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"One-year-on from the first wave of the pandemic: what do the statistics tell us about the Impacts of COVID-19 on PICT Economies."

Almost eighteen months on since the onset of the COVID-19 pandemic worldwide, Pacific economies are still grappling with its impact and putting in place their economic recovery efforts. Whilst for most of the last year, the Pacific Island Countries and Territories (PICTs) were remarkably isolated from the devasting effects of the COVID crisis, with most nations remaining COVID free, the economic consequences continued to mount with differential impacts within and across the PICTs.

Although isolation has proven itself to be an effective preventative strategy, the border closures and travel restrictions have taken a severe toll on these Pacific nations and their fragile and fledging economies. The pandemic has now not only claimed lives but has also destroyed jobs, inflicting lasting damage on investment, productivity, and growth. It has disrupted the lives and livelihoods of the most vulnerable which in turn has given rise to increases in poverty, hardship, and malnutrition, shattering all hopes of attaining the Sustainable Development Goals (SGDs).

A closer look at a range of indicators drawn from the Pacific National Statistics Offices, Central Banks, and Ministry of Finance websites for the first quarter of 2021, illustrate the extent of the impacts. A year-on from the start of the pandemic in March 2020 the economies of almost all PICTs had deteriorated significantly over the period. Tourism, a key pillar of economic development for many PICTs remained stalled in the first quarter of 2021 with the tourism-dependent economies of Fiji, Cook Islands, French Polynesia, Guam, and Samoa witnessing the steepest falls in arrival numbers at 97.0%, 98.0%, 87.0%, 96.2% and 100%, respectively against the March quarter of 2020.

Year-on-year comparison also saw dramatic falls for Tonga (99.1%), Kiribati (97.5%), and Solomon Islands and Vanuatu (100% each). See Figure 1. The heavy blows on the number of visitor arrivals in turn led to the significant declines in the level of tourism earnings for Fiji (99.1%), Solomon Islands (91.2%), Tonga (81.1%), and Samoa (100%). See Figure 2.

Exports, another source of foreign exchange earnings for PICTs were also down significantly in the first quarter of 2021 compared to the March quarter of the previous year, with double digit drops for Cook Islands (79.8%), Tonga (64.7%), New Caledonia (25.5%), Samoa (21.5%) and Solomon Islands (19.2%) whilst a 7.2% decline was experienced by Fiji with its more diversified export base. Import demand was also much lower for most PICTs as economic activities and business operations scaled down. Year-on year import payments witnessed falls for Cook Islands (40.0%), Fiji (10.2%), New Caledonia (6.0%), French Polynesia (4.0%), and Tonga (1.6%). See Figure 3 and 4.

The near total collapse of the tourism industry, leading to slower trading and economic activities together with the scaled-down business operations in turn resulted in increasing job losses, public and private sector debts and a significant reduction in government tax revenues over the period. Year-on-year government tax revenues experienced double digit declines for Cook Islands (40.2%) and Fiji (11.8%) whilst a 5% fall was seen for Solomon Islands. With depressed government budgets, year-on-year government expenditures registered double digit drops for Cook Islands (39.4%), Fiji (11.8%), and Solomon Islands (16.4%), whilst a 4.3% fall for

Samoa. As a result of the pandemic, year-on-year debts have increased dramatically for Fiji (+17.4%), Solomon Islands (+35.3%), and Vanuatu (+43.8%) from already historically high levels. See Figure 5, 6 and 7.

The economic fallout of the COVID-19 pandemic further resulted in unprecedented job losses. Various proxy employment indicators reveal a year-on-year decline for Solomon Islands as indicated in the number of Solomon Islands National Provident Fund Contributors, falling by 8.7%, following three straight quarters of decline, whilst for Samoa, the number of registered employees fell by 0.5%, following four consecutive quarters of decline since March quarter 2020. Latest monthly employment data for Fiji from the Reserve Bank of Fiji Advertisement survey also saw a year-on-year decline of 63% in June 2021, following a declining trend since January last year. See Figure 12.

Meanwhile, financial conditions going into the first quarter of 2021, mirrored the sluggish outcomes in the PICTs domestic economies. Despite abundant liquidity, credit to private individuals and businesses over the course of the year has been contracting. Whilst year-on-year gross foreign reserves and broad money supply (M3) had increased for Fiji, Samoa, Solomon Islands, Tonga and Vanuatu, their private sector credit had fallen by 3.0% for Fiji, 2.3% for Solomon Islands, 1.4% for Tonga, and 1.9% for Vanuatu. With money supply growing faster than economic output, albeit the continued food and oil price pressures, year-on year inflation had remained elevated for the economies of Tonga (+3.3%), and Vanuatu (+3.0%), and remained positive in other countries including Cook Islands (+0.8%) and New Caledonia (+0.4%). See Figure 8 to 11.

On the positive side, despite COVID-19, remittance flows remained resilient for a few PICTs going into the first quarter of 2021. Increasing year-on-year remittances were seen for Fiji (+31.8%), Tonga (+32.4%) and Solomon Islands (+32.4%) whilst a slight 2.0% fall was experienced by Samoa. The main drivers for the steady flows of remittances included the ongoing New Zealand and Australian Seasonal Workers programs. With no travel it seems that there was also a shift in flows from cash to digital transfers and from informal to formal channels during the pandemic period. This may have improved recording of remittances hiding any underlying trends.

As COVID-19 still devastates families around the region, remittances continue to provide a critical lifeline for families, the poor and vulnerable. As such, the timely and accurate availability of data on remittances across PICTs is crucially important for impact monitoring. See Figure 13.

Despite all the challenges, in sum, 2021 has the potential to be a positive year for the Pacific region, but with many varying challenges still to be faced. There are positive signs for some PICTs such as Samoa, with their quarterly gross domestic product (GDP) as shown in Figure 14, rebounding strongly in the first quarter of 2021, by 7.0% after five consecutive quarters of negative growth. Cook Islands experienced a significant increase in their visitor arrivals to 6054 in June 2021 from zero records in June last year following the opening of a travel bubble with New Zealand. However, other economies such as Fiji and New Caledonia, which have been experiencing an out-break of the COVID-19 in recent months, are still under a heavy Covid cloud. With the pandemic still unfolding globally and ongoing border closures, macroeconomic conditions will remain unfavourable for the PICTs, with depressed revenues, continuing job losses, indebtedness, and the possibility of permanent damage to the travel and tourism industries. With adequate supportive responses, and relevant health, social protection, and economic policies, however, the region can slowly but steadily emerge from the crisis.

Annex-Graphs

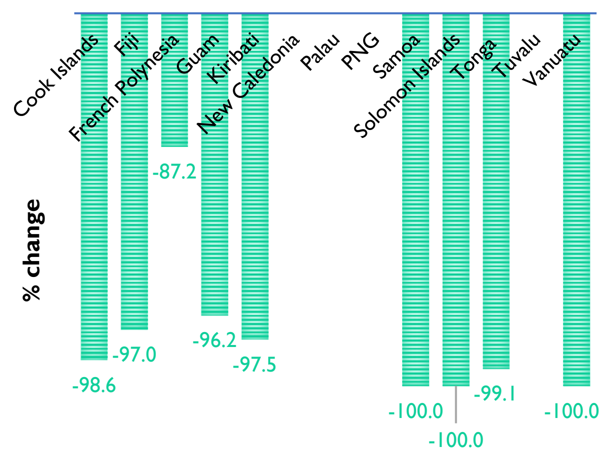

Figure 1: Visitor arrivals, Q1 2021 (% change over Q1 2020)

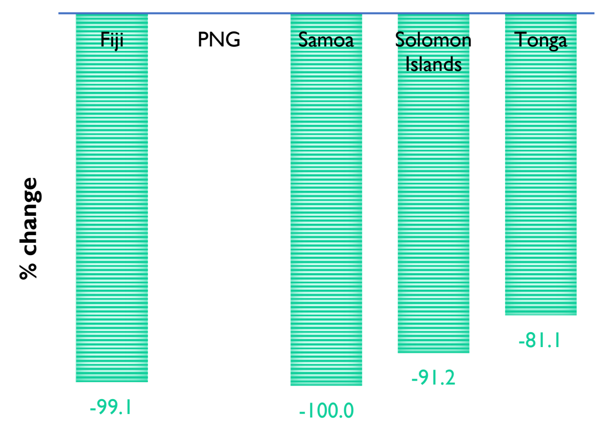

Figure 2: Tourism earnings, Q1 2021 (% change over Q1 2020)

Source: NSOs and Ministry of Finance, Central/Reserve Banks of Cook Islands, Fiji, French Polynesia, Guam, Kiribati, New Caledonia, Palau, PNG, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

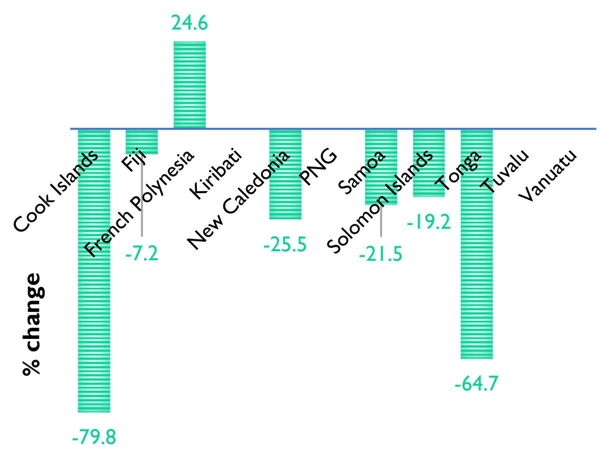

Figure 3: Export receipts, Q1 2021 (% change over Q1 2020)

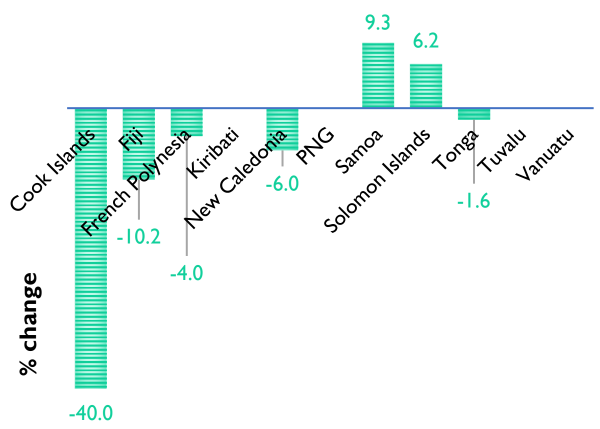

Figure 4: Import, Q1 2021 (% change over Q1 2020)

Source: NSOs and Ministry of Finance, Central/Reserve Banks of Cook Islands, Fiji, French Polynesia, Kiribati, New Caledonia, Palau, PNG, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

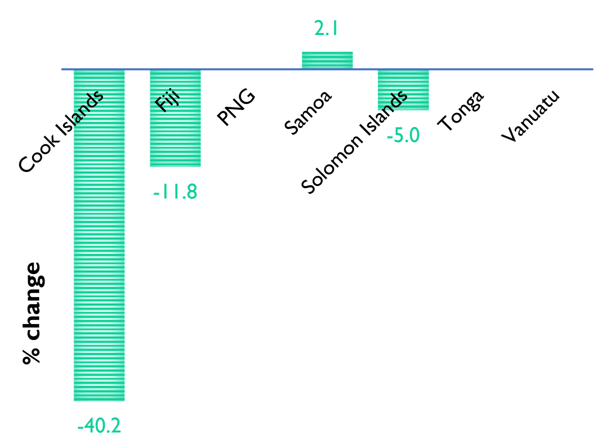

Figure 5: Government revenue, Q1 2021 (% change over Q1 2020)

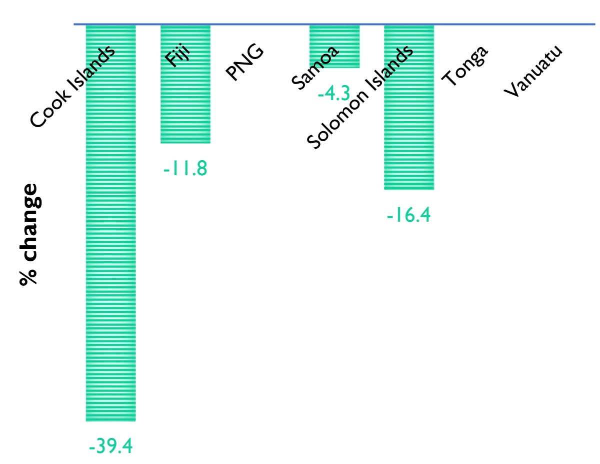

Figure 6: Government expenditure, Q1 2021 (% change over Q1 2020)

Source: NSOs and Ministry of Finance and Central/Reserve Banks of Fiji, Cook Islands, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu

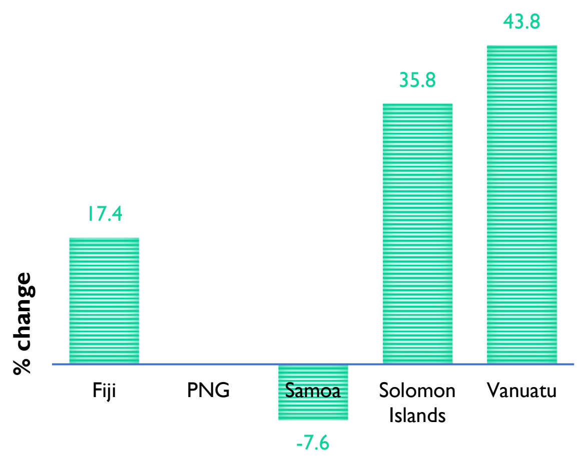

Figure 7: Government Debt, Q1 2021 (% change over Q1 2020)

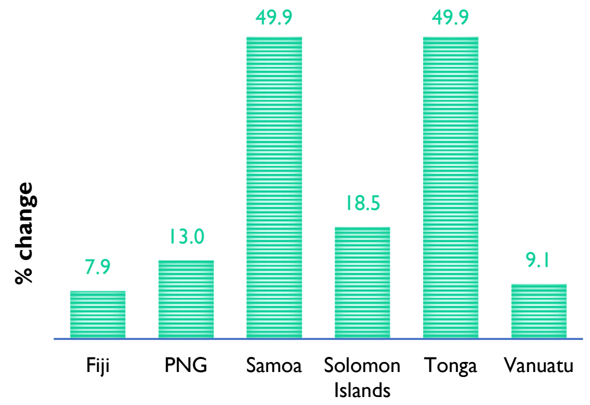

Figure 8: Gross foreign reserves, Q1 2021 (% change over Q1 2020)

Source: NSOs and Ministries of Finance and Central/Reserve Banks of Fiji, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu

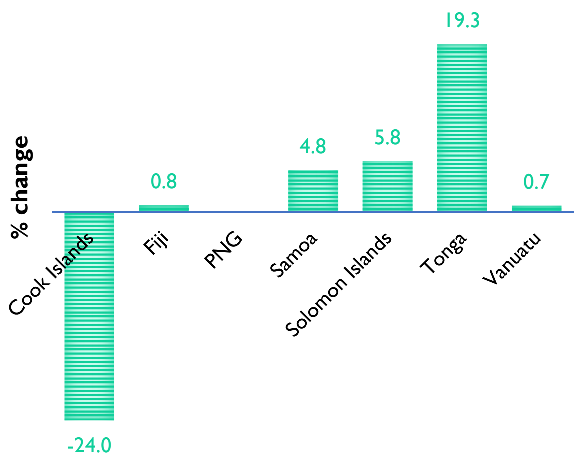

Figure 9: Broad money supply (M3), Q1 2021 (% change over Q1 2020)

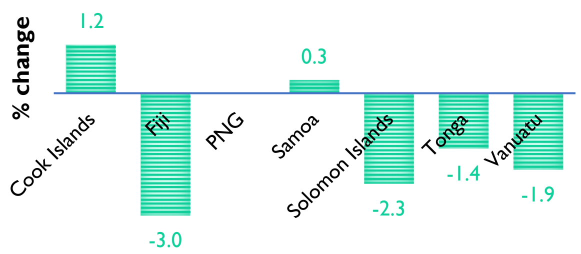

Figure 10: Private sector credit, Q1 2021 (% change over Q1 2020)

Source: NSOs and Central/Reserve Banks of Fiji, Cook Islands, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu

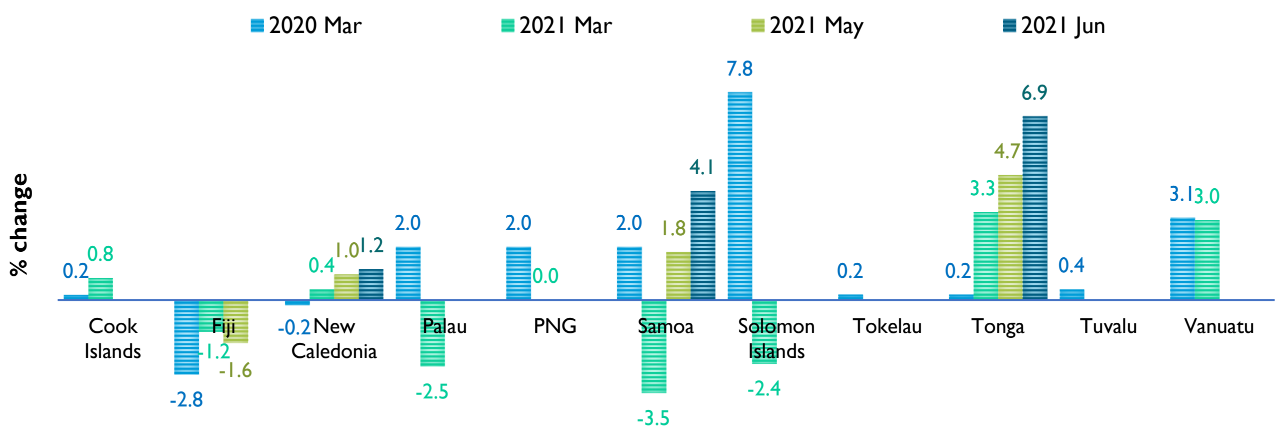

Figure 11: Inflation (monthly % change over previous period)

Source: NSOs and Central/Reserve Banks of Fiji, Cook Islands, New Caledonia, Palau, PNG, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu

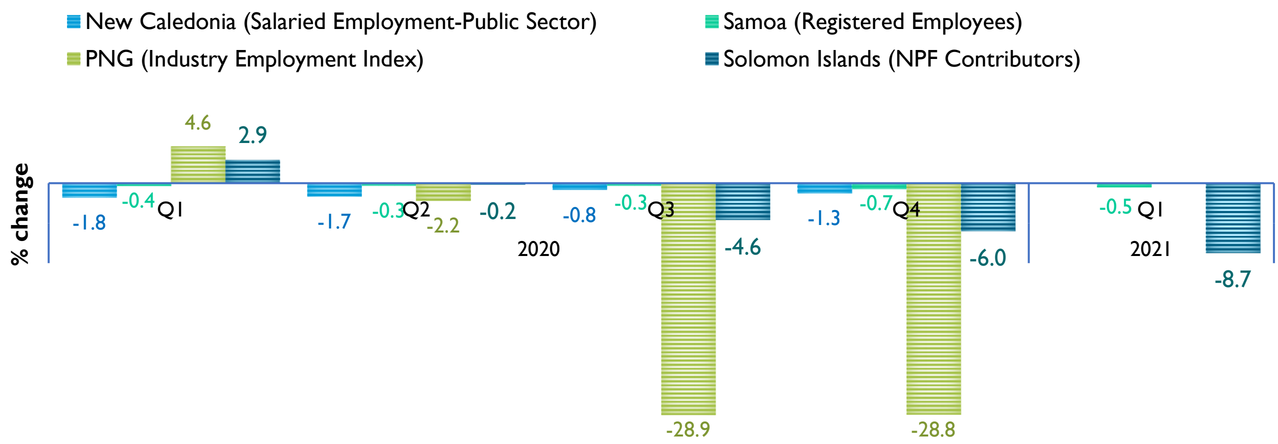

Figure 12: Employment proxy indictors, Q1 2021 (% change over Q1 2021)

Notes: (1) New Caledonia sourced from ISEE Salaried Employment report, (2) PNG employment proxy sourced from PNG Reserve Bank Employment Industry Survey Index, (3) Samoa sourced from Reserve Bank of Samoa quarterly review, (4) Solomon Islands employment proxy sourced from Number of Solomon Islands NPF contributors and Central Bank of Solomon Islands (CBSI) job vacancy survey

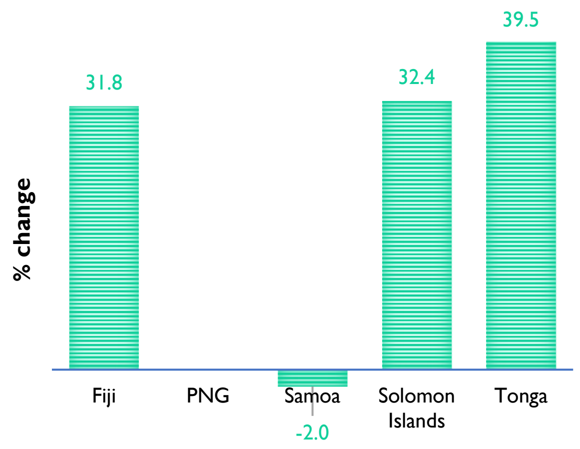

Figure 13: Remittances, Q1 2021 (% change over Q1 2020)

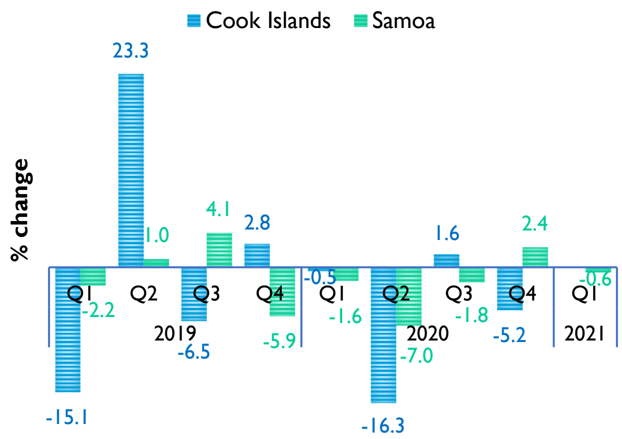

Figure 14: Gross domestic product (% change over the same quarter in the previous year)

Source: NSOs and Central/Reserve Banks of Fiji, Cook Islands, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu