

Palau: The Need for COVID Debt Relief

- ***Palau and the United States have a unique “free association” relationship under which the U.S. exercises sovereignty over Palau’s land, water and air.*** Palau is essentially considered part of the American political family given its role in U.S. national security. Located within range of China, the Department of Defense is building a high-frequency radar system in Palau and expanding aircraft landing strips. Senior military officials say that U.S. presence in Palau is now more geopolitically important than ever.
- ***Palau has rarely run deficits.*** With a private sector-driven economy propelled by tourism, Palau averaged surpluses of four percent of GDP from Fiscal Years 2015 to 2019.
- ***The impact of COVID was devastating to Palau’s economy.*** Tourism losses, which came on the heels of [an abrupt Chinese ban on tourism when Palau refused to end its recognition of Taiwan](#) in late 2017, resulted in a 30.1% contraction in Palau’s economy.
- ***Palau the only U.S.-affiliated jurisdiction to have to take loans for COVID revenue losses instead of receiving grants.***
 - The Federal government gave direct budget support in the form of grants to States, Washington D.C., territories, tribes, counties, and cities to compensate for revenue losses due to COVID economic shut-downs in the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan (ARP).
 - The Asian Development Bank (ADB) fulfilled that role for the three nations with unique “free association” relationship with the U.S. Two of the Freely Associated States also received grants. Palau, however, qualified only for loans given its historically strong economy – pre-COVID. *The ADB’s actions were based on an outdated picture of Palau’s economy.*
 - Palau was included in unemployment relief in U.S. COVID legislation and eligible for funding as part of the [Coronavirus Capital Projects Fund](#), run by the Treasury Department.
- ***The impact of Palau borrowing has been severe.***
 - The shrinkage in Palau’s economy is reflected in the Palau government’s revenue. Despite enacting budget cuts and revenue increases, Palau has had to borrow \$90 million over three years from the ADB.
 - With other borrowing, Palau’s debt has ballooned from \$105,230 in FY19 to \$233,325 in FY22. Palau is facing having to borrow more in FY23 and the ADB has already approved another loan for government operations of \$20 million.
 - Debt service has skyrocketed from three percent of revenue in FY15 to a projected 20% in FY23. The ADB COVID loans are equal to 44% of Palau’s GDP and total debt has grown from 23% of GDP to 95%.
- ***Last year, the U.S. Senate agreed to help our strong ally and provided \$20 million in the State, Foreign Operations, and Related Programs (SFOPs) FY23 bill and related report language,*** but the assistance was left out of the final law. Since then, Palau’s need for relief has only increased.