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Rapid Assessment of the Socio-Economic Impact of the Covid-19 Pandemic and Fiscal Implications for Key Sectors in Samoa

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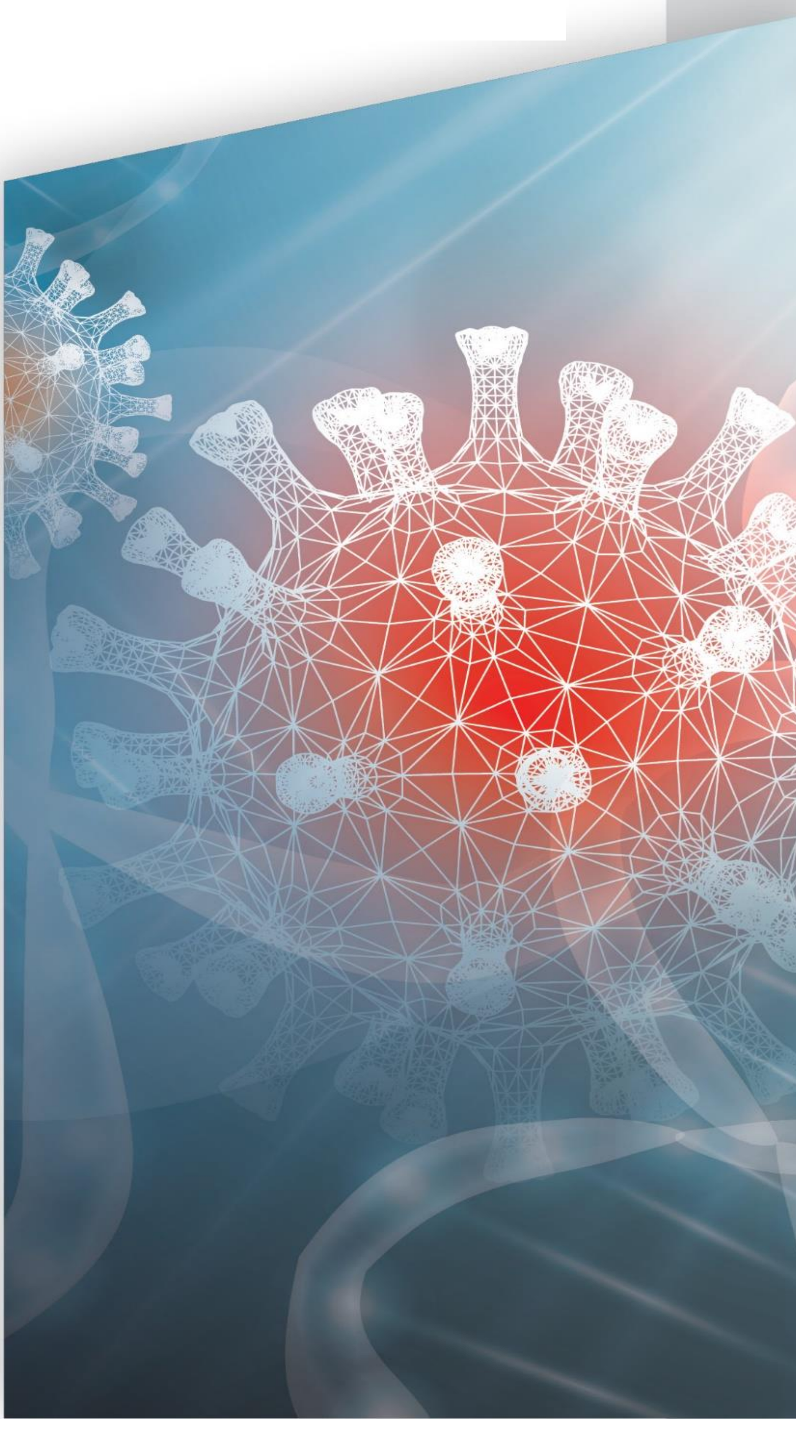

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About the COVID-19 Response and Recovery project

This paper is an output from the project "Response and Recovery: Mobilising financial resources for development in the time of COVID-19", which is co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP. This project is one of the five UN Development Account short-term projects launched in May 2020 in response to the COVID-19 crisis.

The project aims to enable low-income and middle-income developing countries (LICs and MICs) from Africa, Asia-Pacific, and Latin America and the Caribbean to diagnose their macro-financial, fiscal, external financial and debt fragilities in the global context, and design appropriate and innovative policy responses to the COVID-19 pandemic leading toward recoveries aligned with the achievement of the Sustainable Development Goals (SDGs).

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INTRODUCTION

Looking ahead into 2021, the ongoing effects of the pandemic continue to impact on countries and their economies. For the Pacific, with relatively vulnerable public health systems and geographical remoteness, Governments moved quickly to close borders in order to avoid large scale community transmission, potential collapse of health systems and most importantly to avoid any fatalities due to COVID-19.

Notwithstanding the Pacific's relative success in preventing and containing the spread of COVID-19, the region continues to face a range of socio-economic challenges. The pandemic has resulted in sudden stop to highly vulnerable economies given social distancing and other public health measures that were put in place to mitigate its impact as well as response actions including border closures, lockdown, and curfews. These events have had unintended consequences resulting in business closures, increased unemployment, and social issues such as increasing rates of domestic violence.

In lights of these issues, the main aim of this report is to provide an overview of the socio-economic impact of COVID 19 pandemic and consequent fiscal space or parameters needed for supporting affected sectors in Samoa. A comparative analysis against three selected PICs including Fiji, Tonga and Tuvalu highlights the extent of COVID 19 impact on these economies and possible fiscal responses that may be replicated for other PICs. There are five key sections of the report which include the following:

1. Section 1: Overview of approach and methodology;
2. Section 2: Outlines the socio-economic characteristics, existing health issues and systems and cost implications of access to a COVID 19 vaccine for Samoa and the 3 comparative PICs;
3. Section 3: Presents the macroeconomic context of the selected PICs with specific focus on balance of payments, employment & inflation and output growth scenarios;
4. Section 4: presents the fiscal implications of COVID 19 on government budget operations, debt sustainability and fiscal space;
5. Section 5 outlines possible financing options available to the PICs to supplement their fiscal budget and;
6. Section 6 summarizes key findings of the report and further quantitative analysis needed under Phase 2 given identified socio economic challenges and fiscal parameters under Phase 1.

All four PICs are employing available policy measures and initiatives, with development partners and the region's private sector (such as the superfunds and pension funds) support, to respond to COVID-19. These measures as outlined in the report include expansionary fiscal and monetary policies, easing of financial/banking, and superannuation measures for social protection, and economic stimulus. Further detailed quantitative analysis of identified fiscal measures and updated fiscal parameters will be undertaken under Phase 2 of this study and ensure alignment with the following UN 5 five pillars given the focus on socio-economic response to COVID 19:

a. Health First: Protecting Health Services and Systems during the Crisis
b. Protecting People: Social Protection and Basic Services
c. Economic Recovery: Protecting Jobs, Small and Medium-Sized Enterprises, and the Most Vulnerable Productive Actors
d. Macroeconomic Response and Multilateral Collaboration
e. Social Cohesion and Community Resilience

SECTION 1: BACKGROUND AND SCOPE OF STUDY

1.1 Purpose of Study

The main objective of the study is to assess the impact of COVID 19 pandemic and the consequent fiscal needs (space) for supporting affected sectors in their recovery taking into consideration the need for debt sustainability. A comparative analysis against three selected Pacific economies including Fiji, Tonga and Tuvalu is also presented subject to available information.

1.2 Analytical Framework and Approach

The study is undertaken in two phases:

- Phase 1 focuses on the overall socio-economic impact of COVID 19 on the Government fiscal space which is the scope of this report.
- It is our understanding Phase 2 will be commissioned if and when appropriate and focuses on a quantitative analysis of the identified actions to date the Government and the development partners under the 5 pillars of the UN led Framework for Socio-Economic Response to COVID 19 and alignment to the fiscal space findings identified under Phase 1.

The report has adopted the IMF definition and quantitative assessment of fiscal space which is defined as the room to raise spending or lower taxes relative to a pre-existing baseline, without endangering market access and debt sustainability. We have further adapted this definition for small island economies to factor in the country's exposure to potential violent shocks to the economic and financial structures.

The IMF approach enables a qualitative assessment of the degree of fiscal space in a country, built around four stages[1] which are underpinned by two main considerations:

- financing—the extent to which the government can expect to have access to market funding at reasonable rates; and
- sustainability—the extent to which public debt and annual financing needs (composed of the budget deficit and repayment of debt coming due) of the government remain sustainable.

The fiscal assessment framework can be adapted for Low Income Countries (LICs) particularly those who can obtain a significant amount of external market or other non-concessional financing. This could be done by applying the overall structure of the fiscal space framework, while taking into account particular characteristics of low-income countries, adjusting the choice of indicators to these characteristics and to data availability.

2. Given the fragile nature of the small island economies and highly restrictive access to external debt financing, an important complementary component of the fiscal space assessment is the LIC Debt Sustainability Framework (DSF). The LIC DSF provides a specific risk rating based on four external

[1] (i) the cyclical and structural state of the economy; (ii) the availability of financing on favorable terms and the risk of market perceptions sharply increasing funding costs; (iii) the sustainability of the level and trajectory of public debt and deficits over the medium and long term; and (iv) the sensitivity of fiscal sustainability in terms of debt and financing needs under reasonable stress events and expansionary fiscal scenarios: *IMF 2018 Assessing Fiscal Space: Updating and Stocktaking Report*

debt indicators (solvency and liquidity), total public debt, stress tests, and judgment on country-specific circumstances. In general, the existing measures of fiscal space will be related to this risk rating given the centrality of debt sustainability in forming a view on the available fiscal space. By adapting the IMF definition and framework for assessing country specific fiscal space the following areas are assessed under Phase 1 of the study:

Macroeconomic Context - indicators and tools to assess heightened vulnerabilities

Balance of payments

- remittances
- tourism receipts
- current account balance

Employment and inflation levels

Output Gaps

- Updated GDP scenarios
- Incidence of natural disasters in the past on GDP

Assessment of Fiscal Implications of COVID 19

Government Budget Operations

- Revenue analysis
- Expenditure analysis

Debt Ratios

- Debt Stock
- Debt Servicing

Fiscal Space Forecast Scenarios

Market Access - availability of financing

External sources

Domestic sources

Phase 1 focuses on assessing the fiscal impact of COVID 19 and draws on the key findings from available rapid assessments of COVID 19 socio economic impact on Samoa as well other relevant reports outlined in Annex 2.

To support governments with the COVID-19 pandemic and maintaining the commitment to the 2030 Agenda, the UN Development System (UNDS) has developed a global framework which provides guidance for immediate socio-economic response to the impacts of this crisis. The support referenced in the framework describes assessments, program design, advocacy and policy advice. Phase 2 of the study will focus on linking the identified fiscal measures and parameters under Phase 1 to the five pillars of the UNDS response. These include health first; protecting people; economic response and recovery; macroeconomic responses and multilateral collaboration, social cohesion and community resilience.

SECTION 2: COVID 19 IMPACT IN THE REGION

2.1 Social Characteristics

In Samoa, the Government continues with full precautions and preventive measures to control the transmission of COVID-19, including preparation of the health system to treat and care for patients. Social distancing measures and overseas travel restrictions remain in effect under the continued State of Emergency which was declared on March 20, 2020. The full reopening of Samoa's borders is dependent on access to a vaccine.

Figure 1: COVID Timeline in Samoa

COVID-19 has exacerbated inequality and social exclusion. It is likely to disproportionately affect vulnerable groups particularly women and girls, children, the elderly and persons with disabilities[2], and adversely impacts access to basic services, food security, livelihoods, psychosocial support, safety and protection[3].

Extreme poverty is rare in Fiji, Tonga, Samoa, and Tuvalu—all of which have upper middle-income

[2] Pacific Disability Forum Covid 19 Update 25 March 2020
[3] World Bank TC Harold Rapid Gender Analysis 2020

status. These countries have some of the lowest rates of extreme poverty[4] in Asia. However, between 25% and 35% of the population in these countries still live below $5.50 a day[5]. For Samoa, the last Hardship and Poverty Report 2016 classified vulnerable groups based on the following key parameters:

a. households and individuals as extremely poor if their income falls below the food poverty line (FPL)
b. poor if they are below the Basic Needs Poverty Line (BNPL),
c. highly vulnerable to becoming poor if their expenditure is 20% or less above the BNPL,
d. vulnerable if their expenditure is more than 20% but less than 50% above the BNPL,
e. potentially vulnerable if their expenditure is more than 50% but less than 100% above the BNPL; and
f. non-poor if their expenditure level is 100% or more above the BNPL.

Based on the above parameters the poor and highly vulnerable groups are mainly located in North West Upolu (43.1% total below BNPL) and Apia Urban Area (24.40% total below BNPL)[6]. Pacific governments continue to broaden their social protection coverage; however significant portions of the populations remain uncovered by either formal or informal social protection systems. In Samoa and most of the Pacific, formal social protection systems that are in place typically take the form of contribution-based national provident fund schemes, targeting protection in old age. By design, the existing formal systems tend to be accessible to the formally employed as evident through the number of beneficiaries that were able to receive stimulus support in 2020 in Samoa and the selected PICs.

There has been an increase in gender-based violence (and its severity and frequency) due to confinement is likely to be observed across countries, with resource constraints reducing the protection and support available, contributing to a heightened perception of impunity among perpetrators[7]; Exposure to increased risk of gender-based violence for adolescent girls are also evident as social protection structures breakdown[8].

The Pacific region has approximately 800,000[9] children enrolled in schools and early childhood education centers. As part of the preparedness and response for COVID-19, most Pacific countries announced school closures, some with shifted term breaks and others extended or indefinite breaks. There is likelihood of an increase in child protection issues as a result of COVID-19. In the Pacific Islands, the UN Children's Fund (UNICEF) and the World Health Organization (WHO) are working with governments and partners to stop transmission and keep children and their families safe. Youth Unemployment with a regional average of 23% compared to the global average of 12- 13% and related to youth employment is the whole area of labour mobility and the associated social impacts.

An estimated 15% of people in the Pacific have some form of disability. Persons with disabilities are at a higher risk of contracting COVID-19 due to barriers accessing preventive information and hygiene, and reliance on physical contact with the environment or support persons[10]. Despite being part of the high-risk group, persons with disabilities are usually inadvertently left out of community preparedness and health messaging efforts, due to inaccessible communication and other accessibility barriers

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[4] US$1.90/day/capita
[5] ADB Pacific Monitor December 2020
[6] The preliminary update of the Poverty and Hardship report is being finalized and is expected to be released once the national census is completed in 2021.
[7] World Bank Policy Note, April 2020
[8] The COVID-19 Outbreak Protection Brief
[9] UNESCO Pacific Office
[10] https://www.who.int/publications-detail/world-report-on-disability

2.2 Existing Health Issues and Systems

3. The highest level of Type 2 diabetes in the world can be found in the Pacific and eight out of the 10 most obese countries[11]. 25 Non-communicable diseases (NCDs) including cardiovascular diseases, diabetes, cancer, and chronic respiratory diseases, represent the single largest cause of premature mortality in the Pacific[12]. Tonga and Samoa's high incidence of NCDs adds an additional burden given studies have shown a higher risk of severe illness if NCDs are present in persons infected with COVID-19[13]. A snapshot of NCD profiles for both countries is provided below[14].

Table 1: NCD Profiles for Samoa and Tonga

Tonga	Samoa
• 74.0% of the population aged 18–69 has been diagnosed with an NCD • At least 98.7% of this demographic is at moderate to high risk of developing an NCD • At least 90.7% of the populations are overweight, 67.6% were obese, 27.6% had hypertension, 34.4% had elevated levels of blood glucose, and 48.8% had elevated levels of blood cholesterol. • Cost to GDP is estimated at 8.3%–12.3% in Tonga. • At least 18.5% of the effective labor is expected to be lost by 2040 through a combination of morbidity and early death	• 84.7% of the population is estimated to be overweight, 63.1% obese, 24.8% to have diabetes, and 24.5% hypertension • About 70% of total deaths in Samoa are attributable to NCDs. • Its treatment puts disproportionate pressure on government health financing via expensive treatment options. • Cost NCDs on GDP is estimated at 5.6%–8.5% • About 12.4% of the effective labor force in Samoa is expected to be lost by 2040 through a combination of morbidity and early death (World Bank 2016).

4. The capacity of the health systems in all selected PICs to cope with a community wide transmission of COVID 19 is severely limited and will require significant investment particularly in terms of access to medical personnel and hospital beds. With the exception of Fiji and Samoa, PICs currently rely mainly on overseas based hospitals for COVID 19 tests whilst local capabilities are being established[15].

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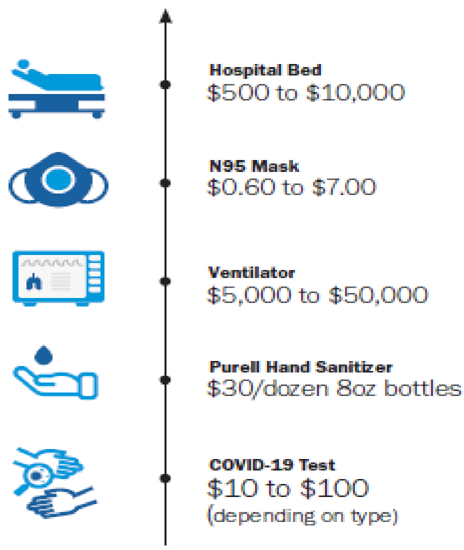
[11] https://www.pbs.org/newshour/world/many-pacific-islandsThe preliminary update of the Poverty and Hardship report is being finalized and is expected to be released once the national census is completed in 2021.
[11] World Bank Policy Note, April 2020
[11] The COVID-19 Outbreak Protection Brief
[11] UNESCO Pacific Office
[11] https://www.who.int/publications-detail/world-report-on-disability
[11] https://www.pbs.org/newshour/world/many-pacific-islands-are-untouched-by-covid-19-its-arrival-could-be-disastrous, May 2020
[12] WHO, Addressing Non-Communicable Diseases in the Pacific
[13] WHO COVID-19: vulnerable and high-risk groups. https://www.who.int/westernpacific/emergencies/covid19/information/high-risk-groups.
[14] ADB Pacific Monitor July 2020
[15] Ibid, ref 14

Table 2: Pacific Health System Capacity Indicators

Pacific DMC	Current Hospital Bed Capacity	Estimated Beds required in case of local COVID-19 Transmission	Additional Beds Needed	COVID-19 Testing Capability
Fiji	1800	17670	15870	Local (FCCDC)
Samoa	250	3923	3673	Local[16], Overseas (New Zealand);
Tonga	300	2064	1764	Overseas (Australia); Local (In calibration)
Tuvalu	50	230	180	Overseas (FCCDC); Local (In calibration)

5. Taking into account the challenges facing the health care systems in the selected PICs, an estimated unit cost (in USD) for each of the critical items needed to address the impact of the pandemic should there be a community wide transmission case in the PICs are summarized below. Some of these costs have been factored into the national budgets however the supply of these items will need to be scaled up to ensure PICs are prepared for any future cases[17].

Figure 2: COVID 19 Essential Health Equipment Cost Estimates



[16] Samoa has full local capacity by now; they only send samples to New Zealand when further confirmation is needed or more detailed analysis (for instance, if it was a historic case).
[17] National Association of Counties (NACo) Fiscal Impact of COVID on Counties Report May 2020

2.3 Cost Implications of Access to a COVID 19 Vaccine

The Global Alliance for Vaccines and Immunization (Gavi) COVAX Facility Advance Market Commitment fund is now established to support equitable and affordable vaccines for lower and middle-income countries. Many countries in the Pacific, including Samoa, are eligible for support under this plan. Eligibility requires countries to have a designed and accredited vaccine plan as soon as possible. In designing a COVID-19 vaccine plan there is general recognition that vaccine delivery will need to be phased given supply limitations. It will also need to target health workers, other front-line sectors and people considered at the greatest-risk of exposure to COVID-19[18].

On 18 September 2020, the Government of Samoa was informed by GAVI of the country's inclusion among the 92 countries benefitting from Advanced Market Commitment arrangements according to which the cost of vaccines for up to 20% of the population will be covered by ODA. Samoa received the first batch (24,000 doses) of the Covid-19 vaccines on 9 April 2021 with the priority group to be injected with the vaccine being front-line workers[19]. For the rest of the population to get vaccinated, Samoa may need additional development partner support including from New Zealand and Australia. The estimated unit cost per dose is USD $10 - $40 with the recommended dosage of at least 2 shots per person. The estimated cost per PIC based on the average cost of the vaccine is outlined below.

Table 3: Indicative Cost of COVID 19 Vaccines for Selected PICs

PIC	Current Population	Unit Cost of Vaccine Dosage x 2 (USD)	Total Cost of Vaccine Coverage (USD)
Fiji	883,483	$20-$80	18m - 71m
Samoa	198,740	$20-$80	4m - 16m
Tonga	103,197	$20-$80	2m - 8m
Tuvalu	11,508	$20-$80	0.23m - 0.92m

The Asian Development Bank (ADB) launched a $9 billion vaccine initiative in December 2020—the Asia Pacific Vaccine Access Facility (APVAX)—offering rapid and equitable support to its developing members as they procure and deliver effective and safe coronavirus disease (COVID-19) vaccines[20]. ADB financing for vaccines will be provided in close coordination with other development partners including the World Bank Group, World Health Organization (WHO), COVID-19 Vaccines Global Access Facility (COVAX), GAVI, and bilateral and multilateral partners.

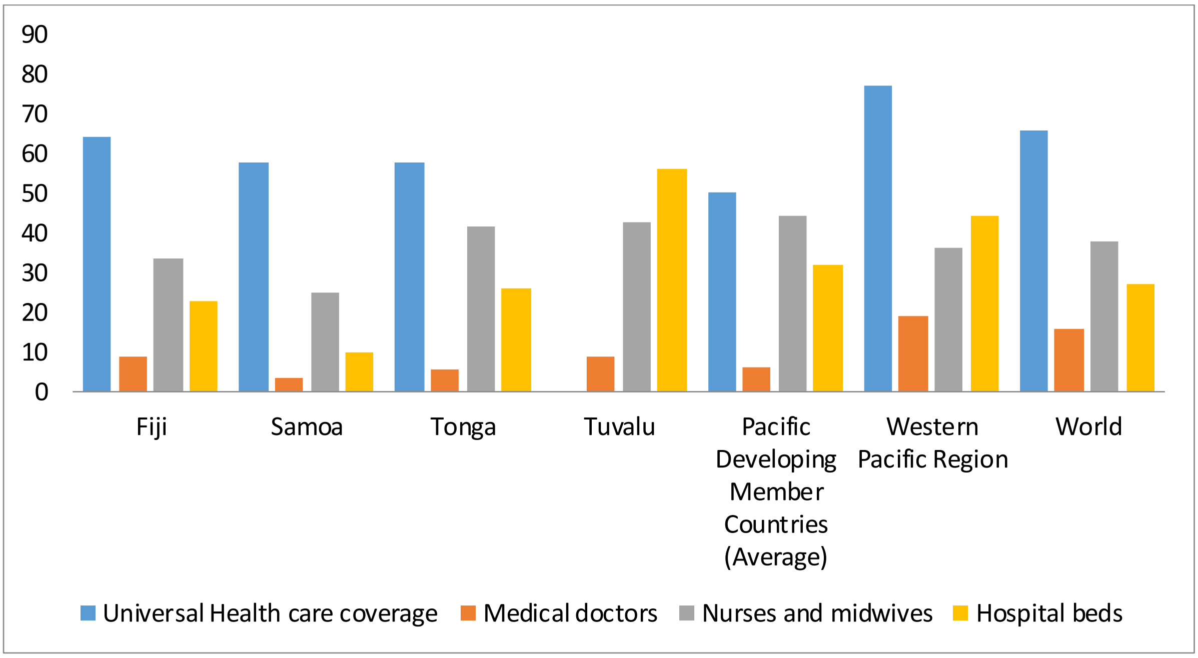
Limited access to core medical personnel, protective gear, cold storage and transportation needed for the vaccine may pose further challenges in the rollout of any vaccination program once it becomes available. However, the Gavi COVAX and WHO have made technical assistance available to support the design and accreditation of vaccine preparedness plans. While vaccine planning would normally be managed by health ministries, it is critical to ensure whole of government engagement. This is because of the implications for the security of vaccine supply and the delivery of vaccines across challenging geography.

[18] https://crawford.anu.edu.au/news-events/news/18001/securing-vaccine-access-pacific

[19] https://reliefweb.int/report/samoa/samoa-receives-24000-doses-covid-19-vaccines-through-covax-facility

[20] https://www.samoagovt.ws/2020/12/9-billion-adb-facility-to-help-members-access-and-distribute-covid-19-vaccines/

Figure 3: Health Care Ratios for Selected PICs[21]



Based on a recent preliminary analysis conducted by ADB in December 2020 the introduction of a COVID-19 vaccine is likely to be a cost-effective proposition not only in Samoa, Tonga, Tuvalu, and Vanuatu but also in other Pacific countries. Substantial benefits include avoidance of morbidity and mortality from COVID-19 given high risk of comorbidities in the Pacific, along with savings in testing and hospitalization costs given the region's remoteness and small markets[22].

SECTION 3: MACROECONOMIC CONTEXT

3.1 National Planning Frameworks

All four PICs have national development plans in place. For Samoa, the recently launched 2040 strategy highlights the potential areas that can move Samoa to a higher growth trajectory and provides a roadmap to navigate Samoa's development over the next twenty years. At the operational level, the current Strategy for Development of Samoa (SDS) is being updated and to be released in July 2021. It is expected that the next SDS will continue to prioritize the four areas of development including Social, Infrastructure, Economic and Environment over the next four fiscal years.

Given the impact of COVID 19 on Samoa's economy the recovery initiatives and development cost is expected to be reflected in its next iteration of SDS as well as annual budget estimates. For planning purposes, and given the prolonged impact of the pandemic it will be useful to frame the timing of ongoing fiscal response measures under the following phases:

[21] ADB Pacific Monitor July 2020

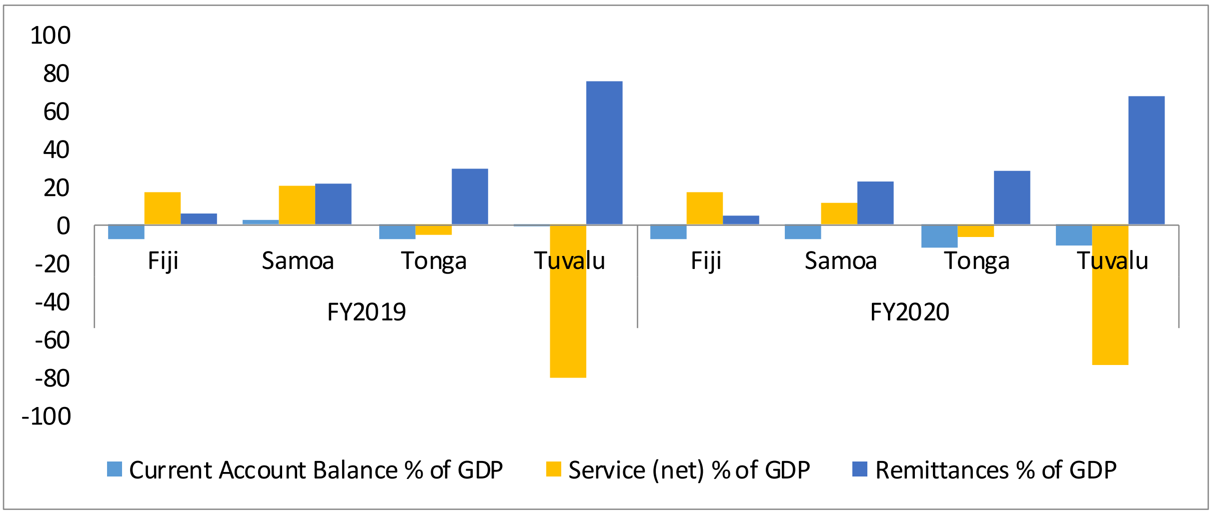
[22] https://www.adb.org/sites/default/files/publication/662406/pem-december-2020.pdf

a. **Immediate Response** - these include measures put in place to contain and stamp out the spread of COVID-19, provide economic relief through fiscal/economic support to workers and businesses, and enact appropriate social protection to those affected;
b. **Recovery Phase** - these are measures to revive economic activity together with phased relaxation of (public health) containment measures, as appropriate. This would also include exploring pathways for economic recovery, including putting in place relevant measures and policies by countries to explore regional approaches to support recovery such as travel bubble when the pandemic is contained; and
c. **Beyond Recovery** - assuming economic recovery and public health efforts/measures are paying off, measures adopted here would include reviewing the short-term fiscal and monetary measures, as well as public health measures, in the view of either

3.2 Balance of Payments

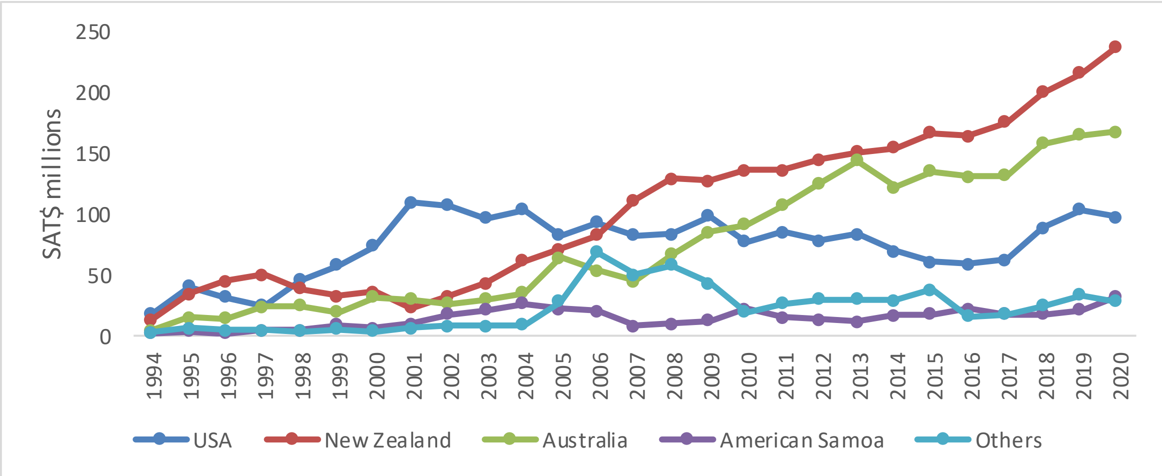
The global COVID-19 pandemic has exacerbated the impact on balance of payment balances across all selected PICs. The prolonged closure of borders, combined with a sudden stop of tourist arrivals and decline in remittances, has led to a decline in two critical sources of foreign earnings. Tourism receipts and remittances on average represent over 50 percent of GDP for the four selected PICs.

Figure 4: Balance of Payment Comparison for Selected PICs



There is very limited diversification in PICs export base and high reliance on key sectors like tourism and remittance for its balance of payments. The inflows from remittances remain a cornerstone of financing for Samoa, Tonga and Tuvalu whereas in Fiji remittances constitute about 5 percent contribution to GDP. For Samoa, total remittances at end FY2019/2020 was SAT 603.3m indicating an increase of 11.1 percent (SAT 60m) when compared with FY2018/2019 (SAT 543.2m). Recent private remittances data released in September 2020 by SBS indicates continued growth with total private remittances improving by 15.9 percent (or \$7.5 million) in August 2020 to \$54.5 million when compared to the same month in 2019. The bulk of remittances in Samoa come from the diaspora (mostly in NZ and Australia) and may fall substantially as economic conditions in these source markets deteriorate.

Figure 5: Samoa Remittances by Source Country 1994-2020



Tourism is the mainstay of PIC economies particularly for Fiji and Samoa. Border restrictions put in place since March 2020 have led to the rapid decline of earnings and arrivals as well as widespread job losses. Tourism-dependent economies, including Samoa, Fiji, Tonga and Vanuatu exhibit the largest declines in economic growth in 2020. The decline in tourism will also intensify fiscal pressures with lower than expected collections in tax revenues from tourism and allied industries (such as, wholesale, retail, restaurants and departure tax) will impact the ability of these economies increase government expenditure to stimulate economic growth[23].

For Samoa, updated scenarios developed through the update of the Tourism Sector Plan in 2020 is based on the proposed re-opening of Samoa's borders for international travel and are outlined below:

a. ***Base Case: 1 October 2021*** the baseline and pre-COVID tourist arrival[24] is assumed to be achieved only in FY2032/2033 – a period of recovery of 14 years. By 2040, the total tourist arrivals will be 284,592 persons with tourism earnings of SAT$ 1.25 billion which is 29% and 26% lower than the 2040 targets established in July 2020 of 400,000 arrivals and SAT$ 1.7 billion in earnings.

b. ***Accelerated Base Case: 1 October 2021*** the baseline and pre-COVID arrival is assumed to be achieved in FY2025/2026 – a period of recovery of 7 years, reduced from 14 years in the Base Case. By 2040, the total tourist arrivals will be 505,941 persons with tourism earnings of SAT$ 2.2 billion which is 26% and 29% higher than the 2040 targets established in July 2020 of 400,000 arrivals and SAT$ 1.7 billion in earnings.

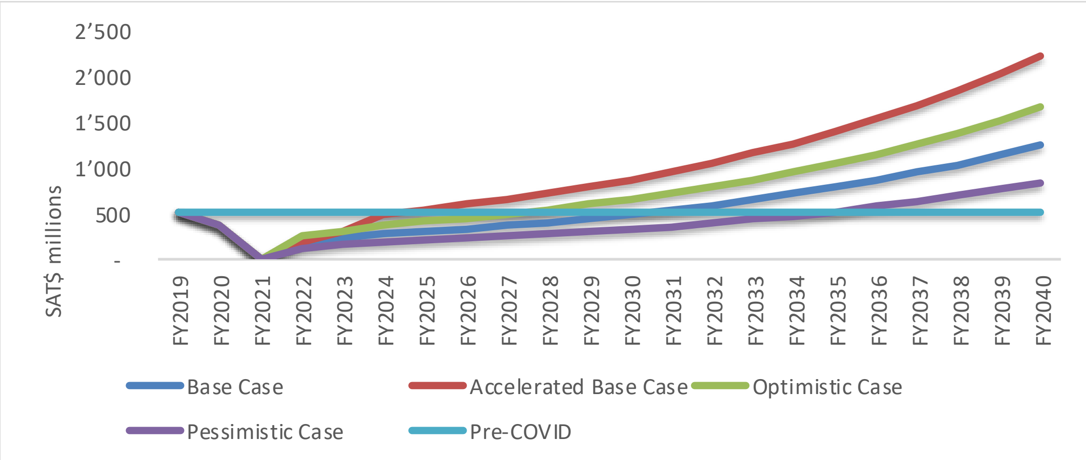
c. ***Optimistic Case: 1 July 2021*** by 2040, the total tourist arrivals will be 379,456 persons with tourism earnings of SAT$ 1.67 billion which is 5% and 2% lower than the 2040 targets established in July 2020 of 400,000 arrivals and SAT$ 1.7 billion in earnings.

[23] https://www.forumsec.org/wp-content/uploads/2020/08/PIFS20FEMM.4aRev.1-Economic-Impacts-of-COVID-19.pdf
[24] The pre-COVID arrivals were on average 154,000 per year.

d. ***Pessimistic Case: 1 January 2022*** by 2040, the total tourist arrivals will be 189,728 persons with tourism earnings of SAT$ 0.8 billion which is 53% and 51% lower than the 2040 targets established in July 2020 of 400,000 arrivals and SAT$ 1.7 billion in earnings.

Key considerations underlying these scenarios include the proposed re-opening dates of borders which are based on the rate of vaccine development and the timing of when Samoa is able to obtain these under the COVAX Facility arrangements. The development of the re-opening scenarios is also based on the latest release by IATA on the Outlook for Air Transport and the Airline Industry dated 24 November 2020. In addition, re-opening is envisaged to be initially at 32% less inbound seat capacity (20,292 seats per month) compared to January/February 2020 with initial 2 year growth estimated at 20.0% per annum then 7.6% yearly as from FY 2024/2025, based on the historic compound annual growth rate. The accelerated Base Case however, foresees a higher overall annual growth rate of 60% for the initial 2 years, largely driven by the VFR markets of New Zealand and Australia as outlined below:

Figure 6: Updated Scenarios for Samoa Tourism Earnings 2020-2040

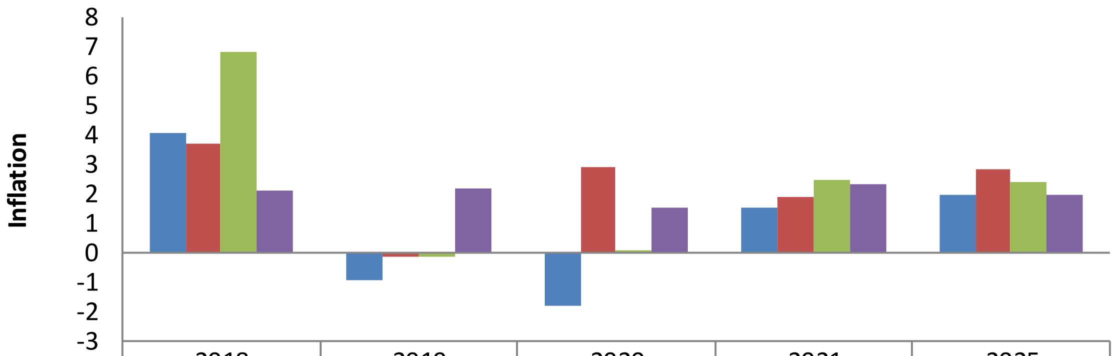


3.3 Employment and Inflation

Samoa together with the selected PICs was expected to have modest growth trajectory before the pandemic hit their shores. The updated inflation rates for these countries released by ADB in July 2020 highlight these indicators are in line with global inflation expectations in FY 2021/2022[25].

[25] ADB Pacific Monitor July 2020 & IMF Article IV Consultations. Notably, Samoa’s CPI declined by -5% year-on-year (Dec. 2020 to Dec. 2019), as per SBS data.

Figure 7: Updated Inflation Rates for Selected PICs



	2018	2019	2020	2021	2025
Fiji	4.1	-0.9	-1.8	1.5	2
Samoa	3.7	-0.1	2.9	1.9	2.8
Tonga	6.8	-0.1	0.1	2.5	2.4
Tuvalu	2.1	2.2	1.5	2.3	2

Based on the findings of the Rapid Assessment (RA) on employment undertaken by ILO Pacific Office for Samoa and Fiji in August 2020, the pre COVID 19 labour market situation in the Pacific was characterized by underemployment, high levels of informality, gender disparities in employment outcomes, and a large and growing share of young people entering jobs market with limited options in the formal sector[26]. The total businesses surveyed in Fiji were 271, with 2,132 workers. In Samoa 119 business were surveyed, 352 workers and 210 Samoan households. Main findings indicate 50 percent of workers surveyed in Fiji have lost their jobs and in Samoa 26 percent were also unemployed, the majority (64 percent) of whom are females. The majority of those that were still in employment are on part time basis. For businesses in Fiji, at least 50 to 80 percent were affected by COVID 19 restrictions and 56 percent of Samoan businesses had been severely impacted with 52 per cent having no insurance.

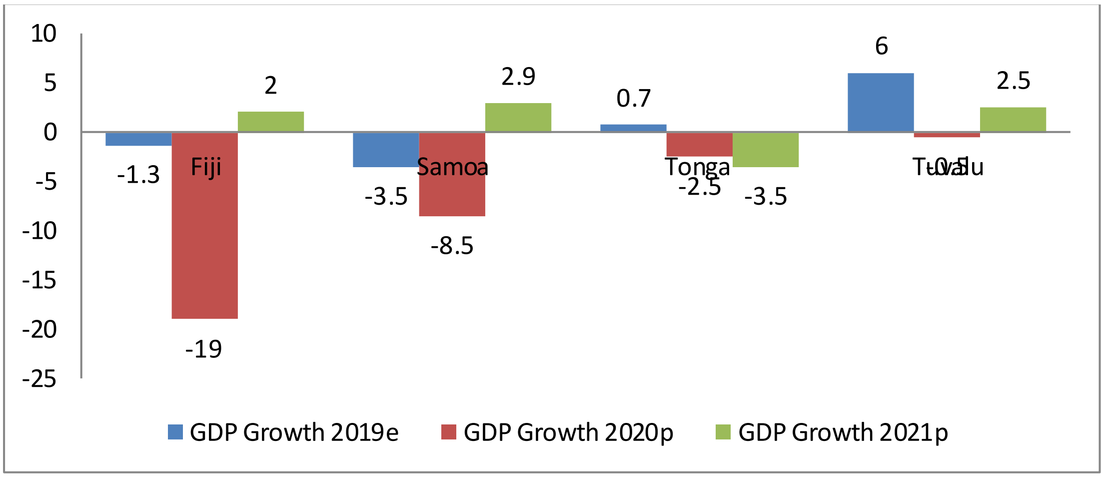
3.4 Output Growth Update

The updated projected output growth rates for the 4 PICs from recent IMF Article IV consultations indicate overall negative growth in FY2020/2021 with slight improvements expected for FY2021/2022 as global and national level restrictions ease off once vaccinations are underway in 2021. Given the deep recessions in 2020, this indicates a number of economies will still be smaller in the end of 2021, than before the pandemic. Overall, the IMF projections assume that domestic demand remains subdued given continued social distancing and containment measures, weak tourism, and a rather lackluster recovery by historical standards in global trade[27].

[26] ILO Pacific Office Rapid Assessment Report for Fiji and Samoa, July 2020

[27] https://www.imf.org/en/News/Articles/2020/10/21/tr102120-transcript-of-asia-pacific-regional-economic-outlook-press-briefing

Figure 8: Real GDP Growth Forecasts for Selected PICs

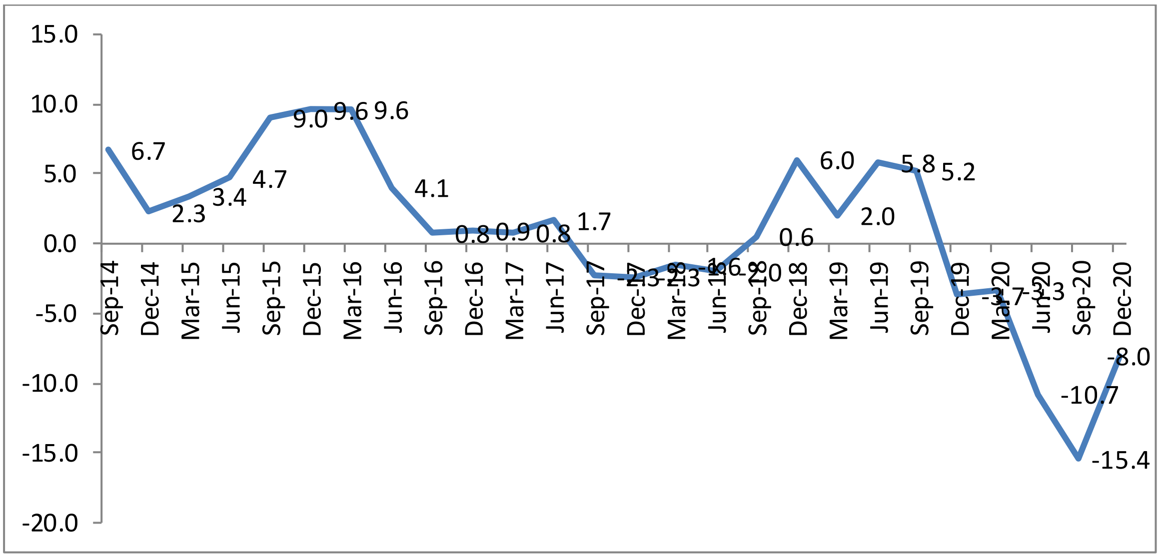


For Samoa, recent IMF projections indicate the impact of COVID 19 on the economy would be significant with real GDP expected to decline by -3.2 percent in FY2020/2021 and -8.6 percent in FY2021/2022[28]. The updated quarterly GDP reports from the Samoa Bureau of Statistics (SBS) in September 2020 highlighted an overall -3.5 percent reduction in real GDP for FY 2019/2020. On a quarterly basis, the highest recorded decline of real GDP (-15.4 percent) was noted at end September 2020 when compared to the same quarter in 2019. This rebounded slightly to -8.0 percent in the following quarter (December 2020). When annualised this represented a contraction of -9.1 percent for nominal GDP for calendar year 2020. Four successive negative growth rates in GDP per quarter signals Samoa's economy is now officially in depression and this trend is set to continue if borders remain closed and no additional investment flows are made[29].

[28] https://www.imf.org/en/News/Articles/2021/01/25/mcs012521-samoa-staff-concluding-statement-of-the-2021-article-iv-mission

[29] The standard reporting for GDP is compared to the same period in the preceding year. COVID 19 is an extraordinary event that has severely impacted economies and will require stringent monitoring and possibly adapted reporting methods for key parameters including GDP to ensure timely decision making and effective response measures.

Figure 9: Samoa Real GDP Growth by Quarter 2014-2020



In addition, GDP decline will be further compounded if there are any natural disasters. All PICs have high incidence of natural disasters in the past and the impact of natural disasters on GDP is significant. On average severe disasters like Category 5 storms causes 14 percent (USD 62.5 million) decline in the GDP growth rate and affects 11 percent of population[30]. Samoa remains the most vulnerable out of the 4 PICs included in the 2016 IMF study with estimated damages between 21% (median) to 161.8% (maximum) of GDP or in dollar terms approximately USD $180 million to USD $1.39 billion which exceeds the country's GDP in short to medium term[31]. Tonga and Fiji both suffered additional losses due to Tropical Cyclone Harold in April 2020 and Cyclone Yasa in December 2020. This compounded the economic burden for Fiji and Tonga which were already struggling to cope with the impacts of COVID 19.

Table 4: Vulnerability of Selected PICs to Natural Disasters and Climate Change

	Ranking to Vulnerability to Natural Disasters	Ranking to Vulnerability to Climate Change	Natural Disaster**	Damage (% of GDP)		
Country			**Likelihood per year**	**Mean**	**Median**	**Maximum**
Fiji	19	1	70.30%	1.8	1.3	10.1
Samoa	1	19	27.00%	47.7	21	161.8
Tonga*	11	22	29.70%	9.7	4.9	28.2
Tuvalu*	17	N/A	16.20%	n/a	n/a	n/a

**Tonga and Tuvalu noted as most vulnerable to sea-level rise according to IPCC assessment*

*** Average Damage per Disaster, by type (1980-2016)*

[30] IMF Working Paper 2018, The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness

[31] IMF Policy Paper 2016, Small States' Resilience to Natural Disasters and Climate Change – Role for IMF

	Estimated Damage (USD million)	Population Affected (number of person)
Storm	62.5	36,629
Drought	45.0	290,931
Flood	26.8	27,177
Earthquake	21.0	3,942
Others	70.8	9,992

Note: "Others" includes volcanic activity, epidemic, landslide, mass movement, and wildfire.

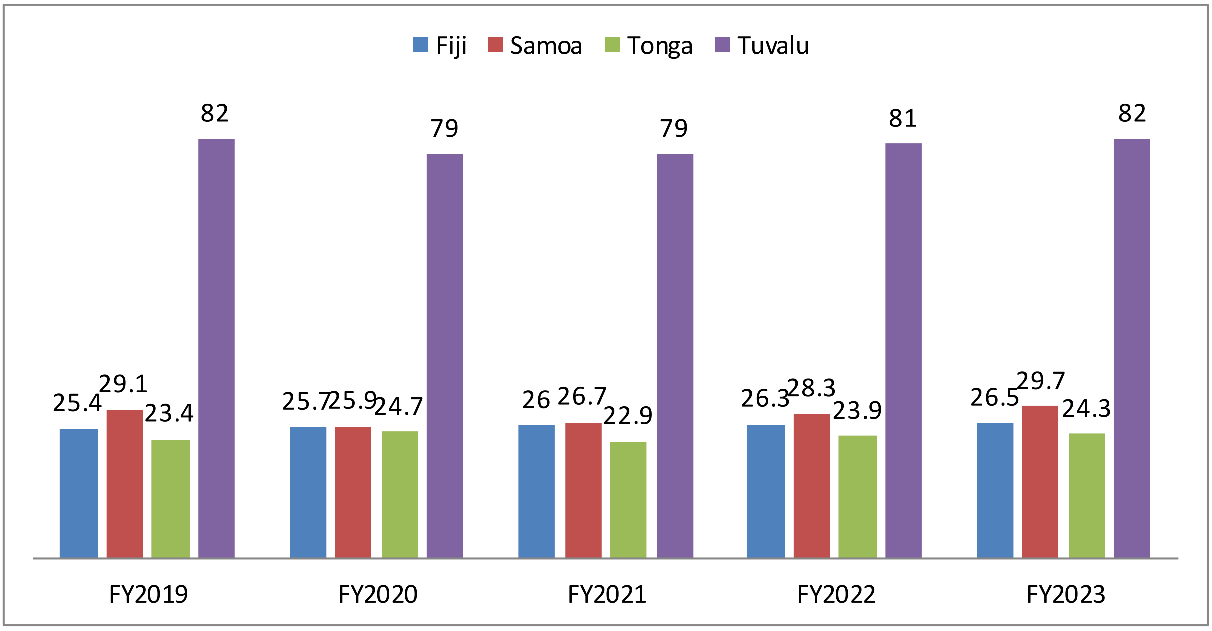
SECTION 4: FISCAL IMPLICATIONS OF COVID 19

4.1 Government Budget Operations

Revenue Analysis

Domestic resource mobilization was initially projected to increase modestly for all PICs prior to the pandemic as outlined in Figure 10 below. However, the rapid decline in domestic economic activity will affect all major sources of tax revenue. Lower corporate profits, declining consumption and increases in unemployment will, respectively, cause declines in revenue from corporate income taxes, goods and services taxes and personal income tax. The decline in international trade, travel and domestic consumption will suppress revenue from consumption taxes on which all the selected PICs rely on.

Figure 10: Government Revenue % to GDP (Excluding Grants) FY2019/2020-FY2023/2024



The revenue structure of PICs including Fiji, Samoa and Tonga is predominantly tax based with more than 50 percent being derived from taxes on goods and services[32]. Tuvalu on the other hand derives

[32] Extracted from main budget estimates for all 4 PICs FY2019/2020 and FY2020/2021 – note these may have changed with COVID impact since the budgets were approved in 2020.

at least 60 percent of its domestic revenue from fishing licenses and fees and the remainder from grants and taxes. Fiji's tax regime is well diversified and with more than 80 percent mobilized domestically with minimal reliance on overseas based grants. In July 2020, Fiji lowered their import duties which decreased Government revenues, however, it also improved the purchasing power of the local population by making the goods affordable.

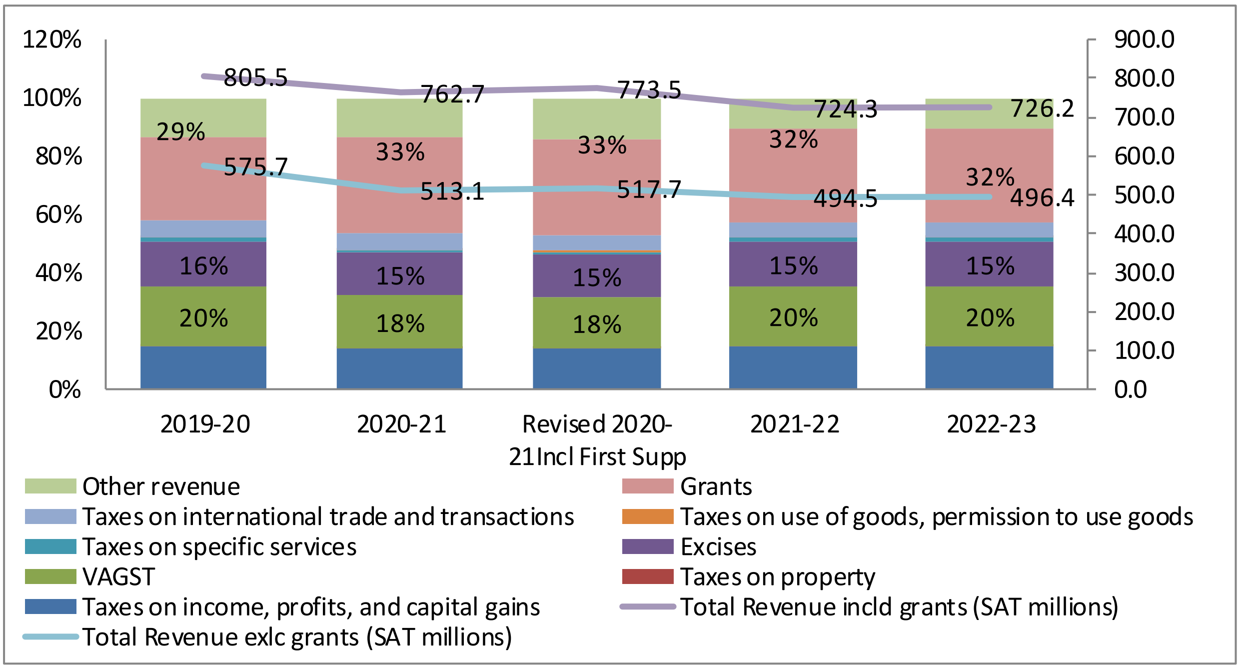
Table 5: Revenue Structure of Selected PICs FY2020/2021

	% of Total Domestic Revenue FY2020/2021						% of Total Revenue (Domestic + Grant) FY2020/2021		
	Taxes on income, profits, and capital gains	Taxes on property	Taxes on goods and services	Taxes on international trade and transactions	Other taxes	Other Revenue	Tax Based Domestic Revenue	Other Revenue	Grant
Samoa	21%	0.2%	50%	8%	0%	21%	53%	14%	33%
Tonga	21%	0.1%	60%	9%	0%	11%	46%	6%	48%
Tuvalu	7%	0	2%	6%	1%	85%	11%	60%	29%
	Direct Taxes	**Indirect Taxes**	**Other Revenue**						
Fiji	31%	61%	8%				88%	10%	2%

Based on the supplementary budget approved by Parliament in December 2020, Samoa's total domestic revenue (excluding grants) for the FY2020/2021 dropped by 10 percent (SAT 32 million) compared to the previous FY2019/2020[33]. The increase in grants by 11 percent (SAT 26 million) mainly through concessional grants and sale of government goods and services has alleviated some of the revenue losses from domestic taxes. The Government through the budget is implementing a range of tax measures to lessen the burden on taxpayers and keep the cash-flows of businesses running. This comes, however, at the expense of lower public revenue, at least in the short-term. Measures include deadline extensions, payment deferrals and accelerated tax depreciation. Samoa could build on the experience from Fiji and diversify its domestic revenue base through the introduction of additional indirect taxes including the environmental and climate adaptation levy once fiscal pressures are eased. Further efficiencies through the proposed Tax Information Management System (TIMS) may help improve collection levels for both direct and indirect taxes.

[33] MOF Supplementary Budget 1, FY2020/2021 approved by Parliament in December 2020

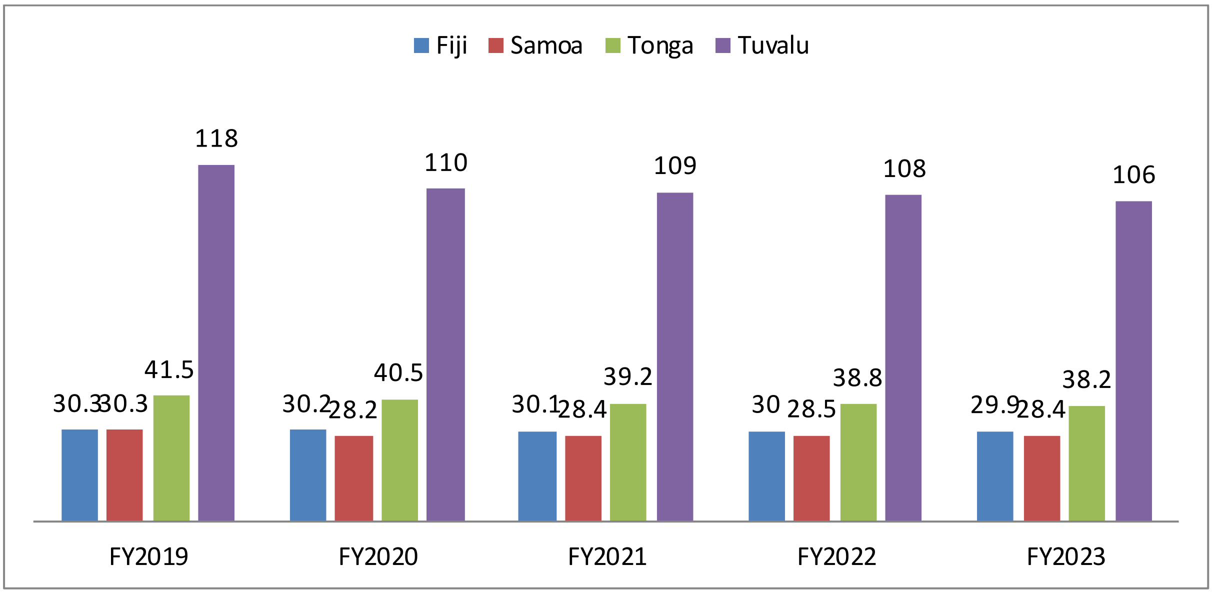
Figure 11: Samoa Revenue Sources FY2019/2020-FY2022/2023



Expenditure Analysis

The losses in government revenue due to COVID 19 may lead to cuts on government expenditure in the short term. Across all PICs, the bulk of current expenditure is allocated towards meeting the wage salary bill for the public sector as well as increased health spending and social protection measures to combat the pandemic and its impact on livelihoods. For Tuvalu prior to COVID 19, their current spending continued to exceed 100 percent of GDP given the high the public wage bill. In light of reduced revenue Tuvalu needs align its current expenditure to be in check with development partners' assistance (e.g., the World Bank's wage bill modeling).

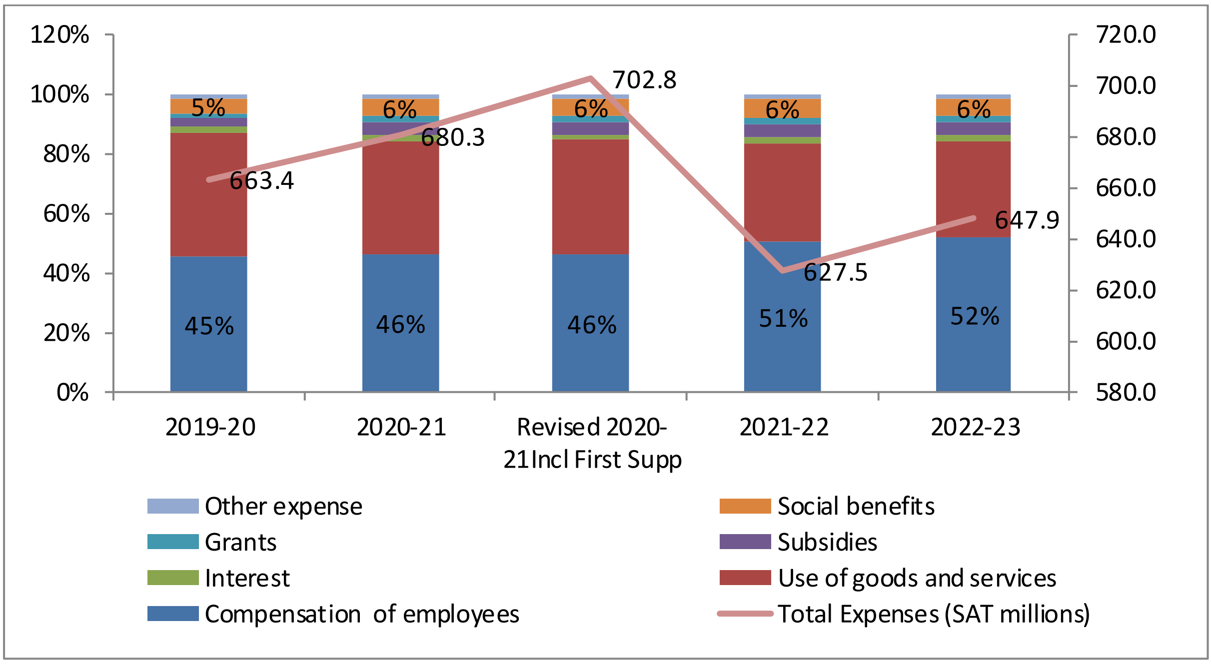
Figure 12: Government Expenditure & Net Lending % to GDP FY2019/2020-FY2023/2024



In Samoa, the updated current expenditure to GDP from IMF Article IV consultations is forecasted to range between 32-40 percent which is just outside the GoS target of 25-30 percent stated in MOF Fiscal Strategy 2020/2021. It is expected these targets will be updated by MOF officials accordingly in their fiscal strategy.

A further updated analysis of domestic expenditures under the approved supplementary budget FY2020/2021 indicates an increase of 6 percent (SAT39.2 million) compared to FY2019/2020. The highest spending priority remains on compensation of employees which ranges between 45-52 percent (SAT 300m – 350m) per annum. This is in line with Government announcement that all current public sector employees will be retained during the pandemic. This includes compensation for key social sectors including health and education spending. There is a drop of 2 percent (SAT1.4 million) in the use of goods and services by government and slight increase in grants and subsidies by 2 percent (SAT 16.3m) to cater for the stimulus measures needed to provide wage subsidies for affected workers as well as direct cash injection needed to sustain the cash flows for many small to medium sized operators to meet debt repayments and retain workers.

Figure 13: Samoa Detailed Recurrent Expenditure Analysis FY2020/2021



Current Fiscal Response to COVID 19 in Samoa

Samoa's total response to combat COVID 19 is SAT 149.4 million with Phase 1 (SAT66.3m) approved in April 2020 as part of the supplementary budget for FY2019/2020 and Phase 2 (SAT 83.1m) approved in June 2020 for roll out in FY2020/2021. In terms of fiscal impact, 51 percent (SAT76m) of these measures are channelled directly from the central government budget with the remaining 49 percent (SAT73m) attributed to outside budget sources including state owned enterprises and national provident funds. A summary of Samoa's fiscal measures under the IMF fiscal response categories is outlined below:

Table 6: Fiscal Measures to Combat COVID 19 in Samoa

Fiscal Measures	Case of Samoa	Funding Source	Cost Component (SAT millions)
Household Income Support			
Cash or in-kind transfers	NPF Dividend Payout	Off Budget (SNPF)	$ 35,000,000.00
	Additional One-Off Pension - $100 tala per person	Off Budget (SNPF)	$ 1,100,000.00
	Pension to increase monthly by $15	Off Budget (SNPF)	$ 2,719,440.00
	Assistance to Households - $50 tala per person	Budget (SBS)	$ 12,125,300.00
	Community Outreach - Komiti Tumama	Budget (MWCSD)	$ 1,314,000.00
	Assistance to Vulnerable Groups	Budget (MWCSD)	$ 500,000.00
	Shelter Financing for Vulnerable Families	Budget (MWCSD)	$ 1,000,000.00
	Samoa Housing Corporation Assistance	Off Budget (SHC)	$ 250,000.00
	Free Trade Concessions for specific food items under Phase I extended to August	Budget (MCR/MCIL Revenue Foregone)	$ 1,000,000.00
	Increase in Ie Samoa Show (Faalelegapepe)	Budget (MWCSD)	$ 350,000.00
	Increase in One Government Grant to schools	Budget (MESC)	$ 3,630,000.00
	Partial Insurance Compensation to Samoa Primary Exporters	Budget (MCIL)	$ 900,000.00
Unemployment benefits	Unemployment Subsidy	Budget (MOF)	$2,000,000
	Frontline Workers' Risk Benefits	Budget (MOH)	$500,000
Employment Measures			
Short-term work job retention schemes			

Fiscal Measures	Case of Samoa	Funding Source	Cost Component (SAT millions)
Temporary hiring subsidies	Short Term Paid Training for the Hospitality Sector	Budget (MOF)	$1,000,000
Active labour market policies		N/A	
Public Investment			
	HE1 Preparedness and Prevention	Budget (MOH)	$ 3,468,978.00
	HE2 Negative Pressure Room	Budget (MOH)	$ 4,000,000.00
	HE3 Isolation 1	Budget (MOH)	$ 1,500,000.00
	HE4 Quarantine	Budget (MOH)	$ 1,500,000.00
	HE5 Testing, Tracing, Reporting, Treatment	Budget (MOH)	$ 2,797,310.00
	HE6 COVID Medical and Consumables	Budget (MOH)	$ 7,000,000.00
	AG PPE	Budget (MAF)	$ 20,338.00
	AG Awareness	Budget (MAF)	$ 5,959.51
	AG3 Livestock	Budget (MAF)	$ 124,825.19
	AG4 Crops	Budget (MAF)	$ 821,288.00
	AG5 SROS Commercial Arm	Budget (SROS)	$ 2,500,000.00
	MS1 FESA/EMT and Police	Budget (MoPP)	$ 1,000,000.00
	MS2 Education (ACC)	Off Budget (ACC)	$ 500,000.00
	MS3 Communication	Off Budget (ACC)	$ 500,000.00
	MS4 Community Outreach (ACC)	Off Budget (ACC)	$ 500,000.00
	Agriculture Stimulus	Budget (MAF)	$ 2,000,000.00
	Construction and Upgrade of Hospital + Physician Homes	Budget (MOH)	$ 3,000,000.00
Tax Measures			

Fiscal Measures	Case of Samoa	Funding Source	Cost Component (SAT millions)
Temporary deferral of taxes and social security payments	PS1 Subsidize Local Production	Budget (MAF)	$ 1,404,328.00
	PS4 2 month Free Rent at SNPF Facilities	Off Budget (SNPF)	$ 604,000.00
	PS5 2 month Free Rent at ACC Facilities	Off Budget (ACC)	$ 500,000.00
	PS6 Waiver on Bus/Taxi Registration Fees+10% off all other MV	Off Budget (LTA)	$ 2,135,160.15
	PS7 DBS Principal payment suspension 2 months (everyone)	Off Budget (DBS)	$ 1,900,000.00
	PS8 Samoa Airways Advance	Budget (MOF)	$ 1,000,000.00
	PS9 3 months free rent for businesses at the Airport (SAA)	Off Budget (SAA)	$ 224,960.36
	PS10 3 months free rent for businesses at wharves (SPA)	Off Budget (SPA)	$ 158,514.00
	PS11 2 months free rent for businesses at SLC (SCL)	Off Budget (SLC)	$ 275,000.00
	PS12 3 months free rent for private businesses at DBS	Off Budget (DBS)	$ 100,000.00
	PS13 20% discount on wharfage fees for 3 months (SPA)	Off Budget (SPA)	$ 352,524.00
	PS14 3 month license refund for Stevedoring (SPA)	Off Budget (SPA)	$ 18,112.50
	PS15 50% reduction in Hotel Daily Fixed Rates for 3 months (EPC)	Off Budget (EPC)	$ 273,000.00
	Market Vendor Subsidy - extension free rent period	Off Budget (ACC)	$ 1,162,500.00
	Electricity Rate reductions extended until December	Off Budget (EPC)	$ 4,423,000.00
	Water Rate reductions extended until December	Off Budget (SWA)	$ 995,381.15
General income tax cuts	PP1 Free Up Trade	Budget (MCIL)	$ 2,401,865.90
	PP2 3 months 2% interest relief for h/hold loans	Budget (MOF)	$ 2,405,380.00
	PP3 NPF Loan Repayment Refund	Budget (MOF)	$ 5,500,000.00
	PP4 Special Pension (one-off $300 per)	Off Budget (SNPF)	$ 3,000,000.00

Fiscal Measures	Case of Samoa	Funding Source	Cost Component (SAT millions)
	PP5 EPC unit charge reduction (10 sene reduction)	Off Budget (EPC)	$ 8,300,000.00
	PP6 SWA water rate reduction (20 sene reduction)	Off Budget (SWA)	$ 1,327,174.86
	PP8 50% reduction in loan interest rates for 6 months	Budget (MOF)	$ 1,500,000.00
	2% Interest Relief for all Business Loans with Commercial Banks for 3 months	Budget (MOF)	$ 3,897,771.17
	SPBD interest relief	Budget (MOF)	$ 60,000.00
Accelerated depreciation or		N/A	
loss-carry backward		N.A	
Progressive taxes		N/A	
Other Liquidity Support			
Loans, guarantees	Credit Facility at the DBS for Specific Sectors focused primarily on COVID19 recovery;	Budget (MOF)	$ 4,000,000.00
Solvency Support (equity injections)	Assistance to Talofa Airways	Budget (MOF)	$ 183,209.00
Debt restructuring	PS2 SNPF 6 month moratorium- Tourism	Off Budget (SNPF)	$ 2,600,000.00
	PS3 ACC moratorium- (6 months Tourism + 2 months others)	Off Budget (ACC)	$ 1,000,000.00
	PP7 3 month moratorium on all Samoa Housing loan repayments	Off Budget (SHC)	$ 3,100,000.00
	Licensing fees for domestic fishing vessels waived for 2020 beginning May 2020 (Class A, B & C)	Budget (MAF)	$ 15,000.00
PHASE 1 TOTAL (FY 2019/2020)			**$ 66,318,718.47**
PHASE 2 TOTAL (FY2020/2021)			**$ 83,125,601.32**
TOTAL COST			**$ 149,444,319.79**

Phase 1 fiscal measures approved in April 2020 together with additional measures under Phase 2 which were approved in July 2020. The hardest hit sector has been tourism which has had a flow on effect on other key sectors of the economy including transport and financial sector. The financial system of Samoa was relatively stable prior to the crisis, with adequate liquidity and nonperforming loans within acceptable limits for example, nonperforming loans were only 3.9% of total loans prior to the crisis.

Samoa has recognized the possible strain that short term liquidity constraints may place on the local banking system, especially to those institutions exposed to tourism sector lending. The COVID-19-related shock to the real economy could be compounded by a simultaneous financial sector shock as banks seek to shore up their balance sheets. Small and medium sized enterprises in the tourism sector would be most vulnerable to this de-risking, and this could further constrain companies' ability to expand their operations when demand returns. In response, public banking institutions have also been called on to provide additional assistance, in addition to encouraging local commercial banks to allow for interest-only payment periods and repayment holidays.

From the government side, they have covered 2 percentage points of all business interest costs at commercial banks over a 3-month period, 3 months of loan repayments for all small businesses under the Government Guarantee Schemes (administered by the Samoa Business Hub), and 2 months of interest payments for all loans with the Development Bank of Samoa (DBS). A potential risk to the government is the guarantee provided to the DBS for the credit line facility put in place in the aftermath of cyclone Evan. The existing portfolio is already highly exposed to the tourism sector: of the 19 percent nonperforming debt in the total portfolio, tourism-centred loans account for nearly half[34]. With its balance sheet already under pressure, it is unclear how much additional support DBS can provide without additional equity or cash injections from the government.

Overall, the government stimulus measures have undoubtedly provided a partial buffer against the significant fall in household incomes and business continuity. However, this has put severe strain on fiscal resources. With the borders unlikely to reopen until well into 2021, domestic economic conditions will continue to deteriorate. It is clear that subsequent rounds of government stimulus will be needed to support household incomes and business continuity, which will put fiscal resources under further strain.

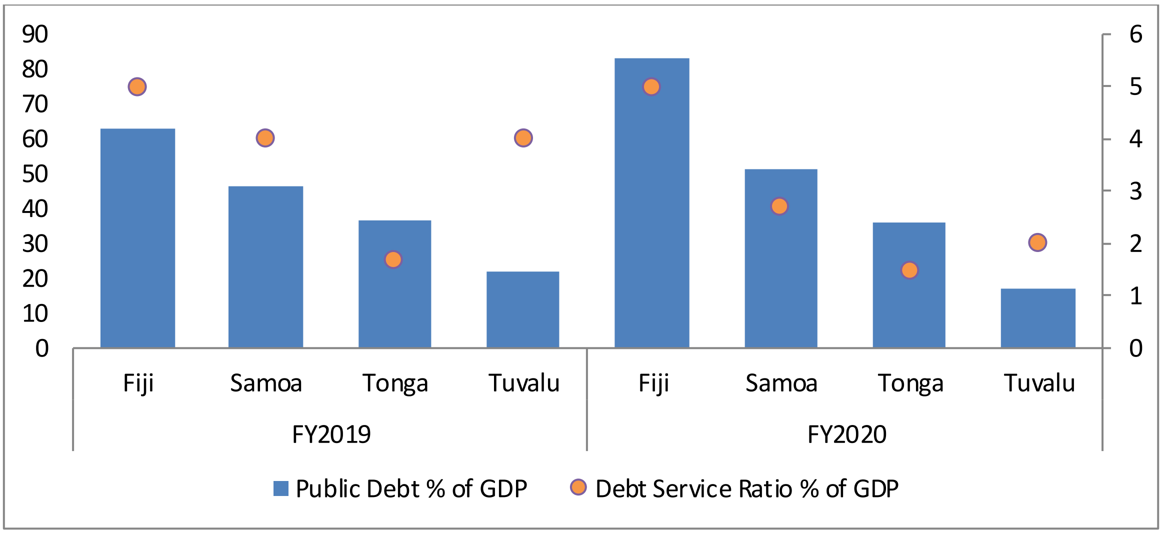
4.2 Debt Ratios

Based on IMF DSA for LICs, Kiribati, Marshall Islands, Micronesia, Samoa, Tonga, and Tuvalu are at "high" risk, whereas Solomon Islands and Vanuatu are at "moderate" risk. For Fiji, which falls under a different DSA, debt levels were still deemed "sustainable", albeit with increasing risk. Either domestic or external borrowing will result in the build-up of debt. The pre COVID debt levels for the selected PICs are expected to further deteriorate as sources of domestic revenue are impacted by restrictions put in place to combat COVID 19.

Debt servicing ratios to GDP improve slightly with access to debt relief concessions[35]. All 3 PICs including Fiji, Samoa and Tonga have signed up to the G20 Debt Service Suspension Initiative (DSSI) which is expected to garner potential DSSI savings for the periods May-December 2020 and January-June 2021[36].

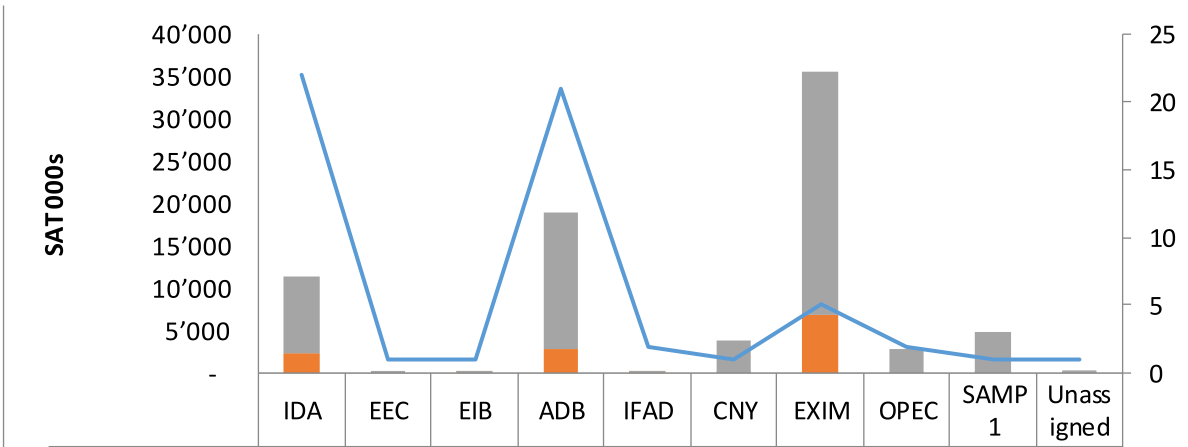
[34] IMF Article IV Statement 2020
[35] Extracted from PIC budgets and updated Article IV consultations in 2021.
[36] https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

Figure 14: COVID 19 Debt to GDP Profiles for Selected PICs FY2019/2020-FY2020/2021



Samoa's updated total public debt forecast outlined in the 2021 IMF Article IV indicates an increase of 4.3 percent compared to FY2019/2020. External debt accounts for 50.7 percent with 0.3 percent attributed to domestic debt for FY2020/2021. This is within the Government's external debt target of 50% of GDP. There are approximately 57 current development funded projects funded mainly by several partners with top 3 total outstanding external debt owed to China (SAT383m)[37], IDA (SAT 300m) and ADB (SAT222m) in FY2020/2021 . Continuous monitoring and updates will be needed given the prolonged restrictions in place and its impact on revenue sources for Samoa.

Figure 15: Samoa Debt Servicing to GDP FY2020/2021



	IDA	EEC	EIB	ADB	IFAD	CNY	EXIM	OPEC	SAMP 1	Unassigned
Principal	9'126	0.024	0.271	16'14	0.177	3'883	28'87	2'839	4'805	0.781
Interest	2'239	0.002	0.015	2'777	0.030	0.563	6'774	0.931	0.373	0.139
No. Projects	22	1	1	21	2	1	5	2	1	1

[37] All these 5 projects funded by China are now completed. These include: (i) Parliamentary Complex & MJCA Building, (ii) Government Building, (iii) National Medical & Samoa Medical C; (iv) Samoa National Broadband Highway Project and (v) Faleolo International Airport Upgrading Project.

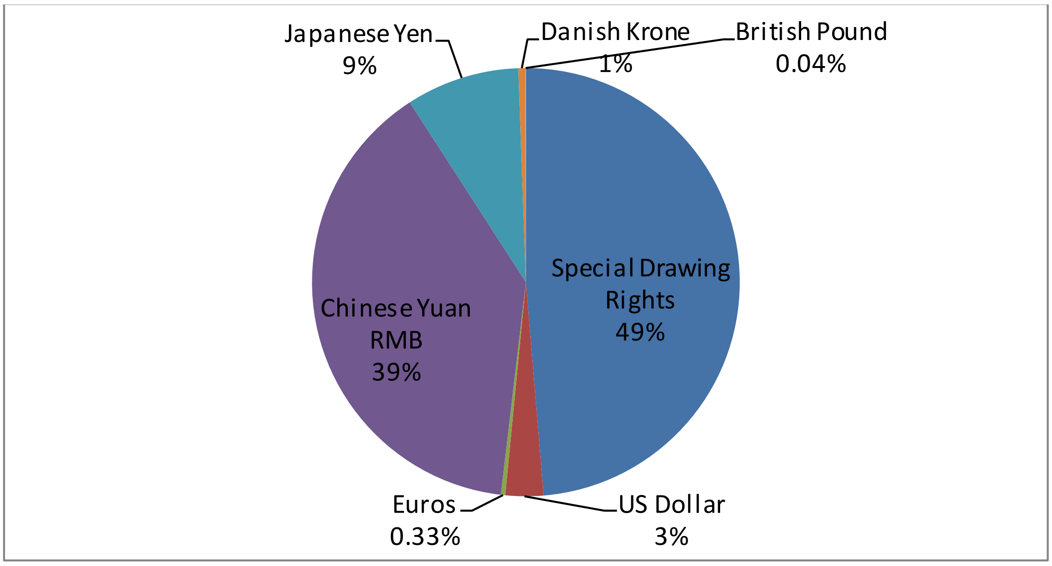
Samoa's debt servicing ratios remain viable and access to concessional financing remains with existing development partners. The approved supplementary budget in December 2020, noted that in line with the G20 DSSI, Samoa has qualified for debt relief of SAT 24.5 million through a 12-month suspension of on its debt servicing from the following development partners[38]:

a. People's Republic of China SAT 21.91 million
b. Japan SAT 2.59 million

The exchange rate risks associated with debt servicing payments is another key factor to take into consideration. For Samoa, the breakdown of the debt repayment by foreign currency indicates relatively manageable risks given 49 percent are in Special Drawing Rights (SDRs) and 39 percent is in RMB. These currencies are usually consistent and favourable against the tala, however continuous monitoring of any potential rise in the RMB will be prudent in the wake of COVID 19.

[38] The details of these debt relief measures in terms of which specific loans they apply to are not currently available.

Figure 16: Samoa % Share of Debt by Foreign Currency FY2019/2020

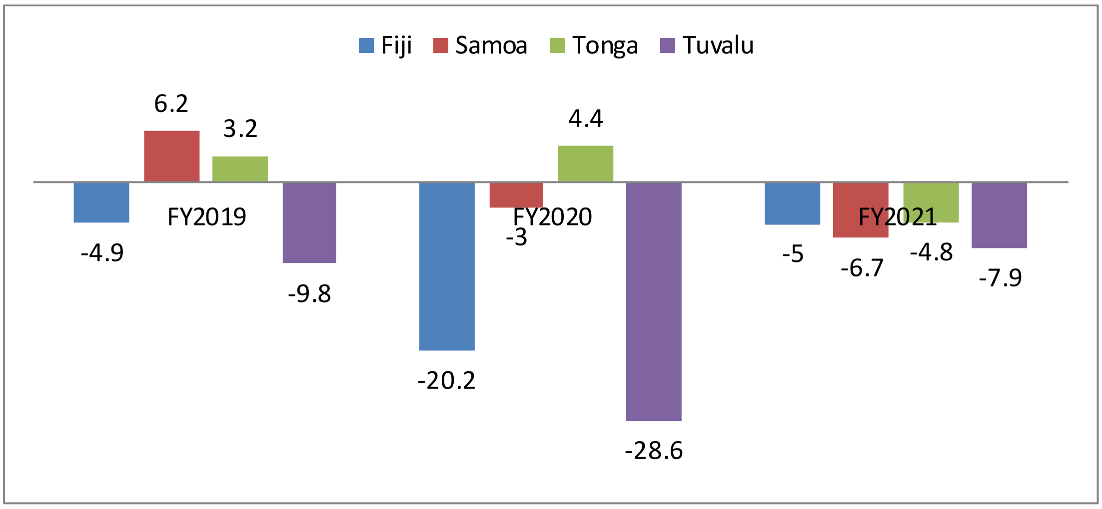


4.3 Fiscal Space Assessment

Samoa and selected PICs were earmarked in IMF pre-COVID scenarios that they will face significant deterioration of their fiscal balance due to losses in tax revenues, leading to growing deficits from FY2020/2021 onwards. Updated forecasts by various agencies in January 2021 indicate Fiji's fiscal balance remains at -20.2 for FY2020/2021 and expected to improve to -5 percent in FY2021/2022[39]; Samoa's fiscal balance is expected to be -3 percent in FY2020/2021 and increasing to -6.7 percent in FY2021/2022; Tonga's fiscal balance is estimated to be 4.4 in FY2020/2021 and will decline to -4.8 percent in FY2021/2022[40]. Tuvalu is expected to have a fiscal deficit of 28.6 per cent of GDP in FY2020/2021, reducing to 7.9 per cent in FY2021/2022[41].

[39] Fiji Macroeconomic Outlook, 2021: http://pubdocs.worldbank.org/en/770601563917603067/mpo-fji.pdf
[40] Tonga Article IV Staff Report 2020: file:///C:/Users/Dell/Downloads/1TONEA2021001.pdf
[41] Tuvalu COVID Response Plan: https://www.dfat.gov.au/sites/default/files/covid-response-plan-tuvalu.pdf

Figure 17: Fiscal Balance Forecast Scenarios for Selected PICs Post COVID 19



In Samoa, the overall fiscal balance for FY2019/2020 (including grants) recorded a surplus reaching around 6 percent of GDP by end June 2020. This was mainly driven by a favorable outturn in tax revenue collection owing to improved tax compliance in advance of the phased rollout of the Tax Invoicing Management System (TIMS). However, based on recent projections from IMF Article IV, the overall fiscal outturn reflects a growing deterioration based on the existing fiscal policy targets outlined below[42]:

a. Budget deficit to be within the range of 2% to GDP;
b. Total current expenditure to be maintained within the range of 25% to 30% of GDP;
c. Personnel Cost to be maintained within the range of 35% - 40% of Total Expenditure;
d. Public debt to GDP to be kept below 50%;
e. Debt Servicing Cost to Revenue receipts (Excluding Grants) to be kept below 20%.

The fiscal space scenarios for Samoa are mainly premised on the availability of the an effective set of vaccines, which is the main requirement for reopening of our borders as well as improvement to nominal GDP through several key industries including tourism and commerce. Scoping of the fiscal strategies to respond to the projected Government budgetary costs of the pandemic has been complicated by a highly volatile economic and financial situation and drifting estimated timelines for availability of vaccines. The following scenarios are therefore built on the base case developed by Government through their Fiscal Strategy FY 2020/2021 which includes the current budget plus two fiscal years as well as updated scenarios developed through the recent Article IV Consultations with IMF and the author's estimates based on recent vaccine developments (refer to Annex 3 for detailed assessment tables):

a. ***Base Case (GoS Fiscal Strategy FY 2020/2021):*** the fiscal gap is expected to widen from FY 2020/2021 (-2.3% of nominal GDP) and improve slightly from FY 2022/2023 onwards. By FY2022/2023, the fiscal gap will be -1.5% (SAT 33.87m) of nominal GDP (SAT 2.25 billion) with total revenue contribution to nominal GDP at 34% (SAT 762.7m) and total current expenditure at 30% (SAT680.3m).

[42] MOF Fiscal Strategy FY 2020/2021

b. ***Updated Base Case (IMF Article IV Feb 2021):*** the fiscal gap is expected to widen from FY 2020/2021 (-3.4% of nominal GDP) and improve slightly from FY 2023/2024 onwards. By FY2025/2026, the fiscal gap will be -2% (SAT 49.9m) of nominal GDP (SAT 2.49 billion) with total revenue contribution to nominal GDP at 36% (SAT 899.6m) and total expenditure at 38% (SAT949.6m).

c. ***Active Scenario (IMF Article IV Feb 2021):*** the fiscal gap is expected to widen from FY 2020/2021 (-4.5% of nominal GDP) and worsen up until FY 2025/2026. This is mainly due to additional expense measures related to social protection and stimulus for COVID 19 in FY 2020/2021 up until FY 2023/2024. It is also expected that gains from additional revenue measures including broadening the VAGST base as well as exercise taxes will lead to faster recovery of the fiscal gap from FY 2024/2025 onwards. By FY2025/2026, the fiscal gap will be -1.8% (SAT 44.9m) of nominal GDP (SAT 2.49 billion), with total revenue contribution to nominal GDP at 37% (SAT 924m) and total expenditure at 29.7% (SAT 742.2m).

d. ***Emergency/Crisis Active Scenario:*** similar to the Active Scenario for the FY2020/2021 however, the fiscal gap is expected to increase from -7.6% to -10.7% of nominal GDP in FY 2021/2022 in anticipation of a significant increase in social protection expenditures arising from an extended lockdown of the economy until the first half of 2022, in the light of an emerging crisis with the current supply constraints for COVID 19 vaccine and variants that have proven resistant to the vaccines. With relatively high international reserves, and low inflation, there could be a strong case for raising of a domestic Resilience/Pandemic bond, targeting initially the pension funds (ACC/SNPF) to allow the Government to respond rapidly to the provide increased social protection expenditures which can be counterpart funding to attraction of external grants and other concessional financing options as from 2022/2023 onwards.

These scenarios highlight the need for other additional expansionary fiscal measures in light of the increasing fiscal gap for Government and are detailed in the following section.

SECTION 5: ACCESS TO FINANCING

5.1 Access to Markets and Concessional Financing

Given the declining tourism export receipts, lower inward remittances and potential decline in development financing, the pressure on foreign reserves to fund the BOP needs as well as fiscal deficits across the selected PICs are significant. In the case of Samoa, the consistent and increased flow of remittances as well as concessional financing from partners like IMF has reduced the need to meet BOP requirements from foreign reserves, which, in turn, has provided confidence to the current exchange rate regime. Additional budget support from WB and other development partners has also cushioned the impact on overall fiscal balance.

Access to financial markets remains limited in the selected PICs with the exception of Fiji which has a well-established capital market and country credit rating. Samoa together with Tonga and Tuvalu will continue to rely on external concessional financing in the medium term. In the case of Samoa, the Government has secured approximately USD 91 million or SAT 237 million from development partners to help cushion the fiscal deficit for this current financial year. At least 66 percent is in the form of grants with 34 percent in the form of concessional credit relief.

Table 8: Samoa External Financing for COVID 19 Responses FY2020

Institution	Type	Amount (in million)		Details
		Tala	USD	
World Bank	Catastrophe Deferred Drawdown (Cat DDO)	14	5	Samoa has US$ 8.7 million access, of which US$ 3.6 million was used for the measles outbreak of late-2019.The remaining balance was disbursed in March 2020.
	IPF-COVID19	7	3	Procurement of goods and services required to combat the COVID19 to ensure poverty reduction and sustainable development. The first disbursement of the US$9.3 million committed during FY 2020-26 for the Samoa Health System Strengthening Program, funded under a P4R (program for results) project
	IDA Cat DDO	39	15	This financing supports Government measures to assist workers affected by COVID-19 and increase benefits for the elderly. Reforms supported by the operation will also help to bolster government revenue collection and improve the management of fiscal risks associated with state-owned enterprises. The operation provides US$15 million as an upfront grant from the International Development Association (IDA), the World Bank's fund for the most in-need countries, with a further IDA grant of US$10 million under a Catastrophe-Deferred Drawdown Option (Cat-DDO) that is available for withdrawal in the event of a significant natural, climate-related or health disaster.
Asian Development Bank	Contingency Disaster Facility			Established to assist member countries' immediate response to natural disasters. Due to the catastrophic effects of the Coronavirus, the facility is now opened to include the pandemic and released to assist in preparatory and preventative

Institution	Type	Amount (in million)		Details
				measures of all member countries including Samoa
Government of New Zealand	Budget Support	27	10	This assistance is injected directly into the Budget to assist in any sectoral response to the Coronavirus.
Government of Japan	Health Equipment	8	3	Direct assistance from the Government of Japan to assist in the procurement of medical equipment for the hospital.
IMF	Rapid Credit Facility (RCF)	9	3	Buffer for Balance of Payments needs
Government of Australia	Budget Support	2	1	Budget support to combat economic and health shocks caused by COVID-19
United Nations	Socio Economic Program	57	22	This is the estimated cost of 44 interventions identified under the 5 Pillar Approach for socio economic impact of COVID 19 on Samoa to be funded by relevant UN programs
China/Japan/European Bank	Debt Relief	18	7	Samoa has qualified for debt relief through a 12-month suspension on its debt servicing for outstanding loans to the People's Republic of China stood at SAT21.9m, Japan SAT 2.6m and the European Economic Community SAT13,039.
		237	91	

In the long term, concessional financing may not be sufficient if restrictions continue at the global and national level. In the case of Fiji, their deficit has been financed by issuing bonds in the domestic market. Given the contracting economy and tight liquidity, the Reserve Bank of Fiji (RBF) has undertaken the buying of existing government bonds under a repurchase agreement to free up cash for institutional investors. The Reserve Bank Act also allows the central bank to purchase up to $FJ900m of government bonds in the primary market, which equates to 30 percent of average annual government revenue over the last three years. The Fijian government is also expected to use the market to raise most of its deficit financing so the Bank retains the autonomy of an independent monetary policy while still having a fixed exchange rate regime.

For the selected PICs including Tonga, Tuvalu and Samoa, capital markets are still underdeveloped as such in the short term access to grants and concessional financing will be their main recourse for addressing fiscal needs. In Samoa, the Government as a practice in the 1970s and 1980s used to float 5-year and 10-year national development bonds as part of financing the Government budget. Financing from these national development bonds directed the development budget and was only promoted on the basis that the Government budget achieves a minimum level of operating budget surplus i.e. surplus of tax revenues over current expenditures. The use of the national development bonds has not been utilized recently given the ease of access to the institutional financial institutions like the Samoa National Provident Fund (SNPF) and Unit Trust Organisation of Samoa (UTOS). However, in light of the likely fall in domestic revenue sources for Government due to the impact of COVID 19, the use of domestic bonds may be considered as another suitable mechanism to address the projected fiscal gap over coming fiscal years.

Whilst the country risk for Samoa has been assessed from time to time when seeking relatively large private loan and equity financing facilities, there has been no official rating of Samoa’s credit risk by the recognized rating capital markets institutions. To date the country’s short-term liquidity has been assessed by overseas private investors and financiers using the reports from the IMF Article IV country consultations. The medium-term risk has been assessed using mainly the World Bank and Asian Development Bank development country reports. Prior to the pandemic, the Central Bank of Samoa (CBS) had started to prepare for engaging a reputable credit rating international institution to rate Samoa as part of a programme to facilitate access of Samoa to the international capital markets and attract foreign investors.

The issuance of CBS securities is also aimed at developing the financial market in Samoa. CBS securities are issued under the authority of the CBS Act 2015. The securities are denominated in Samoan Tala, sold at a discount to par, carry no coupon rate and are redeemable at par on maturity. The primary auctions of CBS securities are held every week. To implement this system, CBS has developed a liquidity forecasting framework which targets the banks’ free reserves and manages liquidity around this target. This minimizes the volatility in these reserves and in turn minimizes interest rate volatility. Based on recent data from CBS, the issuance of securities is now on hold given there is excess liquidity with the current level well above the set target in the financial system. Commercial bank lending has been relatively conservative since the pandemic which could be attributed to concerns with debt serviceability as well as increased provisioning for potential increase in non- performing loans.

SECTION 6: CONCLUSIONS

The onset of the COVID-19 pandemic has amplified and exposed the four PICs underlying structural impediments to growth, as well as the limited capacity (both fiscal/financial and key social services) to respond swiftly and adequately. Of the four selected PICs, Fiji was the first to report confirmed cases during the initial lockdown phase with Samoa confirming three cases since late November 2020. All four PICs have declared State of Emergency with strict social distancing and travel restrictions in place.

Pacific governments continue to broaden their social protection coverage; however significant portions of the populations remain uncovered by either formal or informal social protection systems. This poses continuous challenges; however, extreme poverty is rare in Fiji, Tonga, Samoa, and Tuvalu—all of which have upper middle-income status. For Samoa, vulnerable groups are based on their access to food and basic needs poverty needs as well as well as access of households to funds from its actively employed members. The 2016 Poverty and Hardship report indicated the poor and highly vulnerable groups were mainly located in North West Upolu and Apia Urban Area. Tonga and Samoa’s high incidence of NCDs adds an additional burden given studies have shown a higher risk of severe illness if NCDs are present in persons infected with COVID 19. The capacity of the health systems in all selected PICs to cope with a community wide transmission of COVID 19 is severely limited and will require significant investment particularly in terms of access to medical personnel and hospital beds. With the exception of Fiji and Samoa that possess PCR machines and reagents, the PICs currently rely mainly on overseas based hospitals for COVID 19 tests whilst local capabilities are being established.

All four PIC economies are in recession with projected output growth rates ranging from -19 percent (Fiji) to -0.5 percent (Tuvalu) for FY2020/2021. The region is expected to recover and grow by 1.3% in 2021, contingent on how quickly travel and trade restrictions are lifted. For Samoa, several growth projections indicate the impact of COVID 19 on the economy would be significant with real GDP expected to decline by -8.6 percent in FY2020/2021 based on latest update from IMF Article IV Mission in January 2021. Based on these updated forecasts it will take several years for the economy to reach the pre-COVID level of real GDP. The pace of recovery will depend on a number of factors, of which the most critical are procurement and rollout of effective COVID-19 vaccines, timing of the border reopening, and resumption of tourism and its related sectors. GDP growth will be further affected if there are any natural disasters. All PICs had high incidence of natural disasters in the past and the impact of such natural disasters on GDP has been significant. On average, a natural disaster affects GDP growth by 14 percent and this has been evident in the case of Fiji which has been hit by several major cyclones since the pandemic.

Domestic resource mobilization was initially projected to increase modestly for all PICs prior to COVID-19. However, the rapid decline in domestic economic activity since the beginning of the pandemic will affect all major sources of tax revenue. The revenue structure of PICs including Fiji, Samoa and Tonga are predominantly tax based with more than 50 percent being derived from taxes on goods and services. Tuvalu on the other hand derives at least 60 percent of its domestic revenue from fishing licenses and fees and the remainder from grants and taxes. Fiji's tax regime is well diversified and with more than 80 percent mobilized domestically with minimal reliance on overseas based grants. Based on the supplementary budget approved by Parliament in December 2020, Samoa's total domestic revenue (excluding grants) for the FY2020/2021 dropped by 10 percent (SAT 32 million) compared to the previous FY2019/2020. The increase in grants by 11 percent (SAT 26 million) mainly through concessional grants and sale of government goods and services has alleviated some of the revenue losses from domestic taxes.

Across all PICs the majority of current expenditure is allocated towards meeting the wage salary bill as well as increased health spending and social protection measures to combat the pandemic. For Samoa, the Government through the budget is implementing a range of tax measures to lessen the burden on taxpayers and keep the cash-flows of businesses running; however, at the expense of lower public revenue, at least in the short-term. The updated current expenditure to GDP is forecasted to range between 32-40 percent which is just outside the GoS target of 25-30 percent stated in MOF Fiscal Strategy 2020/2021. A further updated analysis of domestic expenditures under the approved supplementary budget FY2020/2021 indicates an increase of 6 percent (SAT39.2 million) compared to FY2019/2020. This is attributed to increased expenditure under FY2020/2021 for retaining employees as well as the social sector which encompasses health and education spending. Subsidies and grants primarily through MOF has also increased to cater for the stimulus measures needed to provide wage subsidies for affected workers as well as direct cash injection needed to sustain the cash flows for many small to medium sized operators to meet debt repayments as well as retain workers. Total cost of response to date by Samoa to combat COVID 19 is SAT 149m with 51 percent allocated through central government budget and 49 percent outside the budget.

COVID 19 has added additional debt burdens and further worsening fiscal balances for all four PICs. For Samoa, the latest fiscal space scenarios all indicate a widening fiscal gap when compared to the fiscal strategy target for fiscal deficit to be within 2 percent of GDP. The fiscal cost associated with addressing the identified socio-economic issues is high and some of these costs have been factored into the Government's fiscal responses to date. With the initial lot of vaccines now available the Government is making plans to secure additional supplies to ensure full herd immunity. Some planning is underway, but more work remains to be done to ensure national and regional vaccination plans in the Pacific Islands are ready to deploy.

The Samoan Government has secured approximately USD 91 million or SAT 237 million from development partners to help cushion the fiscal deficit for FY2020/2021. At least 66 percent is in the form of grants with 34 percent in the form of concessional credit relief. Access to financial markets remains limited in the selected PICs with the exception of Fiji which has a well-established capital market and country credit rating. Samoa together with Tonga and Tuvalu will continue to rely on external concessional financing in the medium term and will need to consider alternative fiscal measures such as domestic bonds in order to address their widening fiscal gaps in the short-medium term.

Further detailed quantitative analysis of identified fiscal measures and updated fiscal parameters will be undertaken under Phase 2 and ensure socio-economic measures are taken into consideration. The following UN 5 five pillars for immediate socio-economic response to COVID 19 could help provide a viable assessment framework for identifying critical socio-economic measures through the budgetary process:

a. Health First: Protecting Health Services and Systems during the Crisis
b. Protecting People: Social Protection and Basic Services
c. Economic Recovery: Protecting Jobs, Small and Medium-Sized Enterprises, and the Most Vulnerable Productive Actors
d. Macroeconomic Response and Multilateral Collaboration
e. Social Cohesion and Community Resilience

LIST OF ANNEXES

Annex 1: Terms of Reference

Purpose

Explain the terms of reference for the service required, their relation to the Unit's work programme, (and in particular what special skills or knowledge are required to perform those responsibilities. (see Section 3 of ST/AI/1999/7).

Context

The rapid spread of the COVID-19 pandemic has brought global and regional economic activities to a halt. A major economic recession is underway, along with the possibility of a financial crisis, with major implications for vulnerable population groups and households, some of which are already on the brink of poverty. Massive government intervention through an array of coordinated immediate fiscal and financial support policies is being undertaken by many Asia-Pacific countries to ensure that this shock does not spiral into a depression. However, a strong and relatively quick recovery from this crisis is much less likely than in the aftermath of the global financial crisis of 2008 as many of the conditions in place in developing countries at the time are no longer present or much weaker.

As national discussions on introducing fiscal and financial recovery packages are taking shape, it is necessary to develop a clear guiding framework for governments to put in place large-scale, focused and sustainable recovery efforts. For this, countries will benefit, in the first instance, from a rapid assessment of the potential impact of the crisis in order to quantify the spending necessary to contain it. This will allow governments to understand the divergence of impacts on different sectors and population groups and decide where and how much support is needed to be provided going forward. It is important when undertaking such packages to have as a guiding principle that they will need to be as large scale as possible and, at the same time, focused and comprehensive. The unprecedented disruptions of COVID-19 have been non-linear and multifaceted with vulnerable groups being the hardest hit. Therefore, the structure of rescue packages is important to ensure that they do not affect the progress of countries towards the 2030 Agenda, above and beyond the setback due to the pandemic.

In this context, there is also a need to assess the fiscal space available to countries to finance the increased spending deemed to be necessary from this analysis. Many developing countries face both distinct limitations on their fiscal ability to mount comparable stimulus packages for their economies as well as far greater challenges to their economies and societies arising from the Covid-19 crisis than in previous crises. The analysis of fiscal ability will also allow for subsequent identification of countries in need of debt alleviation measures.

Objective

The objective of this assignment is to prepare an in-depth study (20-30 pages, 10000-15000 words) for Samoa with comparative analysis with selected other economies in the Pacific subregion with debt stress, assessing the impact of the pandemic and the consequent fiscal needs for supporting affected sectors in their recovery.

The study will involve first analyzing the economic needs to support businesses in the main affected sectors, with a focus on vulnerable or otherwise disadvantaged groups. Subsequently, there will be a quantitative analysis of the impact of financing these needs on the budgetary position of the country.

Given the diversity of economic characteristics and differentiated impacts of the pandemic in the subregion, the study will involve undertaking, to the extent possible depending on data availability, a comprehensive comparative cross-country analysis of impacts and fiscal ability to respond. This will involve drawing out similarities and differences as well as an analysis of specific national challenges.

Specific issues to be covered

- The fiscal analysis for the paper will draw on the work already conducted by the Samoa Ministry of Finance and endorsed by the Cabinet ahead of the submission of the new Budget Bill (2020/2021) to the Legislative Assembly:
    - Samoa Fiscal Strategy 2020/2021 Statement developed by the Ministry of Finance (MOF)
    - Samoa MOF Budget Address to Parliament
    - Final draft Budget Statements
    - Samoa's presentation of Stimulus Package to support vulnerable groups (22 July 2020)
    - Samoa's Second Voluntary National Review Report to the 2020 HLPF
- External analyses that underpinned financial support to Samoa will be also used as inputs into the issues that this paper will cover. At a minimum:
    - IMF macro-economic analysis conducted in support of Samoa's request for a Rapid Credit Facility to reverse the socio-economic impact of COVID-19.
    - UNDP's paper on Assessing the Macroeconomic Impact of COVID-19
    - World Bank's assessment of COVID-19 on GDP and Trade in East Asia and the Pacific
    - UN RCO Economist's analysis of macroeconomic implications of COVID-19
    - Component 1 of SDG Fund round on SDG Financing (ProDoc – UNDP, UN Women and UNESCAP)
- To determine the fiscal sustainability of the response to COVID-19, the Consultant will consider the key recommendations of the UN-led Socio-Economic Impact Assessment in Samoa, cost them and assess the adequacy of the Budget Bill as approved to mobilize and provide resources to the following relevant sectors in line with the vision of the UN framework for the immediate socio-economic response to COVID-19 of the UN-Secretary General:
    - Health First: Protecting Health Services and Systems during the Crisis 11
    - Protecting People: Social Protection and Basic Services 13
    - Economic Response and Recovery: Protecting Jobs, Small and Medium-Sized Enterprises, and Informal Sector Workers 17
    - Macroeconomic Response and Multilateral Collaboration 22
    - Social Cohesion and Community Resilience 27
- A distinct element of cost will be the reopening of the country's borders and the required screening, testing, tracing and treatment as well as the resumption of activities in tourism and hospitality sectors, trade, supply chains etc. In this regard the roundtable meetings that the UN and the ADB will host end July-early August will be relevant. The consultant will be invited to participate

in all UN-ADB roundtables.

- Potential gaps in financing these critical interventions as identified in the SEIA will be tabled for the Consultant to provide recommendations to the Government regarding mobilization of additional budget revenues including external financing to expedite the recovery to limit budget deficit and public debt.
- The deliverables will be first the annotated outline of the report and then a paper providing preliminary conclusions regarding the consistency of the budget allocations with the actual costed needs of various sectors to mitigate COVID-19 risks.

This assignment requires a senior expert with experience across the subregion to draft the 20-30 page (10000-15000 words) study, under the direct supervision of the Chief of the Macroeconomic Policy and Assessment Section (MPAS) of the Macroeconomic Policy and Financing for Development Division (MPFD) of ESCAP. Broad and in-depth understanding of macroeconomic policy and planning and fiscal issues is required. '

2. Objective

To prepare a 20-30 page (10000-15000 words) study on assessing the fiscal impact of mitigating the pandemic on Samoa with comparative analysis with selected other economies in the Pacific subregion.

3. Outputs / Work Assignments (must be tangible and/or measurable)

a. Satisfactory submission of annotated outline Annotated outline 29/8/2020
b. Satisfactory submission of first draft of the study First draft of the study 26/8/2020
c. Satisfactory submission of final draft of the study Final draft of the study 9/9/2020
d. Presentation of the findings to ESCAP staff and external experts Powerpoint presentation in a brownbag seminar format Either in August or September

Annex 2: List of References

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Annex 3: Detailed Fiscal Space Scenarios

Base Case (GoS Fiscal Strategy FY 2020/2021): the fiscal gap is expected to widen from FY 2020/2021 (-2.3% of nominal GDP) and improve slightly from FY 2022/2023 onwards. By FY2022/2023, the fiscal gap will be -1.5% (SAT 33.87m) of nominal GDP (SAT 2.25 billion) with total revenue contribution to nominal GDP at 34% (SAT 762.7m) and total current expenditure at 30% (SAT680.3m).

(1) Base Case	**FY2020/2021**	**FY2021/2022**	**FY2022/2023**
Nominal GDP (SAT billions)	2.25	2.31	2.39
Output & Inflation		(Percent of GDP)	
Real GDP (growth) %	-2.00	0.90	1.70
Nominal GDP (growth) %	1.25	1.31	1.39
Revenue			
Total Revenue	30.0	31.0	31.5
o/w Tax Revenue	26.0	21.0	21.0
Expenditure			
Expense	30.0	27.0	27.0
Transactions in nonfinancial assets (incl Capex)	2.3	6.0	6.0
Overall Fiscal Balance	-2.30	-2.00	-1.50

Updated Base Case (IMF Article IV Feb 2021): the fiscal gap is expected to widen from FY 2020/2021 (-3.4% of nominal GDP) and improve slightly from FY 2023/2024 onwards. By FY2025/2026, the fiscal gap will be -2% (SAT 49.9m) of nominal GDP (SAT 2.49 billion) with total revenue contribution to nominal GDP at 36% (SAT 899.6m) and total expenditure at 38% (SAT949.6m).

(2) Updated Base Case	**FY2020/2021**	**FY2021/2022**	**FY2022/2023**	**FY2023/2024**	**FY2024/2025**	**FY2025/2026**
Nominal GDP (SAT billions)	1.95	2.03	2.14	2.26	2.38	2.49
Output & Inflation			(Percent of GDP)			
Real GDP (growth) %	-7.80	1.70	3.00	3.50	2.50	2.10
Nominal GDP (growth) %	-10.00	4.40	5.10	5.90	5.20	4.80
Revenue						
Total Revenue	37.0	32.3	33.9	35.5	35.9	36.0
o/w Tax Revenue	22.0	22.9	24.4	25.9	26.3	26.4
Expenditure						
Expense	36.4	32.7	31.7	30.5	30.0	29.7
Transactions in nonfinancial assets (incl Capex)	4.0	6.3	7.4	7.7	8.1	8.3
Overall Fiscal Balance	-3.40	-6.70	-5.20	-2.70	-2.20	-2.00

Active Scenario (IMF Article IV Feb 2021): the fiscal gap is expected to widen from FY 2020/2021 (-4.5% of nominal GDP) and worsen up until FY 2025/2026. This is mainly due to additional expense measures related to social protection and stimulus for COVID 19 in FY 2020/2021 up until FY 2023/2024. It is also expected that gains from additional revenue measures including broadening the VAGST base as well as exercise taxes will lead to faster recovery of the fiscal gap from FY 2024/2025 onwards. By FY2025/2026, the fiscal gap will be -1.8% (SAT 44.9m) of nominal GDP (SAT 2.49 billion), with total revenue contribution to nominal GDP at 37% (SAT 924m) and total expenditure at 29.7% (SAT 742.2m).

(3) Active Scenario	FY2020/ 2021	FY2021/ 2022	FY2022/ 2023	FY2023/ 2024	FY2024/ 2025	FY2025/ 2026
Nominal GDP (SAT billions)	1.95	2.03	2.14	2.26	2.38	2.49
Output & Inflation						
Real GDP (growth) %	-7.80	1.70	3.00	3.50	2.50	2.10
Nominal GDP (growth) %	-10.00	4.40	5.10	5.90	5.20	4.80
Revenue			(Percent of GDP)			
Gains from additional measures						
Tax revenue	0.00	0.00	0.00	0.30	0.70	1.00
Broadening VAGST base	0.00	0.00	0.00	0.10	0.30	0.40
Increasing excises	0.00	0.00	0.00	0.20	0.40	0.60
Total Revenue	**37.00**	**32.30**	**33.90**	**35.80**	**36.60**	**37.00**
Expenditure						
Expense: Additional Measures	1.00	2.00	1.00	0.60	0.00	0.00
Social Benefits	0.50	1.00	0.50	0.30	0.00	0.00
Budget support to SOEs (transfers)	0.50	1.00	0.50	0.30	0.00	0.00
Total Expense	**37.40**	**34.70**	**32.70**	**31.10**	**30.00**	**29.70**
CAPEX: Prioritization	0.00	-1.00	-0.50	0.50	0.40	0.80
Transactions in nonfinancial assets (incl. CAPEX)	4.00	5.30	6.90	8.20	8.50	9.10
Overall Fiscal Balance	**-4.50**	**-7.60**	**-5.60**	**-3.40**	**-1.90**	**-1.80**

Emergency/Crisis Active Scenario: similar to the Active Scenario for the FY2020/2021 however, the fiscal gap is expected to increase from -6.7% to -10.7% of nominal GDP in FY 2021/2022 in anticipation of a significant increase in social protection expenditures arising from an extended lockdown of the economy until the first half of 2022, in the light of an emerging crisis with the current supply constraints for COVID 19 vaccine and variants that have proven resistant to the vaccines. With relatively high international reserves, and low inflation, there could be a strong case for raising of a domestic Resilience/Pandemic bond, targeting initially the pension funds (ACC/SNPF) to allow the Government to respond rapidly to the provide increased social protection expenditures which can be counterpart funding to attraction of external grants and other concessional financing options as from 2022/2023 onwards.

(4) Emerging Crisis Active Scenario	FY2020/2 021	FY2021/2 022	FY2022/2 023	FY2023/2 024	FY2024/2 025	FY2025/2 026
Nominal GDP (SAT billions)	1.95	2.03	2.14	2.26	2.38	2.49
Output & Inflation						
Real GDP (growth) %	-7.80	1.70	3.00	3.50	2.50	2.10
Nominal GDP (growth) %	-10.00	4.40	5.10	5.90	5.20	4.80
Revenue			(Percent of GDP)			
Gains from additional						

measures						
Tax revenue	0.00	0.00	0.00	0.30	0.70	1.00
Broadening VAGST base	0.00	0.00	0.00	0.10	0.30	0.40
Increasing excises	0.00	0.00	0.00	0.20	0.40	0.60
Total Revenue	**37.00**	**32.30**	**33.90**	**35.80**	**36.60**	**37.00**
Expenditure						
Expense: Additional Measures	1.00	3.00	1.00	0.00	0.00	0.00
Social Benefits	0.50	2.00	0.50	0.00	0.00	0.00
Budget support to SOEs (transfers)	0.50	1.00	0.50	0.00	0.00	0.00
Total Expense	**37.50**	**37.70**	**33.70**	**31.00**	**30.00**	**29.70**
CAPEX: Prioritization	0.00	-1.00	-0.50	0.50	0.40	0.80
Transactions in nonfinancial assets (incl. CAPEX)	4.00	5.30	6.90	8.20	8.50	9.10
Overall Fiscal Balance	**-4.50**	**-10.70**	**-6.70**	**-3.40**	**-1.90**	**-1.80**