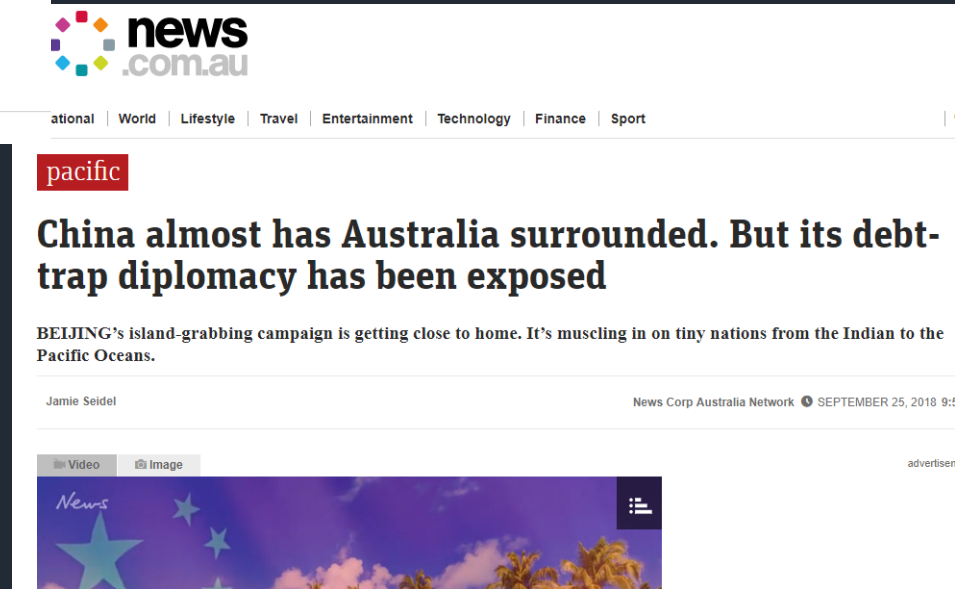
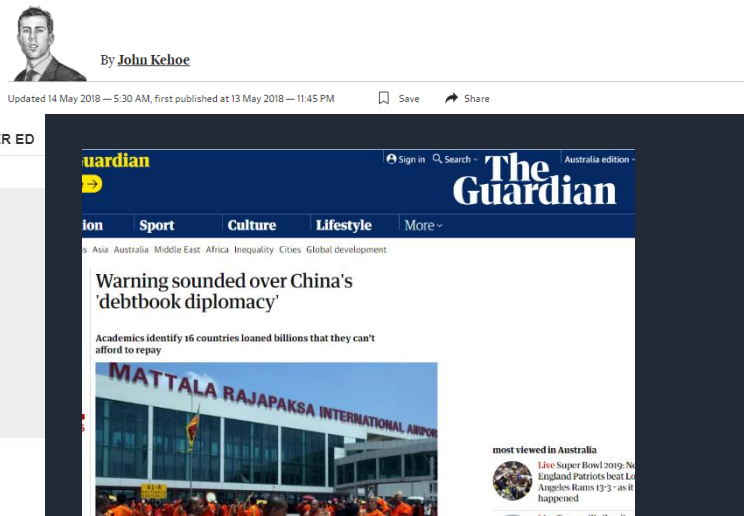
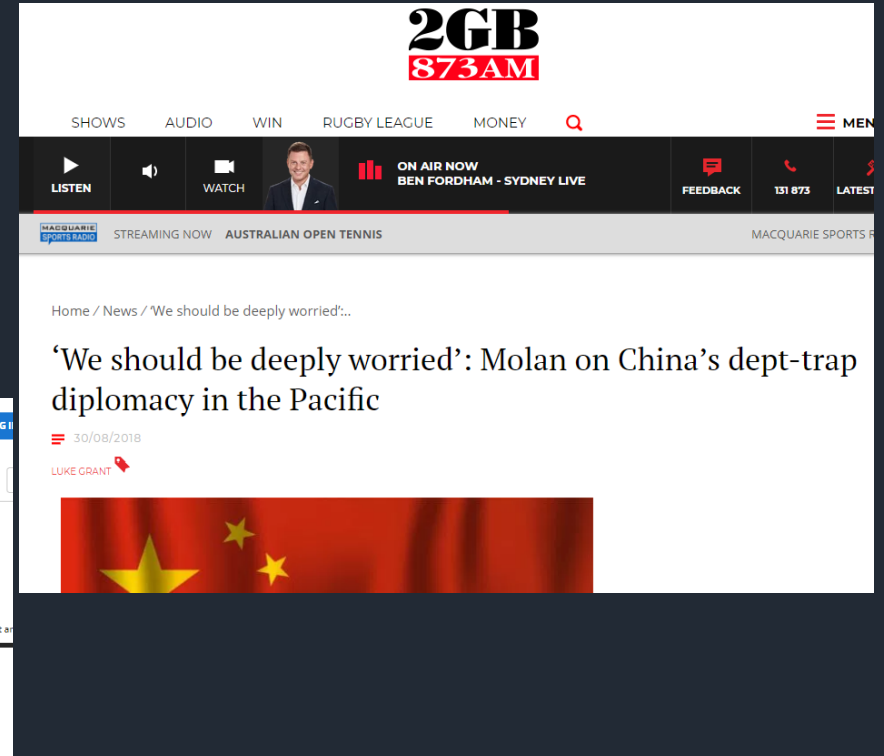
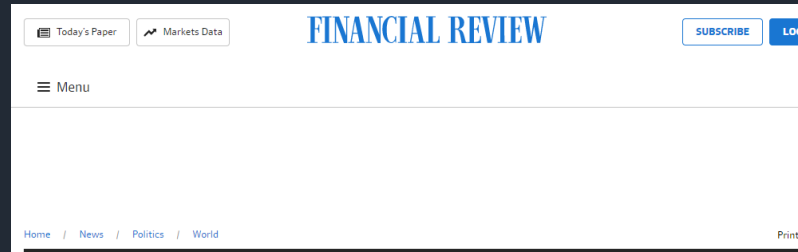


Analysing Pacific debt: how significant is China?

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Centre*



Outline:

1. Context
2. Are Pacific countries in debt distress?
3. How much debt do Pacific Island countries have?
4. Are Chinese loans the cause of debt distress?

1. Context

Characteristics of Chinese loans

- Both concessional and non-concessional loans offered through SOE's EXIM bank, and China
- Concessional loan interest rates are below market-rate, but generally higher than loans from multilaterals (e.g. World Bank, ADB)
- Attractive to host politicians due to fewer regulations/transparency in comparison to multilateral loans (seen as paternalistic)
- Concerns over the quality and choice of infrastructure projects

Sri Lanka, China and the Hambantota Port

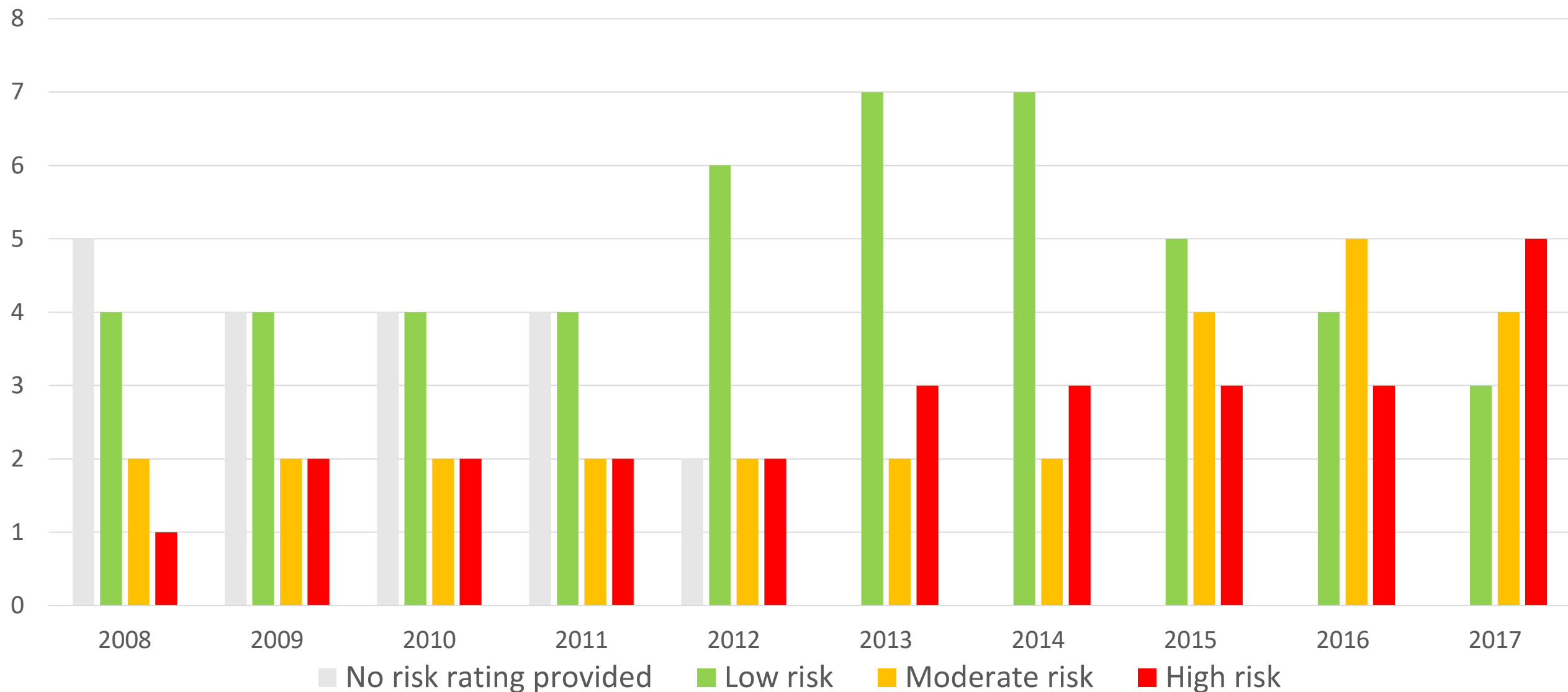
- IMF debt sustainability ratings high risk 2014-2018 (no rating provided in prior years)
- “The so-called ‘debt trap’ is a false proposition created by the Western media, with a direct attempt to obstruct the joint development of China and other developing countries including Sri Lanka, while the fundamental purpose is to maintain the Western world’s ‘traditional’ superior position in the international and regional politics and economics,” – PRC spokesperson

2. Are Pacific countries in debt distress?

Debt distress rating by country (using most recent data)

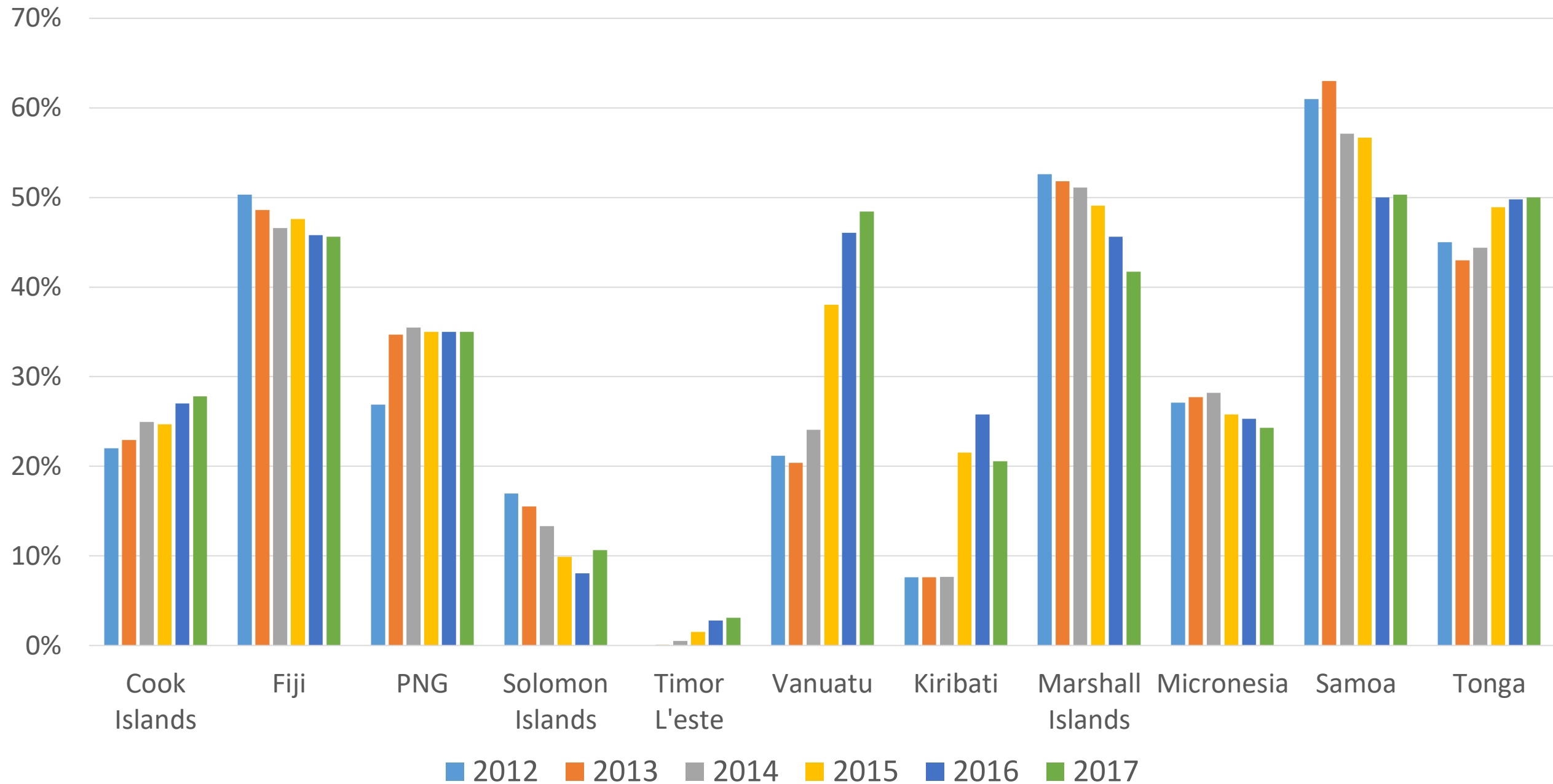
Cook Islands (2017)	Low
Fiji (2016)	Low
Nauru (2017)	Low
Palau (2016)	Low
PNG (2017)	Moderate
Solomon Islands (2017)	Moderate
Timor L'este (2017)	Moderate
Vanuatu (2018)	Moderate
Kiribati (2017)	High
Marshall Islands (2018)	High
Micronesia (2017)	High
Samoa (2018)	High
Tonga (2017)	High
Tuvalu (2018)	High

Number of countries, by IMF/ADB debt distress rating category 2008-2017 – Pacific Islands and Timor L'este

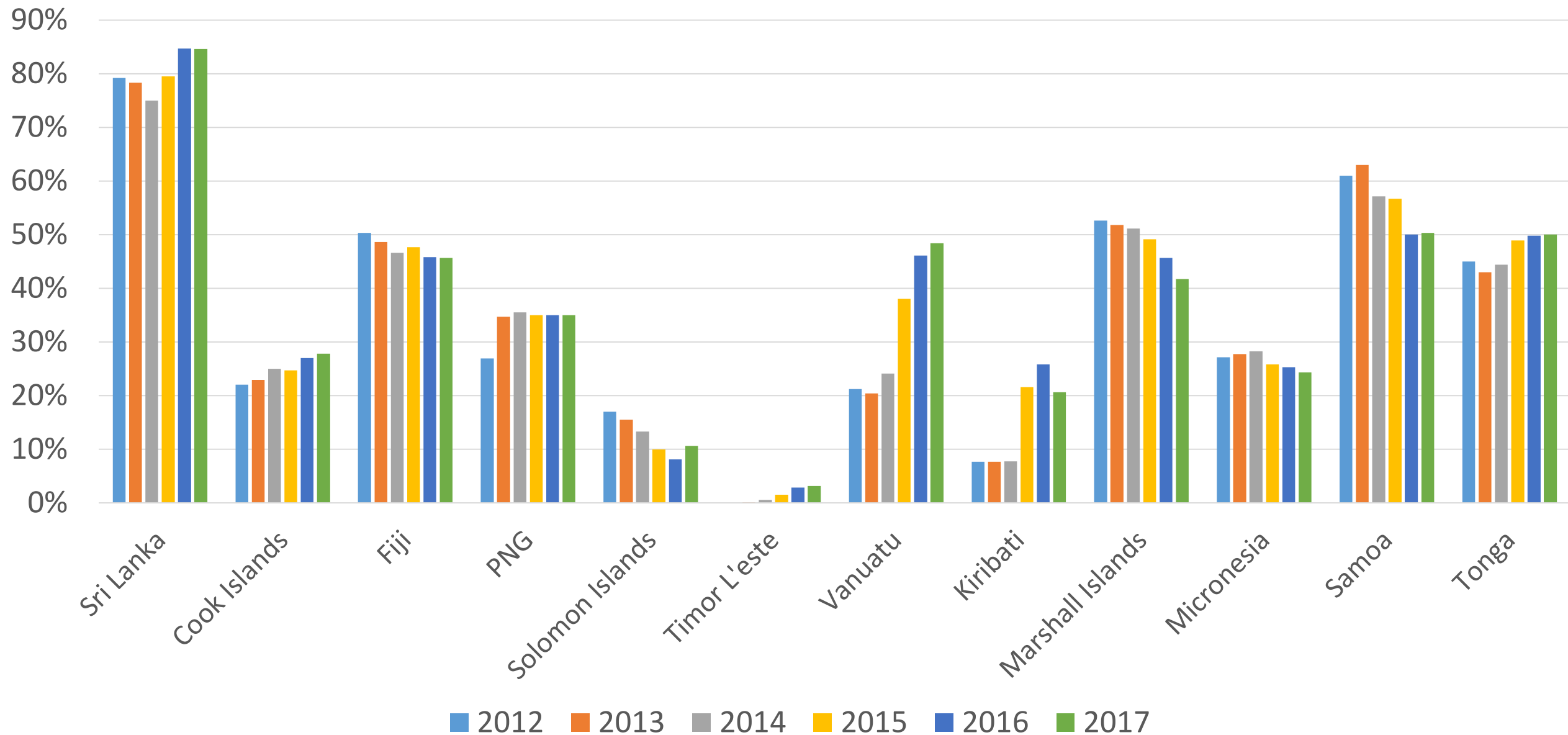


3. How much debt do Pacific Island countries have?

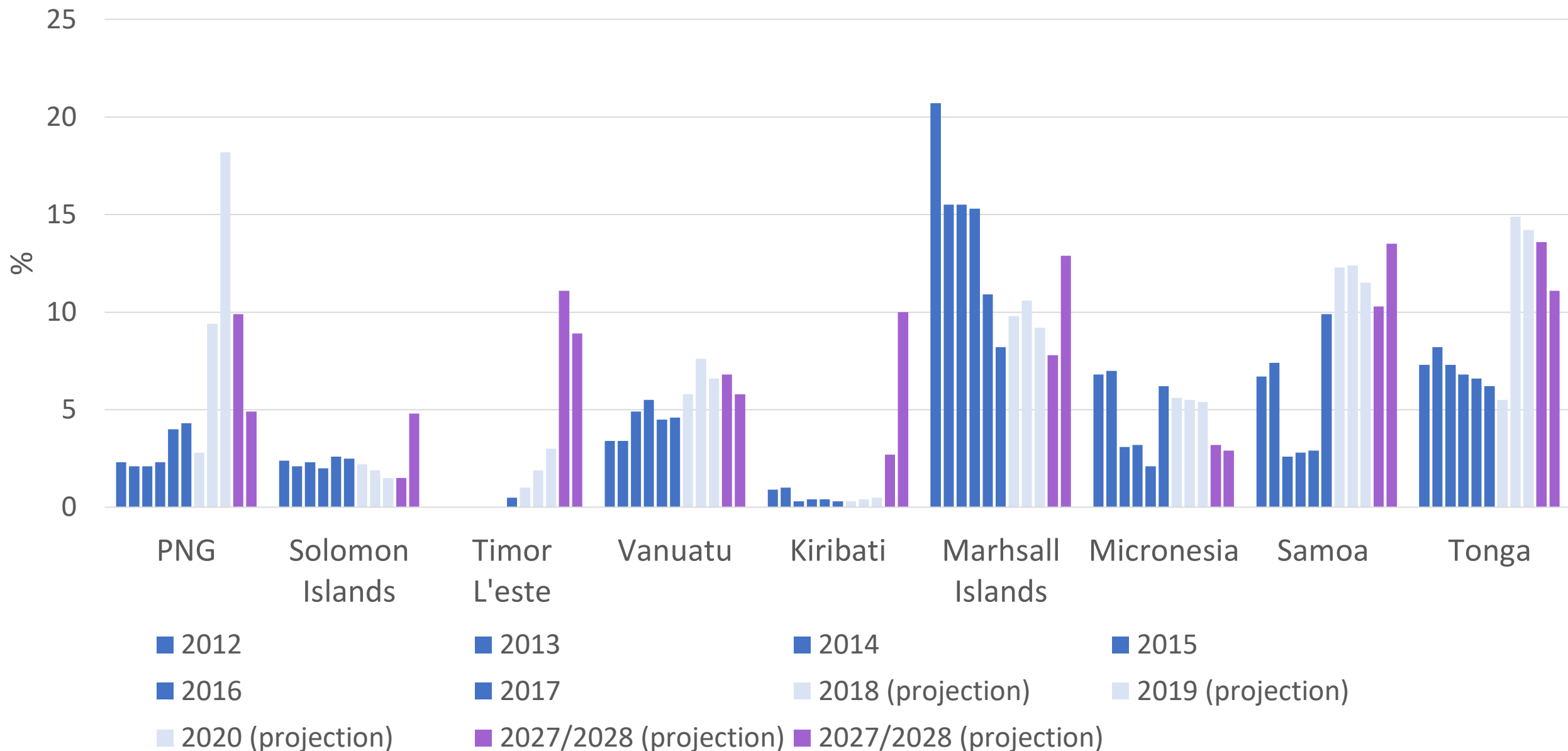
Public sector debt to GDP ratio (IMF) 2012-2017 - Pacific countries



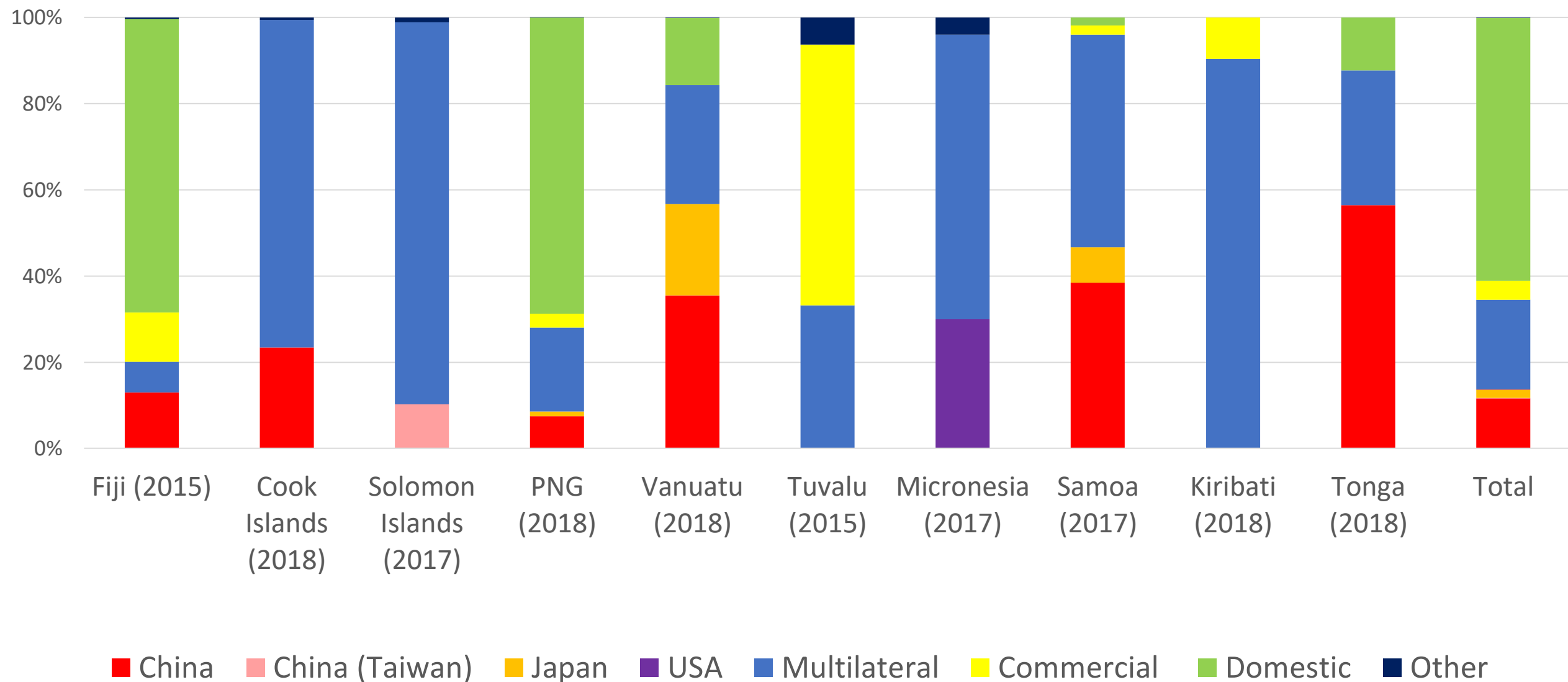
Public sector debt to GDP ratio (IMF) 2012-2017 – Pacific countries & Sri Lanka

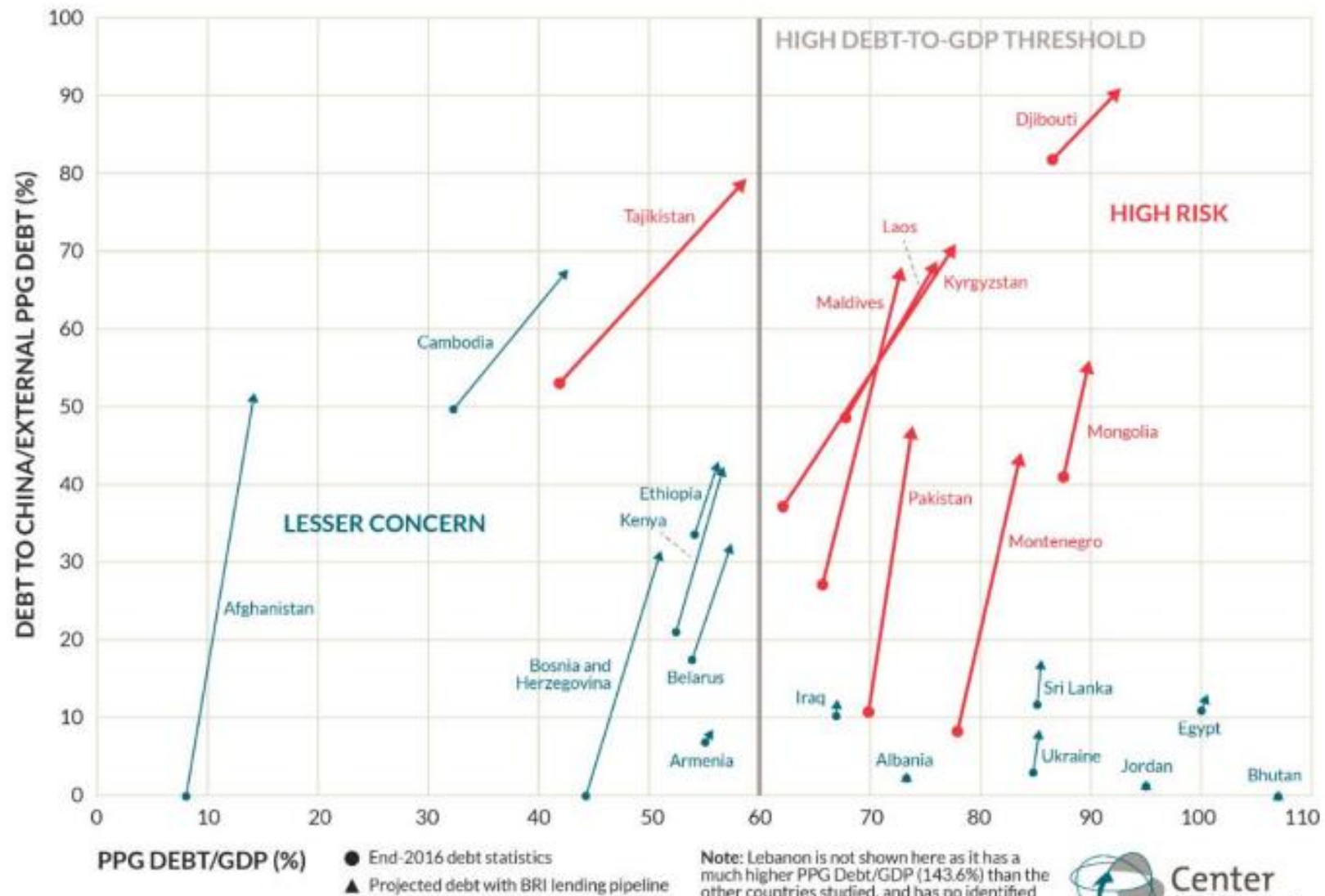


Public and publicly guaranteed external debt service-to-revenue ratio 2012-2038 (projections) (IMF)



Break-up of debt owed by lender

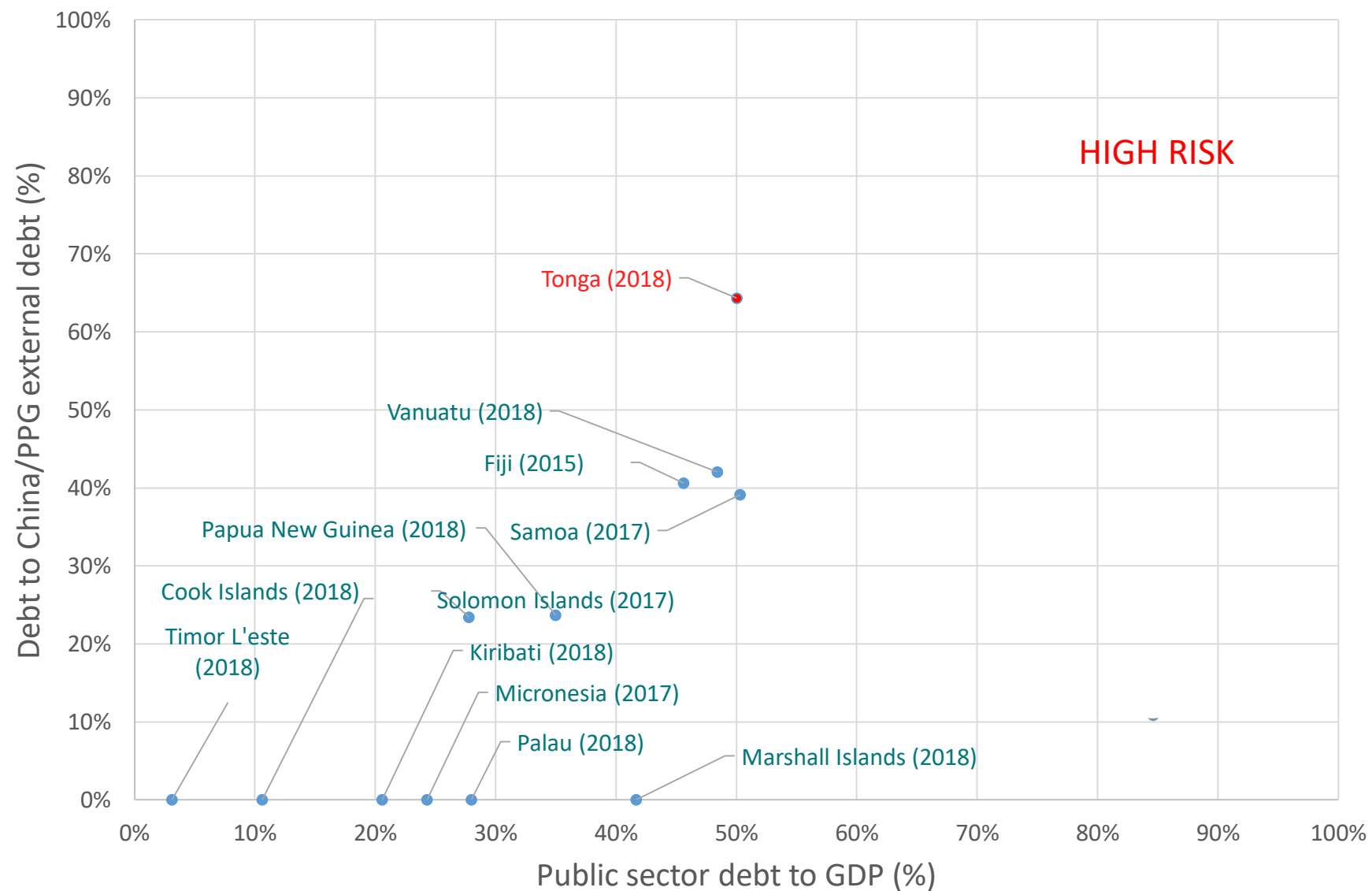




Note: Lebanon is not shown here as it has a much higher PPG Debt/GDP (143.6%) than the other countries studied, and has no identified BRI projects.

Source: Authors' calculations based on public reporting on BRI projects.

Chinese lending in PIC's and debt to GDP: the current situation



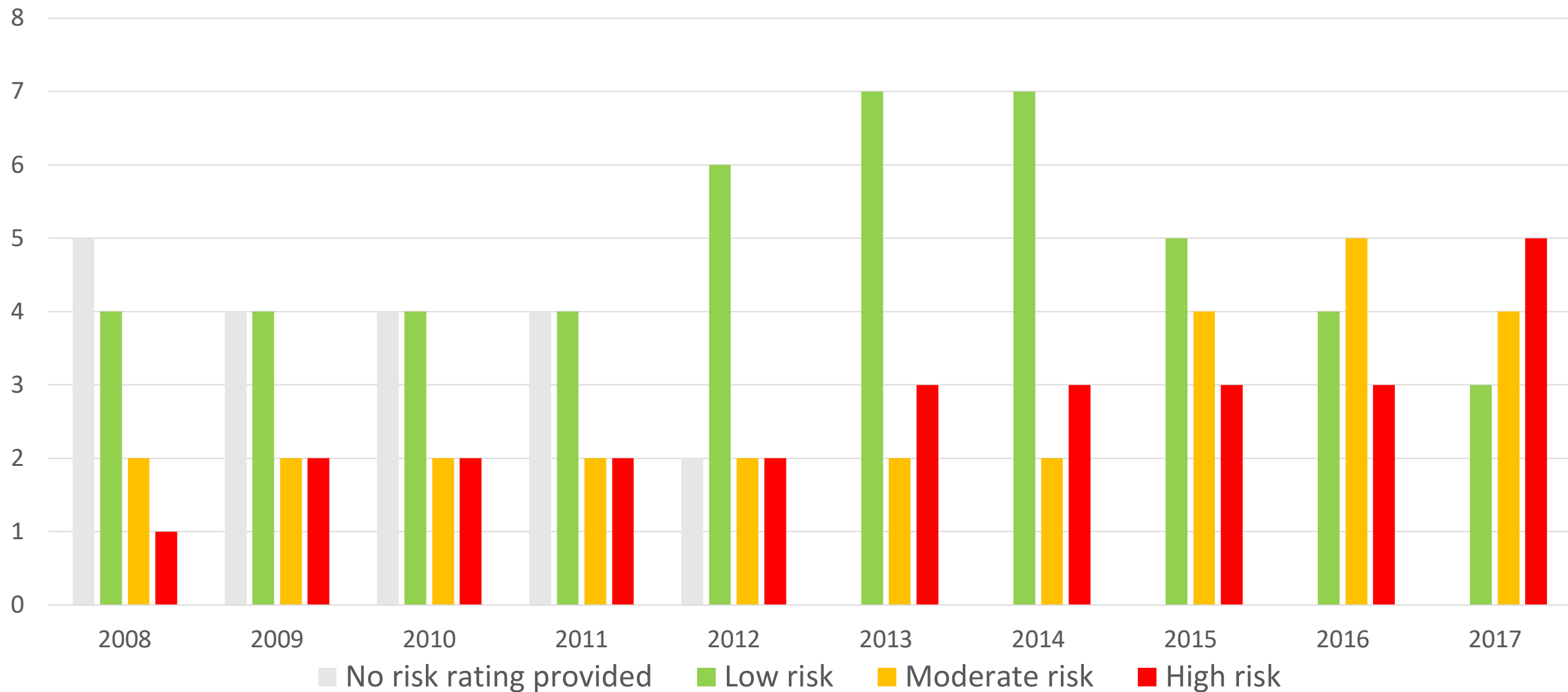
3. What are the causes of debt distress?

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Vanuatu	NA	Low	Low	Low	Low	Low	Low → Moderate	Moderate	Moderate	Moderate
Tonga	High	High	High	High	High	Moderate	Moderate	Moderate	Moderate → High	High
Samoa	Low	Low	Low	Low → Moderate	Moderate → High	High	High	Moderate	Moderate → High	High
Fiji	NA	NA	NA	NA	NA	Low	Low	Low	Low	Low
PNG	Moderate	Moderate	Moderate	Moderate	Low	Low	Low	Low	Low	Moderate
Solomon Islands	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Timor	NA	NA	Low	Low	Low	Low	Low	Low	Moderate	Moderate
Cook Islands	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Tuvalu			NA	NA	High	High	High	High	High	High
Kiribati	NA	High	High	High	High	High	High	High	High	High
Nauru										Low
Micronesia	NA	NA	NA	NA	Low	Low	Low	High	High	High
Marshall Islands	NA	NA	NA	NA	NA	High	High	High	High	High
Palau	NA	NA	NA	NA	Low	Low	Low	Low	Low	Low

Debt distress risk matrix 2008-2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Vanuatu	NA	Low	Low	Low	Low	Low	Low → Moderate	Moderate	Moderate	Moderate
Tonga	High	High	High	High	High	Moderate	Moderate	Moderate	Moderate → High	High
Samoa	Low	Low	Low	Low → Moderate	Moderate → High	High	High	Moderate	Moderate → High	High
Fiji	NA	NA	NA	NA	NA	Low	Low	Low	Low	Low
PNG	Moderate	Moderate	Moderate	Moderate	Low	Low	Low	Low	Low → Moderate	Moderate
Solomon Islands	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Timor	NA	NA	Low	Low	Low	Low	Low	Low → Moderate	Moderate	Moderate
Cook Islands	Low	Low	Low	Low	Low	Low	Low	Low	Low	Low
Tuvalu			NA	NA → High	High	High	High	High	High	High
Kiribati	NA → High	High	High	High	High	High	High	High	High	High
Nauru										Low
Micronesia	NA	NA	NA	NA	Low	Low	Low → High	High	High	High
Marshall Islands	NA	NA	NA	NA	NA → High	High	High	High	High	High
Palau	NA	NA	NA	NA	Low	Low	Low	Low	Low	Low

Number of countries, by IMF/ADB debt distress rating category 2008-2017 – Pacific Islands and Timor L'este



Tonga, Samoa, Vanuatu debt distress: A result of Chinese loans? Or increased disaster risk?

- Samoa

- 2012 IMF DSA p1 – “Compared to the previous DSA (see 2010 Article IV Staff Report), this analysis assumes a slightly lower medium- and long-term growth rate of GDP in the baseline given the less favorable external environment and the dissipation of the benefits of earlier reforms. The analysis finds that there is a large and protracted breach of the present value of debt to GDP threshold in an exchange rate shock scenario. Given the rising debt burden, forceful policy actions, especially on the fiscal front, would be needed to ensure medium- and long-term debt sustainability”
- 2013 IMF DSA p1 - This joint Bank-Fund debt sustainability analysis (DSA) shows that Samoa has shifted from moderate to high risk of debt distress.” “This elevated debt risk largely reflects the expected high levels of fiscal deficits during the post-cyclone reconstruction period and a lower discount rate used in calculating the present value of debt compared to the previous DSA (see IDA/Sec2012- 0450 and the 2012 IMF Article IV Staff Report). The cyclone-related expenditures come on top of large fiscal outlays necessitated by the tsunami of 2009.”
- 2017 IMF DSA p11 - “The change in rating compared with the 2015 Staff Report is driven by a methodological change that adjusts for the average impact of natural disasters on growth, the current account and, fiscal balance over the medium term”

Tonga, Samoa, Vanuatu debt distress: A result of Chinese loans? Or increased disaster risk?

- Vanuatu
 - 2015 IMF DSA p1 – “The results indicate that Vanuatu has shifted from low to moderate risk of debt distress. This escalation of debt distress risk largely reflects the expected high levels of fiscal deficits induced by post-cyclone reconstruction expenditures as well as the planned scaling-up of public investment, which will elevate the level of public debt over the next few years. The increase is expected to be manageable provided that financing terms are concessional and the surge in financing needs is temporary.
- Tonga
 - 2017 IMF DSA p7 – “The risk rating for external debt distress derived from the Debt Sustainability Analysis (DSA) is increased from moderate to high, because of future potential costs of natural disasters.”

Tonga debt distress: A result of Chinese loans?

- Loans to China are over 50% of total debt
- First large loan to rebuild Nuku'alofa CBD after riots in 2006
- Second large loan driven by Tongan MP's seeking to attract loan-financed spending in their electorates
- Repayment of loans is both an issue for Tonga and China
- Harvard analysis suggested that Tonga is not in a strategic location for China

4. Conclusions

Thank you

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