



Republic  
of Palau

November 2021

# Economic Symposium Alternative Development Paths & Fiscal Implications



# Outline

1. Recent Economic Performance
2. COVID-19 Impact on Employment & Households
3. Tourism Performance & Fiscal Outcomes
4. A Stylized Economic Model: Illustrating Two Plausible Paths
  - Economic Growth Implications
  - Fiscal Implications
5. Decisions, decisions ...





# 1. Recent Economic Performance



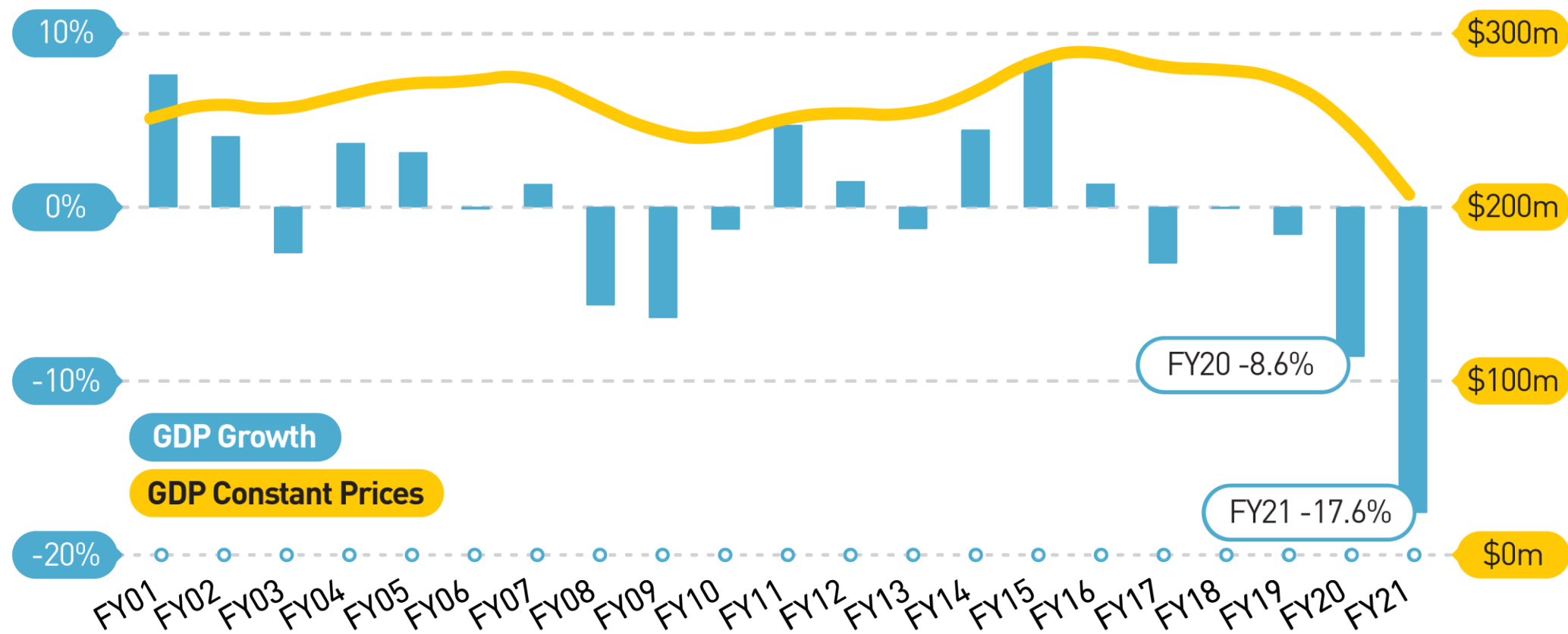
# Recent Economic Performance

- Palau's economic growth has been **modest** in aggregate and **volatile** on a year-by-year basis from FY2000 – FY2019
  - ▶ Average growth over the period = 0.6% annually
  - ▶ Main drivers of growth have been tourism and construction
- During the COVID-19 pandemic period FY2020–FY2021 the **economy declined by 25%**
  - ▶ FY2020 decline of 8.6%
  - ▶ FY2021 decline of a further 17.6%



# Real GDP Annual Growth

► Palau economy fell by 8.6% in FY20 and a further 17.6% in FY21



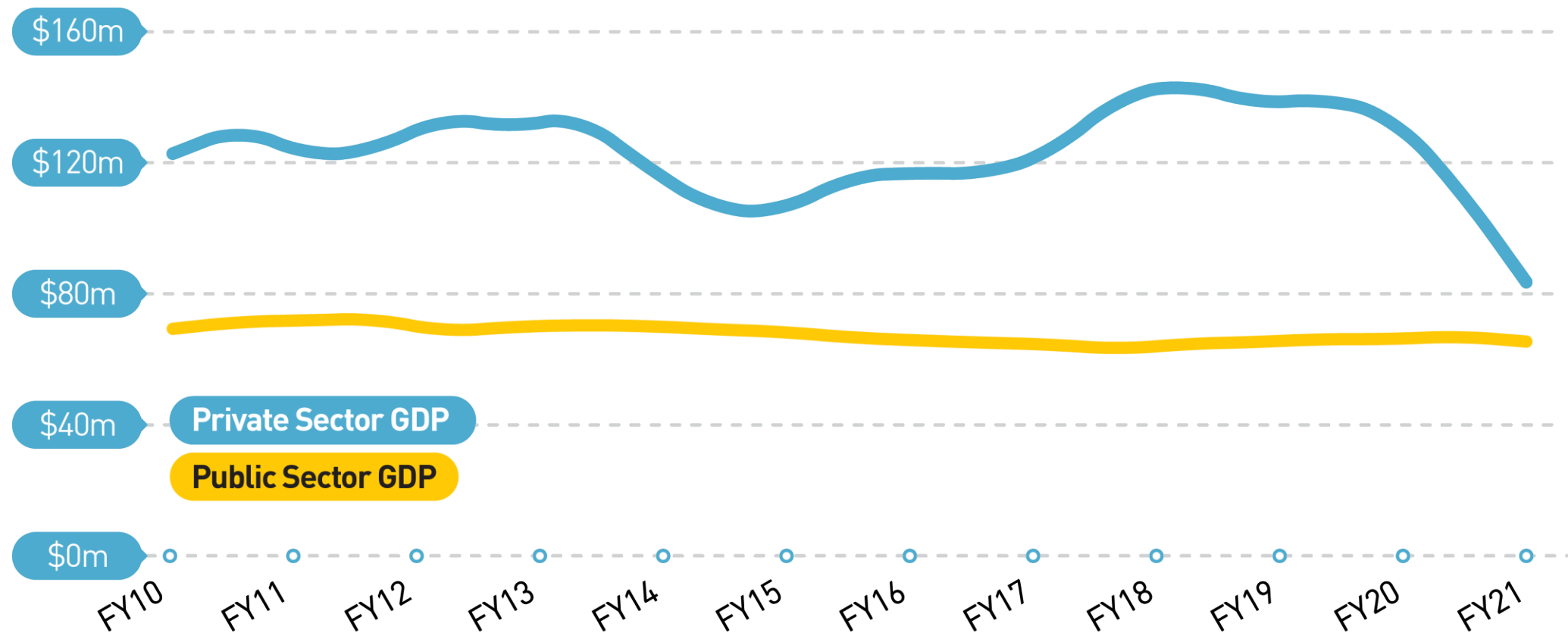
# Private Sector GDP Shock

- The private sector has absorbed the largest share of the negative impact of COVID-19
  - ▶ Decline of 17% in FY2020
  - ▶ Decline of a further 26% in FY2021
  - ▶ Total decline of **-38%**
- Public Sector contribution to GDP has been **steady** even through COVID-19



# Private and Public Sector GDP

► Private sector performance has been volatile and bore the brunt of COVID





## 2. COVID-19 Impact on Employment & Households





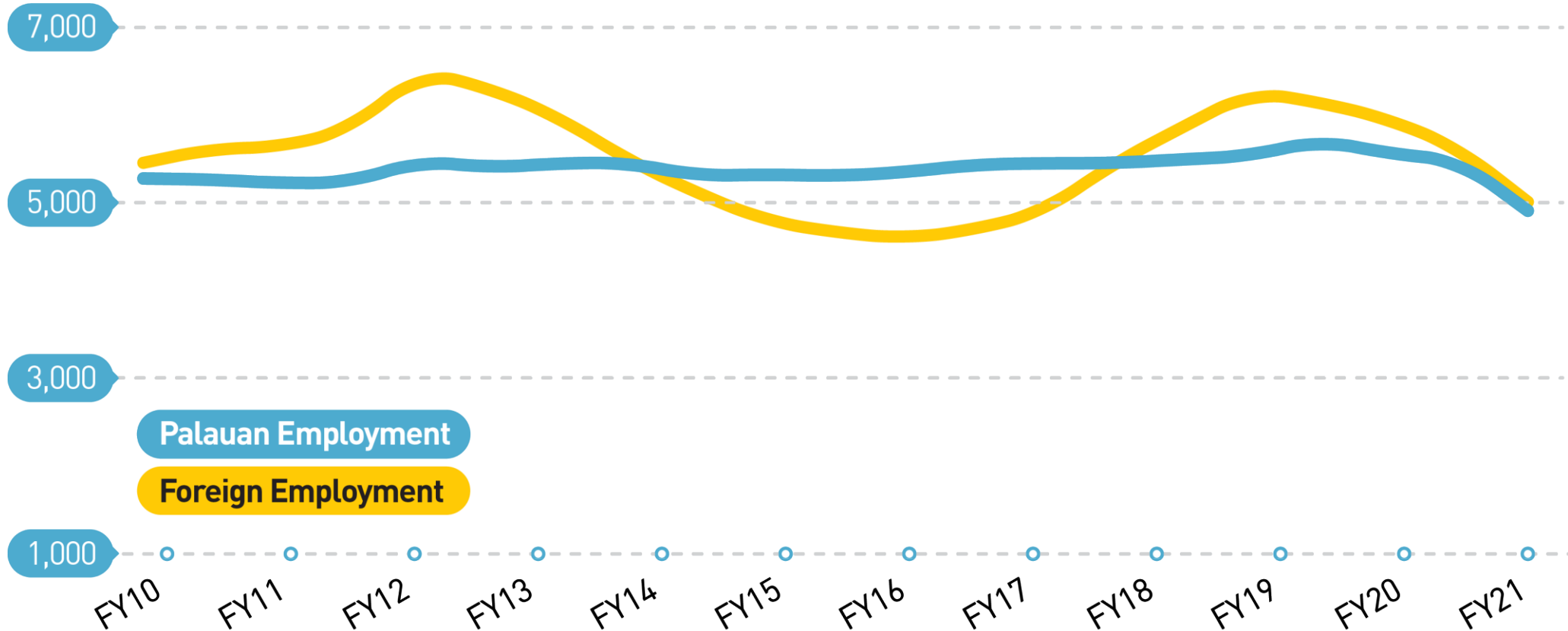
# COVID-19 Impact on Employment & Households

- Early projections of job loss exceeded 3,100
  - ▶ Decline of 27% of labor force
- Recent projections of job loss now under 1,500 (or less)
  - ▶ Decline of 12.9%
- Despite protections offered—the bulk of the impact fell upon foreign workers



# Employment (Palauan and Foreign)

► Palauan employment stable until FY20 with collapse in tourism sector.



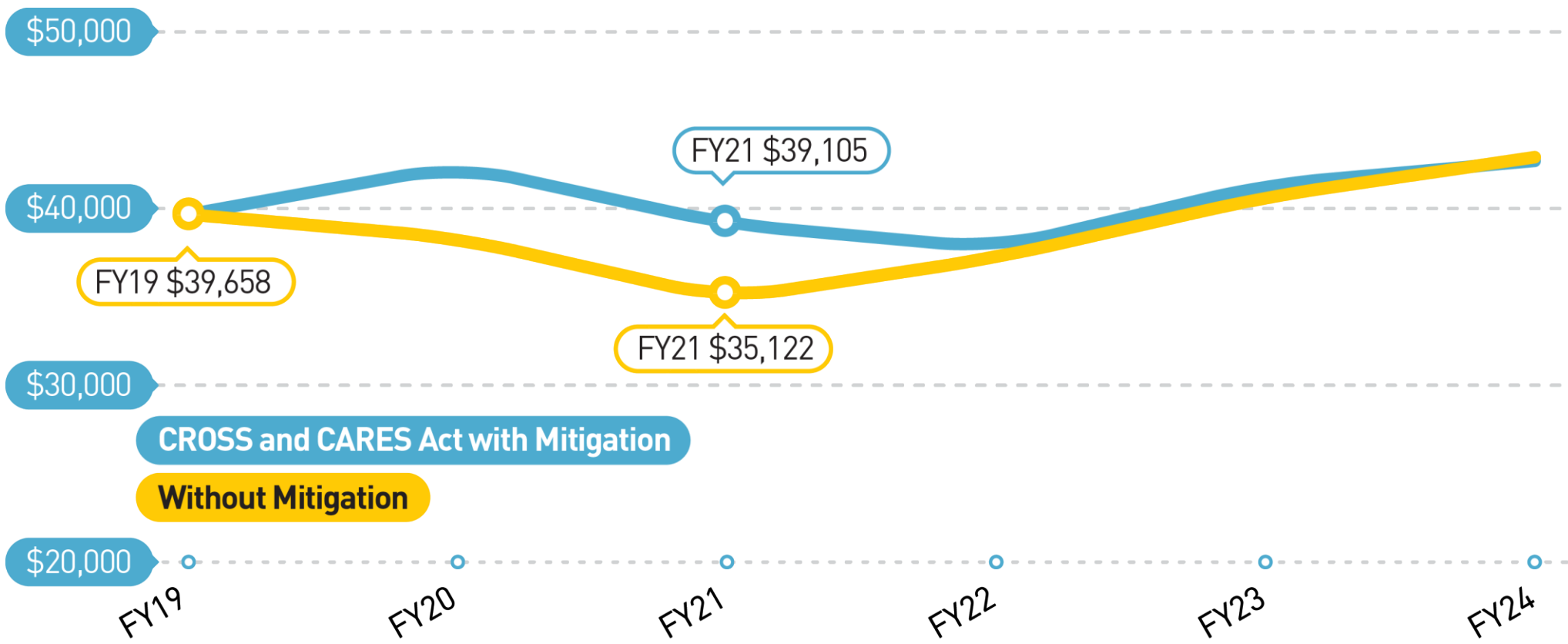
# Mitigation Programs Successful

- Mitigation programs have had a large beneficial impact on household incomes
  - ▶ Household incomes declined 6% from FY2019 – FY2021
  - ▶ Absent mitigation the decline would have been nearly double at 11%



# Impact of Mitigation on Households

► FY19-FY22 – Household incomes fall: -6% with mitigation; -11% without.





# 3. Tourism Performance & Fiscal Outcomes



# Tourism Sector Performance

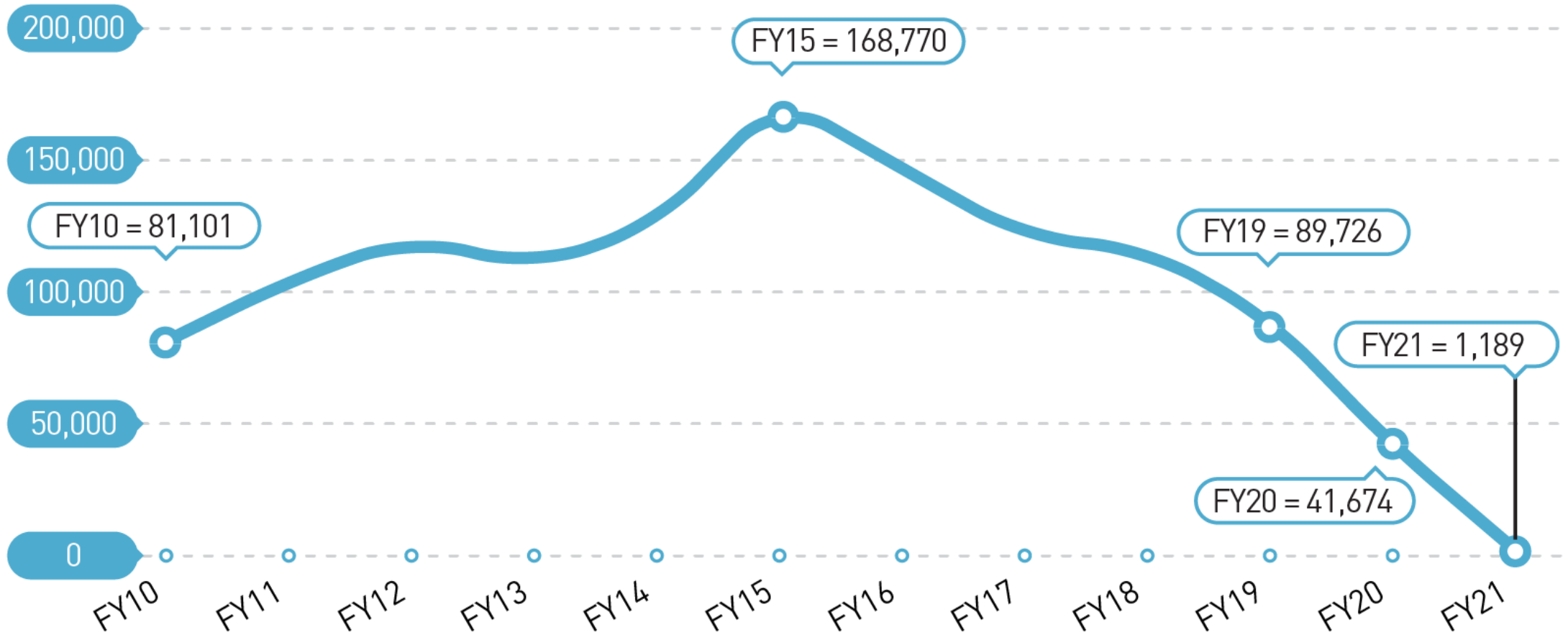
- Palau's tourism sector has experienced a volatile and **illustrative journey**
- Palau's tourism sector recovery and subsequent growth path can and will be influenced by **policy and planning choices**

**But first, let's look backwards ►►**



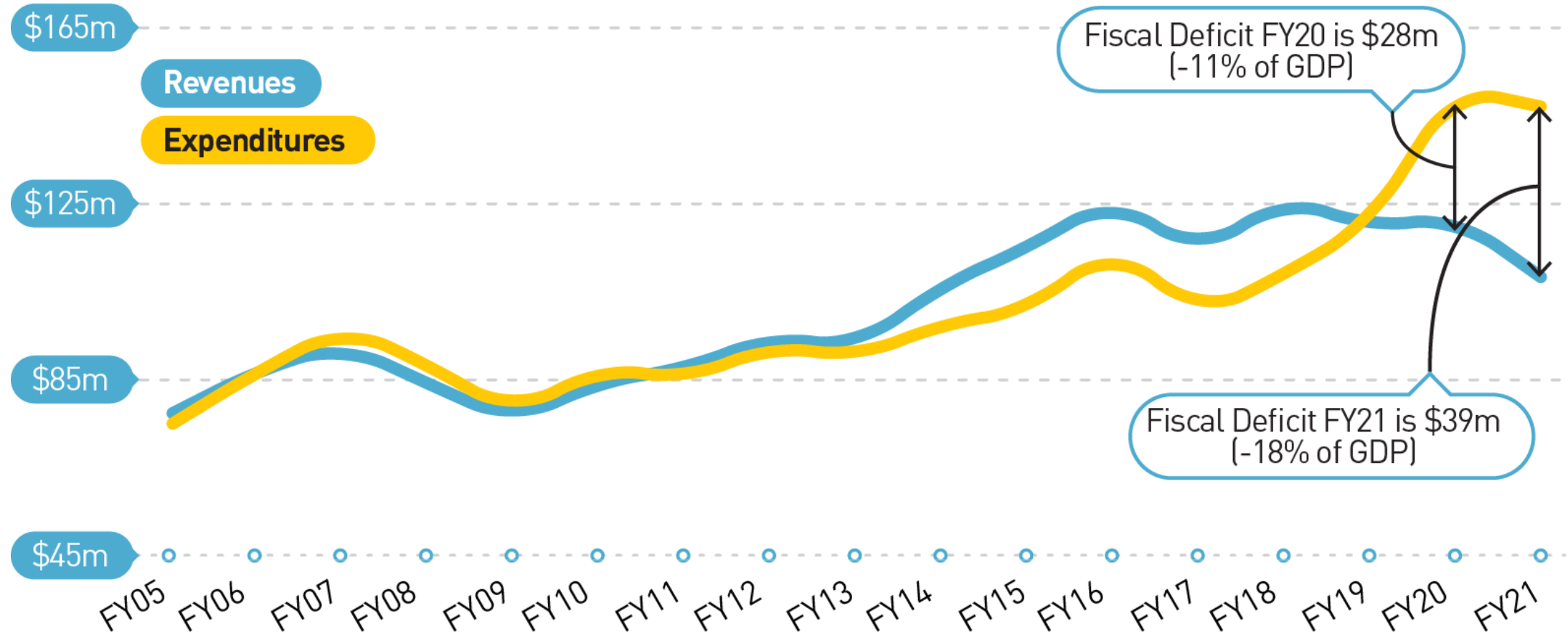
# Visitor Arrivals

► After peaking in FY15, arrivals decline to 9 in FY21 with impact of COVID.



# Government Revenues and Expenses

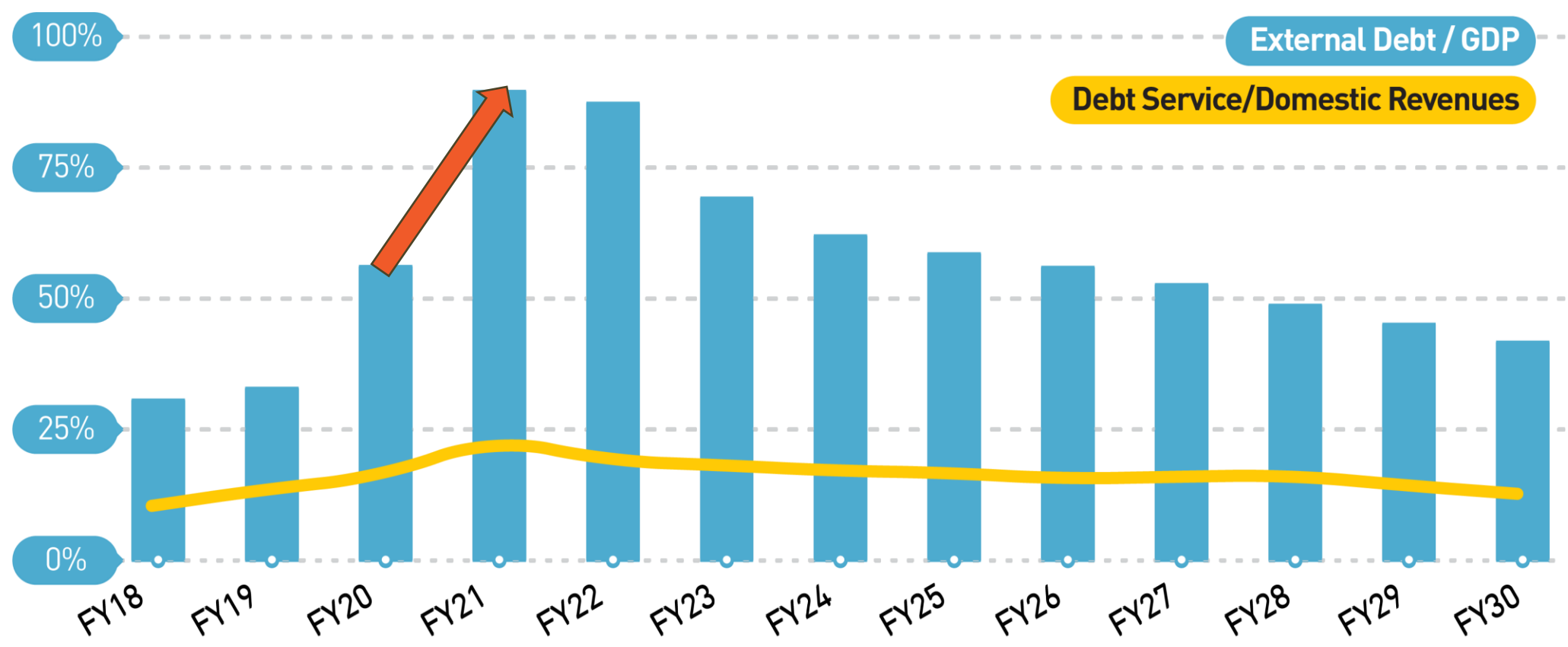
► Palau generated large fiscal surpluses, but ran large deficits with COVID.





# External Debt and Service (% GDP)

► External debt rises to alarming heights due to COVID financing.



## 4. A Stylized Economic Model to Illustrate Two Plausible Paths

# Imagine the Following

Future tourism path under a “**Getting it Right**” scenario:

- ▶ Palau’s Policy, Planning and Regulatory Regime is successful in influencing tourism sector growth in line with aspirations to attract “high-value” tourists while protecting the environment.
- ▶ Pristine Palau is preserved.

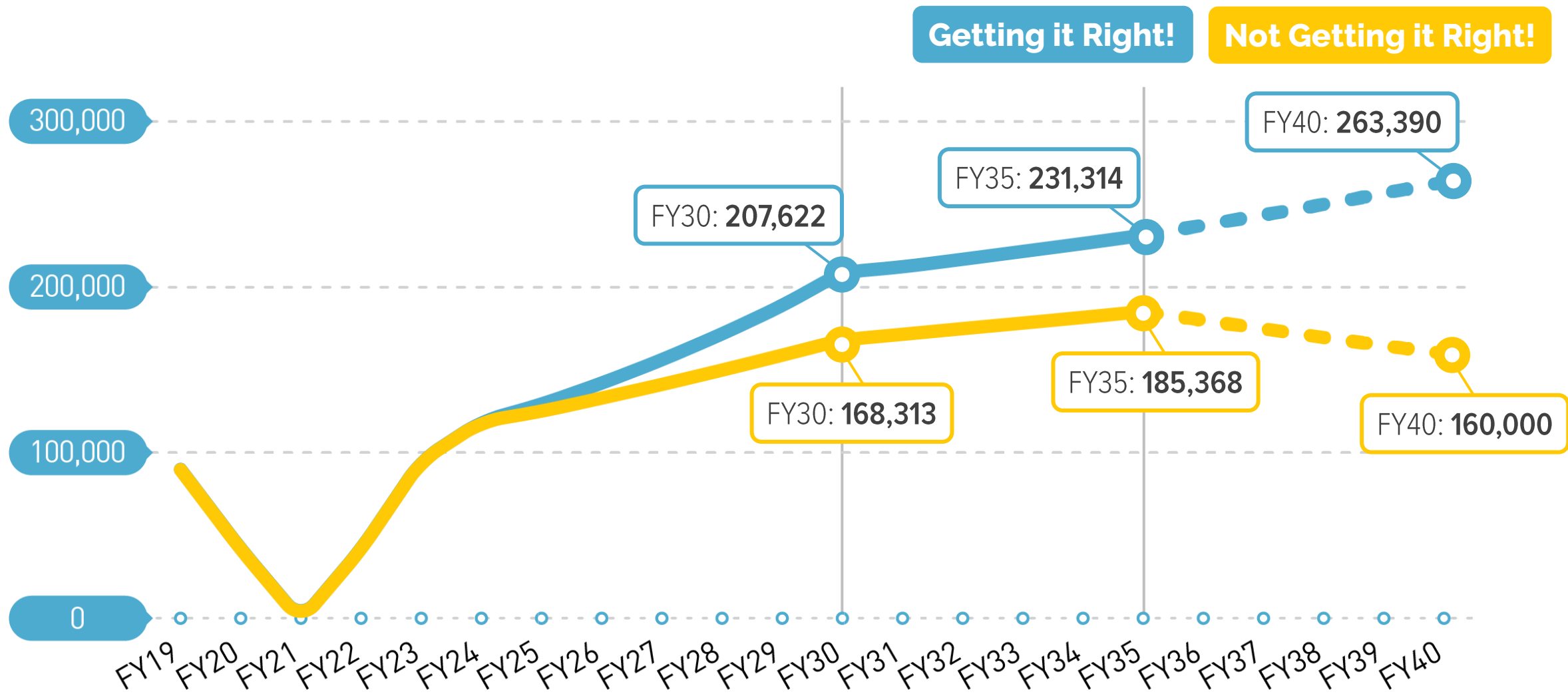
Future tourism path under a “**Not Getting it Right**” scenario:

- ▶ Palau’s Policy, Planning and Regulatory Regime fails to significantly influence tourism sector growth.
- ▶ Low end tourism predominates, sustainability is not achieved, and Palau’s carrying-capacity is exceeded.
- ▶ Pristine Palau is not preserved.

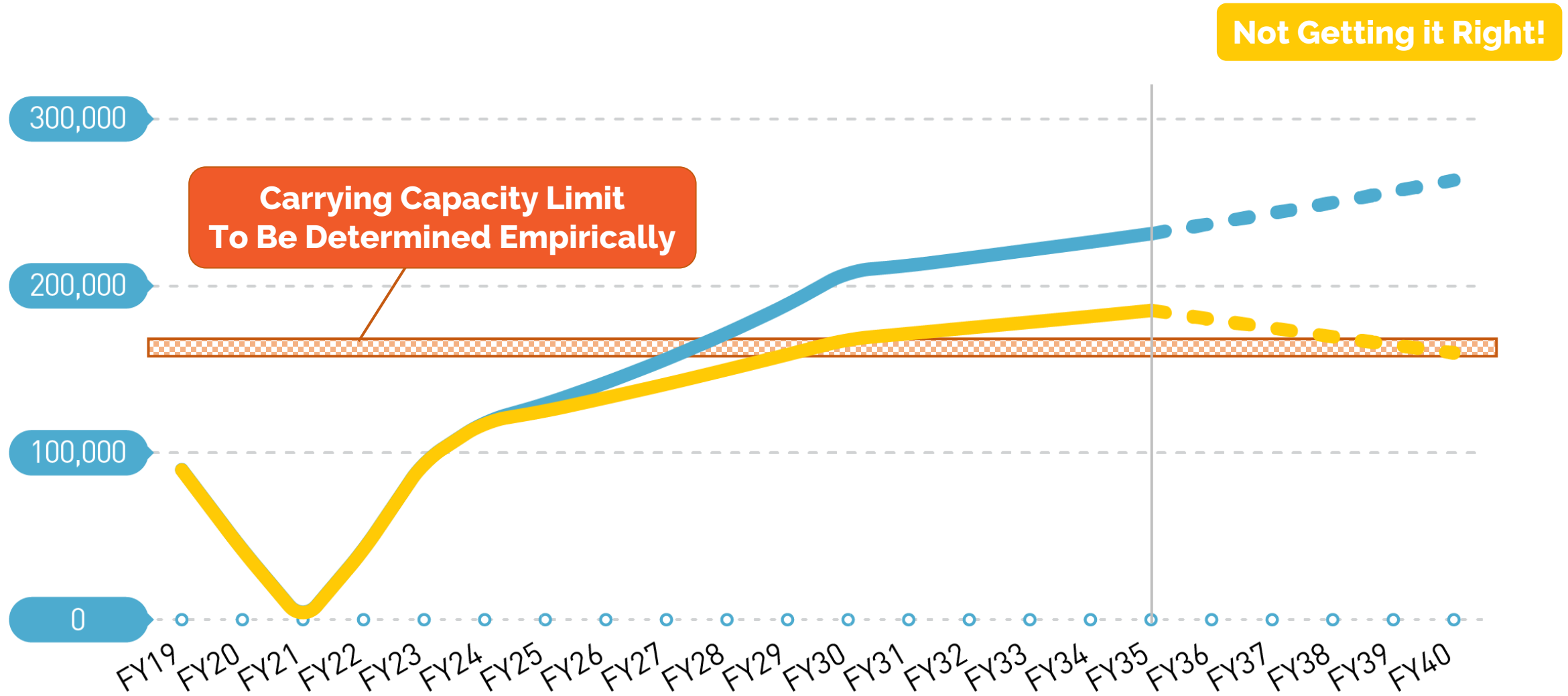
**So, let's look forward ►►**



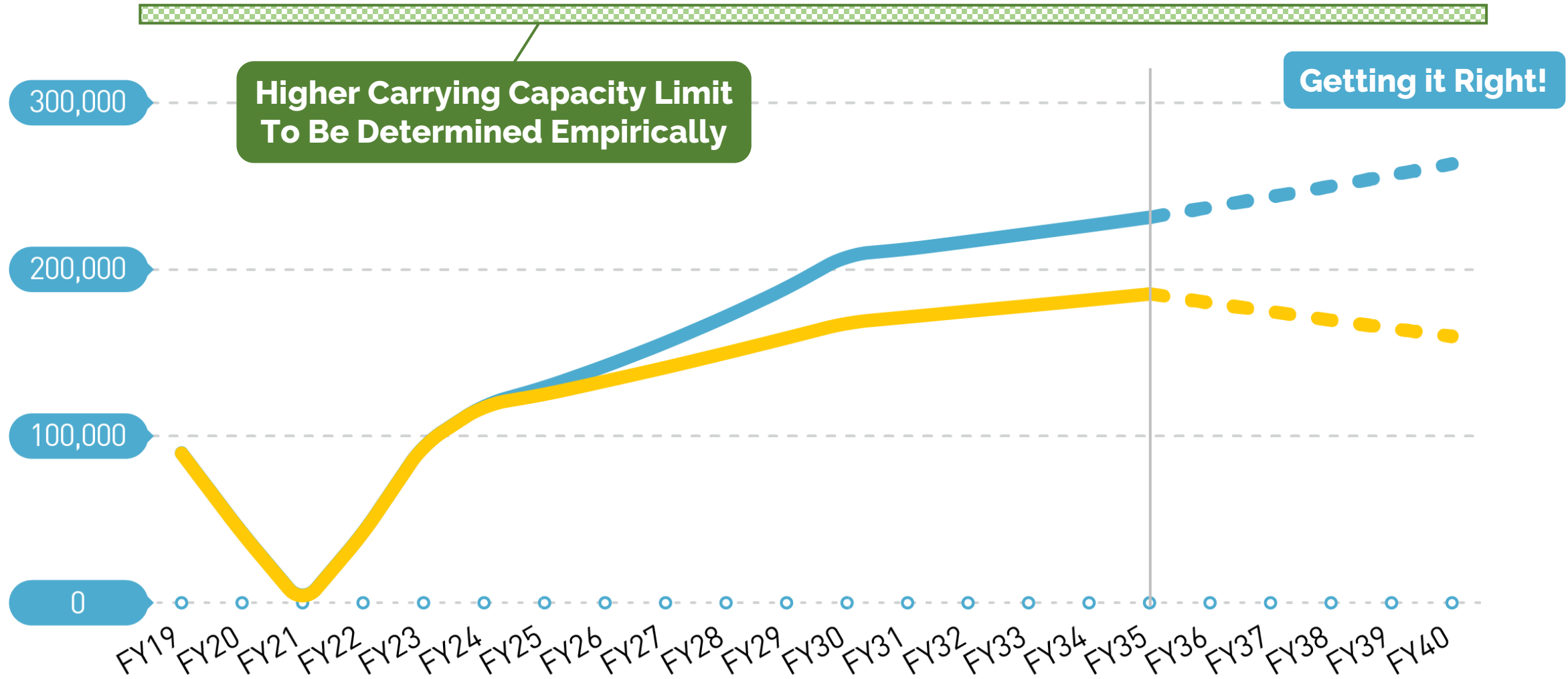
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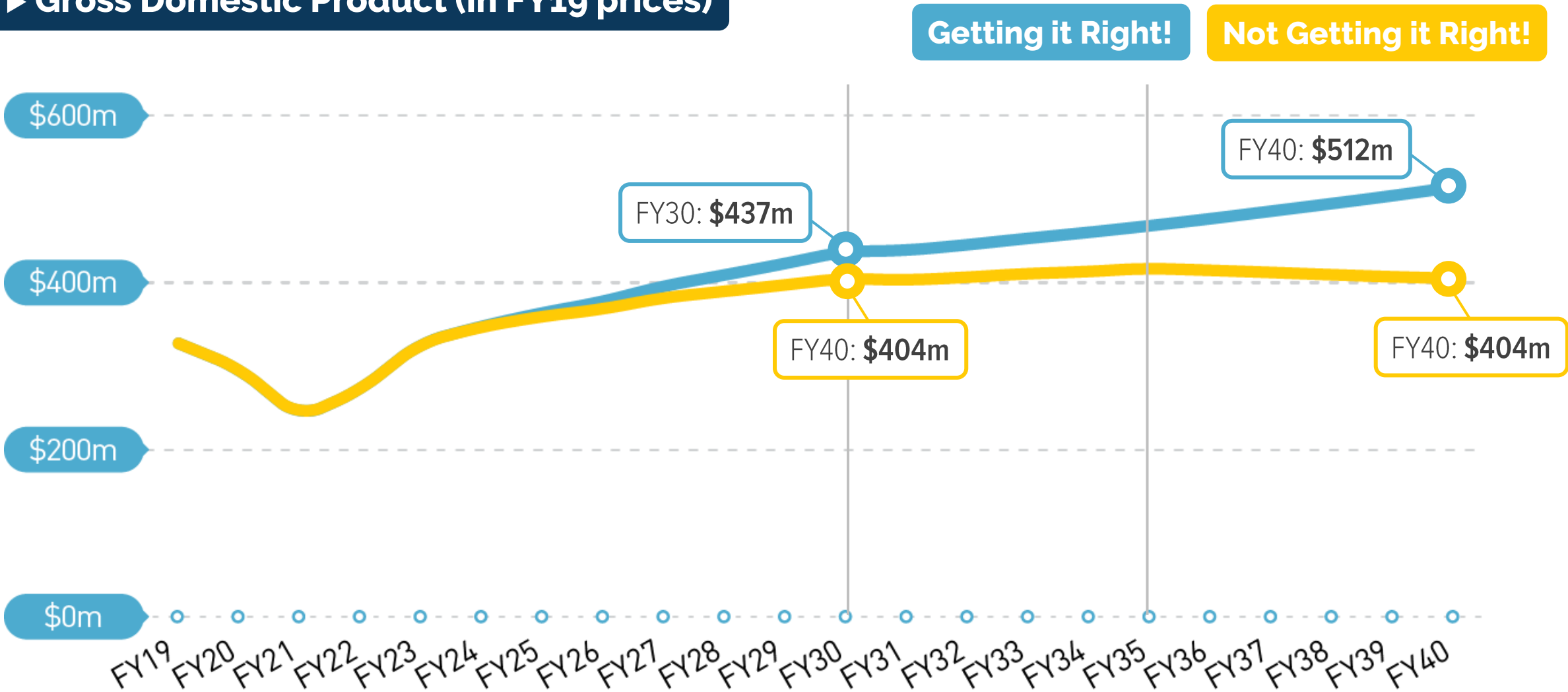


# Visitor Arrivals

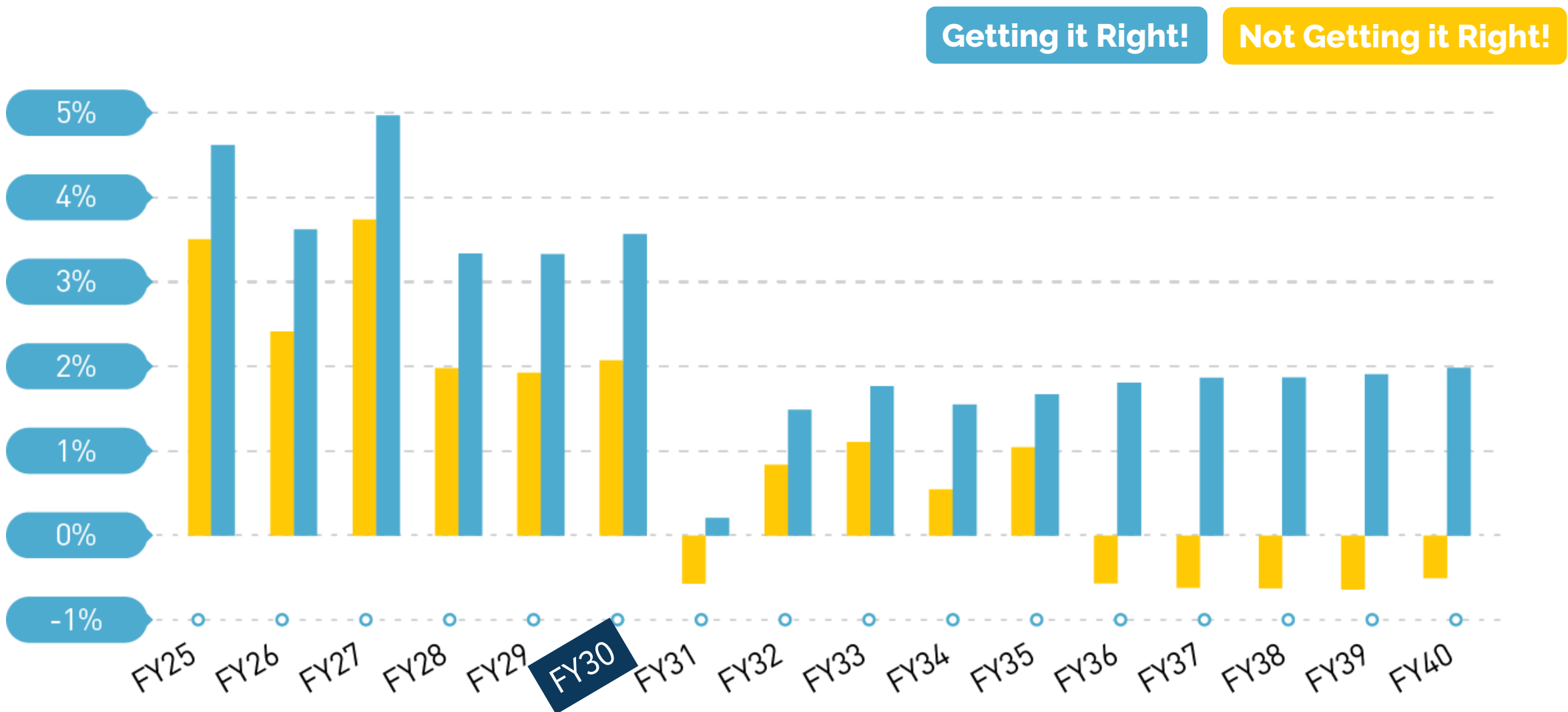


# GDP

► Gross Domestic Product (in FY19 prices)

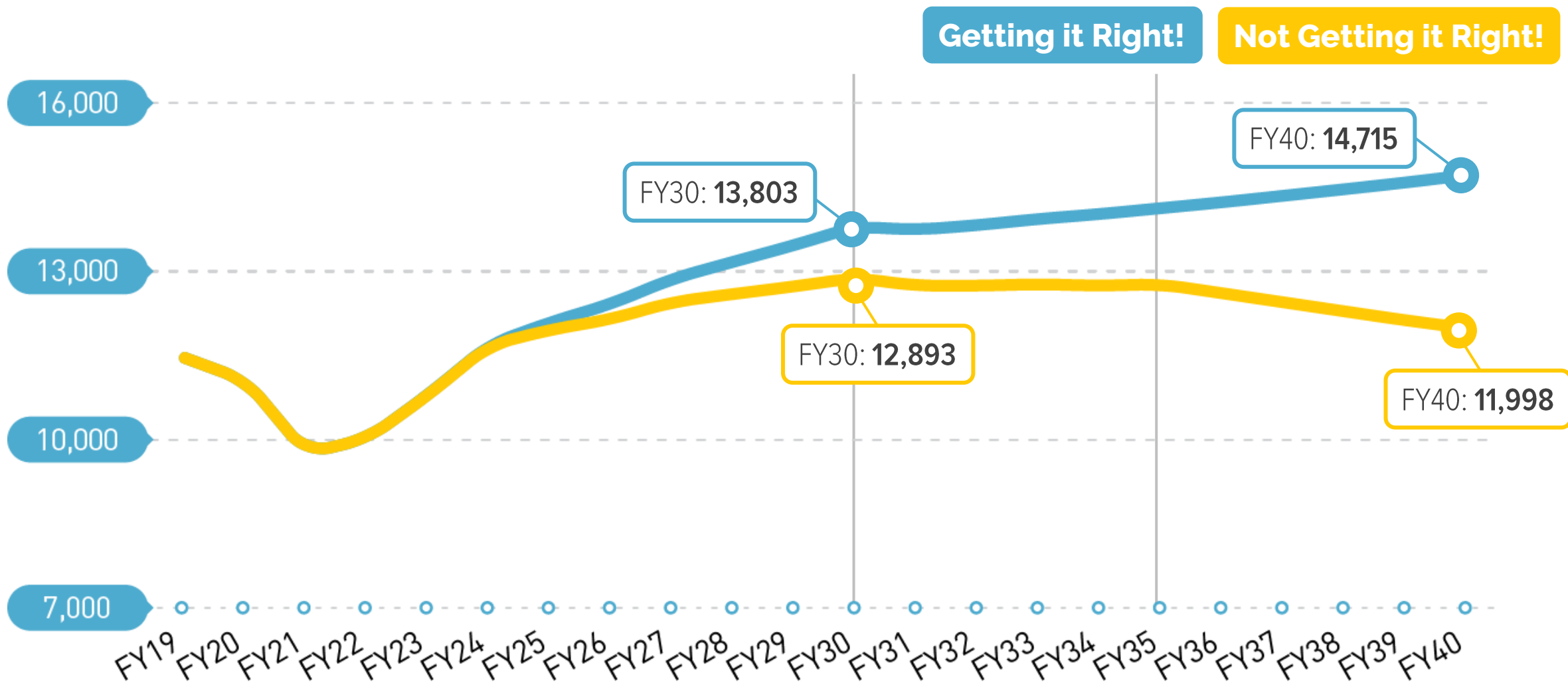


# GDP Growth

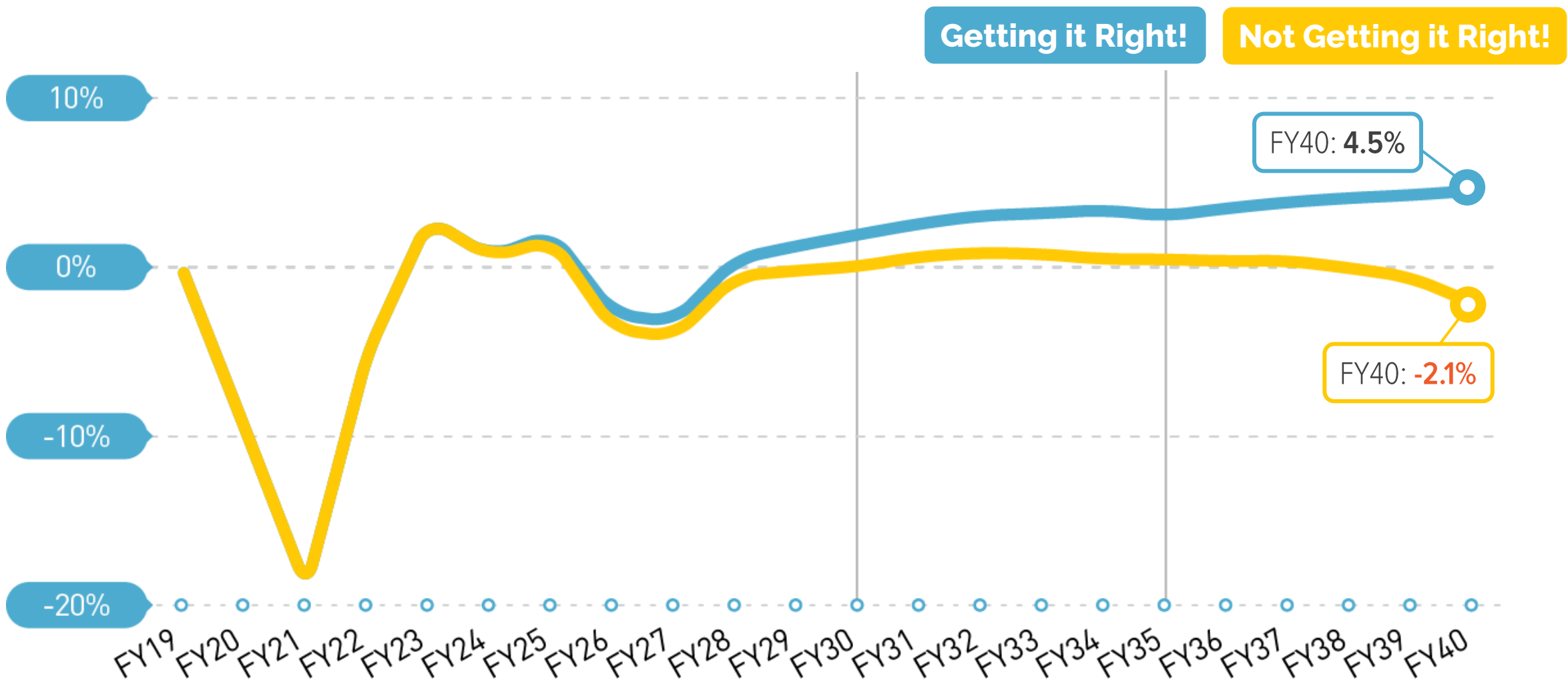




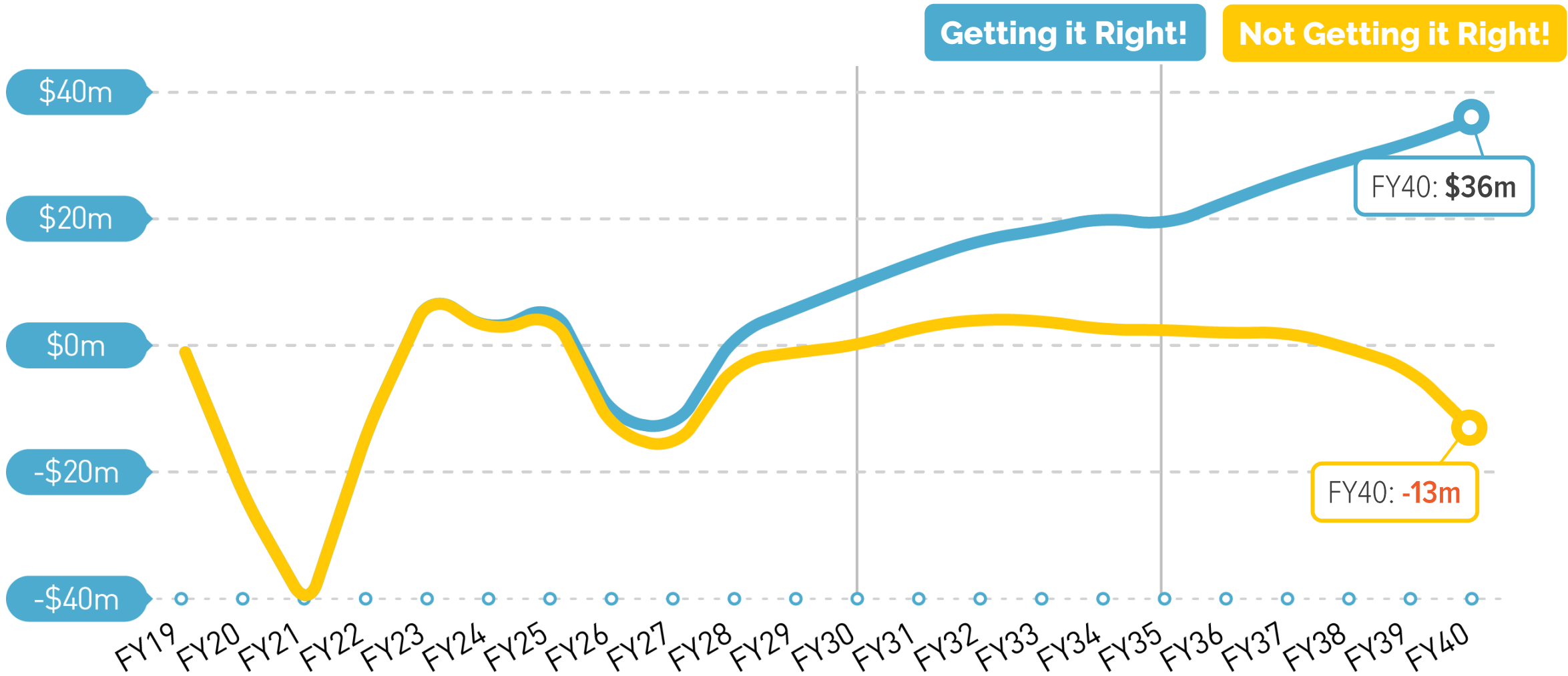
# Employment



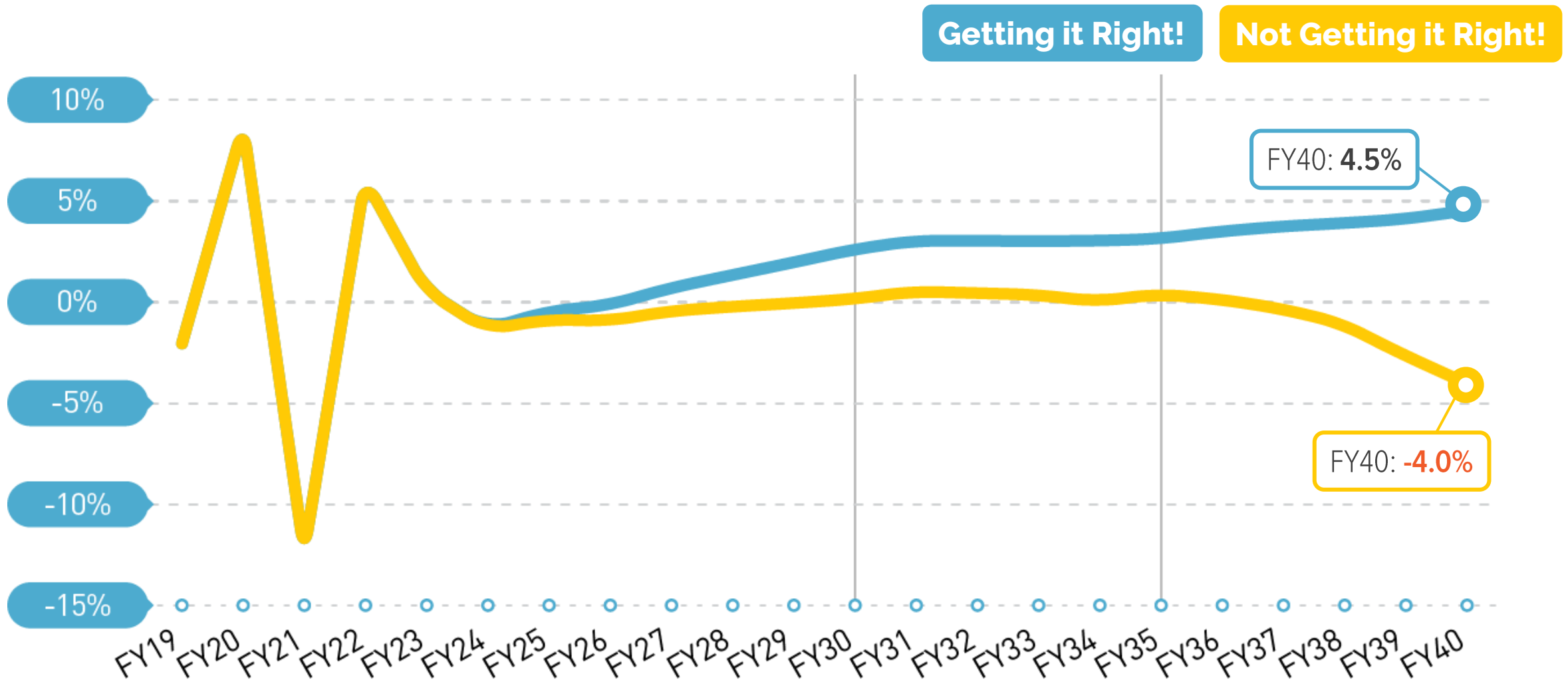
# Fiscal Balance as % of GDP



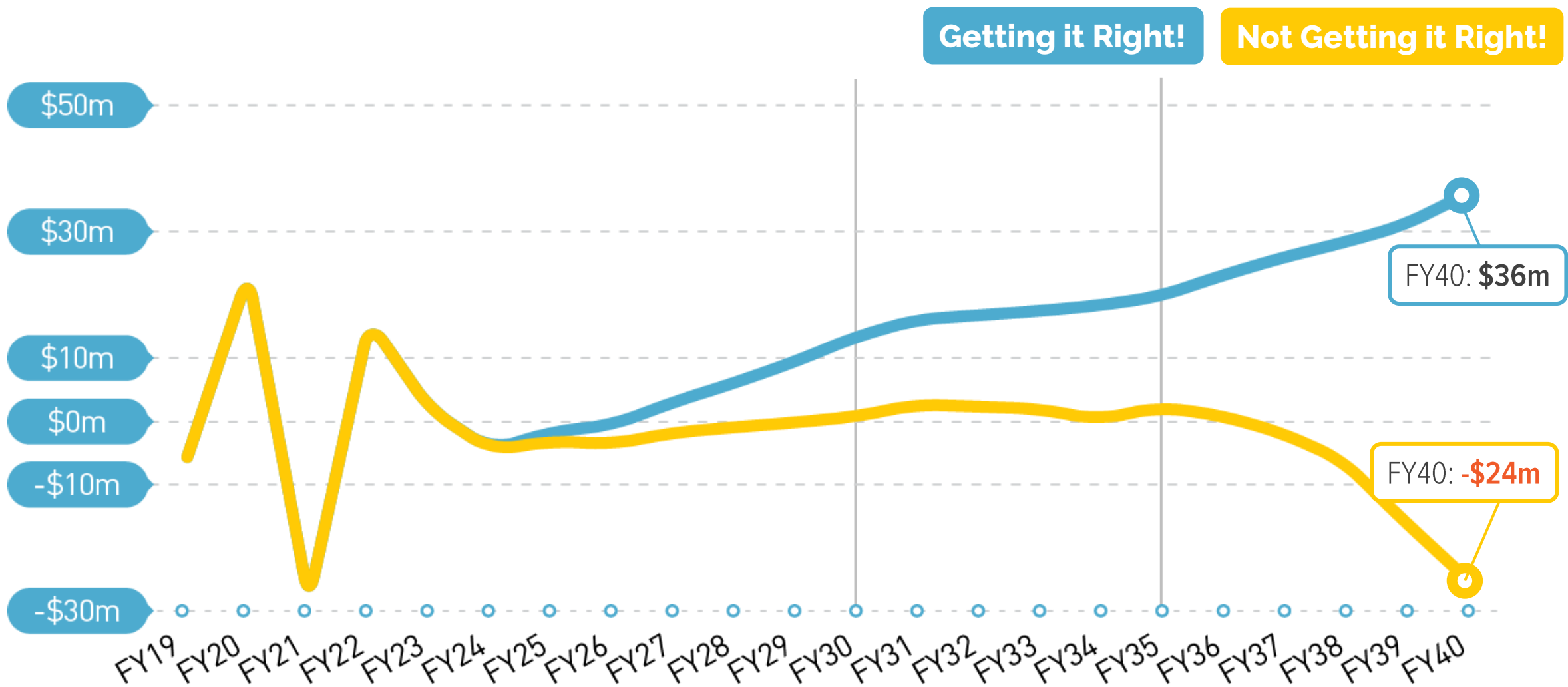
# Fiscal Balance ( \$US millions)



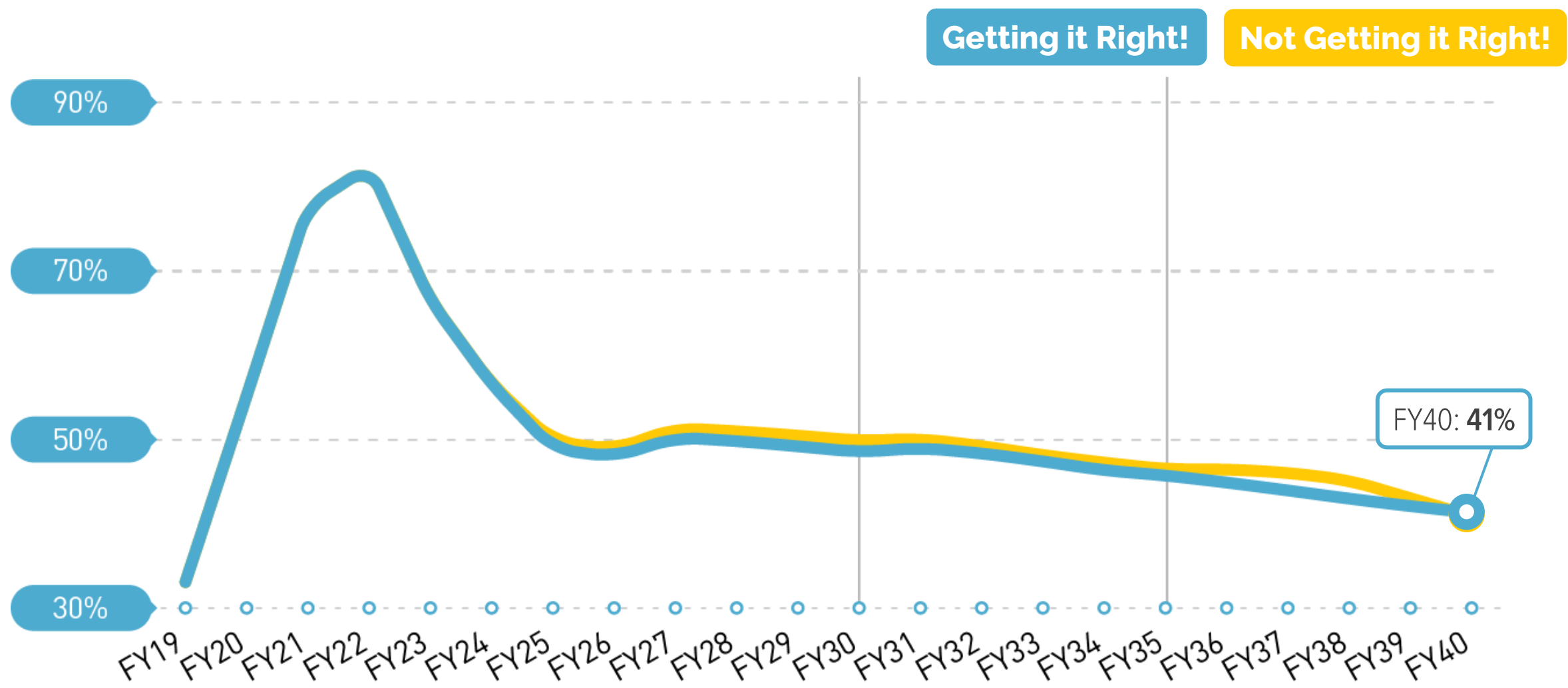
# Cash Balances as % of GDP



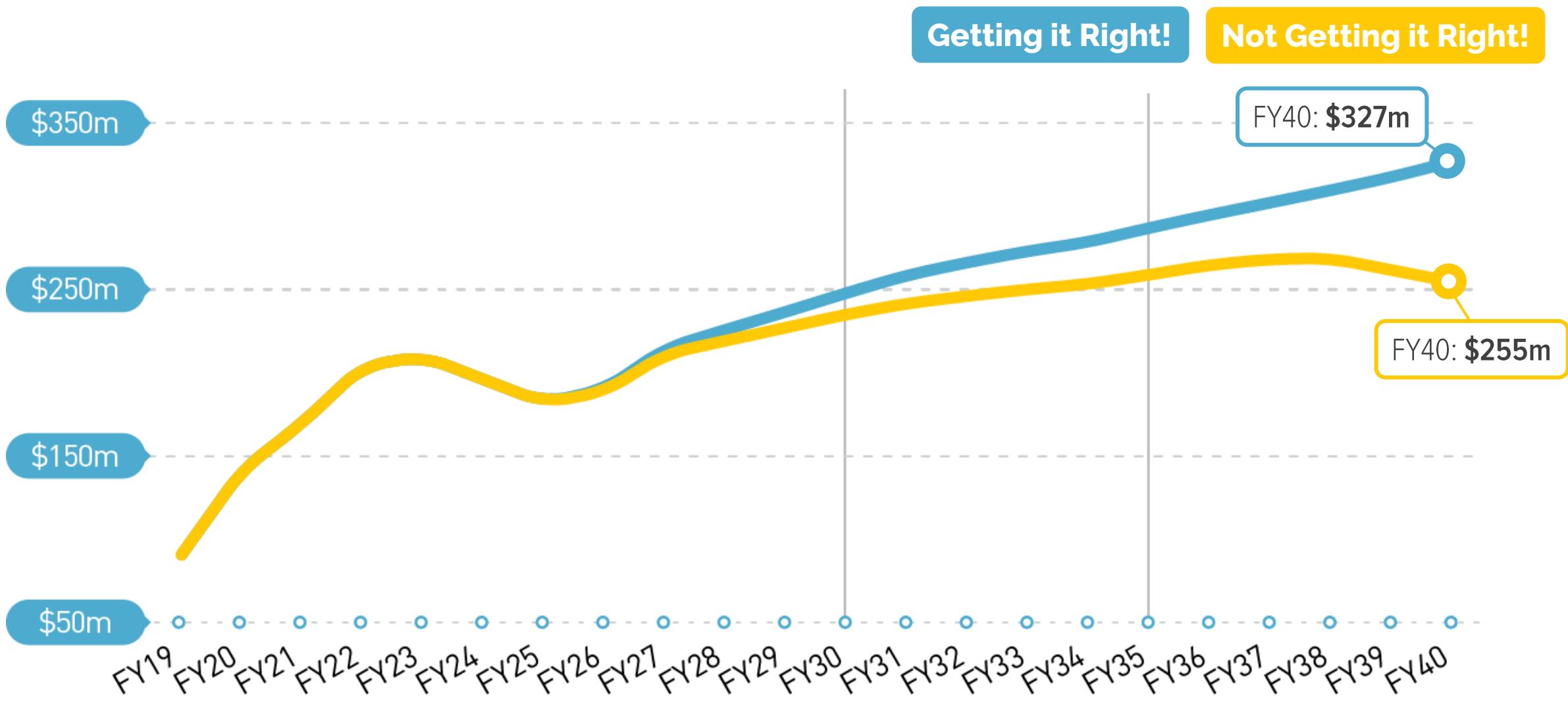
# Cash Balances (\$US millions)



# External Debt as % of GDP



# External Debt (\$US millions)





A coconut with a green sprout growing from it, resting on a sandy beach with the ocean in the background. The sprout is long and thin, with several green leaves at the top. The text is overlaid on the right side of the image.

**to NOT decide...  
...is to decide.**



# High-Level Ingredients to “Getting it Right”

The ingredients are easy to describe and hard to implement. Hard decisions will need to be made.

## ► Step-by-Step:

1. Complete assessment of Palau's tourism sector **regulatory regime**.
2. Strengthen **public-private partnership** institution(s) to:
  - improve transparency and trust and identify mis-matches between current trends and aspirational goals;
  - keep culture, gender and community benefit concerns atop the agenda;
  - improve complementarity of public investments and requirements of the economy;



# High-Level Ingredients to “Getting it Right”

## ► Step-by-Step: Continued

3. Strengthen efforts to **empirically determine carrying-capacity**:
  - study and project the impact of tourists by various segments;
  - study and pilot test pricing and restriction regimes to ration access to valuable environmental assets;
  - tax, regulate and incentivize to achieve demand-side & supply-side goals.
4. Refine and re-focus **Palau's Tourism Strategy**
5. Commission and phase-in enforcement of a **Palau Tourism Master Plan** consistent with the strategy and the vision widely supported by the people of Palau.





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**QUESTIONS?**