

The Need to Relieve Palau's COVID-19 Debt

Despite significant volatility in economic output and revenue, the freely associated state of Palau has rarely run deficits. From Fiscal Years 2015 to 2019, it averaged surpluses of four percent of GDP. With its private sector-driven economy reliant upon tourism, the COVID-19 pandemic on top of China banning visits, has had an extremely adverse impact on Palau's economy and revenue. During the past three years, GDP has plummeted 28% and deficits have averaged 12.7% of GDP.

Palau, however, is the only U.S.-affiliated jurisdiction that did not receive grants for COVID-19 revenue losses, forcing it to borrow instead. The U.S. Government gave grants to U.S. States, territories, tribal nations, and others. The World Bank and the Asian Development Bank (ADB) did the same for the U.S.' two other freely associated states. It did not for Palau because of Palau's pre-COVID economy, forcing Palau to borrow \$60 million so far. It will have to borrow at least \$30 million more to get through FY2023. Further loans will be needed, however, if tourism does not recover by mid-FY23.

Palau Debt Stress Resulting from the COVID-19 Pandemic

	Pre-COVID	COVID Peak (FY22)
Total debt	FY19 = \$87 million	\$190 million
of which: Covid-response debt (ADB)	--	\$ 90 million*
Total debt as % of GDP	5-Year Avg (FY15-19) 28%	92%
Gov't debt service as % of general revenues	5-Year Avg (FY15-19) 6%	14%

*Net of non-COVID borrowing (\$13m: FY20-22) for infrastructure to be paid by state-owned enterprises.

Palau borrowed as little as it could to prevent massive unemployment and a sharp reduction in disposable income. Economists consider such borrowing justifiable in a cyclical fiscal crisis, but the debt will have long-lasting negative impacts on the islands' economy and budget. If no debt relief is provided, Palau's people will suffer from reduced government services and programs and its economy will suffer from that and a reduced ability to meet infrastructure needs.

Palau needs \$90 million in COVID debt relief

*This material is distributed by Akin Gump Strauss Hauer & Feld on behalf of the Republic of Palau.
Additional information is on file with the Department of Justice, Washington, DC.*

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