REGIONAL DEVELOPMENTS AND OUTLOOK

Recent Developments

Most of the Pacific Island Countries (PICs) have reopened their borders after over two years of pandemic-related isolation. Pacific Islands have been hit hard by multiple shocks over the past three years including lockdowns during recent Omicron waves of the COVID-19 pandemic, international border closures, drops in commodity exports, and sizeable revenue losses—leading in many cases to large GDP contractions, a surge in unemployment, expanded fiscal deficits, and increases in public debt. Average real GDP growth in the region was -1.9 percent in 2021, shifting to positive growth of 0.8 percent in 2022 (left chart)—led largely by recoveries in Fiji (where an early reopening in 2021 facilitated a resumption of tourism) and Papua New Guinea which has benefited from higher LNG prices. Most borders have only recently reopened, with the exception of Tuvalu (middle chart). The PICs are expected to see growth rise to 4.2 percent in 2023, contrasting to other country groups in Asia that already experienced a growth rebound in 2021 before gradually normalizing in 2022.

The economic recovery in the Pacific continues to be off cycle relative to an increasingly lethargic global economy. The Asian and global environment is increasingly sluggish as both advanced economies and emerging market and developing economies are expected to slow significantly, led by large downward revisions of growth for the US and the EU but also for China, Japan, and India. The October 2022 World Economic Outlook (WEO) sees global economic growth at 3.2 percent in 2022 and 2.7 percent in 2023—0.4 percent and 0.9 percent lower than envisaged in the April WEO.

In parallel, global inflation has surged to multi-decade highs and is putting pressure on PIC’s external balances due to stubbornly high food and fuel prices (right chart). A range of factors have been fueling global price rises since 2021, including supply disruptions, a rise in fuel in line with global recovery, and pent-up demand for goods and services. The Russian invasion of Ukraine exacerbated the trend and caused a large spike in food and fuel prices that is expected to persist on the back of energy production constraints and food supply chain issues.
Border reopening in the Pacific Islands comes on the back of progress in COVID-19 vaccination campaigns. The region’s rate of fully vaccinated now stands slightly above the global average (text chart). The community transmission of the Omicron variant that hit a number of countries with local outbreaks in early 2022 may have helped overcome some vaccine hesitancy, boosting vaccination rates. Most tourism-dependent countries have reopened their borders and are starting to implement vaccine booster campaigns. As well as logistical challenges, vaccine hesitancy continues to be an obstacle in the Pacific Islands that have made less progress since end-2021. New challenges may arise from a potential need for recurrent COVID booster shots that may add to pressure on limited human and financial resources.

The economic recovery in the Pacific exhibits a wide divergence. At the country level, projected real GDP growth rates for 2022 range from over 12 percent in Fiji which has benefited from stronger-than-expected tourism flows to -4.5 percent in Solomon Islands, which has been hit by several shocks in the first half of 2022. Relative to January 2022 WEO forecasts (prior to the war in Ukraine), growth has been revised down for almost all PICs in line with the global economic slowdown (left chart). In parallel, inflation has been revised up in all Pacific Islands (right chart), reflecting the adverse impact of higher global commodity prices (food, fuels, metal, etc.) on domestic prices.

Higher import prices led to a significant negative terms-of-trade shock—weakening external positions and putting further pressure on the recovery. The shock is most felt by the countries that rely on imports, with the 2022 trade balance of goods and services projected in double-digit negative territory in 2022 in all but commodity-exporter Papua New Guinea (PNG). This represents a deterioration, on average, by some 10 percent of GDP relative to the January 2022 WEO. Such a deterioration will in some
cases lead to downward pressure on foreign exchange reserves. Despite a more-than-adequate starting position in terms of reserve cover for most PICs. There is a risk that a prolonged deterioration of current account balances (right chart), which is particularly sizeable in 2022 for Kiribati, Nauru, Fiji, Samoa, and Marshall Islands, could erode reserves over time – to a degree that policy adjustments may be necessary.

**Financial sector risks have risen on the back of prolonged economic contractions.** Even in countries with generally healthy banking sectors, selected financial soundness indicators (text table) show a rise in nonperforming loans (NPLs) and declining profitability. The phasing out of pandemic-related relaxation of prudential requirements, loan repayment holidays, and regulatory forbearance coupled with a tightening of the global financial environment signals the need for enhanced monitoring and vigilance going forward.

**Text Table: Selected Financial Soundness Indicators**

<table>
<thead>
<tr>
<th>Country</th>
<th>NPL Ratio 2019Q4</th>
<th>NPL Ratio 2021Q4</th>
<th>ROA 2019Q4</th>
<th>ROA 2021Q4</th>
<th>ROE 2019Q4</th>
<th>ROE 2021Q4</th>
</tr>
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<tbody>
<tr>
<td>Fiji</td>
<td>3.00</td>
<td>7.50</td>
<td>2.20</td>
<td>2.60</td>
<td>18.30</td>
<td>6.10</td>
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<tr>
<td>Kiribati</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>2.20</td>
<td>1.10</td>
<td>3.50</td>
<td>1.90</td>
<td>27.90</td>
<td>16.50</td>
</tr>
<tr>
<td>Micronesia</td>
<td>0.20</td>
<td>0.80</td>
<td>1.96</td>
<td>0.70</td>
<td>28.23</td>
<td>11.71</td>
</tr>
<tr>
<td>Nauru</td>
<td>0.66</td>
<td>1.87</td>
<td>2.10</td>
<td>0.56</td>
<td>2.10</td>
<td>0.56</td>
</tr>
<tr>
<td>Palau</td>
<td>3.80</td>
<td>6.00</td>
<td>4.14</td>
<td>6.20</td>
<td>28.40</td>
<td>44.70</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>3.90</td>
<td>3.70</td>
<td>3.90</td>
<td>2.80</td>
<td>23.90</td>
<td>16.50</td>
</tr>
<tr>
<td>Samoa</td>
<td>10.40</td>
<td>11.40</td>
<td>3.10</td>
<td>2.50</td>
<td>18.30</td>
<td>13.40</td>
</tr>
<tr>
<td>Tonga</td>
<td>3.20</td>
<td>3.30</td>
<td>4.40</td>
<td>2.40</td>
<td>15.30</td>
<td>11.20</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>13.41</td>
<td>15.02</td>
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<td>1.93</td>
<td>11.99</td>
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<tr>
<td>Vanuatu</td>
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<td>18.20</td>
<td>0.10</td>
<td>1.10</td>
<td>0.90</td>
<td>9.00</td>
</tr>
</tbody>
</table>

Note: Data pertain to 2021 except for Marshall Islands, Micronesia, Tuvalu which pertain to 2020 and PNG which pertain to 2022.
Medium-Term Outlook

Assuming the pandemic continues to recede and borders continue to reopen in the second half of the year, real GDP growth is projected to accelerate to an average of 4.2 percent for the Pacific Islands in 2023 and stabilize at 3.0 over 2024-27 (Text Table). Mirroring their sharp decline in 2020, tourism-dependent countries’ recovery will likely be the fastest (5.8 percent in 2023) followed by commodity exporters (3.8) and others (2.8). Inflation is expected to peak in 2022 and remain stubbornly above its pre-pandemic levels, with a substantial upward revision relative to the pre-Ukraine war forecasts (text chart). Current account deficits are expected to improve at a slower pace, from an average of -6.7 percent of GDP in 2023 to -3.8 percent of GDP in 2024-27, with improvement driven mostly by the tourism-dependent economies (Fiji, Palau, Samoa, and Vanuatu) as their income recovers in line with projected tourism receipts (text table). Notably, fiscal deficits in 2022 (3.1 percent of GDP on average) are projected to persist into 2023 (2.9) and beyond, in 2024-27 (average of 3.8 percent) in the absence of adjustment measures, implying a continued rise in public debt to GDP.

The pandemic deficits fueled steep increases in public debt in 8 out of 12 PICs. Those were led by tourism-dependent economies (right chart) have been the hardest hit as growth and fiscal revenues plummeted, while spending needs with respect to healthcare and support for the most vulnerable groups went up. Not surprisingly, countries such as Palau and Fiji saw the largest increases in debt-to-GDP over the past two years. Commodity exporters (such as Solomon Islands and Papua New Guinea) also saw a notable impact not least due to a slowdown in their exports reflecting a drop in demand by the trading partners as well as a grinding halt in the global shipments and other supply chain logistics.
Risks and Challenges

Risks have shifted decisively to the downside in recent months. For the Pacific Islands, just as economic activity has entered a recovery phase with the easing of COVID-related restrictions and resumption of tourism, new headwinds have emerged from global financial tightening and an expected slowdown of external demand. The positive outlook for tourism is now clouded by slowing global growth, higher travel costs from elevated global fuel prices, and the erosion of real incomes due to rising inflation.

Commodity price shocks continue to be a major source of volatility in the Pacific and have already engendered public intervention (largely untargeted) to protect the most vulnerable. Given the large share of food and fuel in total imports (nearly half), all PICs remain particularly vulnerable to global commodity price shocks. Historically, large commodity price shocks have translated into large output
shocks via increases in domestic production costs as well as reductions in household income. As PICs are pondering how to shelter their populations from the surge in prices, they are also constrained by limited fiscal space—already eroded by counter-cyclical policies during the pandemic. Most (Fiji, Marshall Islands, Nauru, Palau, and Tonga) have introduced measures to reduce food and fuel prices—typically through reducing taxes and duties, and continued imposition of price controls. For some, (such as Fiji and Vanuatu) have also introduced new direct transfers.

**External demand shocks and financial shocks add to PICs vulnerabilities.** Falling stock markets in the advanced economies could inflict substantial pain on the PICs with large trust funds whose assets are invested abroad (Kiribati, Marshall Islands, Micronesia, Palau, and Tuvalu) as witnessed during the global financial crisis.

The rise in public debt for some Pacific Islands during the pandemic has increased vulnerability to debt shocks and highlighted the need for medium-term fiscal consolidation and careful debt management. Large fiscal deficits (most notably in Palau, Fiji, Solomon Islands, and PNG), if continued unaddressed over the medium run, would lead to a further rapid increase in public debt (middle chart). Adverse debt dynamics could be addressed by an increased donor financing -- external grants (right chart)—that are currently projected to decline due to the withdrawal of donors’ strong support during COVID.
TOURISM RECOVERY IN THE PACIFIC

After the abrupt pandemic collapse in tourism at the onset of the pandemic, activity is gradually picking up in the Pacific Islands in 2022 and is expected to gain further momentum in 2023. The recent (July-August 2022) reopening of the international borders and the removal of travel restrictions and quarantine requirements in some of the islands are expected to spur a resumption of tourist inflows to the region, depending on how quickly the sector (and associated travel links) can recover.

The steady increase in international flights to the Pacific Islands since April 2022 is a welcome news signaling recovery from the pandemic lows. But tourism recovery for the region is still in its early stages as total international visitor arrivals to the Pacific in H1 2022 remain some 53 percent below their pre-pandemic levels. Fiji, which reopened borders in December 2021 after a successful mass vaccination campaign, is the bright spot in the tourism receipts so far this year, with total arrivals in 2022 currently projected to reach about 60 percent of the 2019 levels. Palau (which only fully reopened its borders in the last quarter of FY22 after an attempted travel bubble with Taiwan that got muted by COVID outbreaks), Samoa and Tonga (for which the reopening took place in Q1 FY23) are projected to have delayed starts of their respective recoveries but to pick up speed over 2023-24. The recent official quarterly tourism data appear encouraging (Table), showing that international tourist arrivals in the Pacific region continued to increase in 2022Q2 after being weighed down by the Omicron wave that hit a number of countries in 2022Q1.

Flight recovery is good news: research has shown that tourist arrivals and expenditure are sensitive to both price and income factors in source markets. Furthermore, tourism to small islands is less sensitive to changes in the country’s real exchange rate, but more susceptible to the introduction/removal of direct flights.
PICs have urgent spending needs related to the UN Sustainable Development Goals (SDGs) and adapting to the effects of climate change. However, financing options to support these development needs are limited. Many PICs rely heavily on grants, commodity exports, and fishing revenues to finance development needs. However, these revenue sources remain volatile and could substantially decrease in the future given risks associated to climate change. A recent IMF departmental paper titled “Funding the Future: Tax Revenue Mobilization in the Pacific Island Countries” examines how boosting tax revenues could partly contribute to finance PICs most pressing development needs.

The paper found that as a group, the PICs have made some progress in improving tax revenue mobilization in recent years. However, a notable share of this improvement has come through windfall gains rather than policy reforms. There has been less momentum toward more durable gains, with limited major tax policy and revenue administration reforms. The paper also found that the PICs are not fully exploiting their tax potential. The paper estimates that PICs could collect on average an additional 3 percent of tax revenue. In addition, the potential offered by efficient VAT systems is not fully exploited. Many PICs do not have yet a VAT system, and those who have it are not exploiting its full potential. The gap between the current VAT and what they could potentially collect is on average about 50 percent.

The paper formulates several recommendations for the PICs to increase their tax revenue. They include: (1) to gradually unwind tax policy and revenue administration measures introduced during the pandemic and the war in Ukraine as they recover to restore revenue streams lost in the recent past; (2) strengthen or introduce a VAT system; (3) rationalize tax exemptions; (4) reform tax administration through better staffing, funding, and ICT support; (5) close loopholes in the tax system particularly those related to transfer pricing; and (6) introduce a medium-term revenue strategy (MTRS) to have a more holistic approach regarding tax policy and revenue administration reforms.
Towards Central Bank Digital Currencies in Asia and the Pacific: Results of a Regional Survey

Prepared by Young Sarah Zhou (SPR)

Interest and work toward CBDCs by Asia-Pacific countries has been gaining momentum. This Fintech Note (by Sarwat Jahan, Elena Loukoianova, Evan Papageorgiou, Natasha Che, Ankita Goel, Mike Li, Umang Rawat, and Yong Sarah Zhou) summarizes the latest developments on CBDC planning and adoption in the Asia and Pacific region. It draws from a survey of IMF country teams and authorities in the region in early 2022 and is augmented by country case studies for the design and implications of CBDCs. Key lessons relevant to Pacific Island countries (PICs) learned from the survey and country case studies include public sector interest for digital money solutions has increased rapidly in recent years in the region; in most economies, the rapid emergence of crypto assets and associated technologies is likely to play an important role in the mode and speed of CBDC adoption. PICs have also shown interest in CBDCs and crypto assets, looking to leverage new technology to enhance financial inclusion and cross-border payments. Widespread adoption of digital money and crypto assets, however, may be disruptive for PICs’ financial and economic systems if associated risks are not well managed. These could include financial stability risks arising from weak digital resilience as well as financial integrity risks. Given the substantial capacity gaps, timely policy advice, international coordination, and capacity development will be crucial for successful digital money development and adoption in PICs. The Note also argues that alternatives to CBDCs may also help boost financial inclusion—for example, in some PICs and low-income countries, mobile money is an already efficient way of increasing financial inclusion and has the advantage of being relatively simple to implement compared to a CBDC; and countries can also adopt existing technologies to fulfill their specific financial inclusion and access needs—for example, Cambodia used blockchain and distributed ledger technologies, to meet the strong demand by its younger population of mobile payments while encouraging greater use of the domestic currency in payments. The note was presented to country authorities on October 5th, 2022.

Growth Strategies and Diversification in the Pacific Islands Countries

Prepared by Gabriela Cugat (RES)

Both travel and supply chain disruptions during the pandemic have shown that robust growth strategies are key to minimize output losses and entrench the recovery after a crisis. The PICs have been stuck in a low-growth path even before the pandemic, due to a combination of their unique characteristics as well as policy choices. We examine growth strategies for the PICs by focusing on the effects of tourism and diversification. First, we assess the potential of tourism-centered strategies by quantifying the contribution of tourism to growth using panel regressions. In the second part, we identify diversification spurts in the PICs and quantify its benefits using the synthetic control method, that is, we quantify the benefits of diversification by comparing to an artificial country that mimics the evolution of a PIC that did not go through such process. Finally, we outline a framework for designing growth strategies for the PICs focusing on market failures versus government failures and how to detect PICs’ binding constraints arising from their unique characteristics.
IMF Deputy Managing Director (DMD) Li visit to PFTAC Steering Committee in Fiji

During his May 2022 visit to Fiji DMD Li made the following remarks (full text):

“Since borders closed in early 2020, the IMF has been extremely active, responding to the pandemic through an unprecedented expansion of our emergency facilities and the 2021 SDR allocation. Work on supporting our member countries has continued in the midst of other shocks – including natural disasters, which are all too common in the Pacific, and, more recently, the war in Ukraine. Our engagement with member countries has been and will continue to be “all hands on deck” at this time of crisis – delivered through lending to many dozens of countries, maintaining an intensive dialogue to help policy makers respond to these unprecedented times, and continuing to deliver on a core mandate – namely, providing technical assistance and capacity development. We have learned a lot in responding innovatively, but it is fair to say that everyone is keen to reengage in-person as borders reopen and travel resumes. We are taking some first steps here today in demonstrating that the IMF is physically back in the Pacific, and we are looking forward to a strong in-person reengagement as the year unfolds.

Tourism-dependent economies like Fiji were hit hard by border closures and the loss of that critical revenue and foreign exchange. But I am encouraged from my discussions in Suva yesterday of how the economy appears to be rebounding now that borders are open and tourism is returning. For the Pacific as a whole, there is still much to do across many fronts—including rebuilding fiscal and external buffers while facilitating inclusive growth, and ensuring debt is on a sustainable trajectory.

And I think, in particular, the ongoing effects of climate change and natural disasters, the large infrastructure needs in the region to adjust to these events, and access to higher levels of climate finance are key.

I am happy to see that PFTAC has been active by supporting efforts of the Pacific Island Forum Secretariat or PIFS as well as member countries to strengthen their public financial management systems, along with public investment management capacity. And in recognizing the criticality of climate change, PFTAC is stepping up its capacity by adding a third PFM advisor in this field from the start of the next phase of operations.”

Papua New Guinea 2022 Article IV Consultation

Papua New Guinea (PNG) is a fragile state, vulnerable to recurrent shocks. From 2014 to 2020, low commodity prices, a severe drought in 2015-16, and a major earthquake in 2018 softened growth, led to shortages of foreign exchange, and contributed to the build-up of public debt. The COVID-19 pandemic has further strained public finances. Widespread vaccine hesitancy has contributed to very low uptake of the vaccines with about 3 percent of the population fully vaccinated. The war in Ukraine impacts PNG primarily through higher commodity prices and higher inflation, though the higher commodity prices benefits PNG’s export and fiscal positions, given that PNG is a large commodity producer. Real GDP is projected to grow by 3.8 percent in 2022 as mining activity gradually resumes and the non-resource sector expands. A 7.6-magnitude earthquake struck PNG on September 11, causing several deaths and damaging infrastructure. Papua New Guinea has engaged extensively with the IMF in recent years,
including a Rapid Credit Facility (RCF) and two Staff Monitored Programs (SMPs). The first SMP, requested pre-pandemic, expired in June 2021. To address the pandemic, US$363.6 million was disbursed in June 2020 under the RCF, and the 2021 increase in the general allocation of SDRs (about US$360 million) was used for budget financing. A successor SMP was approved in December 2021 and the sole review, along with the 2022 Article IV consultation, was successfully completed in June 2022 (see Staff Report). The first Safeguards Assessment of the BPNG has been completed. The authorities are also receiving IMF technical assistance in national accounts, debt and external sector statistics, revenue administration, banking supervision and regulation, and macroeconomic forecasts.

Samoa Staff Visit

The IMF staff team and Samoan authorities discussed economic developments and policy plans during a staff visit in September—the first in-person mission to Samoa since early 2020. Samoa’s reopening to travelers on August 1 is lifting activity and contributing to economic stability. After three years of contraction, real GDP is projected to grow by 3.5 percent in FY2023 (July 2022-June 2023), with the resumption of tourism playing a key role in reactivating economy. The return of tourism is also expected to narrow the current deficit and keep reserve coverage at an ample level. Reopening should also allow higher execution of public investment and other expenditure. That, along with the rollout of a new District Development Program aimed at empowering local communities to identify and execute their own development projects, are the main factors in an expected moderate fiscal expansion. The projected central government deficit of 1 percent of GDP would keep debt at 43 percent of GDP. However, Samoa faces the challenge of intensifying price pressures, with inflation climbing to over 15 percent y/y in August. This is the product of both a spike in import prices and more recent increases in domestic prices more broadly. This, along with recent rapid growth in lending to households and global monetary tightening, could necessitate a removal of monetary accommodation, as the monetary policy rate is currently 0.15 percent, and the banking system is carrying substantial excess reserves. Earlier this year the authorities released their five-year development plan, Pathways for the Development of Samoa, and they have been making progress with growth-enhancing structural reforms under the plan, finalizing a national employment plan and nearing completion of an industry development plan and financial inclusion strategy.

Solomon Islands Staff Visit

A virtual mission to Solomon Islands took place in June 2022 to discuss recent economic developments and policy plans (press release). Solomon Islands has been hit by multiple shocks including social unrest in Honiara in November 2021, a significant outbreak of COVID-19 in early 2022, and the indirect impact of the Russia-Ukraine war. Real GDP is projected to fall by 4.5 percent in 2022—the third year of contraction in a row, while inflation rose to 5.7 percent year-on-year in June 2022 on the back of higher global fuel and food prices. The authorities have taken swift measures to foster recovery, through additional spending to support those hit by the shocks and accommodative monetary policy. The relaxation of COVID-19 related restrictions, underpinned by these policy efforts, is projected to lead the economy to recovery starting in the second half of 2022. A further rebound is expected in 2023, with the economy growing by 2.6 percent, driven by increased activity related to the 2023 Pacific Games and large donor-funded infrastructure projects. Foreign reserves are projected to remain at a comfortable
level (10 months of prospective imports) despite the widening current account deficit, supported by favorable donor inflows and the new allocation of the IMF’s Special Drawing Rights. Over the medium term, the government faces the challenges of rebuilding fiscal buffers while protecting the vulnerable and generating new sources of growth. Continued sizable fiscal deficits are expected to result in a significant increase in government debt, bringing the country closer to the government’s debt anchor of 35 percent of GDP. Comprehensive fiscal reforms are needed to rationalize expenditures, enhance the transparency and efficiency of public investment, and mobilize revenues. In addition, given that the logging sector—the main source of revenue and export for a long time—is destined to wane, the government needs to tackle structural challenges to improve business environment, human and physical capital, and governance, to develop a new growth sector. Solomon Islands is a major recipient of capacity development by the IMF in the region, including on public financial management, revenue administration and mobilization, central bank operations, and macroeconomic statistics.

**Tonga 2022 Article IV Consultation**

The IMF staff team conducted Article IV consultation with Toga during April–May 2022 (see Staff Report). Tonga’s nascent economic recovery following Tropical Cyclone Harold and border closures in early 2020 has been severely disrupted by a double blow from the Hunga Tonga–Hunga Ha’apai volcanic eruption and the first local outbreak of COVID-19 at the start of 2022. The authorities are augmenting reconstruction and restoration efforts, with support from the international community. Real GDP is projected to contract by 1.9 percent in FY2022 (July 2021–June 2022), before rebounding by 3.2 percent in FY2023 with a gradual reopening of international borders. Request for Fund support. Tonga faces an urgent BOP need following the double shock, which has intensified due to the rise in global commodity prices since the war in Ukraine. In this context, the authorities have requested financial assistance under the Rapid Credit Facility (RCF) of 50 percent of quota (US$9.4 million), which, together with external grants from Tonga’s other development partners, will be used to meet the urgent BOP and government’s budget financing needs for reconstruction and social protection. Staff support this RCF request. Policy recommendations. In the short term, fiscal policy should focus on supporting reconstruction and recovery with a larger budget envelope for FY2023, as envisaged by the authorities. The current monetary policy settings are appropriate under staff’s baseline inflation outlook, but the central bank should stay vigilant and stand ready to act given significant risks to inflation. Banks should be required to closely monitor credit risks and actively provision for loan losses. In the medium-to-long term, after the recovery becomes entrenched, Tonga should strengthen the public finances through a combination of domestic fiscal measures—including rationalization of tax exemptions and reduction of the public wage bill—and by seeking continued donor support, which is essential to meet Tonga’s development spending needs while reducing the risk of debt distress. A stronger push for structural reforms is needed to enhance Tonga’s climate resilience and promote private sector development, with priority on: (i) further liberalizing FDI; (ii) easing access to credit; (iii) expanding climate-resilient public infrastructure; and (iv) strengthening the AML/CFT and anti-corruption frameworks.
I am very excited to have started as Regional Resident Representative last April. As many of you might know, I have worked in similar roles in Asia but this is my the first time in the Pacific and I look forward to learning as much as I can about this fascinating and increasingly important region. Of course, climate change is a critical issue, and we will do all we can to help mitigate the challenges. In addition, the region faces difficult economic challenges, not least in achieving SDG targets by 2030, and raising living standards in a sustainable way. My plan is to meet in person with counterparts and colleagues in both the public and private sectors as much as possible in order to learn how to best tackle these challenges.

As I started this role, there was good news that the region started to emerge from the Covid pandemic. Vaccination rates are increasing, and this has allowed many PICs to reopen their borders - albeit gradually. In many countries, tourism is reviving (and indeed it is difficult to book a seat on the region’s airlines) and this is boosting the economies that have been devastated by the closure of borders in 2020.

However, we all know and see that the Covid pandemic has caused damage in the region that will take time to heal. The good news is that the rhythm of economic life is reviving. But the pandemic will also have longer-term consequences, including elevated government debt in some cases. Bringing debt down to sustainable levels will require concerted action by policy makers, particularly in terms of revenue mobilization and growth enhancing measures plus consistent support by development partners. The situation is complicated by adverse global developments including the inflationary pressures from the war in Ukraine and the recessionary pressures in the world economy. This makes our work at the Regional Resident Representative Office (RRO) even more crucial and we have been ramping up our engagement in the region. The IMF’s new Deputy Managing Director (DMD) Bo Li came to Fiji in June - his first ever mission to the region and met with senior officials from Fiji and other PICs. APD Director Krishna Srinivasan presented to the Pacific Islands Forum (PIF) Leaders Meeting in Fiji in June, which I also attended. The Leaders Meeting endorsed the 2050 Strategy for the Blue Pacific Continent that will guide policy makers in coming decades. I also attended the 2022 Forum Economic Ministers Meeting (FEMM 2022) in Vanuatu, where IMF Deputy Managing Director Bo Li gave the keynote address which set out the main macroeconomic themes and challenges for the FEMM to consider. I have also joined staff visits in Fiji and Samoa and a capacity development mission led by the IMF’s Fiscal Affairs Department in the Solomon Islands.

The RRO has remains busy as we confront these challenges. I am very pleased to welcome Kalolaini Ranadi who has joined us as an economist, coming from the Reserve Bank of Fiji. Seruwaia and Munesh are both participating in-person staff visits across the region and Pule helped admirably in the first in-person Fiji staff visit. We all look forward to a busy workload and hectic travel schedule in 2023.

Hope to see you all soon!
After two years of virtual engagement, PFTAC hosted the 2022 Steering Committee (SC) in Nadi, Fiji on May 24-25, 2022. The meeting adopted a hybrid format, with six member countries joining the meeting in-person along with donor representatives from Australia, Asian Development Bank (ADB), European Union (EU), and the United States and several observers. The IMF Deputy Managing Director, Bo Li and the Minister of Economy and Attorney General of Fiji, Hon. Aiyaz Sayed-Khaiyum participated in the meeting. During the SC meeting, the Memorandum of Understanding for the ongoing hosting of PFTAC was formalized, an important milestone since the establishment of PFTAC as the IMF’s first regional capacity development center in 1993.

The SC reviewed and adopted Phase VI operations and SC governance outcomes. The next five-year phase of PFTAC operations will commence in May 2023. The fund-raising target is $US 40 million, of which $US 36 million is sought from donors and the balance from member countries and the IMF. The IMF and beneficiary countries emphasized the importance of getting sufficient pledges to ensure operational continuity and avoiding any abrupt scaling back of PFTAC operations. The EU pledged a commitment of Euro 5 million towards Phase VI operations and other donors were encouraged to continue support through financial contributions. The SC also discussed ways to enhance the effectiveness and governance of the SC.

The SC endorsed the updates to FY2022 workplan and plans for FY2023, and country officials provided briefings and feedbacks on recent PFTAC engagement and achievements. The 2022 Annual Report issued ahead of the May 2022 SC meeting can be downloaded at footnote link¹. The proposed FY2023 work program targets CD delivery at a level higher than before the onset of COVID reflecting increased demands as well as a return to in-country delivery and in-person training. The ambitious workplan strives to maximize the utilization of remaining Phase V funds.

Phase VI ambitions to increase its support for fragile and conflict affected states (FCS) in key workstreams. The SC supported the recruitment of three new resident advisors, from 7 to 10, that will support PFTAC works in GFS/Public Sector Debt Statistics program; Climate Changes PFM issues; and in a new Macroeconomics Frameworks program.

Since May, travel is gradually resuming across the region with improving prospects of in-person engagements during the final year of Phase V operations. PFTAC delivered three in-country engagements during the final year of Phase V operations.

¹ https://www.pftac.org/content/dam/PFTAC/Documents/Reports/Annual%20Reports/FY22%20Annual%20Report_Final_May2022.pdf
missions to Fiji and Palau in the first quarter under Macro and GFS programs. The PFM resident advisors delivered an in-person mission to Cook Islands jointly with Fiscal Affairs Department on Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA). The macroeconomic advisor is providing in-country CD assistance to Vanuatu and Timor-Leste during September. This is particularly welcome given remote CD delivery became increasingly challenging as COVID-19 constraints persisted.

The Revenue program delivered four virtual regional events, beginning with a webinar on Leadership, Governance and Integrity followed by VAT Risks and Investigations workshop in collaboration with Oceania Customs Organization (OCO) and the Pacific Islands Tax Administrators Association (PITAA). A new Planning Series for Senior Leaders was introduced with two webinars convened on Strategic Planning and Operational Planning aspect of revenue administrations.

PFTAC has a very long association in supporting PITAA. Several targeted events were organized in August around the 2022 annual PITAA heads meeting in Nadi. Three workshops were organized on Gender in Tax Administration, Effective Information Systems Management and Investing in Tax Administration. The Pacific Community’s Principal Strategic Lead – Pacific Women, Mereseini Rakuita addressed the revenue administrations heads on importance of mainstreaming gender for the wider benefit of the organization, government and the people. Under Fijian chairmanship, PITAA delegates met over two days to focus on “Emerging Tax Challenges and Digitalization in the Pacific” and strengthening regional collaboration and partnerships to address these emerging tax challenges. After a gap of two years, PFTAC hosted an awards dinner and recognized the achievements of three countries for their progress in advancing revenue reforms. The awards were presented to Palau for passing of new tax reform legislation, Cook Islands for significant improvements towards operational and strategic areas and Niue for its commitment to modernize its Tax and Customs Division.

Several changes in PFTAC staffing took place over the last semester. Marcus Scheiblecker, the Real Sector Statistics advisor left PFTAC in April after 3 ½ years of service in the Pacific. His successor, Matthew Powell, a United Kingdom national joined the PFTAC team in May. In June, David Kloeden departed after 5 ½ years as the PFTAC director with the appointment of the new PFTAC director, Samir Jahjah joining from AFRITAC West (AFW) in August 2022. Samir has extensive experience in program and surveillance work – his most recent assignments include IMF mission chief for the Central African Republic, IMF Resident Representative for Ghana and for the Democratic Republic of Congo. In these assignments he played a key role in program design, negotiations, and program monitoring – supporting the authorities implement their capacity development and economic agenda and engaging closely with development partners and various stakeholders.
RECENT AND UPCOMING EVENTS

Recent Events

PFTAC/PITAA: Leadership, Governance and Integrity (webinar). May 2 – June 10, 2022


PFTAC/PITAA: Planning Series for Senior Leaders - Strategic Planning (virtual). June 16 – 24, 2022


PFTAC/PITAA: PITAA Annual Heads Meeting. August 22 – 23, 2022

PFTAC/PITAA: Gender and Revenue Administration. August 24, 2022


PFTAC/PITAA: Investing in Tax Administration. August 26, 2022

PFTAC/FAD: Public Investment Management Assessment (PIMA) Workshop. September 7 – 9, 2022


Upcoming Events

PFTAC/PITAA: Seminar on People Management (virtual). October 31 to November 4, 2022

PFTAC/PITAA: Regional Tax Information System (virtual). November 7 – 11, 2022

PFTAC: Joint Macro and RSS Workshop on GDP(E) Measurement and Forecasting. November 22 – 25, 2022

PFTAC/PITAA: Regional Workshop on ISORA (virtual). November 28 – December 9, 2022

PFTAC: Workshop on PFM Reform Roadmaps. November 29 – December 2, 2022

PFTAC/PITAA: Regional Workshop on Gender in Practice (virtual). December 5 – 9, 2022

PFTAC: Annual Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC). December 12 – 16, 2022