

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Fiji, Papua New Guinea and Vanuatu

William Hamilton and Caroline Hughes

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Key messages

- Pacific Island Countries have implemented strict public health responses to the COVID-19 pandemic, so far limiting domestic infections.
- Severe economic impacts are expected as a result of dependency on the tourism industry and commodity exports.
- The impacts of COVID-19 will be compounded by the huge damage caused by recent Tropical Cyclone Harold to Vanuatu and Fiji.

Introduction

Countries in the Pacific have recorded a low total number of infection figures of COVID-19, with some countries having no confirmed cases as of date. However, of the countries reported on (Fiji, Papua New Guinea and Vanuatu), only Fiji and PNG have the capacity to test for the virus domestically, and international travel restrictions have limited the wider availability of testing.

As of [20 April](#), there are a total of 25 confirmed COVID-19 cases across Fiji (18) and PNG (7). There is no confirmed COVID-19 case yet in Vanuatu. However, WHO [warns](#) that the Pacific should prepare for large-scale transmission.

Despite the relatively low number of COVID-19 infections, these countries are enforcing strict public health measures. Fiji has implemented and enforced strict social distancing measures, including an overnight curfew, since 30 March. Fiji has locked down and subsequently relaxed restrictions for all travel in and out of its two cities, Suva (3 April/17 April) and Lautoka (19 March/7 April), respectively.

Meanwhile, PNG issued directives on [17 April](#) banning all public gatherings, a curfew from 8pm to 6am and a ban on liquor sales. Vanuatu has closed its borders, mandated social distancing measures and ordered all businesses to install hand-washing stations.

Government health spending per capita ranges from \$200.1 (Fiji) to \$62.5 (Vanuatu), while external health spending per capita ranges from \$40.2 (Vanuatu) to \$9.7 (Fiji). The lowest combined figure is \$85.0 per capita in PNG.

Economic and social impacts

Fiji

Fiji's economic growth is expected to contract to [-4.3%](#) in 2020, which could be the first contraction recorded since 2009. This is 7.3 percentage points lower than the initial estimated growth of [3.0%](#) for 2020.

Export revenues are expected to decline by [3.4%](#) in 2020 across almost all categories. The current account deficit is expected to widen to [4.0%](#) of GDP, on account of losses to service sector income (especially tourism-related) outstripping the gains from declining prices of imported fuels.

Inflation for March 2020 was [-2.8%](#), up from a historic low of [-3.0%](#) in February 2020. Price falls are especially strong across alcoholic beverages, tobacco and narcotics, housing, water and fuel. The panic buying following the lockdowns in Fiji's two cities and adverse weather conditions are reported to have led to temporary price increases in taro and cassava, key root crops, by [250% and 54%](#), respectively, in April.

The total shutdown of the international tourism sector puts at risk an estimated [118,500](#) related jobs, equivalent to 13% of the population.

Fiji operates a fixed exchange rate that is pegged to a basket of currencies. As of 31 March, the Reserve Bank of Fiji (RBF) reported that reserves stood at [5.6 months](#) of retained imports. The government expects this to remain above [4 months](#) of retained reserves at the end of 2020.

Papua New Guinea

[ADB](#) forecasts that growth in PNG in 2020 will decrease to 0.8%, compared with 4.8% growth

reported for 2019. The slower GDP growth is mainly driven by COVID-19's downward pressure on commodity exports (oil, LNG, gold and copper) since mining and petrochemicals [account](#) for 28% of GDP and over 80% of PNG's exports. However, only 0.4% of the labour force works in mining and petrochemicals, compared with 66.0% in agriculture, forestry and fishing, which are expected to be more insulated. Inflation is [expected](#) to be relatively stable, at 3.3% for 2020, down from 3.6% in 2019.

The Bank of PNG operates a managed float. Recent [reports](#) indicate a shortage of foreign currency. While it is committed to providing foreign exchange, priority is being given to health care imports for the COVID-19 response.

In PNG, the state of emergency initially from 24 March to 6 April has [extended](#) to 6 June. PNG has only around [500](#) doctors for its 9 million people, posing a severe challenge for an estimated [86.8%](#) of the population living in non-urban areas. The state of emergency controller has [ordered](#) that no wholesale or retail prices shall increase in excess of 5% during the period of emergency.

Vanuatu

The official economic growth forecast in Vanuatu has been revised down [from 3.8% to 1.9%](#). The country will suffer from the global decline in tourism. The government's 2019 Trade Policy Framework Update (TPFU) states that tourism exports were equal to 30% of GDP in 2017. There is already [evidence](#) in Vanuatu of job losses and businesses closing down/restricting opening hours.

Tropical Cyclone Harold made landfall across Vanuatu's northern and central islands on 6 April as a Category 5 storm. [Reports](#) and [aerial surveys](#) by the National Disaster Management Office show damage to houses, infrastructure and crops. [159,000 people](#) (over half the country's population) are expected to have been affected. The Council of Ministers (Cabinet) approved the declaration of a second State of Emergency on [9 April](#). This has major implications for Vanuatu's commodity exports, already suffering from low prices, as the cyclone hit the main agricultural islands.

According to the TPFU, one third of ni-Vanuatu households grow kava, which made up 52% of Vanuatu's goods exports by value in 2018. Global demand has boomed in recent years, but is now expected to fall with COVID-19, while supply is also expected to fall as a result of TC Harold. Copra and coconut oil made up 19% of the country's total goods exports in 2018. The price [of coconut oil](#), on which the price of copra is based, fell from December to January and has remained flat since then. The price of [cocoa](#) (4% of goods exports in 2018) fell by 14%, from \$2,716 per tonne in February to \$2,338 in March. The [price of coffee](#) (1% of goods exports in 2018) tumbled by 14% from \$1.17 per lb at the end of December to \$1.01 in

January, but since then has gradually climbed back to trend at \$1.10 at the end of March.

The government has not published any changes to the [official inflation forecast](#) for 2020 of 2.5–3.1%, made at the time of making the 2020 budget.

Vanuatu has a fixed exchange rate regime. The official foreign reserves held by the Reserve Bank of Vanuatu totalled [VT 52.8 billion \(\\$433.6 million\) in August, enough to finance 11 months of imports](#).

The Price Control Bureau [has asked businesses](#) not to increase prices during the COVID-19 epidemic, and has warned that it may implement price control regulations if it sees necessary. While COVID-19 was [not expected to bring food insecurity](#), TC Harold has damaged crops in the main agriculture-producing islands.

Seasonal workers already in Australia and New Zealand are able to continue working, but closure of the borders prevents any further seasonal workers from taking up their roles. The reduced remittances from seasonal workers and reduced income from tourism are expected to affect the balance of payments. Commercial banks in Vanuatu have agreed to cancel or postpone interest and principal payments due on loans in 2020.

Fiscal impacts

The Fijian government has revised down tax collections for the 2019/20 financial year (August–July) by FJ\$1.06 billion, representing a [34.4%](#) decrease from the initial tax collection forecast made in June 2019, as a result of expected COVID-19 impacts. The debt-to-GDP ratio is expected to rise 13.8 percentage points to 60.9% by the end of July 2020.

The IMF reports that PNG's government revenue is expected to deteriorate. The government is seeking K860 million (\$247 million, equivalent to 1% of GDP) from institutional partners in support of the COVID-19 response. The government is approaching the Australian government, the IMF, the World Bank and ADB. The World Bank has [approved](#) a \$20 million project to provide rapid support to PNG's response.

Vanuatu has not officially revised its government revenue forecast but it has [cancelled various taxes, fees and charges](#), which is expected to reduce revenue. The [prime minister has stated](#) that the stimulus package can be afforded without significant increases in debt and that the government will continue to make advanced repayments on its external debt.

Monetary and financial policy

Since the outbreak, central banks in these countries have responded by reducing their main policy rates,

lowering capital reserve requirements and coordinating debt interest holidays with commercial banks.

In Fiji, the RBF had comparatively little policy space but has reduced its overnight rate 25 basis points to 0.25%. It has also increased funding available under its Natural Disaster Rehabilitation Facility and SME credit guarantee scheme to about \$28.4 million. However, the recovery from flooding and wind damage caused by TC Harold, which struck Fiji as a Category 4 storm on 7/8 April, can be expected to further draw on these facilities.

The Bank of PNG has reduced the Kina Facility Rate by 200 basis points to 3% and reduced the cash reserve requirement to 7% (from 10%). It is also introducing [quantitative easing](#) (QE) backing K3.1 billion (\$0.9 billion), which comprises 55% of the government's total economic stimulus package (K5.6 billion or \$1.6 billion).

The Reserve Bank of Vanuatu [announced on 31 March](#) a reduction of its policy interest rate from 2.9% to 2.25%.

Fiscal policy

Typical fiscal responses among these countries include early lump sum draws by individuals on their earnings-accrued superannuation funds and deficit-financed expenditure to support the public health systems while increasing national debt.

Fiji announced a substantial [COVID-19 Response Budget](#) on 26 March, an economic package worth FJ\$1.0 billion (\$0.44 billion), equivalent to 8.7% of GDP. This plans deficit expenditure equivalent to 9.0% of GDP as well as reducing government expenditure in non-priority agencies. Medical supplies have been granted VAT and customs exemptions.

Employer statutory contributions to the national superannuation fund have been decreased from 10% to 5%, while employee contributions have been reduced from 8% also to 5%. Both are effective to the end of 2020 and are expected to retain an amount equivalent to 1.8% of GDP between employers and employees. The government has also coordinated a six-month loan repayment holiday on commercial loans (covering principle and interest), which is expected to provide relief worth 3.5% GDP to households and businesses.

PNG has announced a total stimulus [package](#) worth \$1.6 billion, representing about 7.6% of GDP. The mechanisms for delivery of this are currently unclear, although almost 9% of this package is pledged towards the 'health, security and economic' sector. A supplementary budget will be announced after the mid-year economic and fiscal outlook in July 2020.

The prime minister of Vanuatu has [announced](#) a VT 4 billion (\$33.1 million) economic and fiscal stimulus. This includes an [Employment Stabilisation Programme](#), with employees receiving up to VT 30,000 (\$248) of their wage per month (close to minimum wage) for four months. Employers will receive a payment of 15% of the value of their wage bill. SMEs will be paid the value of one year's business licence. The government's copra subsidy will be extended to kava, cocoa and coffee. Many regulations for government procurements under VT 10 million (\$82,700) have been temporarily suspended. The government will grant school fee exemptions for 2020 and increase the internet capacity in schools.

Other policy

Fiji has [declared](#) a State of Natural Disaster twice in April – one for the effects of TC Harold, which destroyed more than 2,000 homes and another for the COVID-19. This has coincided with an increase in quarantine measures for suspected cases to 28 days.

Donor support

ADB has announced an initial \$6.5 billion [package](#) for Asia and the Pacific to respond to COVID-19. Australia is evaluating a redirection of its Pacific 'step up' budget of AU\$1.4 billion (\$884 million) towards the COVID-19 response.

The regional Pacific Islands Forum is moving to create a '[humanitarian corridor](#)' to allow the flow of humanitarian and food supplies through countries that have effectively closed their borders.

In preparation for COVID-19, China has sent ventilators, PPE and other medical equipment to Vanuatu and PNG.

[New Zealand, France and Australia have provided emergency relief](#) to Vanuatu and [Fiji](#) following TC Harold, including a helicopter for med-evacs, hygiene kits and hammers and nails. World Vision, the Red Cross and CARE International are conducting [relief missions](#) to the islands affected by TC Harold. VBTC news has reported that Vodafone has assessed its telecommunications infrastructure using a helicopter and given the footage to the Vanuatu government to use in preliminary assessments of the damage.

Information in this note is correct as of 20 April 2020.

William and Caroline are ODI Fellows working for the Governments of Fiji and Vanuatu, respectively. This note is written in their personal capacity. Comments welcome: w.hamilton@odi.org.uk and c.hughes@odi.org.uk