ANZ Research

Pacific Insight

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Prepare for zero tourists for the next three months at least

COVID-19 pandemic has now spread to most parts of the globe. More and more countries are shutting their borders and going into a lockdown to slow the spread. Together, it has brought global tourism to a standstill.

We have recalibrated our model to determine how zero overseas arrivals over the next three months and a slow pick-up in H2 2020 will impact the major tourism economies of the Pacific islands, including Fiji, Vanuatu, Samoa, Cook Islands and to a lesser extent Tonga. We have also incorporated, for the first time, the loss of income from fewer cruise ship calls.

A summary of the economic impact and the likely rescue package needed along with funding options is provided below.

- **The economic impact**. Fiji now stands to lose nearly 602k visitors by air this year (-67% y/y). This translates into a FJD1.4bn loss in tourism receipts which will subtract 12ppt from nominal GDP. Vanuatu's economy is expected to decline (-13.5%), as are Samoa (-18.7%), Cook Islands (-60.4%) and Tonga (-7.9%) (Figure 1).
- **Rescue package**. With decisive, targeted, right-sized and timely fiscal and monetary stimuli, policy makers can limit the damage. Governments are likely to need a fiscal stimulus of at least 10% of GDP, although the Cook Islands will need something closer to 50%. With the stimulus spend, GDP and employment contraction can be limited to the -2% to -3% range, as opposed to double-digit declines without the additional support. Monetary stimulus, in the form of cheap central bank loans to businesses willing to undertake capex, could also be explored.
- **Funding options**. We believe governments have some headroom to borrow more from the domestic market. Superfunds could absorb some of the government security issuances, and shortfalls can be underwritten by the central bank. Governments could also approach the IMF, WB and the ADB for concessional budget support loans or a share of the emergency financing they made available following the onset of COVID-19.

Figure 1. COVID-19 tourism and economic impact

Countries with significant tourism exposure	Forecast change in key economic variables					
	Air arrivals				Cruise ship passengers	
	Count (000s)	Tourism exports (millions)	Gross output (sales, millions)	GDP (ppts change, current prices)	Count (000s)	Tourism exports (millions)
Fiji	-601.7	-1,397.7	-3,843.8	-12.0	-143.1	-10.3
Vanuatu	-84.2	-14,403.5	-38,457.2	-13.5	-167.8	1,265.4
Cook Islands	-141.1	-316.3	-774.9	-60.4	n.f.	n.f.
Samoa	-146.9	-429.8	-1,182.0	-18.7	n.f.	n.f.
Tonga	-34.3	-102.1	-260.4	-7.9	-14.4	-1.2

All figures are in local currency
n.f. not forecast because of gaps in historical data

Source: ANZ Research

We will monitor risks. If the threat eases or prolongs, we will update our view.

COVID-19 pandemic and the decline of Pacific islands' GDP

There is little doubt now that the need for social distancing to fight the coronavirus pandemic has forced leisure activity, including international tourism, to a shuddering halt for the next three months at least. This means that the tourism dependent economies of Fiji, Samoa, Cook Islands, Vanuatu and to a lesser extent Tonga will experience a major recession this year. Fiji's tourism earnings totalled FJD2bn (17.2% of GDP) in 2019, Samoa received SAT528m (23%), Vanuatu VUV21bn (19.3%), Cook Islands NZD384m (73.3%) and Tonga TOP135m (10.4%).

We have recalibrated our model to determine how zero overseas arrivals over the next three months and a slow pick-up in H2 2020 will impact the economies of Fiji, Vanuatu, Samoa, Cook Islands and Tonga.

We now predict nearly 602k visitors won't be coming to **Fiji** this year. For **Vanuatu**, **Cook Islands**, **Samoa** and **Tonga,** we estimate visitor arrivals could decline -84.2k, -141.1k, -146.9k and -34.3k, respectively, in 2020 (Figure 2). Our analysis revealed that Fiji stands to lose FJD1.4bn in tourism exports and FJD3.8bn in gross output. This will subtract 12ppt from nominal GDP. Vanuatu's economy is expected to decline (-13.5%), as will Samoa (-18.7%), Cook Islands (-60.4%) and Tonga (-7.9%).[1]

Figure 2. COVID-19 economic impact

Countries with significant tourism exposure	Forecast change in key economic variables				
	Air Arrivals				
	Count 2020 (000s)	Per cent change (y/y)	Tourism exports (millions)	Gross output (sales, millions)	GDP (ppts change, current prices)
Fiji	-601.7	-67.3	-1,397.7	-3,843.8	-12.0
Vanuatu	-84.2	-69.8	-14,403.5	-38,457.2	-13.5
Cook Islands	-141.1	-75.4	-316.3	-774.9	-60.4
Samoa	-146.9	-81.0	-429.8	-1,182.0	-18.7
Tonga	-34.3	-63.5	-102.1	-260.4	-7.9

All figures are in local currency

Source: ANZ Research

Large **employment** losses are also predicted. At present, every FJD1m of tourism spend supports or is associated with 54 jobs in Fiji. The direct employment multiplier is 7.6, meaning on average 7.6 full-time equivalent jobs are supported by that amount. We estimate that the production of FJD1m of tourism output in turn supports 46.4 jobs in related industries across the supply chain, including agriculture, construction, retail and tour operators. Our modelling suggests a total of 75k jobs (25% of total) could potentially be at risk from the decline in tourism income. For Vanuatu and Samoa, the number of jobs impacted are about 21k and 7k respectively (Figure 3).

[1] Estimating the decline in gross output (sales) is tricky. Tourism is not a separate industry classification in the Standard Industrial Classification (SIC). Hence, the contribution of the tourism industry in terms of gross and net economic impact is difficult to calculate from published national accounts data.

Typically, researchers use input-output tables to derive the appropriate multipliers to quantify the direct and spill over benefits of a particular industry sector. These data are not available for the economies considered here. We therefore used desktop research to find gross tourism multiplier for comparable countries.

Our research revealed that every unit of local currency a tourist spends generates additional gross output (sales) of about 2.75–3.00 across the economy. We used these multipliers to calculate the anticipated falls in gross output.

Gross multipliers do not equate to additional GDP generated (or lost), as intermediate inputs are counted multiple times in deriving the gross multiplier. The GDP multiplier should therefore subtract the value of intermediate inputs used from the value of total output (production). Alternatively, in our case, we can calculate the GDP impact directly through changes in tourism expenditure (exports). We know that the expenditure and output (gross value added, GVA) measures of GDP are equal. Taking Fiji as an example, this means that every dollar of tourist final demand (spend) will increase GVA output by one dollar. Hence, the GDP impact of COVID-19 risks will reflect what happens with tourism receipts.

Figure 3. COVID-19 impact on employment

Country	Potential jobs at risk			
	Direct tourism employment	Indirect employment	Total	Proportion of total jobs
Fiji	-10,623	-64,294	-74,917	-24.6%
Vanuatu	-7,634	-13,251	-20,885	-38.7%
Samoa	-1,633	-4,899	-6,532	-19.0%

We were not able to source employment data for the Cook Islands and Tonga.

Source: ANZ Research

Cruise-ship arrivals and earnings will be well down this year, given the docking bans by Pacific governments. While the yield from ship arrivals compared with air arrivals is much lower – as visitors are generally just transiting through major ports and cities – many micro businesses selling arts and crafts and souvenirs depend on this tourism sub-industry for their income. Big department stores, shopping centres and taxi operators around major ports also benefit. Our estimate of lost earnings from fewer ship calls are presented in Figure 4.

Figure 4. COVID-19 impact on cruise ship arrivals and earnings

Countries with significant tourism exposure	Cruise ship tourism			
	Forecast change in key variables			
	Count (000s)	Per cent change (y/y)	Average spend per passenger per call	Exports (millions)
Fiji	-143.1	-76.2	96.4	-10.3
Vanuatu	-167.8	-71.5	9,427	-1,265.4
Tonga	-14.4	-61.9	115.0	-1.2

All figures are in local currency
Vanuatu's ship arrivals in 2019 were impacted by closure of the Brisbane Terminal due to upgrade and reburshiment work. Hence the decline in 2020 is based on 2018 arrivals of 234,567 passengers.
Cruise ship tourism exports assume that 75% of passengers disembark the ship and once onshore spend money on food, souvenirs and do some sight-seeing.
We did not forecast lost earnings for Samoa and the Cook Islands because of gaps in historical data

Source: ANZ Research

Sizeable rescue package needed to cushion the blow

Economic policy cannot fully offset the loss of tourism income, but a super-sized monetary and fiscal stimulus package will be needed to limit the damage. We believe fiscal stimulus of at least 10% of GDP may be required, although the Cook Islands will need something closer to 50%.

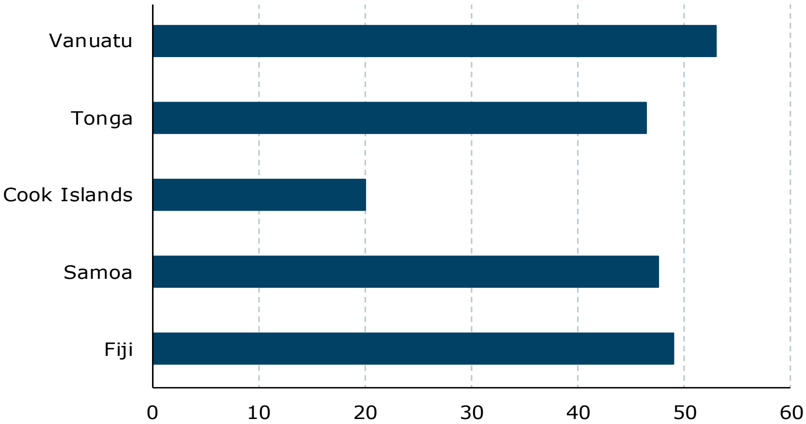
Pacific governments may choose to follow in the footsteps of foreign governments in designing their rescue package. Stimulus programs implemented by governments across the world have focussed on income protection for businesses and households to stabilise consumer and investment demand.

Specific strategies have included one-off cash payments to low and middle income households, wage subsidy to businesses and cheap financing to SMEs. However, in the case of the Pacific, the loss of income to the informal sector that supplies products to the tourism industry (such as small holder farmers and fisherman) would also need to be considered. Governments could consider being a backstop for demand for their products.

Combination of domestic borrowing and multilateral development banks support to fund stimulus

With the exception of Vanuatu, all Pacific economies considered here have a debt to GDP ratio of less than 50% (Figure 5). Vanuatu is slightly higher at 52.9%. This provides Pacific governments with some headroom to issue their own securities in the domestic market. Superfunds could absorb some of the additional borrowing requirement. Further, shortfalls in funding could be underwritten by the central bank.

Figure 5. Public debt, as a percentage of GDP (2019)



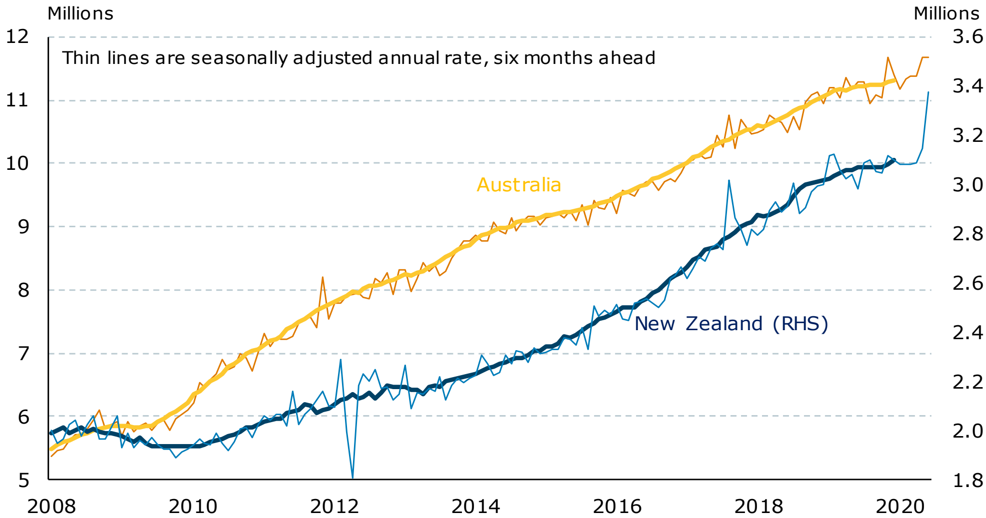
Source: Country authorities, IMF and ANZ Research

Governments can also approach multilateral development banks (MDBs), such as the World Bank, the ADB and the IMF, for budget support loans to fund the additional discretionary spend. The debt metrics will push higher, but these are unprecedented and very challenging times. Government support will limit the pandemic's damage and protect the tourism industry so that it is around to provide jobs when the recovery comes.

Recovery will come, although timing is uncertain

The disruption to the tourism industry will be temporary. Once the virus passes, international leisure activity will recommence. In fact, prior to the pandemic, the leading indicators of overseas travel in Australia and New Zealand (Pacific's key markets) were broadly supportive of overseas holidays (Figure 6). However, the timing of the recovery to take a foothold is uncertain. The best case is a recovery in six months from now and the worst case is a year when a cure and vaccine for COVID-19 are expected to be available.

Figure 6. Short-term departures, moving annual totals



Source: Australian Bureau of Statistics, Statistics New Zealand and ANZ Research

Important notice

[28 January 2020]

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