FIJI (2021)

- Fiji has been among the hardest hit by the pandemic—with infection rates at one point among the highest in the world, with real GDP contracting by 15.7 percent in 2020, and projected to contract by another 4 percent in 2021 given an outbreak of the COVID-19 Delta variant.
- Multilateral and bilateral support has been critical in helping Fiji weather the worst of the crisis and has facilitated a strong government response—including rapid acceleration of the government vaccination program underpinning Fiji’s reopening to international tourism.
- A gradual recovery is expected to emerge in 2022 but will hinge on how the reopening and resumption of tourism unfolds. Based on the authorities’ October announcement regarding border reopening and protocols for international tourist arrivals, real GDP growth could rise to 6.2 percent in 2022 and further to 8.3 percent in 2023.
- However, the margin of uncertainty is high, and two years of unprecedented hardship have left Fiji in a precarious position. Vulnerabilities have been exacerbated by scarring and diminished fiscal space. Contingent liabilities have surged during the pandemic as the government extended loan guarantees to state enterprises.
- Fiji remains vulnerable to external shocks—particularly natural disasters and the effects of climate change. Fiscal, monetary, and financial support will need to continue in the short-term as Fiji weathers the remaining months of the pandemic.
- However, as tourism resumes gradually and a recovery takes hold, policy adjustments to address macroeconomic imbalances and reduce vulnerability will be a clear priority. As part of a COVID-19 support package, the FY20-21 budget introduced measures that reduced the overall revenue envelope by about 5 percent of GDP—creating a structural imbalance in the fiscal framework.
- Fiscal consolidation will be needed to put public debt on a sustained downward path and ensure a sustainable macro-fiscal trajectory.

KIRIBATI (2021)

- Kiribati’s growth has been strong in recent years and some moderation is expected, with risks skewed to the downside.
- High fishing revenues improved the fiscal position, but generated pressure to increase spending.
- There has been progress on fiscal and structural reforms. Yet, public spending needs are large, driven by an infrastructure gap and climate adaptation costs, and the country remains at high risk of debt distress.
- The near-term outlook is expected to feature some moderation of recent trends. Growth is estimated to grow at a slower pace of 2¼ percent in 2018, as fishing volumes normalize.
- Inflation is expected to remain around 2 percent this year and increase in the medium term to 2½ percent—a pace consistent with major trading partners.
The current account surplus is projected to narrow, as fishing license fees decline, and imports related to development spending remain high.

Risks to the outlook are substantial and skewed to the downside (Annex II).

The favorable weather conditions underpinning strong fishing catches have lasted unusually long.

A cyclical reversal could threaten revenues, with implications for the fiscal balance and the current account.

Tighter global financial conditions could adversely affect the economy through the exposure of the RERF.

Given Kiribati’s high reliance on imported goods, commodity price shocks and exchange rate volatility could have an outsized impact on imports, inflation, and growth.

Policy priorities include reinforcing the fiscal framework, creating an environment for a dynamic private sector, and enhancing governance.

**REPUBLIC OF MARSHALL ISLANDS (2021)**

The government of Marshall Islands has taken swift and strong measures to contain the COVID-19 pandemic.

As of early December 2021, there were zero active COVID-19 cases and four recovered cases, and 55 percent of the eligible population (5 years+) and 86 percent of the adult population (18 years+) have been fully vaccinated.

However, the pandemic is expected to have a continued negative effect on the economy, reflecting the slumps in the transportation and tourism sectors.

The fishery sector provides some offset, supported by new capacity.

Growth is projected to contract by 2.4 percent in FY2020 and by 1.5 percent in FY2021. A recovery is expected to start in FY2022.

The authorities announced a COVID-19 response package of US$63 million (27 percent of GDP) to strengthen health preparedness and support vulnerable groups in June 2020 with implementation spread to two years.

Development partners have so far provided grant financing US$50 million (21 percent of GDP). The package should remain in place until the recovery is firmly underway, but the authorities should consult with donors to reprioritize and reallocate COVID-19 packages, given the uncertainty about the virus development, to protect the most vulnerable while supporting the economy recovery.

The authorities’ continued cautious approach to the issuance of a digital currency (the SOV) is welcome.

Post-pandemic, a gradual fiscal consolidation is necessary to prepare for the possible expiration of U.S. grants, to reduce fiscal risks of a fiscal cliff, and protect long-term income.

Achieving a green, inclusive, and sustainable post-COVID-19 recovery would also require safeguarding financial stability, adopt a National Adaptation Plan to climate change, accelerate SOEs reforms, and support a dynamic private sector.

**FEDERATED STATES OF MICRONESIA (2021)**
The COVID-19 pandemic and related containment measures have put severe strains on the FSM economy.
A public health emergency was declared and international travel restrictions were adopted at the onset of the pandemic, and subsequently extended through end-January 2022. Thanks to these measures, there has been no confirmed COVID-19 case in the FSM so far (as of December 10, 2021).
The economic policy response has been strong and generally appropriate, helping counter the negative effects of the pandemic.
As the international borders remain shut, the economic contraction is likely to deepen with growth estimated at -3.2 percent in FY2021.
A slow recovery is projected for FY2022 driven by a gradual border reopening. Uncertainty surrounding the outlook remains high, and risks are tilted to the downside mainly related to the evolution of the pandemic.
The FSM is facing significant medium-term uncertainty, owing to the possible expiration of grants and other assistance provided under the Compact Agreement with the United States.
The FSM is also highly vulnerable to climate change-induced natural disasters. Near-term policies should prioritize measures to protect vulnerable segments of the population, assist negatively affected businesses, and underpin a robust economic recovery.
To ensure fiscal resilience, a comprehensive medium-term fiscal framework is needed that copes with the possible fiscal cliff and safeguards debt sustainability.
Accelerating structural reforms would be key to develop a dynamic private sector, diversify the sources of growth, and adapt to climate change.

NAURU (2021)

Nauru has not had any COVID-19 cases on the island, the adult population is nearly fully vaccinated, and vaccination for under-18-year-olds is expected to commence shortly.
The authorities’ early and decisive measures successfully contained COVID-19 with a closure of Nauru’s air and sea borders, quarantine protocols, and continued delivery of food and fuel.
The COVID-19 taskforce prioritized the expansion of intensive care capacity and securing vaccines through bilateral donors and the COVAX facility. Authorities have eased containment policies over time in consultation with the COVID-19 taskforce.
The economy expanded in FY20 and FY21 (by 0.7 and 1.5 percent, respectively) owing to the sizeable fiscal policy response.
Pandemic-related measures to support the economy are estimated at 8.5 and 11 percent of GDP in FY20 and FY21 respectively, including cash support to Nauru Airlines and the Nauru Shipping line, and ex gratia payments to government employees.
The pandemic response was financed by strong revenues in FY20 and FY21, owing to a delay in scale-down of the Regional Processing Center and windfall fishing license revenues.
Despite pandemic-related pressures, in March 2021, the Government of Nauru (GON) reached a settlement on the yen-denominated debt obligations to the U.S. based hedge fund, Firebird. This resolution of the long-standing sovereign debt default was a significant step forward, lowering external debt by an estimated 83 percent of its outstanding value.
Nauru has also lowered domestic debt, related to the 1986 liquidation of the Bank of Nauru (BON), and is finalizing debt stocktaking and reconciliation of outstanding domestic debt liabilities. With ADB assistance, GON is reviewing and modernizing its debt management and monitoring arrangements, to ensure future debt sustainability.

PALAU (2021)

- Palau entered the pandemic with some fiscal buffers, including a moderate public debt.
- While strict health measures and preemptive border closure have helped prevent local community spreads of COVID-19 to date, they have severely impacted the tourism-dependent economy.
- Real GDP contracted by 9.7 percent in FY2020 and is estimated to have further declined by 17.1 percent in FY2021.
- The economic fallout of the pandemic and the cost of the fiscal response have led to large fiscal deficits and a rapid increase in public debt. With about 90 percent of the total population fully vaccinated, Palau has started to gradually reopen its borders.
- Real GDP is projected to rebound by 9.4 percent in FY2022 alongside a gradual recovery in tourist arrivals. The outlook is subject to high uncertainty, and risks are tilted to the downside, including from a protracted pandemic, a domestic outbreak, and natural disasters.
- Palau’s graduation from the OECD’s list of countries eligible for official development assistance could lead to lower concessional financing, in particular grants. In the near-term, policies should aim at extending support until the recovery is firmly entrenched, while improving the efficiency of COVID-related spending.
- In the medium-term, rebuilding fiscal resilience through a gradual fiscal consolidation once the recovery is firmly underway, and reforming the public sector will be key to contain rising fiscal risks.

PAPUA NEW GUINEA (RCF – 2021)

- Papua New Guinea (PNG) has been severely affected by COVID-19.
- A third wave of the pandemic is straining the healthcare system resulting in an increase in COVID-related deaths.
- Vaccine hesitancy is widespread resulting in very low uptake of the vaccines with about only 2 percent of the population fully vaccinated by end-November 2021.
- Real GDP is estimated to rebound modestly to grow by 1.7 percent in 2021 after a contraction of 3.5 percent in 2020.
- If the authorities overcome the current COVID-19 wave, real GDP is expected to grow by 4.8 percent in 2022 supported by resumption in mining activities and expansion in non-resource sector.
- However, near-term risks remain high and continue to be pandemic-related. In the absence of faster progress on vaccinations, further restrictions and lockdowns are possible, with the attendant impact on economic activity and external inflows, particularly if the resource sector is forced to shut down due to infections.
In addition, PNG is vulnerable to climate and other natural disasters. Macroeconomic vulnerabilities stem from PNG’s elevated public debt level: the debt sustainability analysis confirms that PNG remains at high risk of debt distress.

With limited sources of financing available in an adverse shock scenario and pressing social and development needs, the room for significant policy adjustment is limited.

The planned fiscal consolidation helps address debt vulnerabilities exacerbated by the global COVID-19 shock.

Over the medium-term, public debt is projected to enter a downward trend. Conditional on the implementation of policy measures, PNG’s external and overall debt is judged as sustainable.

**SAMOA (2021)**

Samoa has shown resilience to the pandemic, underpinned by the authorities’ efforts to successfully prevent a domestic COVID-19 outbreak and strong economic support measures, along with financial assistance from the international community.

The authorities strengthened the health care system and provided assistance targeted to vulnerable businesses and households to safeguard livelihoods.

Nevertheless, the pandemic has heightened Samoa’s economic challenges, with real GDP projected to contract by 7.8 percent in FY2021 (ending June 2021) and setbacks on sustainable development goals.

The economy faces unprecedented uncertainty, and risks to the outlook remain tilted to the downside, including from the pace of vaccination and resumption of private sector activities, and the high vulnerability to natural disasters.

In this context, the authorities should pursue 1) Fiscal policy that extends some stimulus measures with better targeting for vulnerable households and businesses, along with gradual withdrawal and medium-term consolidation to slowly bring public debt to 50 percent of GDP; 2) Accommodative monetary policy; 3) Enhanced AML/CFT supervision to upgrade compliance in high-risk institutions; and 4) Structural reforms to enhance job creation and mobility, financial inclusion, and the overall business environment.

**SOLOMON ISLANDS (2021)**

Strong and timely containment measures have successfully prevented a domestic COVID-19 outbreak in Solomon Islands but have also weighed on economic activity and aggravated pre-existing socio-economic tensions.

Following a contraction in 2020, growth is projected to recover gradually starting this year and to gain strength as containment measures are relaxed and borders re-opened.

Elevated pandemic-related uncertainties as well as longstanding social, economic and governance challenges and vulnerability to natural disasters pose headwinds to inclusive growth.

Despite strong external buffers, weaker fiscal position increases vulnerability to shocks, while the decline in logging weighs on fiscal revenues and growth prospects.

As regards policies, pandemic responses, including measures to accelerate vaccinations, should continue. The government should identify additional financing to provide targeted and
transparent support to vulnerable households and businesses and continue efforts to avoid any delays in government payments.

- Post-pandemic fiscal policies should focus on rebuilding fiscal buffers to enhance resilience and address spending needs for progress towards Sustainable Development Goals.
- An effective debt based fiscal anchor can help guide policy. Reforms are needed to improve fiscal governance, advance Public Financial Management, and establish a comprehensive medium-term revenue strategy to maintain fiscal sustainability.
- Modernizing tax administration and introducing a Value Added Tax are important first steps towards comprehensive tax reforms.
- Maintaining a strong reserves buffer will continue to support macroeconomic stability. Financial sector reforms should be aimed at increasing private sector credit growth, as well as continued improvements in financial development and inclusion. Strengthening the Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) framework would help safeguard financial stability.
- Generating new sources of inclusive growth requires effective investment in human capital and infrastructure, structural reforms, and efforts to improve the business environment.
- Accelerating digital and green growth can foster longer-term economic transformation and improve resilience. Strengthening enforcement of governance standards, improving transparency (including for pandemic-related spending), and advancing the anti-corruption agenda remain crucial.

**TONGA (2021)**

- Tonga’s modest recovery from the devastating 2018 Tropical Cyclone (TC) Gita has been affected by the COVID-19 pandemic.
- GDP growth recorded 0.7 percent in FY2020 due to the dual shocks of Cyclone Harold and the pandemic, and containment measures that hurt private consumption.
- Reflecting the full-year effect of the pandemic, real GDP is estimated to have contracted by about 2 percent in FY2021, due to a sudden stop in tourist arrivals and delays in large infrastructure investment despite increased remittance inflows.
- Tonga is likely to return to a positive growth of 2.9 percent in FY2022 due to strong remittances, policy support, and base effects.
- Downside risks remain large, stemming from a weaker global recovery that would weigh on aid and remittances, and the possibility of a local outbreak. The pandemic has also worsened Tonga’s pre-existing vulnerabilities, namely a high risk of public and external debt distress.
- Moreover, Tonga’s medium-term outlook is modest and fragile due to its vulnerability to natural disasters and reliance on labor exports.
- The immediate policy challenge is to support the economy through the pandemic while ensuring fiscal sustainability and achieving longer-term climate-resilience and development goals.
- The 2020 Climate Change Policy Assessment assessed the cost of achieving climate-resilience and development goals to be substantial, requiring additional grant financing support to avoid aggravating debt sustainability concerns.
Given limited fiscal buffers and urgent balance of payments needs, the IMF provided emergency financial assistance under the Rapid Credit Facility in early 2021, which, together with funding from other international partners and debt relief under the Debt Service Suspension Initiative, is expected to help Tonga weather the twin shocks.

**TUVALU (2021)**

- Tuvalu encountered the pandemic following a period of relatively strong growth.
- The economy expanded 6.3 percent on average between 2017-2019, reflecting high public spending on infrastructure and new housing prior to the 2019 Pacific Islands Forum, and an elevated public sector wage bill.
- Close engagement with donors, guided by the mutually-agreed reform agenda outlined in the Policy Reform Matrix (PRM) helped ensure the steady inflow of budget support grants. Infrastructure investment funded by donors also contributed to growth.
- Due to buoyant fishing revenues and grants, Tuvalu’s budget registered surpluses in most years, leaving its fiscal buffers well replenished and debt levels low ahead of the pandemic. Under current policies, Tuvalu will face increasing budget deficits going forward.
- In 2021, after the passage of the supplementary budget, the fiscal balance is projected to shift to a deficit of 7.0 percent of GDP as a result of significant increases in recurrent spending on goods and services and public sector wage bill, and higher capital spending, mostly due to expenditures related to a planned national airline (at AUD13mln or 16 percent of GDP).
- The economy is expected to rebound in 2021. The vaccine rollout has started in April but securing enough vaccines to inoculate the entire population will take time. Consequently, partial border reopening is expected at the end of 2021 at the earliest. Full resumption of travel in 2022, continued high public spending, and further implementation of infrastructure projects is forecast to increase growth to 3.5 percent by 2022. Risks surrounding the outlook are high and tilted to the downside.
- Continued lack of effective financial supervision of banks and weak balance sheets of State-Owned Enterprises create contingent risks to the government and impede credit intermediation. A loss of the correspondent banking relationship would endanger Tuvalu’s ability to process international payments.
- Tuvalu is also heavily exposed to the effects of climate change and natural disasters. Strong implementation of fiscal, financial, and structural reforms, aided by capacity building provided by international community, would help support growth going forward.

**VANUATU (2021)**

- The COVID-19 pandemic and major natural disasters hit the Vanuatu economy severely in 2020. Due to the authorities’ decisive measures, Vanuatu has had no domestic transmission of COVID-19.
- However, the border closure dealt a heavy blow to tourism. Infrastructure projects have also been delayed. In addition, Tropical Cyclone Harold and a volcanic eruption in Tanna Island caused extensive damage the first half of 2020.
Notwithstanding the authorities’ policy responses, the reduction in travel receipts led to severe economic contraction. Strong receipts of the Economic Citizenship Programs (ECP) and donor support have helped mitigate the impact of the pandemic on fiscal and external balances.

After a severe contraction in 2020, real GDP growth is expected to rise to 1.2 percent in 2021. Risks to the outlook are substantial and tilted to the downside.

A worsening of the pandemic requiring longer border closure would adversely impact economic activity. ECP revenues could fall sharply amid growing concerns on AML/CFT risks to ECP under the recent loss of the key correspondent banking relationship.

Further deterioration of banks’ asset quality could erode the soundness of Vanuatu’s financial system. Lack of transparency and effective supervision framework for state-owned enterprises could negatively affect the business environment and fiscal management.

Issues concerning AML/CFT, and EU blacklisting related to tax transparency could accelerate de-risking by foreign firms and impede foreign direct investment (FDI). An ever-present downside risk relates to further natural disasters.