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

2018 growth has been marked down, following the earthquake in Papua New Guinea. Elsewhere, growth is holding up, supported by tourism and fishing.

We look at recent IMF work on the innovation of crypto-assets and the risks, recommending a cautious approach in a fast-moving area.

We showcase recent research by the Reserve Bank of Fiji on tourism arrivals and look at IMF staff’s development of a “week at the beach” index.

Special appointee, Mareta Kaiteie, from Kiribati, looks back at her experience working in Asia Pacific Department’s Small States Division.

We look forward to two events:

- **PFTAC 25th Anniversary**, High Level Dialogue on Capacity Development and Growth, December 6-7, Nadi, Fiji. The IMF team will be led by Deputy Managing Director, Carla Grasso. The Guest of Honor will be Former Prime Minister of New Zealand Head of UNDP, Helen Clark. A youth photography competition has been launched—please encourage entries! #PacificGrowthandResilience.

- **Financial Inclusion and Fintech Workshop** in Apia, Samoa, November 13 which will draw upon Asia Pacific Departments research in this area.

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By APD Small States Division
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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
Recent Developments and Near-term Outlook

Growth in APD small state countries is expected to slow from 2.6 percent in 2017 to 1.4 percent in 2018, and to rebound to 4.1 percent in 2019. The downward revision in 2018 reflects the impact of the earthquake in Papua New Guinea (PNG). Resumption of PNG’s oil production will drive the rebound in 2019, coupled with a boost to tourism in Fiji, Samoa and Vanuatu from favorable global activity; strong fishing revenues; and infrastructure related investments in others.

There are however significant downside risks to the outlook. Natural disasters are an ever-present risk. Heightened global trade tensions, although not expected to have a large direct impact on the small states, may negatively impact exporters of logs (Solomon Islands and PNG), since log exports are closely linked to China’s consumption demand; and the flow of tourists from China (Fiji, Palau, Vanuatu and Samoa).

Similarities but also Differences

In the oil exporters (PNG and Timor-Leste), growth has weakened in PNG. While there is a rise in gas exports, PNG has been hit by low commodity prices, a severe drought and a major earthquake in 2018. The earthquake disrupted oil production, and growth in 2018 is revised downward from 2.9 percent to -1.1 percent. Growth is expected to pick up to 3.8 percent in 2019, driven by the resumption of oil production. In Timor-Leste, a recovery in government spending and infrastructure-related investment are expected to boost economic activity. Real GDP growth is expected to rise to 5 percent in 2019.

Fiji, Palau, Vanuatu and Samoa continue to perform well due to favorable tourism activity. Fiji has a solid performance in 2018 despite the cyclone in April. Real GDP growth is projected at 3.2 percent in 2018 and 3.4 percent in 2019. In Palau, while GDP contracted by 3.7 percent in 2017 due to a drop in tourism activity, it is expected to pick up moderately to 0.8 percent in 2018 and to increase to 2.2 percent in 2019 as a new hotel starts operating. In Vanuatu, the recovery in tourism and agriculture, post-cyclone recovery spending, combined with implementation of infrastructure projects, is expected to propel real GDP growth further to 4 percent in 2018 and 3.5 percent in 2019. In Samoa, growth is projected to moderate to 1.8 percent in 2018, but a rebound is expected in 2019 to 3.2 percent as two new businesses scale up operations at the old Yazaki plant and several infrastructure projects are completed.

Economic activity has held up well in the northern states (Micronesia, Marshall Islands, Nauru and Kiribati) and Tuvalu. In Kiribati, real GDP growth is expected to increase from 2.3 percent in 2018 to 2.4 percent in 2019. In Tuvalu, real GDP growth is estimated to grow from 3.2 percent in 2017 to 4.3 percent in 2018 thanks to large infrastructure and housing projects, in preparation for the Polynesian Leaders’ Summit in 2018 and the Pacific Forum Secretariat Summit in 2019. On the other hand, growth in Nauru is expected to contract by 2.4 percent in 2018 due to the exhaustion of primary phosphate mining. Fishing revenue in these countries remained solid but may moderate in the near to medium term.

In Tonga and Solomon Islands, economic activity has held up well. Tonga has a favorable outlook driven by construction activity following cyclone Gita in 2018. In Solomon Islands, real growth is expected to hold up in 2018, but is likely to moderate in 2019 due to fiscal problems and a tapering of logging activity. The fiscal position has been delicate since the IMF supported program in 2016.
Long-Term Outlook

Growth in Small States in the Pacific has been uneven and lags that recorded in other regions. It is important to recognize that while small states have important issues in common, they also have important differences. At the same time, small states face significant challenges to meet their development goals.

Small States face the challenge of preparing for and responding to natural disasters. The earthquake in PNG, Cyclones Gita and Josie which hit Tonga and Fiji respectively, demonstrate the negative and sudden impacts that such disasters can have on the economy and outlook. For instance, the probability that a severe natural disaster hit Vanuatu is around 30 percent. Climate change is likely to make such events, as well as droughts, more frequent and intense.

Most countries in the region face large infrastructure gaps and expenditure needs to reach the Sustainable Development Goals. Around 60 percent of population have access to electricity and less than 30 percent have access to internet. Countries need to invest more to promote a sustainable growth, but this requires funding and much of that will need to come from mobilizing domestic tax revenues. Domestic and external borrowing can help to fill these needs in infrastructure, but countries need to be careful that these projects fit with their development plans and that any attendant risks are properly managed.

Financial development is relatively low. PICs have much less developed financial sectors than Asia’s emerging and advanced economies. Small states also face challenges to leverage Fintech related innovations while mitigating the associated risks. The high cost of sending and receiving remittances and pressure from the withdrawal of correspondent banking relationships remains a problem. New challenges to financial stability are also emerging such as the potential introduction and use of crypto-currency, for example in the Marshall Islands.

Debt is on the rise in some countries. There are significant variations in the Pacific. Debt levels are quite high in PNG, Samoa, Tonga and Vanuatu. The average public debt-to-GDP ratio rose from 20 percent in 2010 to 35 percent in 2017. Strengthened fiscal management frameworks may be needed to strike a balance between financing infrastructure investment and maintaining debt sustainability. This requires seeking financing on concessional terms, prioritizing expenditures, maintaining fiscal buffers to cope with natural disasters, and improving revenue-raising capacity.

With the right economic policies, the economies can become more robust to weather-related and other shocks and also move to a higher long-term growth path. Policy priorities include strengthening fiscal management—rebuilding fiscal buffers, improved domestic revenue mobilization, spending prioritization, strengthening policy institutions and public financial management—for broader fiscal and debt sustainability and resilience to shocks. Incorporating the economic impact of natural disasters into economic planning would enhance preparedness for shocks. Finally, capacity development, strengthening the legal and supervisory frameworks of financial sectors can help countries make the most of growth opportunities.
## APD Small States: Real GDP

(Year-on-year change; in percent)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018 (est)</th>
<th>2019 (proj)</th>
<th>2020 (proj)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>7.4</td>
<td>5.8</td>
<td>4.8</td>
<td>6.3</td>
</tr>
<tr>
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<td>3.0</td>
<td>3.2</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Kiribati</td>
<td>3.1</td>
<td>2.3</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Maldives</td>
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<td>4.7</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
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<td>3.8</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Micronesia</td>
<td>2.0</td>
<td>1.4</td>
<td>0.9</td>
<td>0.7</td>
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<td>4.0</td>
<td>-2.4</td>
<td>-1.0</td>
<td>0.1</td>
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<tr>
<td>Palau</td>
<td>-3.7</td>
<td>0.8</td>
<td>2.2</td>
<td>2.5</td>
</tr>
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<td>Papua New Guinea</td>
<td>2.5</td>
<td>-1.1</td>
<td>3.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Samoa</td>
<td>2.5</td>
<td>1.8</td>
<td>3.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>3.5</td>
<td>3.4</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Timor-Leste(^1)</td>
<td>-4.6</td>
<td>0.8</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Tonga</td>
<td>2.5</td>
<td>2.9</td>
<td>5.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>3.2</td>
<td>4.3</td>
<td>4.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>4.2</td>
<td>3.8</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>APD small states and Pacific islands(^2)</td>
<td>2.6</td>
<td>1.4</td>
<td>4.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Small Pacific island countries(^2, 3)</td>
<td>2.9</td>
<td>3.0</td>
<td>3.3</td>
<td>3.3</td>
</tr>
</tbody>
</table>

\(^1\) Non-oil GDP; \(^2\) Weighted average by PPPGDP; 
\(^3\) Includes Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
Regional developments and outlook

Regional growth has been marked down for 2018...

Average Growth in APD Small States
(In percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiji</th>
<th>Samoa</th>
<th>PNG</th>
<th>Palau</th>
<th>Timor-Leste</th>
<th>Vanuatu</th>
<th>Tonga</th>
<th>Micronesia</th>
<th>Solomon Islands</th>
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<td>5.0</td>
<td>4.3</td>
<td>2.5</td>
<td>2.1</td>
<td>2.4</td>
<td>2.9</td>
<td>3.0</td>
<td>3.5</td>
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<tr>
<td>2015</td>
<td>4.7</td>
<td>4.8</td>
<td>4.5</td>
<td>2.7</td>
<td>2.2</td>
<td>2.5</td>
<td>3.1</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>2016</td>
<td>4.9</td>
<td>5.0</td>
<td>4.6</td>
<td>2.8</td>
<td>2.3</td>
<td>2.6</td>
<td>3.2</td>
<td>3.2</td>
<td>3.7</td>
</tr>
<tr>
<td>2017</td>
<td>4.8</td>
<td>4.9</td>
<td>4.5</td>
<td>2.7</td>
<td>2.2</td>
<td>2.5</td>
<td>3.1</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>2018</td>
<td>4.6</td>
<td>4.8</td>
<td>4.4</td>
<td>2.6</td>
<td>2.1</td>
<td>2.4</td>
<td>3.0</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Proj.</td>
<td>4.5</td>
<td>4.6</td>
<td>4.3</td>
<td>2.5</td>
<td>2.0</td>
<td>2.3</td>
<td>2.9</td>
<td>2.9</td>
<td>3.4</td>
</tr>
</tbody>
</table>

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

With the exception of Palau, tourism is expected to grow in the Pacific...

Outlook on Tourism in the Pacific
(Visitor arrivals by destination)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Fiji</td>
<td>1,000,000</td>
<td>1,100,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Samoa</td>
<td>900,000</td>
<td>950,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>PNG</td>
<td>800,000</td>
<td>850,000</td>
<td>900,000</td>
</tr>
<tr>
<td>Palau</td>
<td>700,000</td>
<td>750,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>600,000</td>
<td>650,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>500,000</td>
<td>550,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Tonga</td>
<td>400,000</td>
<td>450,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Micronesia</td>
<td>300,000</td>
<td>350,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>200,000</td>
<td>250,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>

Sources: South Pacific Tourism Organisation; Annual Review of Visitor Arrivals in Pacific Island Countries (2017).

There are spending pressures on both current and infrastructure spending...

Current and Capital Expenditure
(In percent of GDP)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Marshall Islands</td>
<td>15%</td>
<td>20%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Palau</td>
<td>16%</td>
<td>21%</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>17%</td>
<td>22%</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Nauru</td>
<td>18%</td>
<td>23%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>Kiribati</td>
<td>19%</td>
<td>24%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>20%</td>
<td>25%</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>21%</td>
<td>26%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Fiji</td>
<td>22%</td>
<td>27%</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>Samoa</td>
<td>23%</td>
<td>28%</td>
<td>22%</td>
<td>27%</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>24%</td>
<td>29%</td>
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</tr>
<tr>
<td>Tonga</td>
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<td>30%</td>
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</tr>
<tr>
<td>Micronesia</td>
<td>26%</td>
<td>31%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>27%</td>
<td>32%</td>
<td>26%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Sources: Countries authorities; and IMF staff estimates and projections.

...mainly due to the aftermath of the earthquake in PNG.

Real GDP Growth Revision Compared With 2018 Apr WEO
(In percentage point)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Papua New Guinea</td>
<td>-0.5</td>
<td>-0.7</td>
<td>-0.9</td>
</tr>
<tr>
<td>Palau</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>-0.4</td>
<td>-0.6</td>
<td>-0.8</td>
</tr>
<tr>
<td>Kiribati</td>
<td>-0.6</td>
<td>-0.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>Palau</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>-0.4</td>
<td>-0.6</td>
<td>-0.8</td>
</tr>
<tr>
<td>Vanuatu</td>
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<td>-0.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>-0.8</td>
<td>-1.0</td>
<td>-1.2</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>-0.2</td>
<td>-0.4</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Sources: WEO.

...and fishing revenue has been strong but is expected to moderate in the near term.

Outlook on Fishing Revenue in the Pacific
(Fishing revenue in percent of GDP)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Kiribati</td>
<td>80</td>
<td>75</td>
<td>70</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>75</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>Nauru</td>
<td>70</td>
<td>65</td>
<td>60</td>
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<tr>
<td>Micronesia</td>
<td>65</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>55</td>
<td>50</td>
<td>45</td>
</tr>
</tbody>
</table>

Sources: Countries authorities; and IMF staff projections.

...with pressures on some deficits.

Overall Balance
(In percent of GDP)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Marshall Islands</td>
<td>10</td>
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<tr>
<td>Palau</td>
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<td>Marshall Islands</td>
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<td>20</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

Sources: Countries authorities; and IMF staff projections.
Small States share a lot of similarities but there are also important differences...

PICs face significant challenges: ever present natural disasters... 

...and, large infrastructure gaps.

Debt is also rising in some countries

Prepared by IMF Staff.
Virtual currencies/ Crypto assets

In response to a request from IMF Executive Directors representing small states, Asia Pacific Department, in collaboration with Western Hemisphere Department and Monetary and Capital Markets Department, organized a closed-door roundtable on crypto assets for Pacific and Caribbean delegations during the Spring Meetings in April.

Privately issued virtual currencies/ crypto assets can present important benefits. They can enable fast and inexpensive financial transactions, while offering some of the convenience of cash. Moreover, the underlying technology of crypto-assets—distributed ledger technology, or DLT—could help financial markets function more efficiently, or aid the secure storage of important records such as medical records or land sales.

However, virtual currencies/crypto assets also raise new risks, notably risks of being misused for money laundering (ML), terrorist financing (TF) and other illegal activities. This is in part due to their varying degrees of anonymity or “pseudo-anonymity,” decentralized nature, global reach, speed of transaction, and segmentation of services. These features enable users to execute both domestic and cross-border transactions swiftly, in relative secrecy, and, in many cases, without the presence of a regulated intermediary. They facilitate easy online access and global reach which make them attractive to move and store funds not only for legitimate purposes, but also for ML/TF purposes. Without effective implementation of appropriate AML/CFT measures, they therefore pose a threat to the integrity of financial systems (domestic and international). The range and level of risks vary greatly depending on the intrinsic characteristics of the virtual currency/crypto asset in question, the type of operating model, and the context (in the country of issuance and the country of use).

Regulatory challenges are heightened due to virtual currencies/crypto assets’ novelty and the speed with which they are evolving, as well as the current lack of global consensus on the appropriate regulatory approach.

Interest in issuance of virtual currencies has grown. During the Spring Meetings, Marshall Islands noted its strong intention to issue a cryptocurrency as legal tender, and other states had also been approached by potential issuers. The Republic of the Marshall Islands passed legislation to issue a cryptocurrency as legal tender in addition to the U.S. dollar.

IMF has provided its views on the Republic of Marshall Islands plans to issue a crypto currency.

- IMF Staff’s assessment is that the potential benefits from revenue gains at this point appear considerably smaller than the potential costs arising from economic, reputational, AML/CFT, and governance risks.
- Unless strong AML/CFT measures are implemented, the issuance of the SOV will elevate the already high risks of losing the last U.S. dollar CBR.
- SOV issuance in the absence of a monetary policy framework could also result in monetary instability and pose significant challenges to macroeconomic management.
- Based on this assessment, IMF recommends that the authorities should seriously reconsider the issuance of the digital currency as a second legal tender.

Participants at the Spring Meetings roundtable recognized the need to mitigate the risks that virtual currencies/crypto assets pose to financial integrity. They however bemoaned the lack of a common AML/CFT regulatory approach to mitigate those risks.

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1 Republic of the Marshall Islands - Selected Issues Paper
New Framework for Enhanced Engagement on Governance—Transcript of the Press Release


The 1997 Governance Policy was adopted to guide the IMF’s efforts in helping its member countries to address governance and corruption issues. The July 2017 Board review of the 1997 Governance Policy found that, while considerable progress had been made in implementing the Policy, there remained several areas in which the IMF’s engagement on governance and corruption issues could be strengthened. The current paper responds to the Executive Board’s call for further work to strengthen the identified areas of engagement.

The paper articulates the principles that will continue to underpin the Fund’s engagement on governance issues in surveillance and use of Fund resources and provides a framework for enhanced implementation (Framework for Enhanced Fund Engagement). The Framework is designed to promote more systematic, effective, candid, and evenhanded engagement with member countries regarding governance vulnerabilities, including corruption, that are judged to be macroeconomically critical.

The Framework consists of four elements:

The first element is designed to enable the Fund to assess the nature and severity of governance vulnerabilities—including corruption. This includes an assessment of those state functions that are most relevant to economic activity, namely (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) Anti-Money Laundering and Combatting the Financing of Terrorism. Given its particularly pernicious impact on a member’s ability to achieve sustainable inclusive growth, the assessment will also examine the severity of corruption.

The second element will guide the Fund’s assessment of the macroeconomic implications of governance vulnerabilities taking into account the applicable standards for surveillance and the use of Fund resources. The paper lays out empirical evidence of the negative impact of governance vulnerabilities on economic performance, which provides a strong basis to determine that these vulnerabilities should be addressed in surveillance when they are assessed as severe.

The third element provides a framework for policy advice and capacity development support to members where Fund engagement is warranted.

And, the fourth element focuses on measures designed to prevent the private actors from offering bribes or providing services that facilitate concealment of corruption proceeds.

Press Release and background papers can be found here.

Engagement so far in Pacific Small States

The Framework will be applied in all forthcoming Article IV consultations, beginning with Solomon Islands and Papua New Guinea.
Modelling Fiji’s Tourism Arrivals

Reserve Bank of Fiji’s Economists Mr. Isoa Wainiqolo and Ms. Seron Shivanjali recently completed a working paper titled *Modelling Fiji’s Tourism Arrivals*. Using econometric modelling, the paper estimates the determinants of tourist arrivals from Fiji’s major short haul (Australia and New Zealand) and long haul (United States (US), Canada, Japan, United Kingdom (UK), Continental Europe and South Korea) tourism source markets. Combined, these markets account for approximately eighty-five percent of total tourist arrivals in the country.

The tourism industry plays an important role in the Fijian economy and constitutes activities in a number of sectors including agriculture, transport, wholesale & retail, accommodation & food services and arts, entertainment & recreation. The industry contributes around 40 percent to Fiji’s Gross Domestic Product and 37 percent of total employment.

Over the years, the tourism industry has grown to become Fiji’s number one foreign exchange earner, overtaking earnings from our traditional industries such as sugar, fisheries, garments and forestry. In 2017 tourism earnings amounted to $1,924.3 million, – an increase of 5.5 percent compared to 2016 – and are expected to reach the $2 billion mark in 2018. With the growing role and importance of tourism in the Fijian economy, it is vital to pay more attention to factors that affect visitor arrivals in Fiji, not only from the two major markets of Australia and New Zealand but also from other key markets.

The key findings and recommendations of the paper include:

- **Most long-haul tourism source markets are price sensitive.** This suggests that tourism authorities must monitor price competitiveness in Fiji, and ensure that we do not out-price Fiji as a destination. Maintaining competitiveness is critical given the fact that in this era of technological advancement, searching and booking for holidays and comparing prices and reviews has become much easier.

- **Results also suggest that tourists from US and UK markets do not come solely to visit Fiji but also our neighboring countries of Australia and New Zealand.** Hence, increasing collaboration among various tourism stakeholders in Australia, New Zealand and Fiji as well as offering multi-country tour packages for international long-haul routes will be beneficial to Fiji.

- **With the exception of Japan, all other source countries were found to be income sensitive.** This means that policy makers in the tourism industry should continuously monitor the business cycle or activities in the source markets as it impacts visitor arrivals into Fiji. Closer source market surveillance and research for development of flexible and efficient promotional tools, additional marketing activities and an expansion of source markets are necessary, in order to ensure the sustainability of the tourism industry going forward.

The study provides a basis for further studies on the tourism industry and proposes additional areas for future research in this topic.

The RBF working paper can be viewed [here](#).

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2 The views and opinions expressed in this study are those of the authors and do not reflect those of the Reserve Bank of Fiji or its Board.
Tourism is an important sector for many small states in Asia and the Pacific, and its economic relevance is likely to grow, supported by rising incomes in Asia. Worldwide, 35 Fund members derive over 30 percent of export earnings from tourism, and it is their largest source of foreign exchange, a key source of employment and a fundamental component of GDP.

A forthcoming working paper (De, Garcia, Saeed and Sullivan, 2018) investigates the capacity of big data to shed new light on the tourism sector. Partnering with TripAdvisor, staff were able to track prices from 61 countries and 153 beach destinations, including with several years of historical data. The chart below illustrates the relative cost of tourism across some key destinations across the world using a composite index comprising items typically consumed on a beach holiday (from accommodation to taxi, meals and drinks, etc.), a simple but nonetheless informative measure of price competitiveness of the destinations in the spirit of the “big mac” index. As of June 2018, the profile of beach destinations by prices averaged over a year shows that, at least price-wise, Asian countries are quite competitive with the rest of the world, with Indonesia showing one of the lowest costs, and Maldives, Palau, Vanuatu and Samoa costs are also quite competitive compared to similar countries in other touristic regions as the Caribbean. This evidence suggests tourism could be an important avenue for economic development in many small states in Asia and the Pacific.

Fiji Implements the IMF’s e-GDDS

Fiji is among the first wave of countries in the Pacific to enhance data dissemination by launching a National Summary Data Page (NSDP) and implementing the recommendations of the IMF’s Enhanced General Data Dissemination System (e-GDDS). The NSDP is a national “data portal” that serves as a one-stop vehicle for publishing essential macroeconomic data in both human and machine-readable formats. The NSDP is hosted by the Reserve Bank of Fiji on its website and a link is available on the IMF’s Dissemination Standards Bulletin Board. The data page provides policy makers, domestic and international stakeholders, investors and rating agencies with easy access to critical data. The information is simultaneously available to all users enhancing data transparency.

To mark this milestone, senior officials of three agencies in Fiji responsible for macroeconomic data dissemination—Mr. Ali, Governor of Reserve Bank of Fiji; Ms. Konrote, the Permanent Secretary for Economy; and Mr. Waqavonovono, Government Statistician—highlighted the benefits of the new NSDP in enhancing data availability and improving transparency. Louis Marc Ducharme, Chief Statistician and Data Officer of the IMF, congratulated the authorities: “I am confident that Fiji will benefit from using the e-GDDS as a framework for further development of its statistical system.”

Press release can be found here.
An Interview with Mareta Kaiteie, Outgoing Special Appointee in the Small States Division

SSM: Ms. Kaiteie, you have been here for about nine months now. The end of your one-year assignment is approaching. Please share your experience during this period with us. What has been most rewarding from this assignment?

Ms. Kaiteie: First, I must thank the IMF for offering this opportunity to the Pacific countries and low-income countries generally. It is an effective mode of training and a spillover of knowledge to member countries which I can take back with me to the ministry of Finance and Economic Development in Kiribati. Investing in human resources across countries is key to help support achieving sustainable and inclusive growth in our countries, in partnership with the IMF and development partners.

I look back now and realize I have been here for nine months. During these past months, I have taken advantage of the very rich training program in the Fund. I participated in courses on management and sharpened my economic skills. I have immensely benefitted from the mix of training, desk work and mission travel. All these have enhanced my understanding of economic theory and how we apply it in a country circumstances. The course of Financial Programming and Policies, was a refresher to economic background which allowed me to (i) understand and diagnose the status of the economy; (ii) project where the economy heading towards in the future under current policies and (iii) design suggested policies to help countries divert from paths that would otherwise compromise the country’s future development.

That indeed is valuable for every economy, to fully understand key components that makes up their overall economic progress and contribution towards sound policies.

Having a chance to participate on country missions, was a truly rewarding experience. I was a member of the Marshall Islands mission team and in a few weeks’ time I will be travelling to Kiribati. On top of that, working with other colleagues to prepare a joint paper on growth (still in progress), in contribution towards the 25th PFTAC Anniversary in December – is helping to broaden my views on the challenges and opportunities for countries in the Pacific.

SSM: I am sure there were also areas that you found challenging, could you share that with us?

Ms. Kaiteie: The transitional period was quite tough. As you know, Kiribati is very different from the U.S.: the size of the economy, culture and lifestyle. As a Pacific Islander, adjusting to the new environment was a painstaking and time-consuming task. You want to adjust quickly to focus on your job, given that you are here for a short period. So, the earlier you adapt to changes, the quicker you’ll embrace the massive benefits surrounding you at the Fund, and most importantly, you will perform better in your assignment. For now, I am confident that I have gone through the most difficult period, I am making the most of my remaining time in the Small States Division.

SSM: What should be done to make the remaining months beneficial to your experience?

Ms. Kaiteie: It would be great if I could participate in as many training courses as possible in the remaining few months. Training is a useful tool that complements the skills of an individual to efficiently deliver on responsibilities.
SSM: Would you recommend the program to others, based on your experience?

Ms. Kaiteie: Definitely. I would recommend this program to be continued, to build needed capacity. The knowledge earned during this program lays an important foundation for delivery of sound economic policy and advice to our countries for years to come, an effective contribution to attaining sustainable growth and development.

SSM: It has been a pleasure working with you in the Fund. We wish you the very best during the remaining months of your assignment as well as in the role you will undertake when you return home.

Thank you.

APD Small States Staff Changes

Dirk Muir, mission chief for Vanuatu, is a Senior Economist in the Asia and Pacific Department (APD) of the IMF. He joined the IMF in 2008 as a member of the Research Department’s Economic Modeling Division, developing and using the IMF’s large-scale macroeconomic models such as GIMF and FSGM. He has worked on issues in international economics using models, including oil markets, and global rebalancing, as well as Australian, New Zealand and European fiscal and macrostructural policies. In APD he has worked on Australia, New Zealand and Singapore. Mr. Muir holds a M.A. in Economics from Queen’s University (Canada). Prior to joining the IMF, he held positions at the Bank of Canada, the Department of Finance of Canada, the Norges Bank, the European Central Bank and Deutsche Bank Global Markets London.

Charlotte Sandoz, Economist Program, is an Economist in the Small States Division in APD. She joined the IMF in September 2018. Previously, she was a 3-year PhD fellow in the Competitiveness and Structural Reforms division at the Bank of France. She was then a PhD intern at the IMF in APD and at the ECB in the Competitiveness and Convergence division. Her research interests include international trade, productivity and firms’ organization. She holds a PhD in Economics from Paris School of Economics. She is a French and Swiss citizen.
Prepared by Leni Hunter, Resident Representative of Pacific Island Countries

Bula Vinaka. I started as Regional Resident Representative in Suva at the end of March, toward the end of the cyclone season. I arrived in time to witness the effects of Tropical Cyclones Josie and Keni, and some of the challenges that Pacific nations face with natural disasters every year. Natural disasters and climate change were a key focus at this year’s Forum Economic Ministers Meeting (FEMM) in Palau. Ministers considered financial facilities to respond to natural disasters and climate change, as well as how to address infrastructure gaps in the Pacific. The discussions showed the commitment and desire of Pacific policy makers to find home-grown solutions to these issues.

The next few months were busy with country mission travel. Reshika Singh travelled to Samoa for the Article IV and provided assistance from Suva for the Nauru Staff Visit. I spent the second half of May in the Republic of Marshall Islands for the Article IV, before meeting the Fiji team in Suva for the Fiji Staff Visit. I joined the end of the Solomon Islands Article IV in July, and in September, Jacinta Hesaie and I travelled to PNG for the Article IV consultations.

Some common themes in these country missions have included fiscal sustainability, correspondent banking relationships, and the need to support private sector development and inclusive growth, among others. Looking ahead, PFM, growth, and other key topics will be grappled with at the High Level Dialogue on Capacity Development and Growth in December, to mark the 25th Anniversary of PFTAC. Prior to that, I will join DMD Zhang’s visit to Tonga, and assist the IMF delegation attending the APEC Leaders’ Meeting in November, where the Managing Director will deliver a keynote speech. Writing this from Port Moresby, it has been impressive to see the APEC preparations, and we wish PNG every success as the 2018 APEC host.

PFTAC News and Events

Prepared by David Kloeden, PFTAC Coordinator

Seminars, Conferences, Workshops, and Training

The Southern Hemisphere winter and start of the IMF Fiscal Year is always a very busy period for delivery of seminars and workshops across most PFTAC programs.

In the financial sector this included an Insurance Supervision workshop in Suva in May; a Prudential Regulatory workshop with APRA in Sydney in June; and a Cyber/IT Risk workshop in Vanuatu in August in conjunction with the annual the Association of Financial Supervisors of Pacific Countries (AFSPC) meeting.
The Association of Financial Supervisors of Pacific Countries (AFSPC) held its annual meeting in Vanuatu. The gathering facilitates coordination among the 11 AFSPC member and two observer countries on financial-sector issues and promotes cooperation on managing regional supervisory issues and risks. Acting as the AFSPC secretariat, PFTAC organizes and funds the annual meeting. In 2017, AFSPC members identified cybersecurity and IT risk as an important issue for supervisory attention and technical assistance to manage such risks. In response, PFTAC and MCM staged a three-day workshop on Cyber Security and IT Risk drawing on global expertise in managing cyber and IT risk, including the participation of cyber experts from MCM and ITD (Lincoln Kaffenberger pictured); the Australia Prudential Regulation Authority; Financial Services - Information Sharing and Analysis Center; and the Central Bank of Armenia. The workshop provided an overview of how to manage such risks and identified gaps in regulatory frameworks and supervision practices and will be followed with targeted bilateral TA in assisting with the development of comprehensive risk regulations and capacity building.

An innovative joint PFTAC/CARTAC Small States Revenue Mobilization conference in July at IMF Headquarters was opened by DMD Tao Zhang bringing together tax administration heads or senior officials from 18 Caribbean and 12 Pacific nations as well as Cape Verde, Maldives, Mauritius, and the Seychelles. Drawing on the extensive expertise from FAD and LEG in revenue administration, tax policy, and tax legislation, presentations by IMF staff were complemented by knowledge and experience sharing by officials of Small Island Developing States (SIDS) and other partners. The workshop covered an array of tax administration, tax policy and tax legislation issues relevant to the Caribbean, the Pacific and other SIDS.

PFTAC has a very long association in supporting the Pacific Islands Tax Administrators Association (PITAA). Several targeted events were organized in September by PFTAC around the 2018 annual PITAA heads meeting in Nadi, Fiji, beginning with a 3-day VAT Workshop to help inform PICs that are considering a VAT (e.g. Solomon Islands, Nauru, Palau, and FSM), with experience sharing from mature VAT regimes/administrations (Fiji and Cook Islands for a micro, tourism-based economy), and Kiribati as a recent implementation.

Under Fijian chairmanship, PITAA delegates met over three days to focus on “Sustaining the Pacific through Effective Revenue Mobilization”. This built on the Washington conference on ways to strengthen core tax functions through revenue enhancing strategies. For the third consecutive year, PFTAC hosted an awards dinner and recognized the achievements of three countries for their progress in advancing revenue reforms. Fiji’s Acting Prime Minister and Minister for Economy, Hon Aiyaz Sayed-Khaiyum, presented awards to Kiribati for strengthening core tax functions (photo at left of Kiribati Commissioner Koreaua receiving the award from Minister Sayed-Khaiyum), Fiji for supporting regional tax administration development; and Tonga for strengthening revenue administration and governance arrangements. PFTAC also held one-day events before and after the PITAA meetings.
namely a workshop on Leading Change and a session focused on future development and TA needs with an informative presentation by the vice-president of the Fiji Chamber of Commerce, Dr. Nur Bano Ali on facilitating business tax compliance from a private sector perspective.

In August, the Government Finance Statistics (GFS) program provided a regional training event on GFS in Nadi to eleven Pacific Island Countries and the South Pacific Tourism Organization (SPTO), providing training to 47 officials, ranging from treasuries, national statistics offices, ministries of finance, central banks, and researchers from the SPTO. Please see a short video clip of the event and views from the participants:  https://www.facebook.com/FijiPFTAC/videos/319304112193609/.

Responding to country requests for customized training, PFTAC co-organized a sub-regional course in July on Macroeconomic Policy for Stabilization and Growth in the Pacific with ICD and the Singapore Training Institute (STI). The Central Bank of Solomon Islands and the Ministry of Finance and Treasury were host partners. The five-day course brought together 48 analysts from the central banks and the ministries of finance/economy from Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu, to discuss the importance of sound macroeconomic policy and institutions. It was followed by a two-day extended session for participants from Papua New Guinea and Solomon Islands on Adjustment Options for Commodity Exporters.

PFTAC members highly value the IMF’s extensive program of ICD and STI courses, workshops, and seminars which are considered an important complement to PFTAC technical assistance. But participants often find it difficult to apply new skills and knowledge acquired at these training events in their home countries due to a lack of data. The Honiara course was designed from ICD and STI training material around topics of relevance to the region and available data. The course focused on strengthening the understanding of linkages between macroeconomic sectors by constructing a “microframework” populated with data from PNG sector by sector. The template can be easily adapted to other countries which some participants already started to do and PFTAC will follow up with bilateral assistance to implement tools and methodologies discussed during the course.
Staff Changes

Richard Wild (pictured right), the Real Sector Statistics advisor left PFTAC in August for a position in the Statistics Department after three years of service in the Pacific. His successor, Marcus Scheiblecker, an Austrian national will join the PFTAC team in mid-October at which time we will then farewell Barend de la Beer, the Government Finance Statistics (GFS) advisor who will follow Richard’s footsteps to a Statistics Department assignment. PFTAC’s Revenue Advisor, Stan Shrosbree will end his four-year term in late October, but will remain active in delivering the scaled-up revenue program as a short-term expert from his home base in Auckland. Stan’s successor, Georg Eysselein, a national of South Africa is spending a month-long hand-over before returning to Fiji in late October. Georg has previously been a resident IMF revenue advisor in the Balkans, as well as recent work in Afghanistan and Somalia. We also welcomed Ms. Shane Prasad, formerly of the Fiji Revenue Customs Service to a newly created local position on the PFTAC team as Project/Economist Analyst.

Office Move

In June, PFTAC and Res. Rep. staff vacated their long-tenanted office space in the Reserve Bank of Fiji (photo at right) for temporary space to facilitate the refurbishment and refreshing of the office environment for the future.

Oncoming Event: Celebrating PFTAC’s 25th anniversary

Celebrating PFTAC’s anniversary, a High-Level Dialogue will be held in Nadi, Fiji on December 6 –7 with a focus on the Pacific and how capacity development can help countries make the most of growth opportunities and attain the sustainable development goals. Raising growth in the Pacific is a challenge due to small size, remoteness and vulnerability to natural disasters. The high-level dialog aims to (i) demonstrate how capacity development can contribute to support growth goals; (ii) identify opportunities, including from peer group learning; (iii) enhance traction with the Pacific Islands and collaboration with development partners; (iv) increase donor country awareness of the IMF’s work in the Pacific; and (v) connect to youth. DMD Grasso will officiate, with ministers, governors, policy makers, and development partners invited from across the region and beyond. A 3-day training event for mid-level officials will precede the high-level event, and youth essay and photo contests (see left) will encourage youth engagement in the topics with winners participating in the event.
Recent Research / Publications

Financial Inclusion in Asia Pacific Prepared by Elena Loukoianova and Yongzheng Yang (leads)

In recent years much progress has been made in financial inclusion globally, including in Asia and the Pacific. Nevertheless, financial inclusion gaps remain large across and within countries. Close to half of the adult population in low- and middle-income Asia-Pacific economies does not have a bank account, and less than 10 percent has borrowed from formal financial institutions. Lack of access to formal finance leaves poor households more vulnerable to adverse shocks and poverty traps. While Asia-Pacific countries have made significant strides using financial technology (fintech) to support financial inclusion, the region’s use of fintech is uneven, exhibiting large gaps between the rich and poor, men and women, and rural and urban areas.

This paper takes stock of the development and current state of financial inclusion in the Asia-Pacific region. It focuses on the impact of financial inclusion on economic growth, poverty reduction, and income inequality, and the linkages between financial inclusion and macroeconomic policies, as well as structural policies. Given the increasing importance of financial technologies, the paper also provides a snapshot of the fintech landscape in the region. Main findings in this paper include the following:

- Financial inclusion does matter for economic growth and is associated with a reduction in poverty and inequality. Empirical results point to potentially significant growth benefits from financial inclusion, with the largest gains for low-income and developing countries. Simulations indicate that raising financial inclusion in low-income countries to the levels in Asia’s emerging market economies could significantly reduce the region’s population living in poverty and income inequality.

FIJI

The 2018 Staff Visit for Fiji was conducted in late May 2018. The Fijian economy is forecast to expand for the ninth consecutive year in 2018, albeit at a slower pace than projected in April 2018 due to a wave of floods. Projected real GDP growth in 2018 was revised from 3.5 to 3.2 percent due to the impact of adverse weather in the agriculture sector. Disruptions in domestic supply put upward pressure on food prices and inflation is forecast at 3.9 percent for 2018, up 0.6 percentage points compared to our April projections; however, inflation is expected to fall back towards 3.0 percent in 2019 as supply conditions normalize. The fiscal deficit in FY2017-18 is estimated to increase to 4.5 percent of GDP from 2.2 percent in FY 2016-17, driven by a sharp increase in public investment. The fiscal deficit is projected to fall to 3.5 in FY 2018-19 in line with fiscal consolidation plans laid out in the FY 2018-19 budget. The current account deficit is estimated at 4.7 percent of GDP in 2018 and is projected to gradually decline in the medium-term as the impact of recent cyclones and higher oil prices on external accounts wanes. Fiji’s monetary policy remains accommodative and the level of foreign reserves is adequate (about 5 months of imports).
PNG Staff Visit, June 2018

The mission team, consisting of Scott Roger and Ryota Nakatani from HQ and Jacinta Hesaie from the Res Rep office in Fiji, focused on three issues:

- Updating our assessment of the economic impact of the 7.5 magnitude earthquake in Western PNG in February. This disrupted production and exports of natural gas, oil, and minerals. The estimated impact was large, cutting 2018 GDP growth by over 5 percentage points. More recent information suggests a smaller impact.

- Addressing the foreign exchange shortage, and restoring exchange rate flexibility. Good progress was made in agreeing on the main elements of a comprehensive strategy, and this is now beginning to be implemented.

- Preliminary discussions of governance and corruption issues, which is a new and mandatory part of IMF surveillance, to be taken up in more detail during the Article IV mission.

As always, the PNG authorities were extremely welcoming and helpful, despite the fact that almost every street in Port Moresby seemed to be torn up as part of the APEC preparations. Happily, the work is almost complete now!

Nauru Staff Visit, May 2018

Growth moderated to 4 percent in FY2017 and is expected to contract in FY2018 reflecting the exhaustion of primary phosphate mining and reduced activity in the Refugee Processing Centre (RPC). Emerging private sector activity, in part linked to the RPC, and fisheries income are expected to cushion the softening. Uncertainty around the fiscal outlook is high, given the substantial share of revenue from the RPC in total revenue. In the meantime, commitment to maintaining adequate cash buffers and building-up the trust fund is high. Progress in structural reforms is encouraging. Fiscal transparency is improving with regular updates on the government website and the publication of audited financial statements. Construction of the new seaport is expected to begin in early 2019, and the utility corporation has so far managed to produce and distribute power without losses eliminating the need for budgetary producer subsidies. Data shortcomings are significant and require continued technical assistance to build capacity in statistics.
IMF staff visited Bhutan for the Article IV Consultation in July 2018. Bhutan continued to make strides in raising per capita incomes and reducing poverty as it concluded the 11th Five Year Plan in 2018. Growth has remained robust, averaging 6 percent over the 11th Plan. In FY2018, growth is expected to slow to 5.8 percent from 7.4 percent in FY2017, reflecting slowing construction activity of hydropower projects set to come on stream in 2018 and beyond. Inflation remains low at around 4¼ percent in December 2017. With lower hydropower-related imports and higher electricity export revenue, the current account deficit narrowed from an average of 26 percent of GDP over FY2012-16 to 22.8 percent in FY2017, and reserve cover at 13 months of imports remains at robust levels. Improving macroeconomic conditions will provide a desirable backdrop for the authorities’ plans to diversify the economy away from dependence on hydropower generation. However, delays in implementing the goods and services tax (GST) and completing hydropower projects could lead to lower electricity exports and larger fiscal deficits.
The IMF Executive Board concluded the Article IV Consultation in July 2018. Tuvalu has maintained macroeconomic stability. Real GDP growth is estimated to have risen to 3.2 percent in 2017 on large infrastructure and housing projects. Inflation accelerated to 4.4 percent in 2017 due to higher food and transportation prices. Reserve coverage is broadly sufficient at 9 months of imports at end-2017. The fiscal balance turned into a deficit of 4 percent of GDP in 2017 on lower fishing revenue and higher capital expenditure. Risks are to the downside, nonetheless, reflecting climate change and natural disasters, volatile fishing revenues, reliance on external grants, weak state-owned enterprises, and limited financial supervision. Policy priorities include continuing to improve climate change risk management and undertaking gradual fiscal consolidation to maintain buffers against shocks. Fiscal consolidation requires strengthening the medium-term fiscal framework, containing current spending, prioritizing capital spending, and accelerating SOE reform. Macro-structural policies that increase potential output and diversify the growth base are crucial, such as the development of human capital and promotion of tourism. It is also critical to enhance bank credit intermediation and financial inclusion by putting in place a financial supervisory framework, improving enforcement of existing financial regulations, and developing bankruptcy legislation.
IMF staff visited Majuro in May 2018 and the IMF Executive Board concluded the 2018 Article IV consultation for Marshall Islands in September. The economy rebounded in FY2016 after a two-year recession, and growth is expected to remain robust driven by continued infrastructure investment. Overall risks remain tilted to the downside. The issuance of a decentralized digital currency as a second legal tender would increase macroeconomic and financial integrity risks and elevate the risk of losing the last U.S. dollar correspondent banking relationship. Staff assesses that the potential benefits from revenue gains appear considerably smaller than the potential costs arising from economic, reputational, AML/CFT, and governance risks. In the absence of adequate measures to mitigate them, the authorities should seriously reconsider the issuance of the digital currency as legal tender. [Marshall Islands 2018 Staff Report and Selected Issues Paper]

Maldives Staff Visit, July 2018

Supported by a pickup in tourism and construction, real GDP growth in 2017 is estimated to be close to 5 percent. For 2018, growth is projected at 5 percent supported by continued robust tourism and public investment-driven construction activity. After peaking at close to 3 percent in mid-2017 due to subsidy reduction and excise tax increases, CPI inflation in Malé fell to 0.3 percent in May on lower food prices and the dissipation of the base effect. The current account deficit fell moderately and FX reserves increased, but the risk of balance of payment pressures underscore the need for a more sustained build up in reserves. The impact of the political turmoil in early 2018 appears to be limited with the September presidential elections broadly declared as free and fair. The elections were held on September 23rd with the opposition leader winning the popular vote by a wide margin. The incumbent president conceded defeat and promised a smooth transition of power to the new-elect president. Downside risks in the near term include further dollar strengthening, and higher oil prices. On the fiscal side, the deficit in 2017 declined significantly, reflecting mainly temporary spending compression. For 2018, the Budget targets a deficit of 3.2 percent of GDP, predicated on stronger appropriations and commitment control in cash flow management. The authorities, however, acknowledge risks to the fiscal outcome. Progress has been achieved in addressing environmental challenges and improving Maldives’ resilience to climate change effects, including increased reliance on renewable energy and progress in the protection of islands from coastal erosion. Difficulties remain, in securing financial support for climate change-related projects.
IMF staff visited Solomon Islands for the Article IV Consultation in July 2018. Real growth held up at 3.5 percent in 2017, as logging continued to outperform expectations, coupled with higher cash crop yields, fishing revenues, and construction activity. The current account deficit remained at around 4.2 percent of GDP in 2017, but the reserves position remains comfortable, at 8.8 months of import cover in June 2018. However, the fiscal position has deteriorated further with domestic payment arrears accumulating and the government’s broad cash balance declining below its target. The government’s aim for a complete elimination of domestic arrears and a balanced budget for 2018 to maintain the level of cash balance as of December 2017 is welcome. There is a need for better expenditure prioritization, including streamlining spending in areas which have increased rapidly in recent years (e.g. CDFs, tertiary scholarships and shipping grants). The new government is aiming to tackle the governance challenges including through the passage of the anti-corruption bill, and a focus on sustainable forestry and mining policy. Reaping benefits from the mining sector, an increasingly important source of growth, requires a strong regulatory and policy environment.

Recent and Upcoming Events on Asia and Pacific Small States

**Recent Events**

**2018 Pacific Roundtable on Correspondent Banking Relationships and Pressure on Remittances**
February 5, 7-8, 2018, Sydney, Australia and Auckland, New Zealand

**Day Session on Correspondent Banking Relationships and Pressure on Remittances with Regulators**
March 26, 2018, Suva, Fiji

**PFTAC Steering Committee**
March 27-28, 2018, Suva, Fiji

**Upcoming Events**

**Annual Meetings**
October 12-14 2018, Bali Nusa Dua, Indonesia

**Heptagon Meeting**
October 2018

**Workshop on Financial Inclusion & Fintech**
November 13, 2018, Apia, Samoa

**South Pacific Central Bank Governors’ Meeting**
November 14-15, 2018, Apia, Samoa

**PFTAC 25th Anniversary – Technical Level Workshop on Growth & Productivity**
December 3-5 2018, Nadi, Fiji

**PFTAC 25th Anniversary – High Level Dialogue on Capacity Development & Growth**
December 5-7 2018, Nadi, Fiji

**Spring Meetings**
April, 2019, Washington, D.C.