Debt Landscape and Fiscal Management Issues in Pacific Small Island Developing States

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Overview

1. Debt in the Pacific before and during the pandemic
2. Strategy for fiscal sustainability
3. Expenditure management and revenue mobilization
4. Debt management and access to finance
5. Fiscal risks
6. Issues for discussion
1. Debt in the Pacific before and during the pandemic

- Pre-pandemic, average debt/GDP around 30%, but ranging from 8% to 62%. Most public debt external, to official creditors, reflecting limited domestic debt markets and lack of access to commercial lending.

- In 2020-21, export earnings fell dramatically, cutting GDP growth (by an average of 8 percentage points compared with 2015-19 average) and government revenue, while government spending needs rose, leading to higher fiscal deficits and an average increase in debt/GDP ratios to over 40%.

- Domestic debt largely held by national provident funds, with limited capacity to absorb more debt. External debt owed to IFIs and bilateral lenders, mostly at low interest rates.
2. Strategy for fiscal sustainability

- Debt/GDP ratios in several countries now well above statutory requirements and leave little fiscal space to absorb future shocks. No optimal debt/GDP ratio. IMF/Bank DSA suggests 30% appropriate in current circumstances.

- Challenge is to bring debt/GDP ratios down to more sustainable levels while also achieving SDGs and climate change adaptation.

- Strategy of adjustment should be gradual and include:
  - Careful expenditure management
  - Revenue mobilization
  - Improved debt management, including SOE debt
  - Increased access to concessional and grant finance
3. Expenditure management and revenue mobilization

- Expenditure management can be strengthened in several ways:
  - A more integrated budgeting process to bring sectoral and aggregate planning together in the prioritization process
  - Developing a more multi-year approach to spending commitments
  - Strengthening procurement rules and transparency
  - Enhancing project and program monitoring and accountability

- To mobilize more domestic revenues in an equitable manner:
  - Cut inefficient tax expenditures, tax breaks and loopholes
  - Strengthen revenue administration
4. Debt management and access to finance

- Debt management units would benefit from increased resourcing to support medium term strategies and handle multiple lenders.
- SOEs need to become much more transparent and accountable for debt that can create contingent liabilities in the budget. Provident funds also need to be more transparent.
- PFM systems relating to project management should be strengthened to improve access to climate change funds and other grant finance.
- Authorities should work with donors/lenders to streamline lending procedures and monitoring/reporting burdens.
- Donors should increase concessionality or grant elements of support.
5. Fiscal risks

- Most fiscal risks appear to be on the downside, making it more difficult to restore fiscal sustainability:
  - Global macroeconomic outlook is quite uncertain (COVID and war). Interest rates more likely to rise than fall, and growth may not be as strong, over the medium term, reflecting ongoing pandemic effects as well as climate change.
  - Natural disasters in the Pacific may be more frequent and more destructive
  - SOEs and provident funds may add to contingent budget liabilities
6. Issues for discussion

- Debt sustainability:
  - What level of debt/GDP should countries be aiming for?
  - What is a reasonable/credible pace of adjustment towards targets?
  - How can donors support these efforts?

- Fiscal adjustment and fiscal space:
  - What can PSIDS learn from each other to strengthen spending management and PFM practices? Can resources be pooled?
  - What has been PSIDS experience with the best ways to strengthen tax administration and dismantling tax expenditures?

- Access to finance
  - How should PSIDS and donors and IFIs work together to strengthen access to concessional lending and grant financing to support climate change adaptation and SDG implementation?
Vinaka / Thank you