SOUTH PACIFIC ISLANDS

Table 1	2020
Population, million	
Samoa	0.20
Tonga	0.11
Vanuatu	0.30
GDP, US$, billion	
Samoa	0.81
Tonga	0.49
Vanuatu	0.93
GDP per capita, current US$	
Samoa	4068
Tonga	4605
Vanuatu	3089

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga and Vanuatu have been impacted by natural disasters and the COVID-19 pandemic. While COVID-19 outbreaks were avoided, strict travel restrictions have hit tourism-related activity with negative spillovers to the rest of the economy. Governments need to expedite the COVID-19 vaccine rollout, continue to support households and businesses, and embark on structural reforms to support the post-pandemic recovery. Risks include a domestic outbreak of COVID-19 and a slower-than-expected vaccine rollout, causing a delay in border reopening.

Key conditions and challenges

Natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability. Enhancing resilience to external shocks is crucial to supporting long-run growth and achieving sustainable improvements in living standards and poverty reduction. A domestic outbreak of COVID-19 would have severe ramifications, but economic activity will be constrained for as long as international travel restrictions remain in place. Based on the current pace of vaccine rollout and the expected recovery in international travel, economic activity may remain depressed for another six to nine months. This creates significant potential for scarring effects in the longer term—particularly in the tourism sector—as lost firms and jobs create adverse structural changes to the economy that are not reversed when aggregate demand recovers. These changes would disproportionately affect the poor and lower educated, whose skills may not be as transferable to other sectors. The economic shocks and slow recovery also greatly increase the risk of poverty, particularly as households deplete savings and assets to cope with lost incomes.

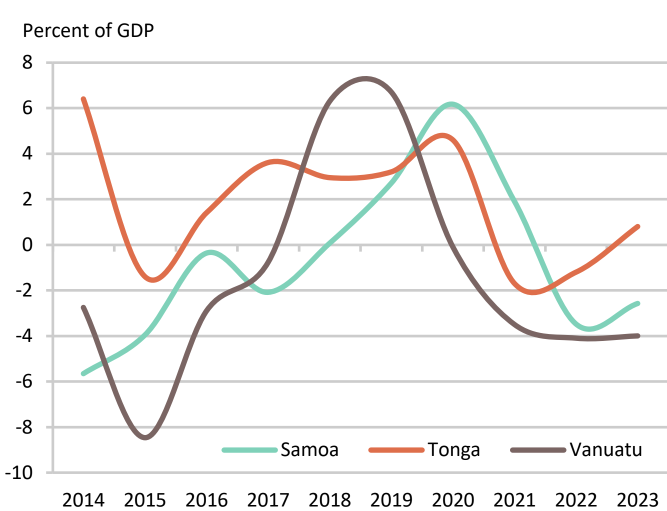
The main immediate challenges are to accelerate the rate of COVID-19 vaccine uptake and remain free of COVID-19. The near-term challenge will be to strike an appropriate balance between catalyzing a sustainable and inclusive economic recovery and maintaining macroeconomic sustainability in the face of several competing pressures. With limited fiscal space and low capacity to carry debt, governments need to prioritize strategic measures that lay the foundation for the economic recovery, while also supporting livelihoods for the Bottom 40 percent of households. In Tonga and Vanuatu, governments should carefully prioritize cyclone reconstruction and development spending while being mindful of fiscal and local capacity constraints.

Recent developments

While border closures and containment measures affected economic activity, various fiscal stimulus packages helped avoid a severe economic downturn in FY20. Substantial donor funding inflows helped cushion the negative impact on fiscal and external balances. While the COVID-19 vaccination roll-out has been progressing well in Samoa and Tonga, it has been relatively slow in Vanuatu. As of early September 2021, 37 percent and 43 percent of the adult population are fully vaccinated in Samoa and Tonga, respectively. Vanuatu has fully vaccinated only 6 percent the adult population.

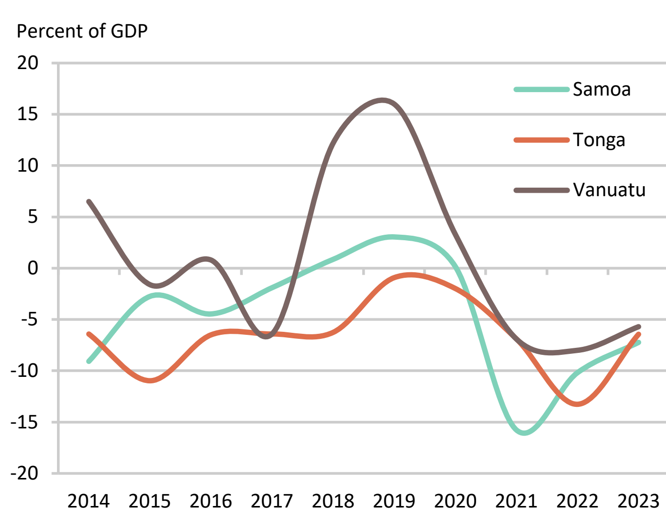
The **Samoan** economy is estimated to have contracted by 8 percent in FY21. While movement restrictions kept the pandemic at bay, tourism plummeted and generated knock-on effects on other sectors. The measures taken have saved lives

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and WB projections.

FIGURE 2 South Pacific Islands / Current account balance



Sources: National sources and WB projections.

but hurt household income, increased unemployment, and weighed on household balance sheets. Extreme poverty is likely to have risen from the latest pre-pandemic rate of 8.2 percent (2018), with urban areas affected more due to the higher concentration of jobs in the services sector. Substantial development partner grants and favorable tax revenue outturn, reflecting improved tax compliance from the phased rollout of the Tax Invoice Monitoring System (TIMS) cushioned the impact on fiscal account. On balance, the dormant tourism sector dominated the impact on the current account, which recorded a substantial deficit.

The **Tongan** economy is estimated to have contracted by 3.2 percent in FY21, due to the impacts of COVID-19 and Tropical Cyclone (TC) Harold—a category 5 cyclone that struck the country in April 2020. The dual shocks have resulted in a significant slowdown in the tourism, retail, construction and agriculture sectors. Households have felt the full impact of the shocks, with the poorest and vulnerable among the most severely affected due to a combination of increased unemployment and loss or damage of assets. The sharp economic slowdown has put pressure on both the fiscal accounts and balance of payments. However, these pressures have been offset to a large degree by substantial additional development partner grants to support crisis recovery.

In **Vanuatu,** growth is expected to reach 1.2 percent in 2021, supported by the economic effects of the stimulus packages and construction activity in the wake of TC Harold and COVID-19. The dual shocks nevertheless have disrupted the tourism sector, in which large shares of jobs are informal. According to a pre-crisis household income and expenditure survey (2019-20), the national poverty rate was 15.9 percent, which has likely risen since. After a balanced budget in 2020, reduced domestic revenue due to a fall in the country's Economic Citizenship Program (ECP) receipts and increased infrastructure spending are expected to lead to a fiscal deficit of 3.5 percent of GDP in 2021. Continued border restrictions negatively impact the current account, resulting in a deficit of 6.9 percent.

Outlook

The near-term outlook remains dependent on the pace of vaccine rollout and the duration of COVID-19 related travel restrictions. Achieving herd immunity through vaccination is the primary trigger for border reopening. Most of the adult population are expected to be fully vaccinated by December 2021 in Samoa and Tonga while Vanuatu is expected to take longer. Tourism activity is expected to be sluggish in the near-term and gain momentum over the medium-term. While premature withdrawal of economic stimulus could impede the pace and durability of economic recovery, governments also need to ensure fiscal sustainability.

In **Samoa**, growth is projected to recover in FY22 and FY23, averaging 2.2 percent. The recovery is expected to be driven by a gradual resumption of tourist activity, spillovers to other sectors and ramping up of capital projects. The fiscal balance is projected to record a deficit of 3.5 percent of GDP in FY22 as development partner grants normalizes and capital expenditure picks up pace. The current account deficit is projected to persist in FY22. From FY23, the twin deficits are expected to narrow as the economy recovers and the fiscal stimulus is gradually withdrawn.

In **Tonga,** growth is projected to rebound to around 3 percent in FY22 and FY23 as tourist arrivals gradually recover to around three-quarters of pre-pandemic levels, combined with a recovery in agriculture production and construction activity. The fiscal balance is projected to register a deficit of 1.2 percent of GDP in FY22 before returning to a surplus by FY23, as tax revenues rebound in line with the economic recovery, while current spending declines as fiscal stimulus spending is unwound. The current account deficit is expected to widen in FY22 due to higher imports for the health sector and reconstruction activities, before narrowing over the medium term.

In Vanuatu, GDP is projected to grow around 3-4 percent in 2022 and 2023. This return to pre-COVID-19 economic growth is projected based on a gradual easing of border restrictions and full implementation of reconstruction efforts from the damages caused by TC Harold. The fiscal deficit is projected to widen to around 4 percent of GDP in 2022 and 2023 as total revenue drops, given reduced ECP revenues and development grants falling to historical averages. The current account deficit is projected to widen in 2022 due to a deteriorating trade balance and start narrowing in 2023 as tourism receipts recover.

TABLE 2 South Pacific Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices						
Samoa	-2.1	3.6	-2.7	-8.0	1.5	3.0
Tonga	0.3	0.7	0.7	-3.2	2.6	3.3
Vanuatu	2.9	3.9	-6.8	1.2	3.0	4.1

Note : Financial years for Samoa and Tonga are Jul - Jun, for Vanuatu is Jan - Dec. e= estimate, f=forecast
Source: World Bank and IMF.