Ensuring public debt sustainability in the Pacific

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Key messages

- Almost all Pacific small island developing States (PSIDS) are facing a high risk of public debt distress.

- To ensure debt sustainability, PSIDS should consider policy options to secure debt relief, strengthen fiscal positions, scale up emergency financing, and improve public debt management.

- Beyond fulfilling ODA commitments, creditors and international development partners should expedite redesigning debt resolution architecture and integrate climate vulnerability into loan assessments.

- Time is of essence: all stakeholders need to work together now to reduce the high risk of debt distress in PSIDS.
Almost all PSIDS are facing a **high risk of public debt distress**

- **Low risk**
  - Solomon Islands
  - Vanuatu

- **Moderate risk**
  - Fiji
  - Kiribati
  - Marshall Islands
  - Micronesia, Fed. St.
  - Nauru
  - Palau
  - Papua New Guinea
  - Samoa
  - Tonga
  - Tuvalu

- **In distress**

Source: DSSI and Schneider and others (2021).
Policy options to address fiscal and public debt challenges in PSIDS

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Deficit financing
- Capital market development
- Concessional fiscal borrowing

Emergency financing
- Reserve funds
- Risk-sharing modalities

Public debt management
- Separate debt management office
- Debt reporting transparency
There are positive developments and good practices...

- **Debt relief**: potential debt savings under DSSI in Fiji, PNG, Samoa and Tonga at 0.3-2.8% of GDP in 2021.

- **Tax collection**: PNG’s medium-term revenue strategy to reduce reliance on income tax and rationalize tax incentives, and Fiji’s efforts to automate point of sale collection systems for VAT.

- **Spending efficiency**: preventive care and early treatments in Tonga and Vanuatu.

- **Fiscal discipline**: adoption of fiscal responsibility ratios in Cook Islands.

- **Deficit financing**: Fiji’s sovereign green bond issuance.

- **Debt management**: 
  - Public management units and debt strategies in Fiji, Samoa, Solomon Islands and Vanuatu.
  - Adoption of Debt Management and Fiscal Responsibility Act to strengthen transparency and accountability.
  - Decent accessibility, timeliness and coverage of debt statistics dissemination in many PSIDS.
...but also room to step up policy efforts

- **Tax collection:** Tax gaps remain in several PSIDS.

- **Spending efficiency:**
  - High per capita public health spending in Marshall Islands, Nauru, Palau, Fiji and Tuvalu, but with similar health outcomes as others.
  - Weak procurement systems in most PSIDS.

- **Emergency financing:**
  - High premiums for Pacific Catastrophe Risk Insurance Company
  - Limited scope and scale of disaster risk insurances

- **Public debt management:** Limited information on recent external loans, future debt operations and contingent liabilities
Possible policy actions by **creditors and multilateral development partners**

- Consider debt relief
- Re-channel IMF special drawing rights
- Redesign multilateral debt resolution architecture
- Fulfill ODA commitments
- Incorporate multidimensional vulnerability into loan assessments
Thank you!

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