Expert Group Meeting on the 10-year Pacific SAMOA Pathway Review

Session 3: Socioeconomic development in Pacific SIDS: Regional and national initiatives
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Feedback on the draft report
Feedback from the macroeconomic and fiscal perspectives

- Additional brief analyses could be added:
  - **Chapter 1**: high inflation rates and their socioeconomic implications (poverty, nutrition, etc.)
  - **Chapter 1**: exposure of individual Pacific SIDS to **food, energy and financial crises**

<table>
<thead>
<tr>
<th>Shock</th>
<th>Highly exposed Pacific SIDS</th>
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<tbody>
<tr>
<td>Energy prices</td>
<td>Solomon Islands, Vanuatu</td>
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<td>[import reliance and energy access]</td>
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<td>Debt and financial flows</td>
<td>Micronesia, Fed. St. Samoa, Tonga</td>
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<td>[fiscal space, external financial flows, external debt]</td>
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Feedback from the macroeconomic and fiscal perspectives

- Additional brief analyses could be added:
  - **Chapter 1**: Economic policies to promote **inclusive growth**
    - Fiscal policy
      - Tax fair
      - Spend smart
    - Central banking
      - Monetary policy
      - Reserve reallocation
      - Central bank digital currencies
    - Structural policy
      - Job-rich structural transformation
      - Labour empowerment
      - On-the-job training support
  - **Chapter 2**: “**debt service**” under Means of implementation and “**government revenue**” under Financing
  - **Addressing public debt challenges** as an emerging priority for the 4th SIDS Conference
Addressing public debt challenges in Pacific SIDS
Government debt in Pacific SIDS has risen, although the level is not very high relative to Asian peers

Source: ESCAP Public debt dashboard.

General government gross debt in Pacific SIDS

- Change in debt between 2019 and 2021
- Change in debt between 2008 and 2019
- Debt in 2021

Source: ESCAP Public debt dashboard.
Yet, almost all Pacific SIDS are being rated as having a high risk of debt distress.

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

- **Moderate risk**

- **High 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).
### Selected policy options to address public debt challenges in Pacific SIDS

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<th>Emergency financing</th>
<th>Public debt management</th>
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- **Debt relief**
  - Debt swaps for climate/development
  - G20 Common Framework for Debt Treatments

- **Fiscal space**
  - Closing tax gaps
  - Improving spending efficiency and effectiveness
  - Concessional fiscal borrowing

- **Emergency financing**
  - National and subregional reserve funds
  - Risk-sharing financing modalities

- **Public debt management**
  - Separate debt management offices
  - Debt reporting transparency
There are many **positive developments and good practices**

- **Debt relief**
  - Potential debt savings under the Debt Service Suspension Initiative (DSSI) in Fiji, PNG, Samoa and Tonga at 0.3-2.8% of GDP in 2021.

- **Fiscal space**
  - **Tax collection**: PNG’s medium-term revenue strategy to rationalize tax incentives.
  - **Spending efficiency**: preventive care and early treatments in Tonga and Vanuatu.
  - **Fiscal discipline**: fiscal responsibility ratios in Cook Islands.
  - **Green financing**: Fiji’s sovereign green bond.

- **Debt management**:
  - Dedicated public management units and debt strategies in Fiji, Samoa, Solomon Islands and Vanuatu.
  - Decent accessibility, timeliness and coverage of debt statistics dissemination in many Pacific SIDS.
But Pacific SIDS still need more financial support from the international community

- Offer sizeable debt relief, including through debt-for-development swaps
- Strengthen G20 Common Framework for Debt Treatments (e.g. making middle-income countries eligible and engaging with private creditors)
- Fulfill commitments on foreign aid
- Reallocate IMF’s special drawing rights
- Consider multidimensional vulnerability as part of concessional financing criteria
- Promote common sovereign debt restructuring frameworks and mechanisms