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

Regional growth declined in 2016, largely in PNG and Fiji. Low oil prices slowed economic activity in PNG and Cyclone Winston caused the deceleration in Fiji. The outlook for growth in the region in 2017 is moderately positive, supported by the strengthening oil prices (PNG), strong post cyclone recovery (Fiji) and tourist activities (Fiji, Palau and Vanuatu). In northern Pacific countries (Kiribati, Marshall Islands, Micronesia and Tuvalu), fishing license revenue is expected to remain high, but growth is likely to stabilize as the positive fiscal impulse fades. For the region, natural disasters remain the main downside risk highlighting the importance of fiscal discipline to build buffers and enhance resilience to shocks.

In April, a high-level dialogue on Building Resilience to Natural Disasters and Climate Change was hosted by Fiji, organized jointly by the IMF with the ADB and JICA. Discussions focused on strengthening policies, medium-term budgeting and capacity to build resilience. A three-day workshop attended by around 30 officials from across the region also looked at policies and solutions.

IMF staff have been monitoring global trends in the changes of costs and pressures on sending and receiving remittances in the region associated with the change of correspondent banking relationship. In June, a joint mission by APD, LEG, and MCM visited Australia, New Zealand, and Samoa, to explore potential regional solutions to the risks to remittances channels to Pacific islands, as well as to provide specific technical assistance on this issue to Samoa. The IMF plans to hold a roundtable in Auckland in February and to report back findings to regulators in March.

Strengthening macroeconomic data remains a priority in the region. For example, with the help of STA, Fiji is taking steps to publishing new quarterly GDP estimates. The IMF is assisting many countries implementing the enhanced General Data Dissemination System (e-GDDS) which focuses on improving the transparency of data and governance. On broader capacity development, PFTAC is busy delivering its program and the funding gap is slowly shrinking.



Mr. Feridhanusetyawan (IMF RR), Mr. Bainimarama (Fiji Prime Minister), Mr. Rhee (IMF APD Director), and Mr. Sayed-Khaiyum (Fiji Attorney General and Minister for Economy, Public Enterprises, Civil Service and Communications).

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By APD Small States Division

Si Guo (Project Leader)

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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 APDSS@imf.org and AStuart@imf.org

Economic Developments

- **Aggregate output growth in APD small states decelerated in 2016, mainly explained by external factors.** Papua New Guinea (PNG), a gas exporter and the largest economy in the region, was hit hard by the low commodity prices and a severe drought. Fiji, the second-largest economy, experienced two cyclones in early 2016. More broadly, world GDP expanded by merely 3.2 percent (annualized rate) in 2016 (and 3.5 percent in 2017), substantially slower than the average growth rate in the past decade (about 4 percent). The slowdown of the global expansion was mainly explained by sluggish growth of the U.S. economy in 2016, and a slowdown in emerging markets. Regional growth picked up moderately in 2017 as external conditions improved and the economies of PNG and Fiji recovered.
- **Against a backdrop of unfavorable external conditions, development in individual economies diverged:**
- *The oil exporters in the region (PNG and Timor-Leste)* were negatively affected by the oil price shock in 2015-16. Both countries experienced sharp growth slowdown, reduction in foreign reserves, higher inflation rates, weak credit demand, larger-than-expected fiscal deficits, as well as surging (while still manageable) public debt. In PNG, growth slowed further in 2017, mainly driven by the shortage of foreign exchange, fiscal consolidation and overvaluation of the currency. In Timor-Leste, however, the contraction of total output is likely to continue as oil stock depletes. Despite the severity and persistence of the price shocks, the adjustments of REER in these two countries have been limited due to their exchange regimes (stabilized arrangement and dollarized, respectively).
- *Countries with large tourism sectors (Fiji, Palau, Vanuatu and Samoa)* generally benefited from the continued growth in tourist arrivals. In 2016, the number of visitors to Fiji, Vanuatu and Samoa increased by 5 percent, 19 percent and 5 percent, respectively. The reduction in the number of tourists from Australia has been more than offset by the increase in the tourist arrivals from North America and New Zealand.¹ The trend continued in 2017 H1, with the number of tourists to Fiji increasing further by 5 percent (yoy). The buoyant tourism sector either boosted the aggregate output growth (Samoa and Vanuatu), or compensated for the loss in other sectors in the aftermath of natural disasters (Fiji). Inflation rates and current account balance in these countries were generally lower than their historical average, thanks to the low oil prices.
- *Northern states (Micronesia, Marshall Islands and Kiribati) and Tuvalu* benefited from a surge in fishing license revenue under the Parties to the Nauru Agreement (PNA) which improved the current account balance and the fiscal I balance. Public spending also increased, which boosted output growth. However, in some cases, spending increases have been concentrated in recurrent expenditures which may be hard to reverse. For some countries, this makes fiscal adjustment ahead of the expiration of compact grants from the United States more challenging. Inflation has been moderate due to low commodity prices.
- *Tonga and Solomon Islands.* Growth in *Tonga* accelerated since 2015 driven by the construction activities. Despite the low oil price, inflation rates moved upward because of the import tax increase. The growth performance in Solomon Islands also improved in 2016—17, thanks to the strong performance in the timber sector. However, the fiscal position weakened with higher expenditures (especially the transfers to electoral constituencies for rural development) and declining revenues and grants. The current account deficit widened as a strong trade performance was offset by higher dividend payment outflows.

¹ The decline in tourist arrivals to Palau, however, was mainly attributed to the policy change which aimed to limit the number of low-budget tourists.

Regional Developments and Outlook

APD Small States: Real GDP (Year-on-year change; in percent)				
	2015	2016	2017(p)	2018(p)
Bhutan	6.1	6.2	5.9	11.2
Fiji	3.6	0.4	3.8	3.5
Kiribati	7.5	4.2	2.8	2.3
Maldives	2.8	3.9	4.6	4.7
Marshall Islands	-0.4	1.9	2.0	1.9
Micronesia	3.7	3.0	2.0	1.4
Nauru	2.8	10.4	4.0	-4.0
Palau	11.4	1.9	1.0	5.5
Papua New Guinea	8.0	2.4	2.3	2.5
Samoa	1.6	7.1	2.1	0.9
Solomon Islands	2.5	3.3	3.0	3.1
Timor-Leste ¹	4.0	5.0	4.0	6.0
Tonga	3.5	3.1	3.1	3.2
Tuvalu	9.1	3.0	3.2	2.5
Vanuatu	1.6	4.0	4.5	4.0
APD small states and Pacific islands ²	6.7	2.9	3.5	3.9
Small Pacific island countries ^{2, 3}	3.4	3.0	3.3	3.1
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.				

Outlook and Risks

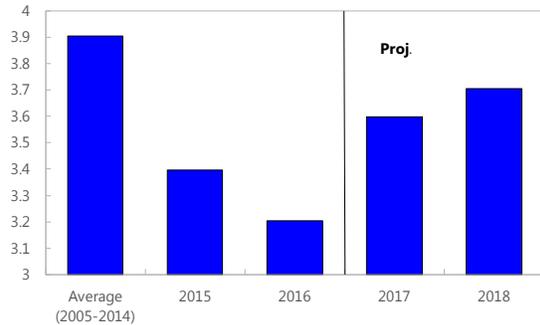
- In 2017—18, growth in APD small states is expected to pick up moderately.** Global economic activity is projected to accelerate in 2017 and 2018. Fiscal consolidation and the shortage of foreign exchange will continue to dampen economic activity in PNG, and Fiji's recovery from Cyclone Winston is likely to be strong. Tourists arrivals are expected to continue their growing trend, and will contribute to the GDP growth and improve the external balances of the countries in the region, especially Fiji, Palau and Vanuatu. For northern Pacific countries (Micronesia, Marshall Islands and Kiribati) and Tuvalu, fishing license revenue is expected to remain high (relative to previous years). However, the fishing revenue is less likely to add significantly to growth rates and it can be volatile for each individual country (depending on weather cycles). Growth in these countries is expected to decline as the impulse of the previous fiscal spending increase wanes. Inflation is likely to remain subdued in most countries due to the still-low non-oil commodity prices and the moderate growth of oil prices.
- Natural disasters remain the main downside risk to the region.** This highlights the importance of building fiscal buffers by restoring fiscal disciplines, which has proved to be challenging for most countries in the region. Other risks include 1) the possibility of slower growth in China, which may affect the region indirectly through its impact on Australia and New Zealand; 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); 4) more volatile global condition, which may affect the countries with limited reserves and rigid FX regime.

Regional Developments and Outlook

Global output growth has been weak in recent years,

Global Output Growth

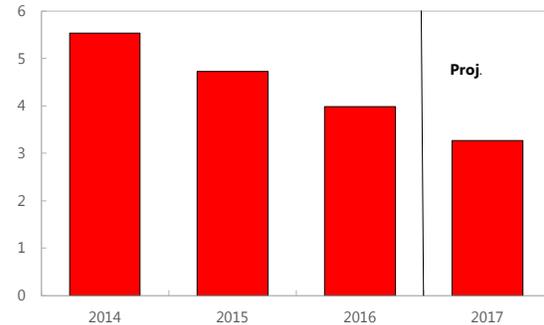
(In percent)



which somehow affected the growth in the region.

Average Growth in APD Small States

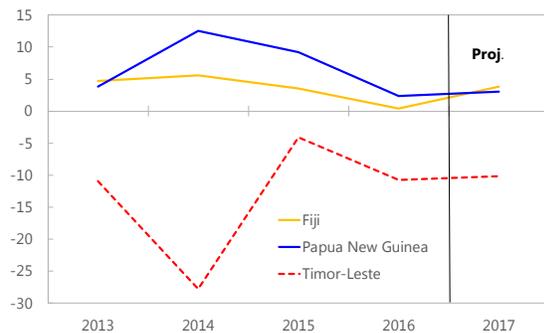
(In percent)



The timid growth in 2016 was largely attributed to the deceleration in the three largest economies in the region.

Real GDP Growth in Fiji, PNG, and Timor-Leste

(In percent)

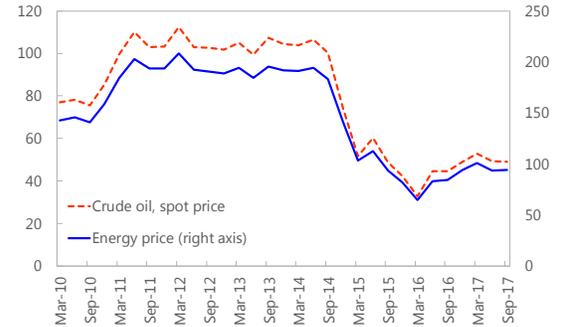


While Fiji's slowdown was driven by Cyclone Winston, PNG and Timor-Leste were affected by the low oil prices.

Energy prices

(In USD)

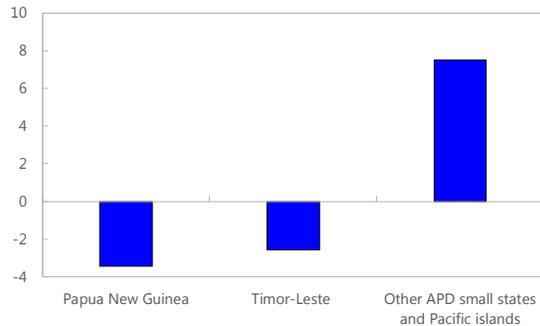
(Index, 2005=100)



Reserves have been declining in both PNG and Timor-Lester.

Reserve levels - changes from 2015 to 2017

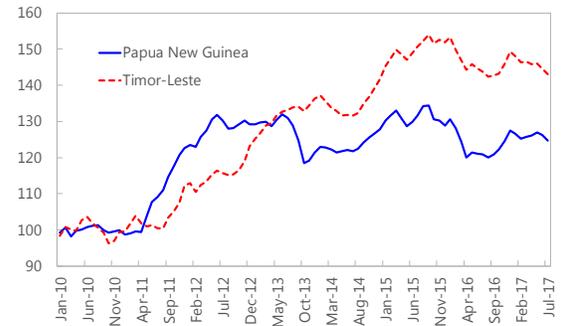
(In percent, year-on-year)



However, REER adjustments have been limited in both countries.

Real Effective Exchange Rate in PNG and Timor-Leste

(Index, 2010=100)

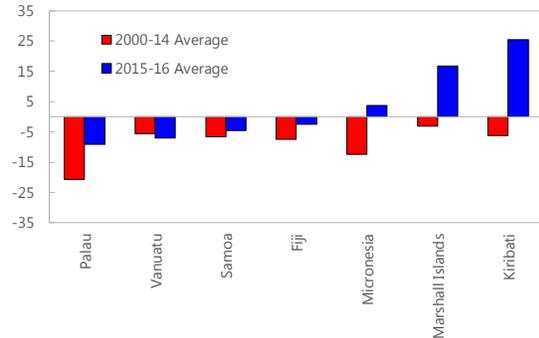


Regional Developments and Outlook

Other countries generally benefited from low oil prices through improved external balance,

Current Account Balance

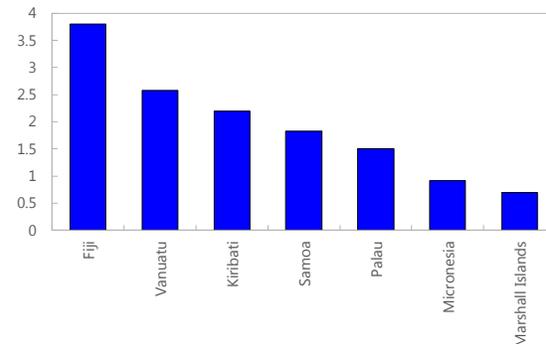
(In percent of GDP)



and moderate inflation.

Inflation - APD small states and Pacific islands, 2016

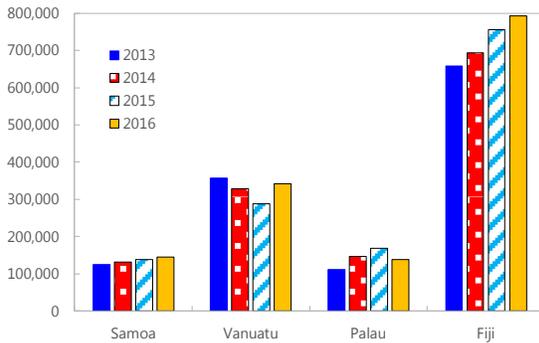
(In percent)



Tourist arrivals to Samoa, Vanuatu and Fiji increased in 2016.

Tourist Arrival

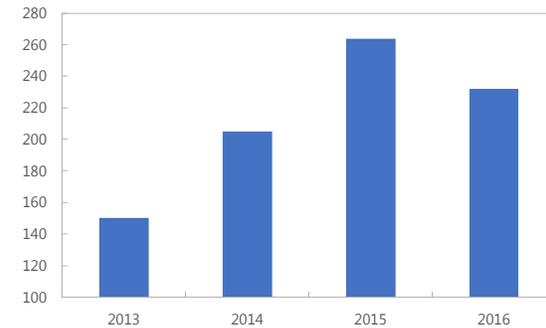
(Annual visitor number)



Fishing license revenue has increased substantially in northern Pacific countries.

Fishing License Revenue

(In USD million)

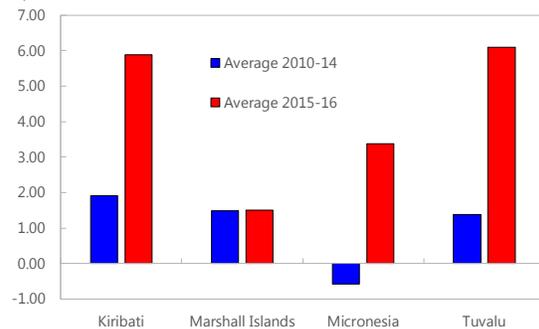


Note: Countries included are Kiribati, Marshall Islands, Micronesia, and Tuvalu

Output growth was boosted by higher fiscal spending.

Output growth

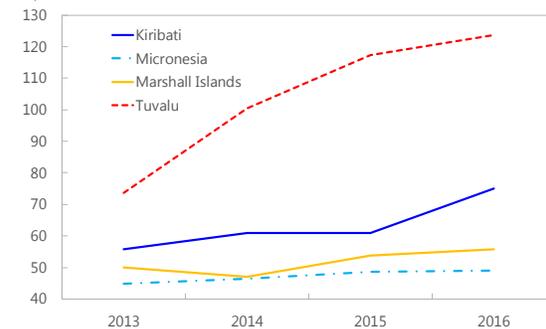
(In percent)



However, current expenditure also surged, which may make the fiscal adjustment ahead of the expiration of U.S. Compact Grants challenging in some countries....

Current Expenditure

(In percent of GDP)

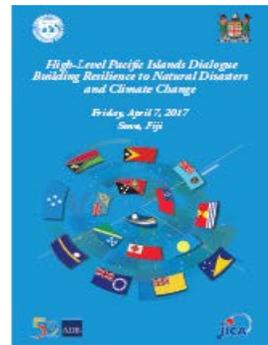


Prepared by Irene Zhang and Chau Nguyen.

Fiji: April High Level Dialogue and Workshop on Building Resilience to Natural Disasters and Climate Change

In the year that Fiji takes on co-hosting COP23—preparing and adapting to climate change is gaining in importance for the Pacific Islands.

In April 2017, the IMF and the Government of Fiji, with funding support from the Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA), cohosted a high-level dialogue on Building Resilience to Natural Disasters and Climate Change. IMF staff together with the ADB, JICA, World Bank and PRIF also conducted a three-day workshop on medium-term budgeting and building resilience to natural disasters and climate change.



The Prime Minister of Fiji Honorable Josaia Voreqe Bainimarama opened the High-Level dialogue followed by an address from Attorney General and Minister for Economy, Public Enterprises, Civil Service and Communications Honorable Aiyaz Sayed-Khaiyum.

The purpose of the dialogue was to strengthen macroeconomic policies in addressing climate-change challenges through policy discussions and capacity building. It also facilitated the engagement among the IMF, other development partners, and Pacific island country officials on topical macroeconomic issues in the region beyond the regular cycle of IMF surveillance missions, Annual and Spring Meetings, and technical assistance missions.

A key aim of both events was to **shift thinking from responding in the aftermath of crises to preparing in advance** by including the likelihood of natural disasters in medium-term budgeting; and building resilience through investing in climate-proof infrastructure and better planning processes.

Both events were very well received.

As Fiji Prime Minister, Hon. Josaia Voreqe Bainimarama highlighted:

“The Pacific Islands can draw on the hard lessons learned from natural disasters and apply them to the growing threat of climate change and coming together was an important first step.”

The challenges are large:

“...While we cannot change the fact that climate change will define our development in the years to come, we can certainly decide the most appropriate and affordable ways to meet that challenge. If we are serious about improving the lives of our people, every policy we implement and every strategy we pursue must consider the impact of our changing climate.”

Fiji, Attorney General and Minister for Economy, Public Enterprises, Civil Service and Communications, Hon. Aiyaz Sayed-Khaiyum emphasized:

“With limited funds, if we are not efficient about it, if the delivery systems are not transparent and not effective, then we can also lose out on a lot of valuable resources. We need to have long-term goals and long-term objectives so that we can ensure that there is less pressure on public finance.”

Other participants discussed the importance of governance and planning:

Tuvalu, Hon. Maatia Toafa emphasized that

Disaster risk governance at national and global level is very important, and this is everyone’s effort to come into partnership and work together.

Samoa, Hon. Sili Epā Tuioti

We have very clear division of labor between government ministries, civil societies, and development partners. We take the lead and the development partners’ support complement what we are doing. The government needs to be in control.

2017 Fiji High-Level Pacific Islands Dialogue & Workshop

Development partners pointed to how they were assisting Pacific Islands in responding to the challenges:

JICA, Mr. Yasushi Kanzaki

Disaster risk reduction and climate change have been two important focus areas for Japan's assistance to the PICs.

AsDB, Mr. Xianbin Yao

In terms of the Public Financial Management work, this has been an important agenda for this region for many years. PFM is indeed a very important driver for policy.

David Kloeden Head of PFTAC

Being new to the Pacific, the event really hit home how vulnerable the region is to climate change and natural disasters but not hopeless with appropriate fiscal policies and resilient investment practices, areas where PFTAC technical assistance can contribute.

Following the Workshop, those involved felt that many of the Pacific Islands already had the basis to move forward:

"Basic elements of dealing with natural disaster risk are already in place in many countries in the Pacific. The challenge is to identify what is in place and where the gaps are. PFTAC can be of invaluable help in this task." Said Jan Gottschalk (Workshop trainer, IMF Fiscal Affairs Department).

"The stress we put on sustained medium term political commitment as the ultimate guarantee for effective fiscal policy making really resonated with the audience" added Francesco Luna (Workshop trainer, IMF Institute of Capacity Development). He also noted that "the need for resilient investment did not require any "marketing pitch" with this audience: they all concurred. At the same time, many of them were surprised by the simple scenarios and simulations we ran to show the lasting effects of even "minor" disasters on the well-being of whole populations in small island states. Several participants told us they would replicate our scenarios with data closer to their own economies using the tools we provided.

The workshop also worked in terms of its goal of bringing together the IMF staff and technical level officials working in the Pacific region:

The first three days of the workshop facilitated very constructive discussions between the IMF staff and country officials on specific challenges in Pacific islands. The intimate setting of this workshop resulted in frank exchange of information and learning. The hands-on capacity building tools on public investment management and fiscal sustainability demonstrated by Fund staff played a key role in the fruitful discussions and policy lessons that derived from the workshop. Chris Papageorgiou (IMF Mission Chief for Vanuatu).



Group photo of the IMF High Level Dialogue in Fiji, well attended by PM Bainimarama and about 140 participants.

If you want to find out more details, please check out the link below which includes all the presentations from the workshop.

Source: [2017 Fiji Natural Disasters Climate Change Dialogue & Workshop](#)

Update on IMF work on Correspondent Banking Relationships (CBRs) and Remittances in the Pacific

As part of the IMF's mandate to promote macroeconomic and financial stability, IMF staff have been monitoring global trends in the changes of costs and pressures on sending and receiving remittances. In June, a mission conducted by APD, LEG, and MCM visited Australia, New Zealand, and Samoa, to explore potential regional solutions to the risks to remittances channels to Pacific islands, as well as to provide specific technical assistance on this issue to Samoa. The team met with banks, money transfer operators (MTOs), supervisory and other national authorities and international organizations. These discussions helped to identify areas in which improvements in identification of remitters and recipients, supervision of remittance activity, and training and financial education can all potentially strengthen the sustainability of remittance channels and consistency with international AML/CFT requirements.



Samoa- Jonathan Pampolina, Jihad Alwazir, and Emmanuel Matthias

In Samoa, the mission introduced central bank staff to a new data collection and analysis tool for better CBR analysis using banks' and SWIFT data, and initiated a project to strengthen AML/CFT compliance in identification of remittance senders and recipients. This project could potentially be adapted across the region, including in sending countries. The mission also found interest in a proposed roundtable—similar to one held in the Caribbean—to bring together private sector participants to discuss industry initiatives and practical proposals for strengthening remittance channels and AML/CFT compliance. Key elements of the discussion include—i) achieving cost-effective compliance; (ii) ensuring banks' abilities to manage and assess risks; (iii) assessing and managing risks from Pacific Remittances; (iv) improving financial literacy; (v) other correspondent banking issues and developing regional solutions.



A meeting in Samoa.

The IMF plans to hold a roundtable discussion in Auckland in next February 2018 and to report back on the findings to regulators in March 2018.

Implementation of IMF data standards brings tangible benefits to participating countries²

Data transparency promoted through the IMF data standards initiatives can help countries reduce data reporting burdens, lower borrowing costs, and helps in identifying critical data gaps for technical assistance.

A recent IMF staff IMF [Working Paper](#) suggests that greater “data transparency can help reduce spreads on emerging market sovereign bonds.”

A data initiative with a focus on data dissemination...

The IMF is assisting many countries to implement the enhanced General Data Dissemination System (e-GDDS) and implement structural reforms in their statistical systems. The e-GDDS focuses on data dissemination to support transparency, encourage statistical development, and help create strong synergies between data dissemination and surveillance.

The e-GDDS focuses on the publication of key macroeconomic and financial data supplied to the Fund for surveillance purposes. The e-GDDS recommends the dissemination of 15 data categories identified as essential for the analysis and monitoring of macroeconomic and financial conditions, with the timing of publication set out in an Advanced Release Calendar through a National Summary Data Page (NSDP). This allows rating agencies, investors and the broader public to benefit from easy access to information essential to assess economic conditions and policies.

...through a standardized format and automated data collection.

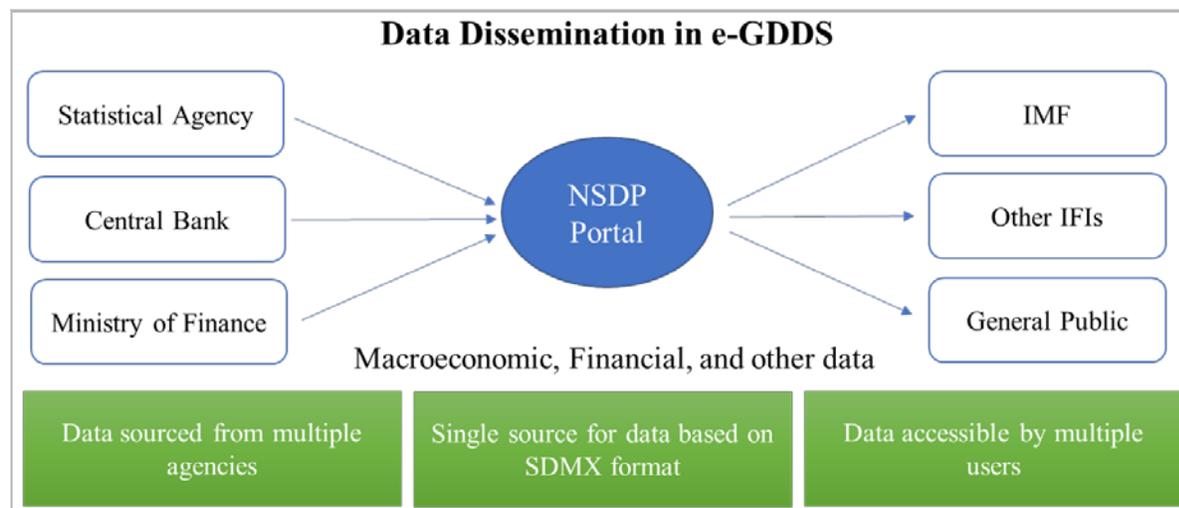
A key feature of the e-GDDS is creation of the NSDP, a national “data portal” which assembles all links to time series for e-GDDS recommended data categories for a country. A country can also choose to disseminate supplementary data sets on the NSDP, which has a standard format and technical features for all participating countries, thus facilitating access by external users.

The NSDP allows data users to:

- browse data via link to online datasets that can be easily viewed in time series format or as graphics;
- download data in SDMX (Statistical Data and Metadata Exchange), a format used for machine-to-machine data sharing. This makes access to data and its processing much easier for international and regional organization; and
- access metadata at the IMF’s [Data Standard Standards Bulletin Board](#) which describes a country’s practices for data compilation and dissemination.

² Prepared by Edgardo Ruggiero, Strategy, Standards, and Review Division, Statistics Department, IMF.

The authorities' commitment to publication in a disciplined manner fosters inter-agency coordination, a key aspect of good governance and capacity. The data posted in the NSDP are usually compiled by multiple agencies, but their dissemination and regular updating are coordinated by one designated agency. The NSDPs allow country authorities to provide immediate access to data to a wide variety of users, including international organizations, academia, think tanks, and rating agencies (see figure on Data Dissemination).



Tangible benefits for participating countries.

The NSDP brings a number of benefits:

- The NSDP reduces reporting burden for data reporters to multiple agencies via posting data in one data portal in a standardized format that can be accessed by different institutions. Data harvesting via machine-to-machine obviates the need to submit data to external stakeholders.
- Allows data managers to control data updating processes and be informed by regular monitoring of data releases by IMF staff for improvements and fine tuning;
- Improvements in data transparency and governance, including discipline with the publication of data following the Advance Release Calendar, reduce uncertainty for investors and the public in general. In turns, this helps with the development of local domestic financial markets.
- More generally, the close link between e-GDDS and the IMF staff' analysis and monitoring of countries' macroeconomic and financial conditions helps raise the profile of issues hindering the development of essential statistics. This helps assess data shortcomings and the identification of capacity development needs and donor support around these activities.

e-GDDS and Small States

Participation to the e-GDDS offers other benefits to small states where statistical systems are in nascent stage of development.

Any framework that reduces reporting burden should appeal to data producing agencies facing binding human and financial constraints. Administrative capacity is often challenged in several small states, given the small and often dispersed population. Depending on the level of development, several small states are dependent on external donor support to fund public functions—this is more often the case in dissemination and improvement of economic statistics, which is often perceived as a non-core government function by policymakers.

The NSDP, which is based on a standard and simple technology, can enhance the public face of official data. Often, the public profile of key macroeconomic data is limited in small states due to technical and financial constraints. In turn, improvements in data transparency, including discipline with the publication of data following the Advance Release Calendar, reduce uncertainty for investors and the public in general. This helps with the development of local domestic financial markets.

As of September 8, 2017, 24 member countries participating to the e-GDDS have posted their NSDP. Among these, five are in the Asia and Pacific Department ([Bhutan](#), [Federated States of Micronesia](#), [Mongolia](#), [Nepal](#), and [Samoa](#)). Out of 31 small states participating to e-GDDS, five have posted their NSDP: ([Bhutan](#), [Federated States of Micronesia](#), [Montenegro](#), [Samoa](#) and [Swaziland](#)).³



Barend De La Beer (IMF STA) is working with PIC government finance statistics compilers (photo taken in the Tanoa International Hotel, Nadi Fiji)

³ List of small states is from the *Staff Guidance Note on the Fund's Engagement with Small Developing States* (March 24, 2014).

APD Small States Staff Changes



Yuko Kinoshita, a Japanese national, is the Deputy Division Chief for the ASEAN 3 Division in APD and the Mission Chief for Palau. She was previously the Deputy Head of IMF Regional Office for Asia and the Pacific and a non-resident representative of Mongolia. She also worked in European Department and Institute of Capacity Development. Prior to joining the IMF, she was an assistant professor at CERGE-EI (Prague, Czech Republic) and City University of New York, Hunter College and a visiting professor at University of Michigan, Ann Arbor. Yuko holds a PhD in Economics from New York University.



Giovanni Ganelli, an Italian national, has been the Mission Chief for Samoa since May 2017. Giovanni is currently a Senior Economist in the ASEAN 3 Division of APD, and also works as desk for Malaysia. His previous assignments include Deputy Head of Office (including a three-month stint as Acting Director) in the IMF's Regional Office for Asia and the Pacific (OAP) in Tokyo, where he was also a member of the Japan team, carrying out resident representative functions and following structural reforms. Before that, Giovanni worked in ICD, FAD, and EUR, participating in program, surveillance, and capacity building missions to various countries, including Albania, Austria, China, Czech Republic, Georgia, India, Mauritius, Moldova, Singapore and Slovenia. Giovanni has a PhD in Economics from the University of Warwick and an undergraduate degree in Economics and Statistics from the University of Rome "La Sapienza". His research has been published in various academic journals (including the Journal of International Economics, the IMF Economic Review, and the Journal of Economic Dynamics and Control) and focuses on the effects of monetary and fiscal policy in New Keynesian models.



Jongsoo Shin, is the Mission Chief for Tuvalu. He is a Senior Economist in the Asia and Pacific Department of the IMF, and worked on Indonesia, Korea, Mongolia, Papua New Guinea, and Japan FSAP. His research interests include corporate/financial sector issues, public/private investment, and structural reforms. Prior to joining the IMF in 2011, he worked for the Korean government, including the Financial Services Commission (banking division) and the Ministry of Finance and Economy (macroeconomy team, tax office). He holds a Finance MBA degree from the Wharton School of the University of Pennsylvania, and earned his B.A. degree from the Seoul National University.



Stella Kaendera, a national of Malawi, joined the Small States division as a Senior Economist in August after completing a three year assignment as the resident representative in Bangladesh. Prior to that Stella was a Senior Economist in the F2 Division, Fiscal Affairs Department (FAD), IMF (Jan 2011- May 2014), she also worked as a fiscal economist on Bangladesh and Tanzania; was the policy reviewer for Ireland, Spain, Ukraine and Iceland; signed-off reviews for Bangladesh, Moldova, Latvia and DRC; and contributed to the Fiscal Monitor publication. Prior to working in FAD, Stella worked in the Africa department as a desk economist on Uganda and on Rwanda.



Fatma Bahr Ibrahim, an Egyptian who grew up in the Washington DC metropolitan area, has joined the division in August as a division coordinator. Prior to joining the IMF, Ms. Bahr was working at the Egyptian Embassy in Washington, DC as the Protocol Officer, in charge of liaising with external entities such as the U.S. Department of State and U.S. Secret Service to facilitate successful high level visits, ensure all newly appointed employees of the embassy are properly registered, as well as coordinating large events. She holds a Masters of Public Policy degree with a concentration in Regional Economic Development from the Schar School of Policy & Government at the George Mason University in Arlington, VA.

Recent events. The main events during the past six months were the workshop and the High-Level Dialogue in Suva, Fiji, during April 4-7, 2017. The RR Office was fully involved in planning and organizing the two successful events, including by coordinating the logistical arrangements with the Government of Fiji, the Asian Development Bank, and the Japan International Cooperation Agency. The RR Office circulated the Minutes of the Dialogue in May, and wrapped-up the financial and administrative reporting in July. On personnel matters, Ms. Jacinta Hesaie has taken up an economist position in the RR office starting in April, replacing Mr. Shelvin Karan who returned to the Reserve Bank of Fiji.

Outreach and Presentations. The RR Office and the Reserve Bank of Fiji co-hosted the Launch of the 2017 IMF Asia and Pacific Regional Economic Outlook (REO) in May, that was well attended by more than 50 participants. The Governor of Fiji Reserve Bank moderated the sessions, Mr. Feridhanusetyawan presented the Outlook, while the representatives from the World Bank, Asian Development Bank, and Reserve Bank of Fiji served as discussants. The RR also made the REO presentation during the Article IV consultation mission in the FSM. During the Pacific Update in Fiji in June, Mr. Feridhanusetyawan made a presentation on the outcomes from the Workshop and High Level Dialogue in April.

Country Work and Missions. Mr. Feridhanusetyawan participated in the IMF Staff Visit to Fiji in April, the Article IV consultation to the Federated States of Micronesia (FSM) in June, the Staff Visit to Tuvalu in July, and the Article IV consultation to Tonga in September. Ms. Jacinta Hesaie joined the IMF Staff Visit mission to Papua New Guinea in June, and the Article IV mission in September. Ms. Arti Devi joined the Article IV mission to Kiribati in September. Ms. Reshika Singh joined the Article IV mission to Solomon Islands in September. The staff visit mission to Marshall Islands took place in August, while the Article IV Consultation mission to Timor-Leste took place in September. The upcoming country missions include a Staff Visit to Palau in late October.



REO Launch: Mr. Feridhanusetyawan (IMF), Mr. Ariff Ali (Acting Governor Fiji Reserve Bank), Mr. Lasse Melgaard (World Bank Res. Rep.) and Mr. Robert Jauncey (ADB Regional Director).



FSM Article IV (from left): Mr. Sturton (USA Graduate School advisor), Mr. Feridhanusetyawan (IMF RR), Ms. Le (IMF), Mr. Eugene Amor (FSM Min. of Finance), Mr. Arslanalp (IMF Mission Chief), Ms. Oeking (IMF), and Mr. Rabanal (ADB).



Tuvalu Staff Visit (from left): Mr. Jongsoo Shin (IMF mission chief), Mr. Vavau Fatuuga (Acting Permanent Secretary, Ministry of Finance), Ms. Sonja Davidovic (IMF), Mr. Feridhanusetyawan (IMF RR).

Capacity Development (CD) in the Pacific – News from PFTAC

PFTAC's fifth phase is well underway. A full team of seven resident advisors is busy delivering an active CD program **and the funding gap is slowly shrinking.** In June, Australia signed a Letter of Understanding (LoU) committing A\$ 10 million to PFTAC with an immediate payment of \$A 2 million. PFTAC also expects to benefit from European Union's financing of € 6 million under a regional project that is progressing through the approval process to strengthen the Public Financial Management (PFM) in the Pacific. Half of the 16 country members have now signed LoUs with financial contributions made by seven countries. The generous donor support and the initial country commitments are greatly appreciated, while countries yet to formalize their commitment to PFTAC are urged to do so promptly. Further fund-raising efforts are being stepped up to close the remaining gaps to maintain PFTAC operations at full strength through April 2022.

Ten countries received TA missions from PFTAC in the first quarter (May to July 2017), with Fiji, Papua New Guinea, and Vanuatu are the major beneficiaries with three different sector missions to each country. By October 2018, in line with the annual work plan and country requests, 15 countries will receive missions. PEFA self-assessments have been facilitated by PFTAC in Kiribati and for the first time in Tokelau. PFM missions to Fiji addressed State Owned Enterprise risk management and Chart of Account improvements, while missions to Samoa, Vanuatu and Solomon Islands focused on financial reporting and strengthening cash management. PFTAC missions aided Fiji's statistical capacity to produce quarterly GDP estimates, and recent missions to the Cook Islands and Tonga are strengthening GFS compilation along with remote support to Fiji and the Marshall Islands.

Papua New Guinea has had considerable support in the areas of revenue mobilization, risk based bank supervision, and a training course for staff of Bank of PNG, Treasury, Finance Ministry and Revenue Commission on forecasting and the use of PNG's Macroeconomic and Fiscal Framework. Samoa and the Marshall Islands similarly benefited from capacity building for their fiscal and forecasting models through the PFTAC macroeconomic program.



PFTAC regional workshops are highly valued. The workshops covered Tax Audit of Financial Statements, VAT Fraud, Government Finance Statistics, and Budget Execution (all in Fiji), and in the Northern Pacific on Financial Sector Regulatory Reform.

After a period of initial settling-in, the coordinator joined several regional events of groups supported or aligned with the PFTAC program, providing an opportunity to meet many agency heads and partners, including the annual congress of PASAI (Pacific Association of Supreme Audit Institutions) held in Tuvalu (see photos), the annual AFSPC (Association of Financial Supervisors of Pacific Countries) in the



Cook Islands, and the annual Leadership Symposium organized by the Australian Bureau of Statistics for heads of National Statistics Offices with the Secretariat of the Pacific Community.

Recent Research / Publications

Technical Assistance Report: Pacific Islands Countries: Review of Tax Reforms in Selected Countries—Lessons for Future Revenue Mobilization.

Over the past decade many PICs have undertaken tax reforms to meet their fiscal challenges. PIC tax policy reforms have mostly focused on indirect taxes, while direct taxes have remained relatively stable. Tax administration reforms have focused on institutional strengthening and governance; half of the PICs have introduced or modernized their administration frameworks. These reforms have had a positive impact when assessed against the key measures of a good tax system: revenue, equity, efficiency, and simplicity.

The lessons learnt during the review highlight ongoing challenges for PICs. Challenges include: the need for good data for tax policy analysis and for reviewing tax administration performance; the difficulty in getting small businesses to comply; slowness in implementing complex reforms that have been legislated (e.g., transfer pricing rules, capital gains tax); the ongoing erosion of the tax system by exemptions; and the potential for PIT bracket creep (i.e., when inflation or wage growth pushes income levels into higher tax brackets). For tax administration, concepts of tax administration are in place and are moving toward international practice, but reform is a long journey. Taxpayer compliance with core obligations (registration, filing, audit) remains stubbornly low. A key concern is that PIC tax administrations do not appear to have enough critical mass to carry out their mandate and even less to invest in future planning (the staff to population ratio in PICs is 1:3894 compared to the international ratio of 1:2200 and 1:1701 in the Caribbean islands).

The review notes that the reforms are still fragile and, in some cases, may not be sustainable or improve further without ongoing assistance. The central themes facing the select countries are size, capability and sustainability. Most PICs have not reached the critical size needed to effectively carry out their mandate. This will require important decisions, including on resource allocation, to better align tax policy design with administration capacity.



Federated States of Micronesia

Country Note

IMF staff concluded the 2017 Article IV visit to the Federated States of Micronesia in June 2016 and the IMF Executive Board concluded the consultation in September 2017.

The Micronesian economy continued its gradual recovery in FY2016 (ending September 30), after three years of contraction during FY2012-14. Real GDP is estimated to have grown by 3.0 percent in FY2016 (after 3.7 percent in FY2015), driven by increased construction activities related to infrastructure projects. Consumer prices remained broadly stable. The fiscal balance recorded an estimated surplus of 9 percent of GDP, after another year of strong revenues from fishing license fees. In FY2017, growth is expected to moderate to 2 percent, as the recovery continues at a slower pace.

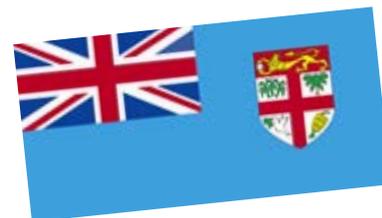
Despite the recovery, possible extreme weather events resulting from climate change, delays in infrastructure projects, and declining external grants could pose risks to growth. Securing fiscal sustainability, building resilience to climate change, facilitating private sector development, and promoting safe financial inclusion remain the policy priorities. The Micronesian authorities reached an important milestone in their quest for timely dissemination of macroeconomic statistics by launching a [National Summary Data Page](#) in July 2017, making them the second Pacific Island after Samoa to implement the IMF's enhanced General Data Dissemination System (e-GDDS).

Sources: [Federated States of Micronesia Implements the e-GDDS, August 2017](#) and [IMF Executive Board Concludes 2017 Article IV with the Federated States of Micronesia, September 2017](#)



Micronesia mission team members are tasting local food.

IMF staff concluded visit to Fiji in April 2017. The economy is slowly recovering from the impact of Cyclone Winston that struck Fiji in February 2016. Production losses were concentrated in the agriculture sector and GDP growth slowed down to about 0.4 percent in 2016. Growth is expected to be 3.8 percent in 2017 (and 3.5 percent in 2018), led by home rebuilding, other reconstruction activities, and the recovery in the agriculture and manufacturing sectors. Fiscal and monetary policies will remain accommodative. Reconstruction efforts and a likely increase in public sector wages will weigh heavily on the fiscal deficit in 2017-18. Inflation rates are expected to gradually decline as agriculture supply normalizes. The current account deficit will increase due to the increase of construction related imports, but foreign reserves are expected to remain sufficient to cover over 5 months of imports.



Marshall Islands

Country Note

IMF staff concluded visit to the Republic of Marshall Islands in August 2017. After contracting for two years in a row, the economy rebounded in FY2016 by 1.9 percent, driven by accelerating copra production and the resumption of infrastructure projects. Growth is projected to rise further to 2 percent in FY2017 with a pick-up in construction activity. The current account surplus (including grants) widened significantly in FY2015–16 (about 20 percent of GDP) on a strong increase in fishing license fees and a decline in imported fuel prices. Windfall revenues from fishing license fees also improved the overall fiscal surplus to 4 percent of GDP in FY2016. Despite these positive developments, securing fiscal sustainability ahead of the FY2023 reduction of Compact grants and strengthening the regulatory framework including AML/CFT to address pressures on correspondent banking relationships remain the policy priorities.



Tuvalu

Country Note

IMF staff concluded a visit to Tuvalu in August 2017. Tuvalu's macroeconomic performance has been favorable. Real GDP growth reached 3 percent in 2016 and is projected to rise to 3.2 percent based on increased government expenditure. Inflation remains moderate. The fiscal balance recorded a surplus of about 20 percent of GDP in 2016 on strong fishing license revenue and supportive foreign aid. For 2017, the fiscal accounts are expected to remain in surplus due to robust fishing license fees. The authorities appropriately continue to place top priority on strengthening climate change resilience, and made initial progress, including securing a US\$36 million grant for coastal protection through the Green Climate Fund (GCF), one of the first GCF projects in the Pacific. Despite the robust macroeconomic performance, however, the economy is susceptible to risks, stemming from the effects of climate change, volatile fishing revenues, and limited financial supervision. Policy priorities are to preserve fiscal buffers and restrain recurrent expenditure against the need for capital spending to enhance climate change resilience. Improving financial sector oversight would help strengthen bank credit intermediation and minimize the potential fiscal contingent liability.



Tuvalu team at Tuvalu Maritime Training Institute.

Source: <http://www.imf.org/en/news/articles/2017/08/01/pr17312-imf-staff-concludes-2017-staff-visit-to-tuvalu>

Recent and Upcoming Events on Asia and Pacific Small States

Recent Events

2017 Pacific Update Conference (ADB)

June 20-21, 2017, Suva, Fiji

Upcoming Events

Annual Meetings of the WBG and the IMF

October 13-15, Washington DC, USA

2017 Ministerial Dialogue, known as Pre-COP

October 17-18, Nadi, Fiji

2017 UN Climate Change Conference

November 6-17, Bonn, Germany

Upcoming Events

Heptagon Pacific Donor Coordination Meeting

November 29, Sydney, Australia

South Pacific Central Bank Governors Meeting

November 14-17, 2017, Nuku'alofa, Tonga

PFTAC Annual Steering Committee

March, 2018, Nuku'alofa, Tonga

Pacific Round Table on Correspondent Bank Relationships

February 2018, Auckland, New Zealand

Recent IMF Missions and Small State Events



The participants of IMF Pacific Island Workshop on Building Economic Resilience to Natural Disasters and Climate Change in Suva, Fiji, April 4-6, 2017.



Staff from the IMF, PFTAC, JICA, ADB, and World Bank worked together with the Pacific Islands authorities during the workshop on building resilience to natural disasters and climate change.

Recent IMF Missions and Small State Events



Mr. Scott Roger (IMF) facilitated the workshop attended by Pacific Islands participants.



Group presentation by Pacific Islands participants during the workshop.



APD Director Changyong Rhee visited the IMF RR/PFTAC Office in Suva in April 2017. From left to right: Ms. Pule Sukanaivalu (Sr. Adm. Assistant), Ms. Jacinta Hesaie and Ms. Reshika Singh (economists), Mr. Feridhanusetyawan (IMF RR), Director Rhee, Ms. Arti Devi (economist), Mr. David Kloeden (PFTAC Coordinator).



Mr. Feridhanusetyawan (IMF RR), Governor Denton Rarawa (Solomon Islands), Mr. Michel Kerf (World Bank), Minister Sili Epa Tuioti (Samoa), Ms. Lorraine Seeto (Fiji Reserve Bank)



One of the panel sessions: Minister Mark Brown (Cook Islands), Deputy Minister Helder da Costa (Timor-Leste), Permanent Secretary Harry Kuma (Solomon Islands), Ms. Alison Stuart (IMF), Ms. Emma Veve (ADB), and Minister Tevita Lavemaau (Tonga)

Recent IMF Missions and Small State Events



High Level Pacific Islands Dialogue.
 Front: Mr. Roger(IMF), Ms. Alison Stuart(IMF), Mr. Rhee(IMF),
 Mr. Feridhanusetyawan(RR), Mr. Kloeden (PFTAC), Ms. Marzan
 (PFTAC)
 Rear: Arti Devi (RR); Pule Sukanaivalu (RR) Chris
 Papageorgiou; (IMF); Jan Gottschalk (IMF); Reshika Singh (RR);
 Shelvin Karan (RR); Pablo Lopez Murphy; Francesco Luna (IMF);
 Richard Neves (PFTAC); Hidetaka Nishizawa; Niamh Sheridan;
 Jacinta Hesaie (RR); Peter Amputch (RR)



Mr. Kanzaki (JICA VP), Mr. Rhee (APD Director), Hon. Aiyaz
 Sayed-Khaiyum (Fiji), Mr. Yao (ADB Director General), Mr.
 Feridhanusetyawan (IMF RR) during the Press Conference.



Tubagus Feridhanusetyawan, Changyong Rhee, Xian
 Bin Yao (ADB), Michel Kerf (World Bank), Robert
 Jauncey (ADB)



Prime Minister Josaia
 Voreqe Bainimarama (Fiji)
 opened the IMF High Level
 Dialogue and provided
 Keynote Address.