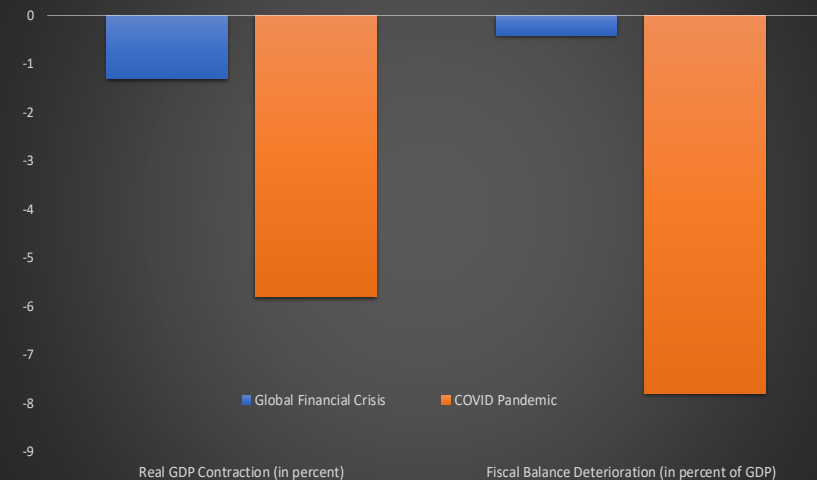
ISSUE 13 OCTOBER 2020



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A Crisis Like No Other: Global Financial Crisis vs. COVID Pandemic -- Impact on Pacific Islands



Sources: WEO database and IMF staff calculations; median values.

By APD's Pacific Islands Division

Todd Schneider & Yong Sarah Zhou (Project Leaders)

Haopeng Xu & Francis Landicho (Project Coordinators) with inputs from David Kloeden, Leni Hunter, and APD Pacific Islands Mission Teams

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 APDPI@imf.org and yzhou@imf.org

Recent Developments

The COVID-19 pandemic continues to impose a severe economic impact on the Pacific Island Countries (PICs). PICs have been affected significantly by the ongoing global COVID-19 pandemic in recent months with the evaporation of tourism, severe disruptions to international trade, a reduction in remittances, and lower commodity demand and prices. For countries with a high reliance on tourism and the revenue that it brings, these flows almost vanished after the first quarter of 2020¹. Supply chains and established trading relationships have also been disrupted for many PICs, which is particularly important for foodstuffs, including fishery products. Remittances are an issue for several PICs reliant on these flows to support household income. Commodity prices and demand have also taken a significant hit, impacting PICs dependent on commodity exports for foreign exchange and fiscal revenue.

The Pacific Islands have responded swiftly to the pandemic. There have been no confirmed local cases of COVID-19 in 10 out of 12 PICs² as of early October 2020. PICs were quick to react to the threat of the pandemic—closing borders to international travel when the outbreak of COVID-19 reached epidemic proportions in China and neighboring countries. In PICs with local outbreaks (Fiji and Papua New Guinea), containment measures were put in place to prevent spread. Most PICs have enacted additional spending on health infrastructure and preparedness and to counter the negative impact on economic growth and household incomes. All PICs have now announced COVID-19 response packages (see *IMF COVID-19 Policy Tracker*³) to boost the policy response and lay the groundwork for economic recovery. Travel bans on visitors remain in effect for most countries.

Outlook and Risks

The near-term economic outlook for the region has deteriorated significantly from the drag induced by the COVID pandemic. Even though most PICs have managed to avoid a local outbreak, deep economic contractions are expected in many of the islands. Compared to the April 2020 World Economic Outlook (WEO), nine out of the twelve PICs are expected to record a deeper economic contraction this year⁴. Average growth among the PICs is now projected at -5½ percent in 2020, with the largest drops in activity (by 5 percentage points or more) projected in Fiji, Palau, Vanuatu, Solomon Islands, and Samoa. Commodities trade is expected to gradually pick up in line with a tentative global recovery from the third quarter of 2020, while a resumption of tourism activity is not expected until the 2nd half of 2021.

Transmission channels from the pandemic to the Pacific are the same for many countries, but the magnitude of the shocks relative to GDP can be striking. The loss of tourism-related inflows is having a particularly sharp impact on several of the PICs, particularly Vanuatu, Palau, Fiji, and Samoa—where

¹ See monthly IMF [Tourism Tracker](#).

² Samoa, Tonga, the Marshall Islands, Kiribati, Micronesia, Nauru, Palau, Vanuatu, and the Solomon Islands, are all COVID-19 free, according to the [Sydney Morning Herald](#).

³ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>.

⁴ For countries following Fiscal Year (FY) budget, such as Tonga and Marshall Islands, all the numbers refer to their FY outturns.

tourism (and related activities) constitute a large share of GDP. In other Pacific Islands, the anticipated slow recovery of commodity prices and global demand will have a marked impact on PNG (natural gas), the Solomon Islands (logs), and Kiribati, Micronesia, and Marshall Islands (fisheries). On a global level remittances are projected to decline due to a fall in the wages and employment of migrant workers, but available data suggest that remittances to the PICs have been holding up relatively well so far.

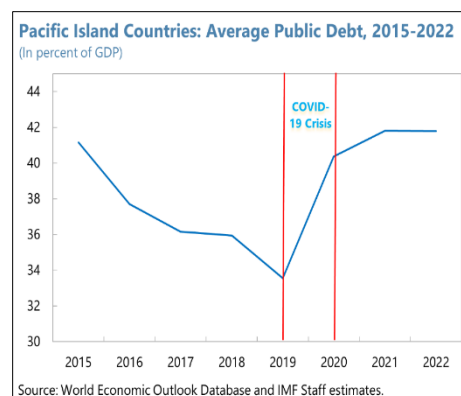
Scarring from prolonged closure or minimal activity could impact both corporate balance sheets and the labor force—potentially weighing on a post-pandemic recovery. As a group, the Pacific Islands (as with other small states) are expected to see a more gradual economic recovery than other parts of the Fund’s membership.

Real GDP (Year-over-year change; percent)									
	Actual and Latest Projections			Difference from April 2020 World Economic Outlook			Difference from Pre-Pandemic World Economic Outlook 1/		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Pacific island countries	2.2	-5.5	1.4	0.0	-2.8	-2.5	-0.6	-8.1	-1.0
Fiji	-1.3	-21.0	11.5	-1.8	-15.2	4.5	-4.0	-24.0	8.3
Kiribati	2.3	-1.1	3.0	0.0	-1.1	0.7	0.0	-3.4	0.9
Marshall Islands	5.3	-4.5	-0.9	2.9	-4.3	-4.1	2.9	-6.8	-2.9
Micronesia	1.2	-3.8	1.2	0.0	-3.4	-0.2	-0.2	-4.6	0.4
Nauru	1.0	0.7	1.3	0.0	2.4	-0.1	-0.6	0.0	0.0
Palau	-1.8	-11.4	-7.4	-2.3	0.5	-21.8	-2.1	-13.2	-9.6
Papua New Guinea	4.9	-3.3	1.2	-0.1	-2.3	-1.7	-0.1	-5.8	-1.3
Samoa	3.5	-5.0	-1.5	0.1	-1.3	-2.0	0.2	-9.4	-3.7
Solomon Islands	1.2	-5.0	4.5	0.0	-2.9	0.7	-1.5	-7.9	1.8
Tonga	0.7	-2.5	-3.5	0.9	-1.3	-4.7	-2.8	-6.2	-6.4
Tuvalu	6.0	-0.5	3.0	0.0	0.4	-0.6	1.9	-4.9	-1.3
Vanuatu	3.3	-8.3	4.3	0.4	-5.0	-0.6	-0.5	-11.4	1.5

Sources: IMF, World Economic Outlook database.
1/ Data are from the January 2020 World Economic Outlook.

Current account balances are projected to deteriorate by substantial margins for many PICs. As

a group, the average current account balance among the PICs is projected to deteriorate from a surplus of 5.2 percent of GDP in 2019 to a deficit of -2.8 percent in 2020 as lower import demand only partially offsets losses from tourism and commodity exports. Foreign exchange reserve cover is also expected to decline but remain manageable in the short run as most PICs are benefitting from additional financial flows from bilateral and multilateral donors.



Fiscal positions are also expected to weaken in the near term for most PICs.

This reflects revenue shortfalls from weaker economic activity, combined with rising expenditures as governments increase spending on healthcare and health infrastructure, as well as measures to mitigate the worst impacts of the pandemic through increases in social spending. As a group, the average fiscal balance among the PICs is projected to deteriorate from a surplus of 3.6 percent of GDP in 2019 to a deficit of 3.9 percent of GDP in 2020. Lack of fiscal space is a challenge and financing options are scarce for many

PICs. There has been a substantial increase in support from multilateral and bilateral sources, but this also brings an uptick in the level of public debt—from 33.6 percent of GDP in 2019 to 40.3 percent of GDP in 2020.

APD Pacific Island Countries: Current Account Balance (In percent of GDP)				APD Pacific Island Countries: Fiscal Account Balance (In percent of GDP)			
	2019	2020	2021		2019	2020	2021
		Proj.	Proj.			Proj.	Proj.
Fiji	-12.9	-15.3	-12.1	Fiji	-5.1	-19.2	-9.0
Kiribati	32.0	-1.6	2.8	Kiribati	15.0	-13.2	-9.5
Marshall Islands	8.0	1.6	1.2	Marshall Islands	0.3	-3.5	2.3
Micronesia	16.0	1.6	3.5	Micronesia	16.4	-1.7	4.5
Nauru	10.5	4.2	3.4	Nauru	20.8	31.5	13.2
Palau	-26.6	-32.7	-35.4	Palau	0.3	-6.4	-12.3
Papua New Guinea	22.2	14.7	18.9	Papua New Guinea	-5.0	-6.3	-5.4
Samoa	2.3	-7.1	-7.0	Samoa	2.7	-7.3	-9.8
Solomon Islands	-9.6	-11.3	-16.4	Solomon Islands	-1.7	-5.6	-4.9
Tonga	-4.8	-4.6	-17.5	Tonga	3.2	5.1	-4.5
Tuvalu	12.4	17.0	-11.0	Tuvalu	-8.6	-12.3	-10.3
Vanuatu	13.1	-0.3	-1.6	Vanuatu	4.6	-7.6	-5.5
Average	5.2	-2.8	-5.9	Average	3.6	-3.9	-4.3

Source: World Economic Outlook

There are significant downside risks to the growth outlook. External risks include a more prolonged COVID-19 outbreak and slower global recovery—further hampering demand for PIC’s exports and lowering growth. Despite the travel ban, domestic outbreaks of COVID-19 remain a risk—which in less developed healthcare systems would impose significant human and fiscal costs and further undermine prospects for recovery. Due to PIC’s size and location, they continue to be particularly vulnerable to natural disasters and climate risks—which can have an immediate impact on growth and fiscal sustainability. Uncertainty with respect to tourism, global trade tensions, and subdued growth in Asia could dampen near-term growth prospects for tourism-intensive countries like Fiji, Samoa, Vanuatu, and Palau, and for commodity exporters like Solomon Islands, PNG, and Timor-Leste.

Medium-term Changes

COVID-19 is expected to leave a deep impact in some PICs. The pandemic may potentially cause lasting damage to selected industries—such as tourism—as the effects extend into and likely beyond 2021. For tourism dependent economies in the region, a significant number of SMEs are likely to be wiped out, skilled labor may be lost, and regional airlines are already under severe pressure. Some of these links may take years to rebuild. The prolonged disruption to global economic activity will also have some lasting impact on trade and supply/demand chains. Even after the pandemic is contained, recovery in commodity prices may take time given large inventories of oil, metals, and other commodities.

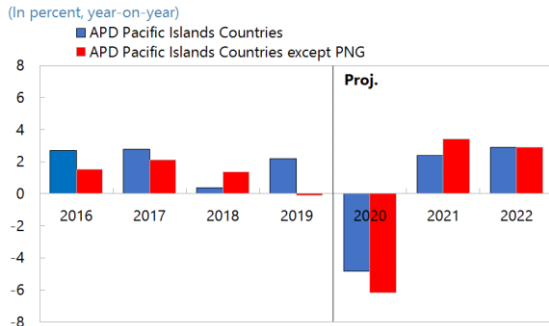
Risk of debt distress has risen in the Pacific. Many PICs will face higher debt-to-GDP levels in the future. With several PICs already in elevated or moderate risk of debt distress, there will be a delicate balancing act to support the recovery while rebuilding buffers. Once the fallout from the pandemic fades, sound macroeconomic management and continued external support will be needed to rebuild fiscal buffers and prepare for future shocks. For many PICs, the pace of rebuilding buffers depends critically on the external environment. Tourism and remittance-dependent economies may find the adjustment particularly difficult, given the magnitude of the shock and their high degree of reliance on external demand. The risk of debt shocks will be elevated given the combination of high vulnerability to natural disasters and climate change in small states, and the need for significant investment in climate resilience and adaptation over the medium-term.

Figure 1¹

PICs are expected to take a major hit from the COVID-19 pandemic, with real GDP contracting 5.5 percent in 2020.

Growth revisions vary across countries, with heaviest impact on those with reliance on tourism and commodities.

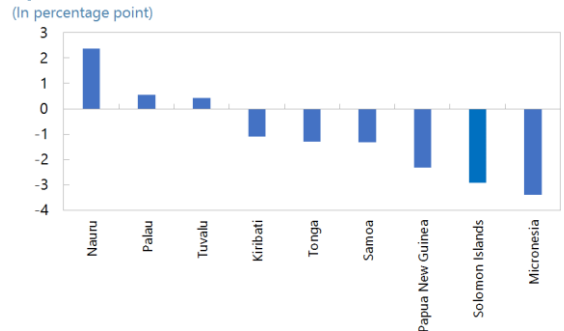
Real GDP Growth in Pacific Island Countries



Sources: IMF, World Economic Outlook, and staff calculations.

For several PIC countries, tourism accounts for substantial part of growth and employment.

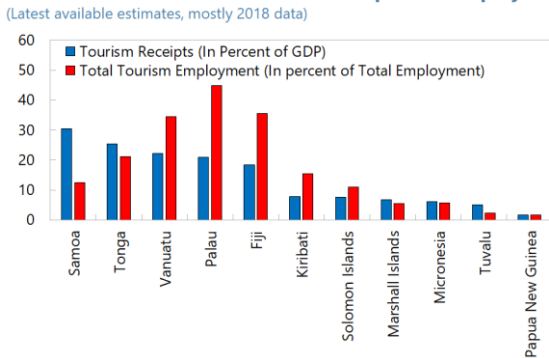
Real GDP Growth Revisions to 2020 Growth Forecasts since April WEO



Sources: World Economic Outlook.

Tourists arrivals largely evaporated since late March.

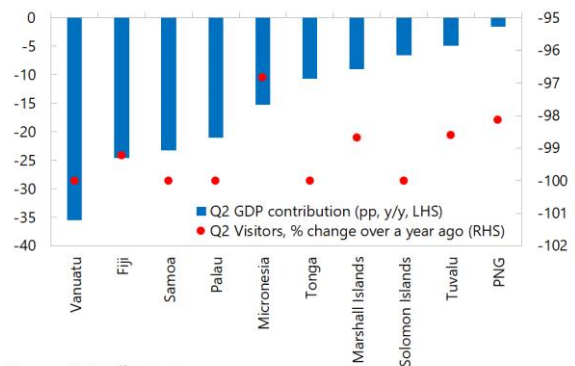
Pacific Island Countries- Tourism Receipts and Employment



Sources: NTOs, NSOs, and SPTO.

Fisheries also got hit hard, especially for countries heavily dependent on this sector

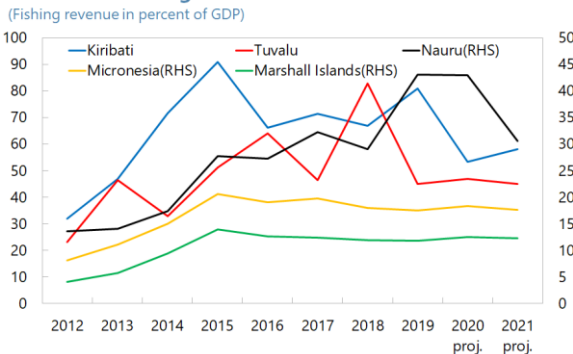
PIC Tourism Estimates for 2020Q2



Sources: IMF staff estimates.

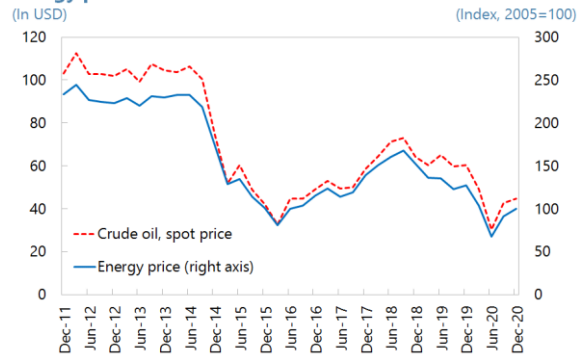
Energy exports are hurt by lower prices and/or lower demand.

Outlook for Fishing Revenue in the Pacific



Sources: Country authorities, and IMF staff projections.

Energy prices



Sources: World Economic Outlook.

¹ Marshall Islands and Micronesia have neither central bank nor foreign exchange reserves. Government deposits serve to absorb short-term liquidity shocks.

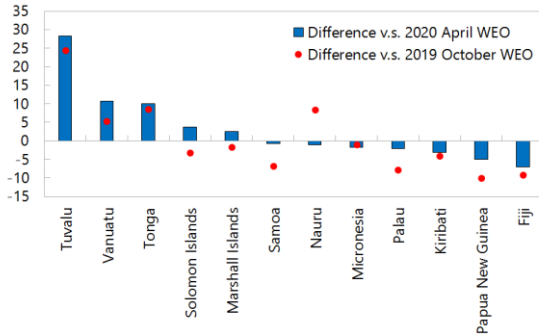
Figure 1 (continued)

External accounts will bear impact of COVID-19 pandemic

...

Change in Current Account Balances

(Current WEO projections v.s. previous WEO projections; in percent of GDP)

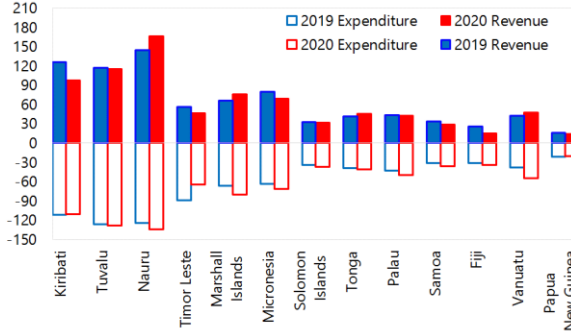


Sources: World Economic Outlook.

COVID-19 crisis and policy responses will also have a fiscal impact...

Government Revenue and Expenditure

(In percent of GDP)

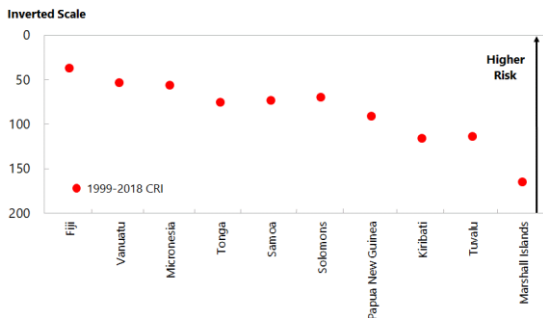


Sources: World Economic Outlook.

There are also ongoing risks from natural disasters and climate-induced risks.

Long-Term Climate Risk Index for Pacific Island Countries

(Countries with lower CRI scores are more impacted and should consider the CRI as a warning sign)

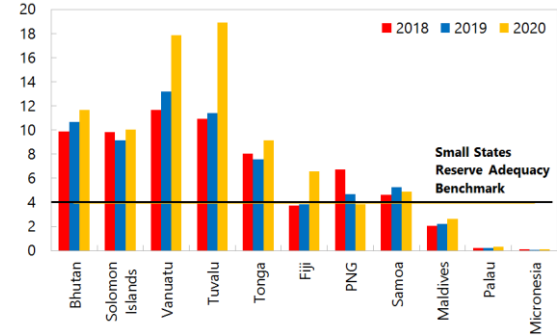


Source: Global Climate Risk Index 2020.

...Although immediate impact on foreign exchange reserves appears manageable.

Official Reserves

(In months of imports)

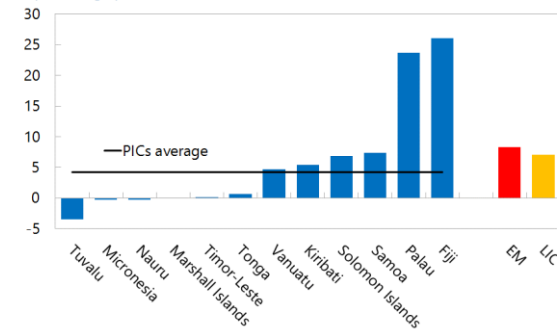


Sources: World Economic Outlook.

... with fiscal response impacting public debt levels, and potentially level of debt risk.

Change in General Government Debt, 2020 versus 2019

(In percentage points of GDP)

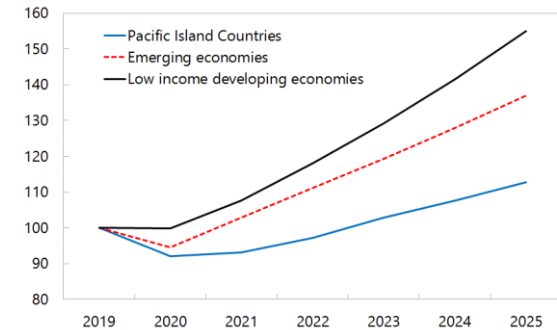


Sources: WEO; and IMF staff calculation.

PIC's medium-term growth gaps with respect to other groups are projected to widen.

GDP in US Dollars

(2019=100)



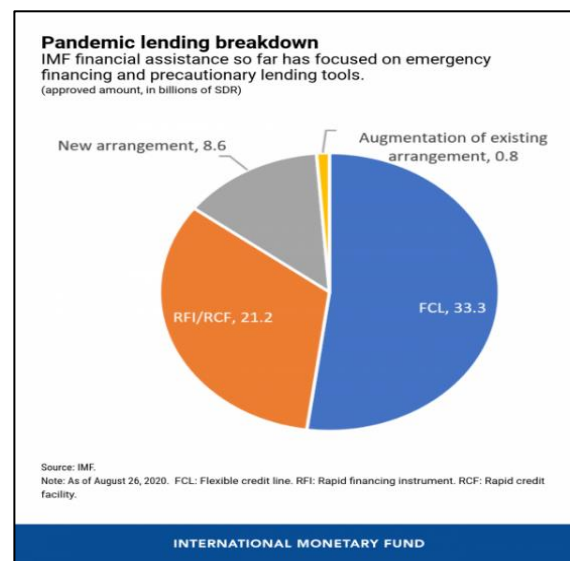
Sources: WEO Live; and IMF staff calculation.

IMF: Covid-19 Financial Assistance

In the face of unprecedented uncertainty and the severe economic impact triggered by COVID-19, the Fund continues to adapt its lending practices.

To date, the Fund has provided financial assistance through emergency support and precautionary lending to about 80 countries and provided debt service relief through the Catastrophe Containment and Relief Trust (CCRT) for 28 Countries⁵.

In addition, more than 30 countries have expressed an interest in Fund-supported programs to rebuild financial safety nets, and deal with the immediate aftermath of the pandemic.



Overall, the IMF is currently making about \$250 billion—roughly one-quarter of its \$1 trillion lending capacity—available to member countries. To date, the Fund IMF provided total financial assistance for 80 countries totaling SDR 63.9 billion (US\$ 87.9 billion). Three Pacific Island countries (Samoa, PNG, and Solomon Islands) have received in total SDR 300.2 million (US\$ 414.3 million). Tonga and Fiji have also requested support under the RCF and RFI. The Fund also provided debt service relief under the Catastrophe Containment and Relief Trust (CCRT) for 28 Countries in the amount of SDR 183.1 million (US\$ 251.2 million). Solomon Islands is the only Pacific Island country that is eligible for the CCRT and has benefited from the program, with the first tranche debt service relief approved on April 13, 2020 and the second tranche relief expected in October 2020.

IMF's Financial Assistance to PICs

Country	Type of Emergency Financing	Amount Approved in SDR	Amount Approved in US\$	Date of Approval
Papua New Guinea	Rapid Credit Facility (RCF)	SDR 263.2 million	US\$ 363.6 million	June 9, 2020
Samoa	Rapid Credit Facility (RCF)	SDR 16.2 million	US\$ 22.03 million	April 24, 2020
Solomon Islands	Rapid Credit Facility (RCF)	SDR 6.93 million	US\$ 9.5 million	June 1, 2020
	Rapid Financing Instrument (RFI)	SDR 13.87 million	US\$ 19 million	
Total Amount Approved		SDR 300.2 million	US\$ 414.3 million	

⁵ [IMF Executive Board Approves Immediate Debt Service Relief for 25 Eligible Low-Income Countries.](#)

By Leni Hunter, Resident Representative for Pacific Island Countries

Bula vinaka, Kaselehlia, Mauri, Ekamwir-omo, Alii, Halo, Lakwe, Talofa, Halo olaketa, Malo e lelei, Fakatalofa atu, Hello and Kia orāna



We hope this finds you, your families, and colleagues safe and well during these difficult times. Many Pacific countries remain free of COVID-19, and Fiji's success in containing the virus has been an impressive achievement. However, the crisis brought on by COVID-19 has caused severe economic hardship. We are glad to be able to contribute to the Fund's work in helping countries respond.

Our office works closely with APD country teams. As a member of the PNG team, Devendra Narain is responsible for the real sector, and worked on the Rapid Credit Facility (RCF) request, and the first review of the Staff Monitored Program (SMP). Seruwaia Cagilaba is responsible for the real sector for the Vanuatu team, and worked on assessment letters prepared for the Asian Development Bank. Reshika Singh handles the external and fiscal sector for Samoa, and the external sector for Solomon Islands. Reshika participated in missions for Samoa (RCF) and Solomon Islands (RCF and Rapid Financing Instrument) and participated in a seminar with the Central Bank of Solomon Islands in August, to discuss the Solomon Islands team's macroeconomic projections.

The three local economists work on WEO submissions, the policy trackers available on the Fund website, and help with preparations for the Annual Meetings.

They join virtual meetings with their teams every week. Pule and Peter handle the day-to-day running of our office, and also provide support to Washington colleagues.



Clockwise from top left: Leni, Peter, Pule, Reshika, Deven, and Seru.



I have joined teams' discussions with country authorities. In August I also provided remarks on the impact of Covid-19 on Pacific Islands countries for a course run by the Singapore Training Institute (STI), on an excel based tool for pandemic simulations. I was able to (virtually) attend the Forum Economic Ministers Meeting in August as an observer.

Our office in the Reserve Bank building is open, though for the time being we will continue to work both from the office and from home. We are fortunate to be able to work remotely, and virtual meetings have enabled us to connect better with colleagues and country authorities. However, like everyone, we look forward to when travel starts to normalize. Best wishes from us all.

By David Kloeden, PFTAC Coordinator



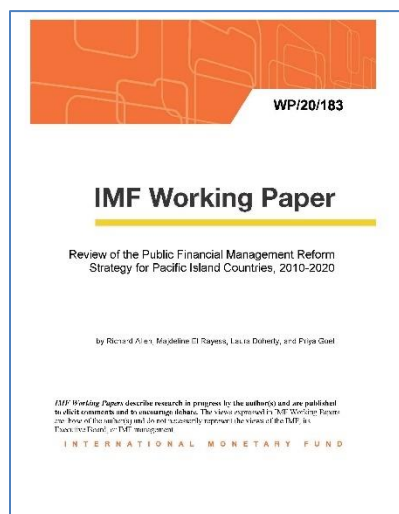
Since March 2020, PFTAC operations have been delivered entirely by remote means. Despite the challenges, dozens of remote technical assistance (TA) missions have been delivered across all of the PFTAC programs to 14 of the 16 PFTAC member countries since the fiscal year began in May 2020. Various innovative training events are being delivered with partners (budget documentation with the UNDP and Quarterly National Accounts with the Australian Bureau of Statistics), plus a series of short focused webinars with the Singapore Training Institute on financial sector and macroeconomic topics.

TA has been delivered remotely from multiple locations – Fiji (by three of the resident advisors until the GFS advisor evacuated in July to work remotely from Spain); and since March in Australia (advisors for Macroeconomic Analysis, Public Financial Management (PFM), and Financial Sector Supervision (FSS) until July); and Hawaii for the PFM advisor until her PFTAC assignment ended in May. Meanwhile two new resident advisors (PFM and FSS) were recruited and have begun working from Samoa and Albania respectively. All PFTAC staff have worked remotely from home whether in Suva or elsewhere, but from early September, Suva based staff have gradually recommenced working from the PFTAC office in Suva and plans are afoot for evacuated and new staff to travel to Fiji as soon as possible.

Remote TA delivery creates both challenges and opportunities but is not an entirely new experience. A limited volume of TA had previously been delivered remotely, particularly around development of legislation and regulations, and often with follow-up engagement and work after in-country missions. Experience with remote TA delivery over the past five months has been mostly favorable, in some cases surprisingly positive. The picture to the right is a screenshot of a PFM mission being



delivered remotely with Tongan Finance Ministry officials who convened together in their ministry facilities to interact with the PFM advisors in Australia and Hawaii. Adequate connectivity is an important prerequisite for success, but innovation and multiple communication channels can help keep the engagement active from email, to WhatsApp messaging and conversations, to Zoom and WebEx video conferencing.



Over the years, PFTAC has played a pivotal role in providing advice and TA on PFM reforms in the Pacific, drawing on and leading diagnostic assessments under the Public Expenditure and Financial Accountability (PEFA) framework. A recently published Working Paper⁶ (pictured left) by the IMF's Fiscal Affairs

⁶ <https://www.imf.org/~media/Files/Publications/WP/2020/English/wpica2020183-print-pdf.ashx>

Department (FAD) considered the impact of support provided by PFTAC towards the PFM Roadmap for Forum Island Countries mandated by the 2010 Forum Economic Ministers Meeting (FEMM) and the progress countries have made in challenges circumstances.

Building on recent PEFA innovations, PFTAC is leading efforts in the Pacific to pilot test the new PEFA Climate Change module. Working collaboratively with development partners, PFTAC co-chairs a technical working group with the Pacific Island Forum Secretariat (PIFS) on the intersection of Climate Change finance and PFM, with the testing and fine-tuning of the PEFA Climate module by PFTAC being one of three workstreams along with a PIFS led workstream on accreditation requirements for the Green Climate Fund (GCF) and Adaptation Fund (AF). The UNDP leads a third workstream on the effectiveness of climate financing. Plans are underway for PFTAC to test the PEFA Climate module in Samoa with a diverse team of partners.



Recent PFTAC staff changes included the appointment new advisors for the PFM and FSS programs respectively. Following the departure of PFM advisor Celeste Kubasta in June, **Mr. Iulai Lavea** (pictured left) a Samoan national was selected from a highly experienced pool. Iulai was the Chief Executive Officer for the Ministry of Finance of the Government of Samoa for nine years until December 2018 and previously for many years Deputy Chief Executive Officer (Policy Management). He represented the Pacific as the Adviser to the Executive Director in the World Bank Constituency Office during 2006 to 2009, preceded by a stint as the Planning Adviser to the Government of Nauru in 2005/06, and earlier in his career worked at the Pacific Islands Forum Secretariat in Suva.

Mr. Rajinder Kumar (pictured right), an Indian national replaced Mr. Benjamin Stefanou from August 1 as resident FSS advisor. Rajinder joined PFTAC from Albania where he had completed a multi-topic three-year assignment as an IMF advisor on banking regulation, supervision, and financial stability to the Bank of Albania. He brings with him extensive experience in financial sector regulation, banking supervision, and macro prudential policies, which he gained through his 28-year long career with the Reserve Bank of India.



Rajinder also worked for three years with the Bank for International Settlements at Basel where he supported the Basel Committee's Regulatory Consistency Assessment Program and a few of the Basel Committee's technical policy making groups. In Albania, Rajinder helped the Bank of Albania introduce Basel III reforms and complete implementation of Pillar 2 of the Basel capital adequacy framework.

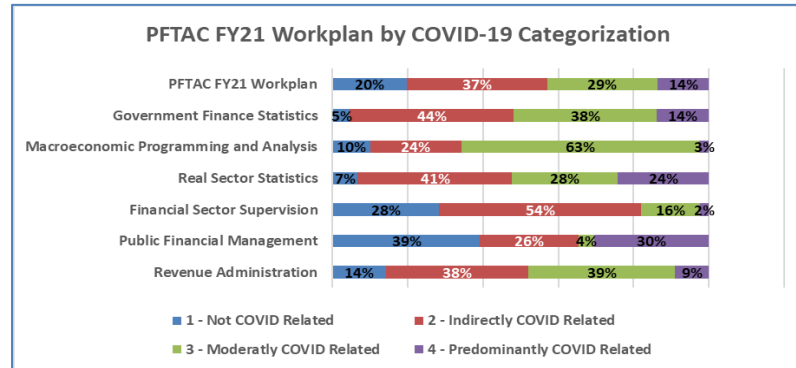
The FY2021 workplans endorsed by the Steering Committee (SC) in April were mostly formulated before the onset of the COVID crisis. While they provided a baseline, the need for review was recognized to better reflect changing priorities necessitated by the crisis, the successes and challenges with remote delivery of Capacity Development in the first few months, the receptivity and absorptive capacity of beneficiaries, and the complementary roles and efforts of partners. The workplans have accordingly been revised after extensive consultation during June – July, first and foremost with member country authorities and counterparts; IMF Pacific country mission chiefs and teams; development partners; and other regional stakeholders. The assumptions underpinning these revised workplans are ambitious and optimistically based on the gradual resumption of travel from

late 2020 into early 2021. If this does not eventuate, a further round of revisions in late November will need to reflect exclusive remote delivery of the program until the end of FY2021 in April.

These updated plans were presented in a virtual SC briefing session on August 20 and have now been endorsed. They are available at the PFTAC website along with the updated and finalized 2020 Annual Report that reflects actual outturn versus the results projected in April 2020 when published.

So, how are the PFTAC programs responding to the COVID-19 crisis? In

attempting to answer this recently raised question, the PFTAC team has reviewed each activity in the updated FY2021 workplan and classified them somewhat subjectively under four broad categories:



1. *Not COVID-19 related* – such as ongoing PFM work on the introduction IPSAS standards.
2. *Indirectly COVID-19 related* – while the objective of the TA is unrelated to responding to the COVID-19 crisis, indirect benefits to the response may result. An example could include recent work on Inflation forecasting that was requested by the Central Bank of Solomon Islands.
3. *Moderately COVID-19 related* – while the original objective of the TA is unrelated, the impact and benefits are more directly related to responding to the crisis. The recent expansion of the FSS program to address cyber security risks is an example where such risks have become elevated in the COVID crisis, and the core work of the Macro program in strengthening medium-term macroeconomic forecasting models is even more important in factoring in the economic dislocations caused by the crisis.
4. *Predominantly COVID-19 related* – possibly in direct response to a request from the authorities, or existing work that is already strongly correlated to the crisis response or is after some recalibration. Examples include strengthening cash management capabilities, responding to taxpayer compliance challenges during and after the crisis, and increasing the frequency of key economic indicators like quarterly national accounts.

IMF Executive Board Approves a US\$22.03 Million Disbursement to Samoa to Address the Covid-19 Pandemic

April 24, 2020 The Executive Board of the International Monetary Fund (IMF) approved a disbursement to Samoa under the Rapid Credit Facility (RCF) equivalent to SDR 16.2 million (about US\$22.03 million, 100 percent of quota) to help cover urgent balance of payments needs stemming from the global COVID-19 pandemic.

Samoa suffered from a severe measles outbreak in late-2019 (which claimed 83 lives and resulted in over 5,700 cases), and resulted in a much larger economic contraction than that of past natural disasters. The global pandemic of COVID-19 has exacerbated the economic downturn and will devastate the economy as it heavily depends on now-closed inbound tourism and remittances.

Samoa has shown resilience to multiple past economic shocks, underpinned by the authorities' strong commitment to support the economy, and financial assistance provided by the international community. Samoa was among the first countries in the world to secure its border to protect its citizens. The authorities' response to the measles outbreak and the global pandemic has well identified the policy priorities, including safeguarding human capital, providing support to the private sector, and maintaining macroeconomic stability. With support provided by external donors, the authorities aim to enhance the country's preparedness to handle the impact of COVID-19, as well as improving the quality and efficiency of the health care system. The authorities' policy response also targets assistance to vulnerable businesses and households to ease the impact of the pandemic, and safeguard their livelihoods. The financial assistance provided by the IMF will help the authorities maintain macroeconomic stability, thereby supporting the private sector and facilitating international payments for imports, which are needed to provide goods and services to sustain the livelihoods of the people.

IMF Executive Board Approves a US\$363.6 Million Disbursement to Papua New Guinea to Address the COVID-19 Pandemic

June 9, 2020. The Executive Board of the International Monetary Fund (IMF) approved a disbursement to Papua New Guinea (PNG) under the Rapid Credit Facility (RCF) equivalent to SDR 263.2 million (about US\$363.6 million, 100 percent of quota) to help cover urgent balance of payments needs stemming from the global COVID-19 pandemic.

The COVID-19 pandemic is hitting the PNG economy hard, through export losses and the impact of measures to mitigate transmission of the virus. The crisis erupted as the government was beginning to implement wide-ranging reforms under a Staff-Monitored Program (SMP). The authorities have acted forcefully to prevent a significant outbreak of the COVID-19 virus. While these efforts have been successful to date, the economic impact of mitigation measures and export losses is likely to lead to negative growth in 2020 and has generated significant fiscal and balance of payments financing needs. Lower resource export earnings have led to a large balance of payments shortfall of around 4 percent of GDP, while measures to contain the spread of the virus is dampening economic activity and government revenues, leading to a substantial widening of the budget deficit to over 6 percent of GDP.

With limited scope for increasing borrowing domestically or abroad, the authorities' economic policy response has focused on reallocating spending within the budget envelope towards health care², as well as facilitating access of unemployed workers to superannuation savings, and encouraging banks to support individuals and businesses adversely affected by the economic downturn. Despite the COVID-19 crisis, the authorities have re-affirmed their commitment to reform, and PNG's longer-term outlook remains positive, based on the SMP reform agenda and the likelihood that major resource projects will come to fruition in coming years.

IMF Executive Board Approves a US\$28.5 Million Disbursement to Solomon Islands to Address the COVID-19 Pandemic

June 1, 2020 The Executive Board of the International Monetary Fund (IMF) today approved a disbursement to the Central Bank of Solomon Islands for an amount of SDR 20.8 million (about US\$28.5 million, 100 percent of quota), comprising SDR 6.93 million (about US\$ 9.5 million, 33.3 percent of quota) under the Rapid Credit Facility (RCF) and SDR 13.87 million (about US\$ 19 million, 66.7 percent of quota) under the Rapid Financing Instrument (RFI) to help cover urgent balance of payments needs stemming from the COVID-19 pandemic.

The government has implemented strong measures to prevent the entry of COVID-19 and Solomon Islands has had no confirmed cases. Nevertheless, a sharp decline in commodities exports and tourism is expected to negatively impact the economy and weaken the external position, and necessary containment efforts will slow domestic economic activities.

The authorities' immediate policy responses have focused on strong and timely containment measures to limit the risk of a local outbreak while reprioritizing spending towards health care. The authorities have also recently adopted a fiscal stimulus package with policy measures targeted at providing social assistance, protecting jobs and incomes, and stabilizing the domestic economy. The IMF financial support will make a substantial contribution to filling immediate external financing needs that have emerged due to COVID-19. It is also expected to catalyze additional support from development partners.

Tonga: Technical Assistance Report-Climate Change Policy Assessment

[Read this TA report here](#)

June 30, 2020

Tonga is one of the world's most exposed countries to climate change and natural disasters. It suffered the highest loss from natural disasters in the world (as a ratio to GDP) in 2018 and is among the top five over the last decade. Climate change will make this worse. Cyclones will become more intense, with more damage from wind and sea surges. Rising sea levels will cause more flooding, coastal erosion and contaminate fresh water. Daily high temperatures will become more extreme, with more severe floods and drought.

Tonga is especially vulnerable to these hazards and has made good progress on being prepared for natural disasters and climate change at the national, strategic, level. But these strategic plans need to be more consistently implemented. Tonga also needs to plan more for the long-term, extreme events, and possible “transformational” responses.

Tonga’s main climate challenge is to build resilience. The list of projects to help do so is long and expensive—some 140 percent of 2018 GDP cumulatively. Development partners’ financing has been secured for about half. Tonga also has other development goals to achieve. While many of them will overlap with the climate needs, many will go beyond requiring an additional spending.

Building resilience requires not only financing projects, but also managing the financial risk that natural disasters pose. Tonga has a reasonable range of tools to do so and it should continue to maximize their use. It would also benefit from developing a comprehensive disaster risk financing strategy, informed by comprehensive, accessible, and appropriately scaled disaster and hazard risk information.

Climate resilience requires not just more spending but spending it better. Overall, Tonga’s public financial management systems are reasonably sound. Public investment management, like similar countries’, relies on development partners’ technical and financing assistance for most investment projects. Fixing some key weaknesses would help Tonga get better value for money.

Climate resilience and economic development go together. The IMF’s Article IV Concluding Statement and forthcoming report discusses Tonga’s broader structural reform agenda, but some reforms would be particularly helpful for building resilience. Improving and enforcing the building and land use codes, establishing an effective Housing Sector Resilience Office, and strengthening awareness and information sharing related to climate change impacts and natural disaster risks among governmental units, will help Tonga build back better.

An overarching constraint on Tonga’s ability to reach its climate (and general development) goals is its human and financial limited capacity. Tonga’s thin public sector capacity is typical in very small states, with only a few qualified public servants called upon to implement the many tasks of central government, as well as gaps in systems, processes, data and information sharing. The constraints of the domestic private sector—the shortage, for instance, of construction firms and skilled labor— is also a challenge. While domestic capacity is—and needs to keep—growing, this will take time and Tonga’s climate needs are urgent. This calls for greater transparency on the pipeline of priority projects so the market can prepare, and strengthening procurement measures, potentially including framework agreements or bundling contracts, to attract international firms, where appropriate, as a complement to local capacity.

Tonga has very limited capacity to finance its climate resilience needs itself and continued support of the international community is essential.

Recent Events

- **Financial sector Webinars delivered jointly between MCM, STI, and PFTAC:**
 - Round table on Banking regulation and supervision during the COVID19 pandemic – *May 13*
 - Round table on financial sector cyber risks – *June 10*
 - Round table on Central Bank support to financial markets during the COVID19 pandemic – *June 24*
 - Round table on Insurance regulatory and supervisory responses during the COVID19 pandemic – *July 15*
- **Webinar by PFTAC and STI for Finance Ministry and Central Bank officials on macroeconomic impact of the COVID19 crisis**
– *August 6 and 7*
- **Joint hybrid (virtual and in-person using USP Pacific-wide campus facilities) workshop with UNDP on Budget Documentation**
– *September 22 - October 9*
- **Virtual workshop on Quarterly National Accounts and Seasonal Adjustment**
– *September 15 - 25*
- **Virtual briefings for the PFTAC Steering Committee members and observers**
– *April 24 and August 20*
- **Regional meetings convened by the Pacific Island Forum Secretariat (PIFS):**
 - Forum Economic Officials Meeting (FEOM) – *August 4 and 5*
 - Forum Economic Ministers Meeting (FEMM) – *August 11 and 12*

Upcoming Events

- **Pacific Islands Forum Foreign Affairs Ministers Meeting**
October 14, 2020
- **IMF/World Bank Annual Meetings**
October 12-18, 2020
- **Pacific Islands Forum Leaders' Meeting 2020, Date TBD**
- **Summit of the Heads of State and Government of the OACPS**
2021, Date TBD