



Economic Symposium:



REFORMING THE TAX SYSTEM FOR PALAU

06 May 2021



Palau Economic and Fiscal Update

- ▶ **Mini-Economic Update**
 - ★ Impact of the COVID-19 pandemic
 - ★ Tourism arrivals actual and projected through FY30
- ▶ **Mini-Fiscal Update [with and without tax reform]**
 - ★ Annual surplus/deficit actual & projected through FY30
 - ★ External debt actual and projected through FY30
- ▶ **Extraordinary Borrowing from ADB to Mitigate COVID-19 Impact**
- ▶ **High-Level Rationale for Modernizing Tax Reform**

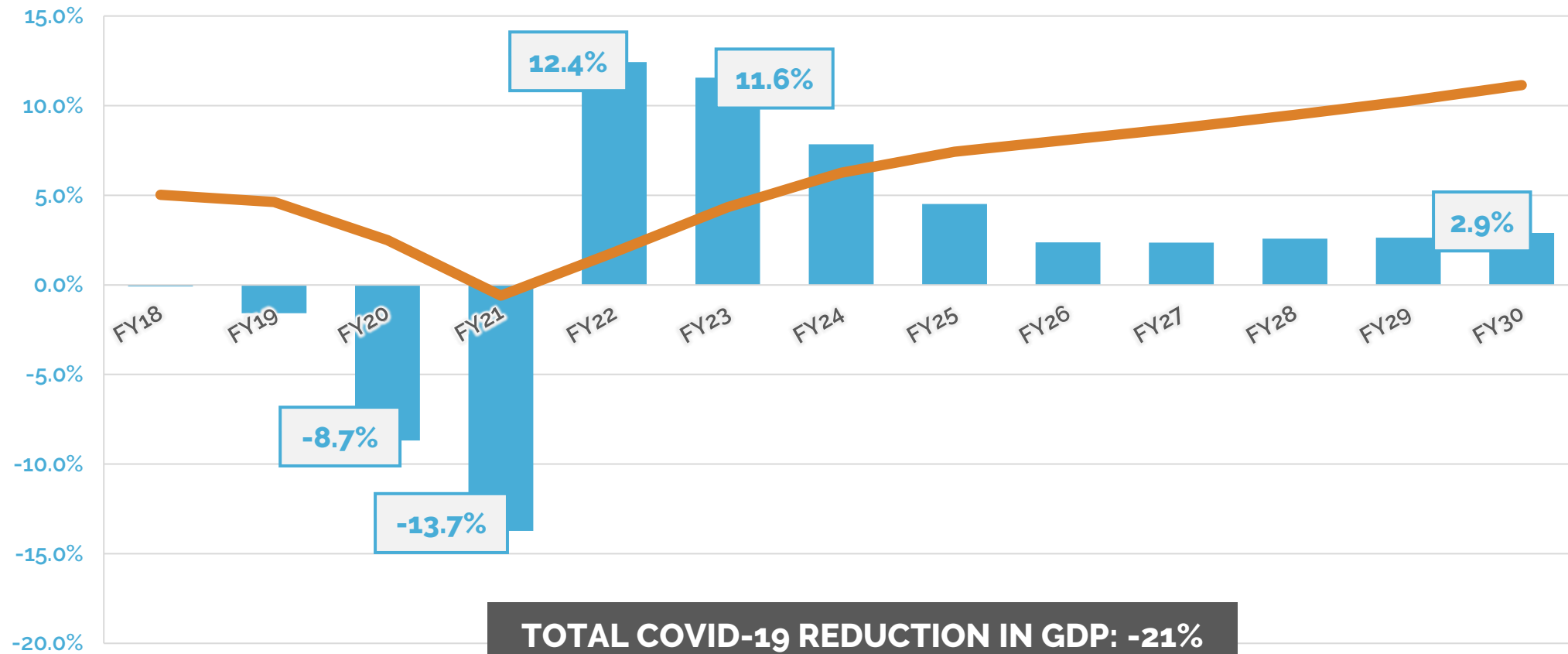


Gross Domestic Product Growth



GDP (%)

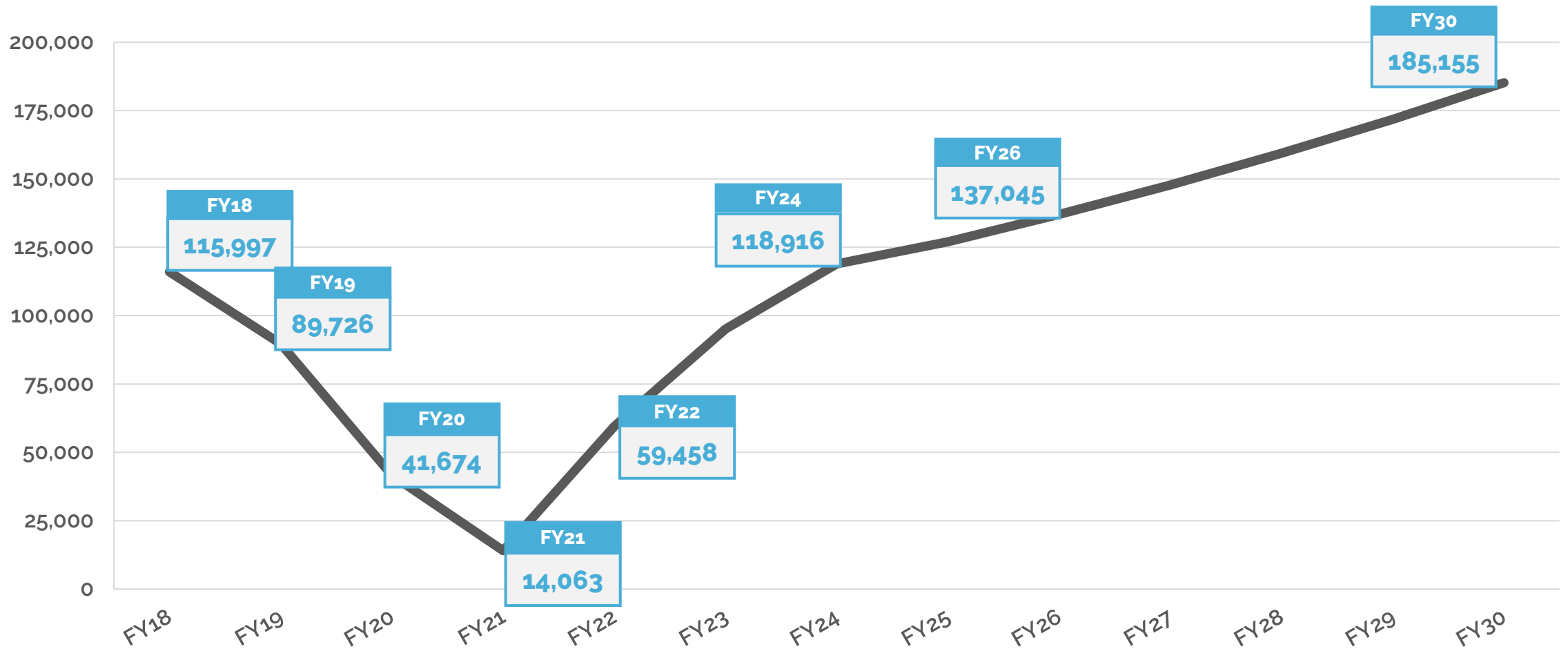
GDP (\$)



TOTAL COVID-19 REDUCTION IN GDP: -21%



Tourist Arrivals



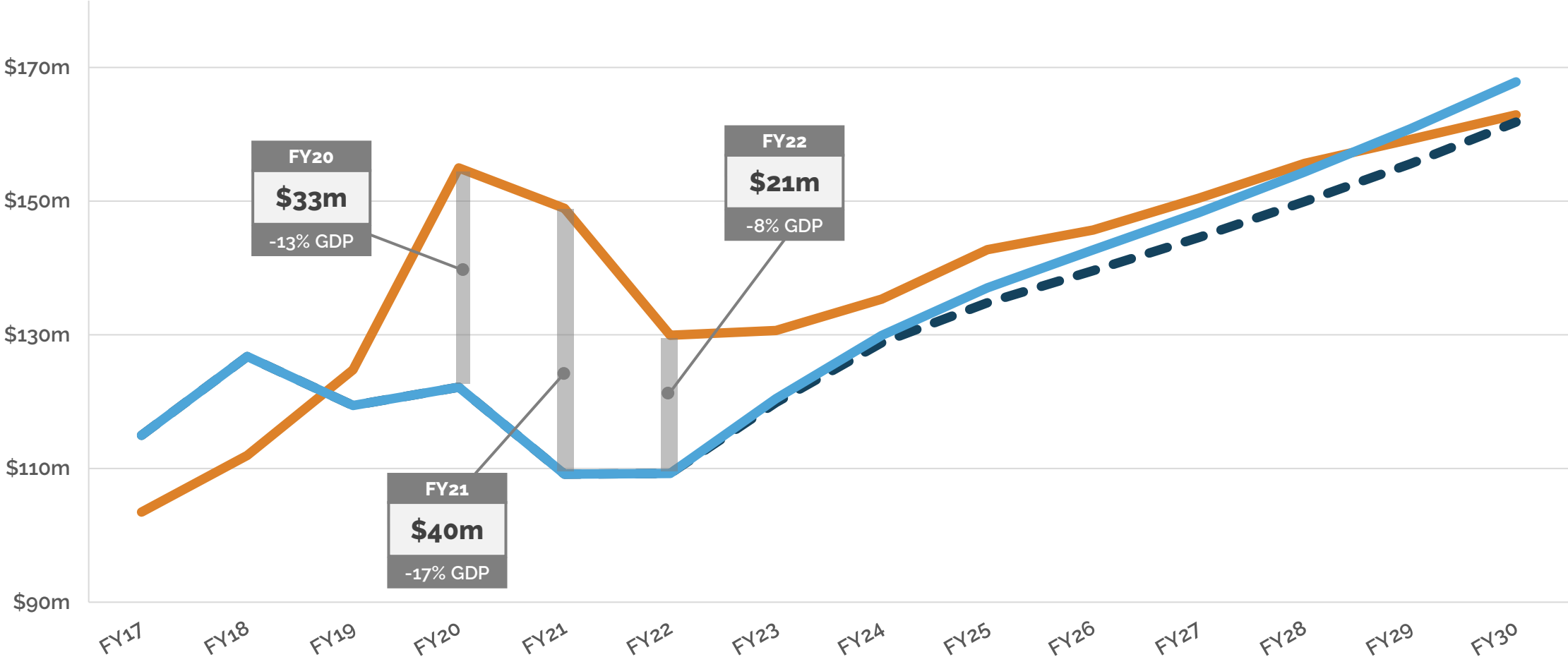
Revenues and Expenditures



REVENUES WITH TAX REFORM

REVENUES WITHOUT TAX REFORM

EXPENDITURES



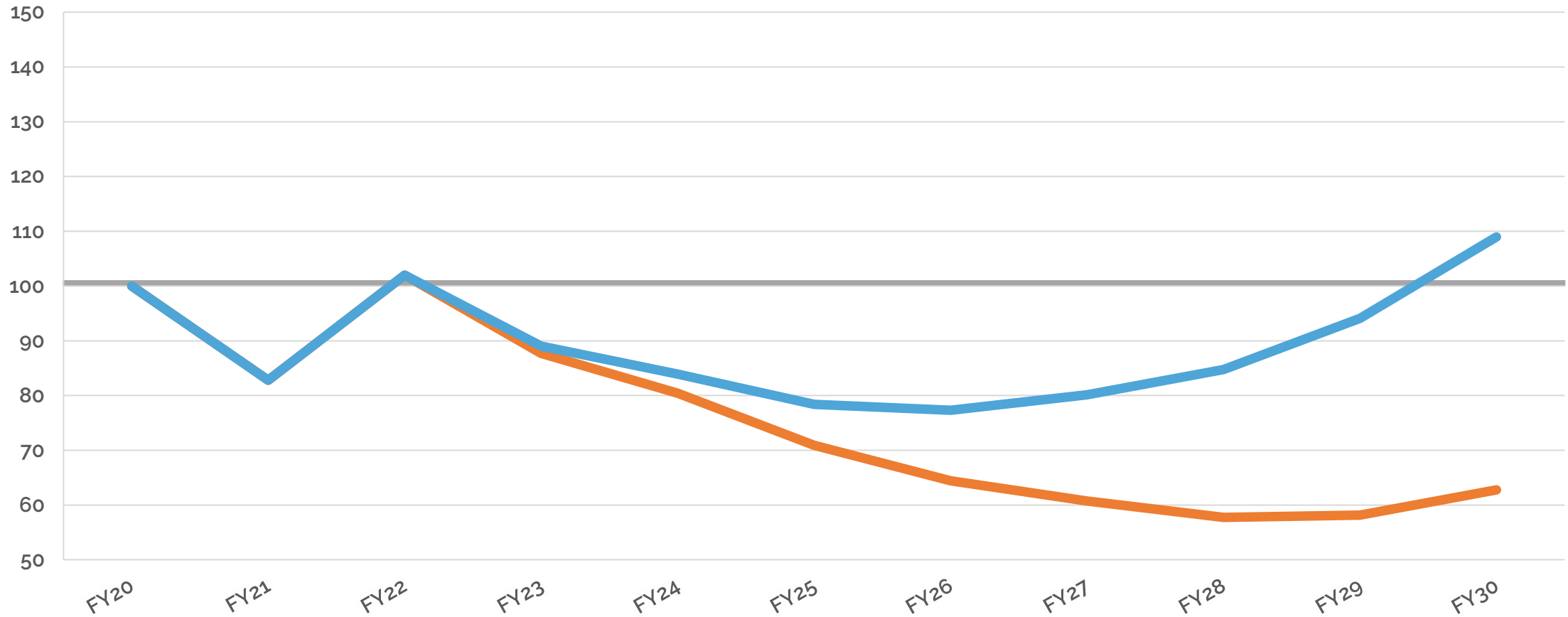
Government Deposits



FY20=100

DEPOSITS WITHOUT TAX REFORM

DEPOSITS WITH TAX REFORM

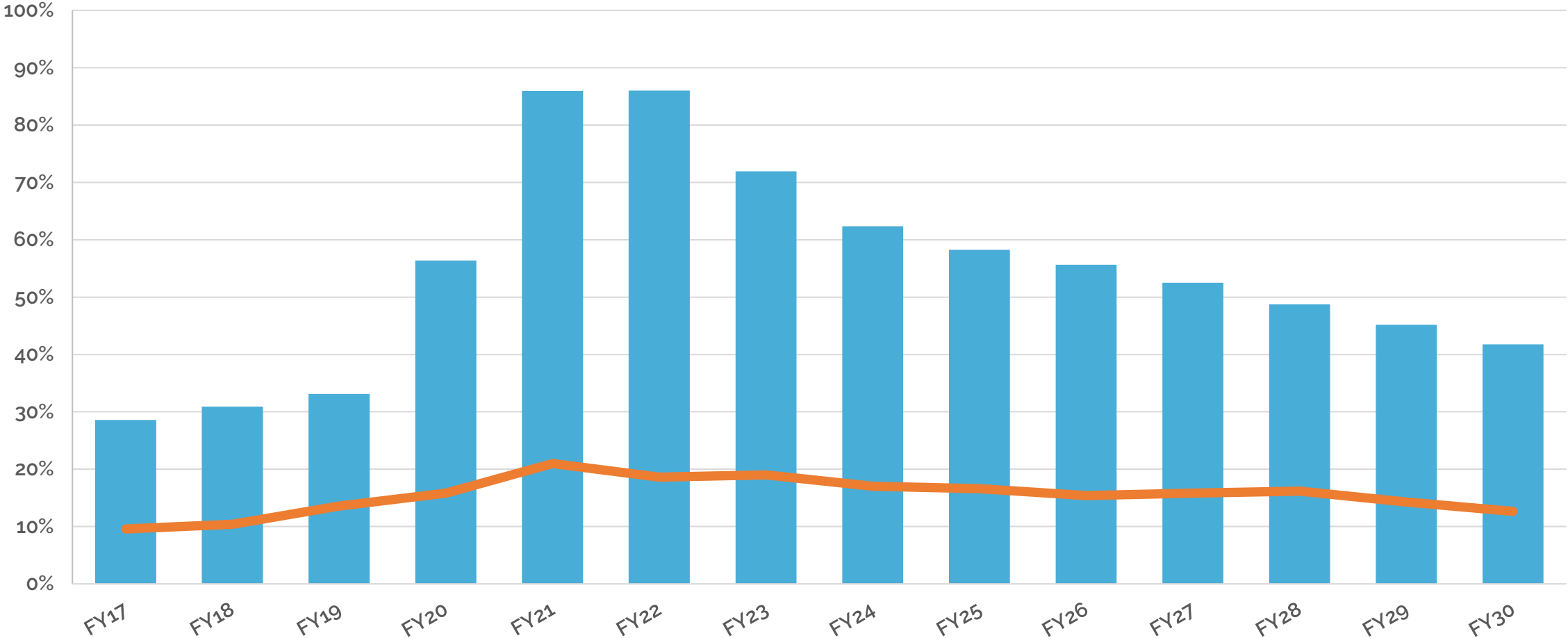


External Debt and Debt Service



DEBT SERVICE / DOMESTIC REVENUES

EXTERNAL DEBT



III. Extraordinary Borrowing...



ADB POLICY-BASED LOANS

Rationale of the Policy Based Loan(s)

1. **Funding:** To provide resources to support essential government operations and mitigation programs targeted toward individuals and businesses affected by COVID-19
2. **Public Financial Management Reform:** To support Palau's implementation of reforms that align fiscal operations with a fiscal responsibility framework during and after COVID-19
3. **Pro-Growth Reform:** To support Palau's implementation of regulatory and institutional reforms to enhance private sector growth during and after COVID-19



I. Extraordinary Borrowing... cont'd



ADB POLICY-BASED LOANS

Summary of the policy reform framework:

- A. **PFM Reform**—Principles and Process
 - ★ Fiscal Responsibility and Debt Management Act (FRDMA) specifies key principles and reporting requirements for fiscal operations
 - ★ Fiscal Strategy indicates current fiscal policy and reports status relative to each FRA principle
- B. **PFM Reform**—Action items related to each FRA principle
- C. **Pro-Growth Reform**—regulatory and institutional reforms to enhance private sector growth



Why Tax Reform



- ▶ **The current system is outdated, inefficient and unfair**
 - ★ Tourism economy begs for a change from the current tax mix
 - ★ Taxes have not been rising with economic growth
 - ★ Total tax burden not distributed fairly
- ▶ **Principles of a Good Tax System**
 - ★ Costs of administration and compliance kept low
 - ★ Economic inefficiencies/distortions minimized
 - ★ Easy for taxpayers to comply... but, hard to avoid compliance
- ▶ **BGRT has been hard on low-margin, start-up and capital-intensive businesses—but BGRT has never really been a business tax**
- ▶ **Business sector should pay a fair share (~3% of GDP)**





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QUESTIONS?



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