

# Debt and Economic Recovery in Pacific Island Developing Economies (PIDEs)

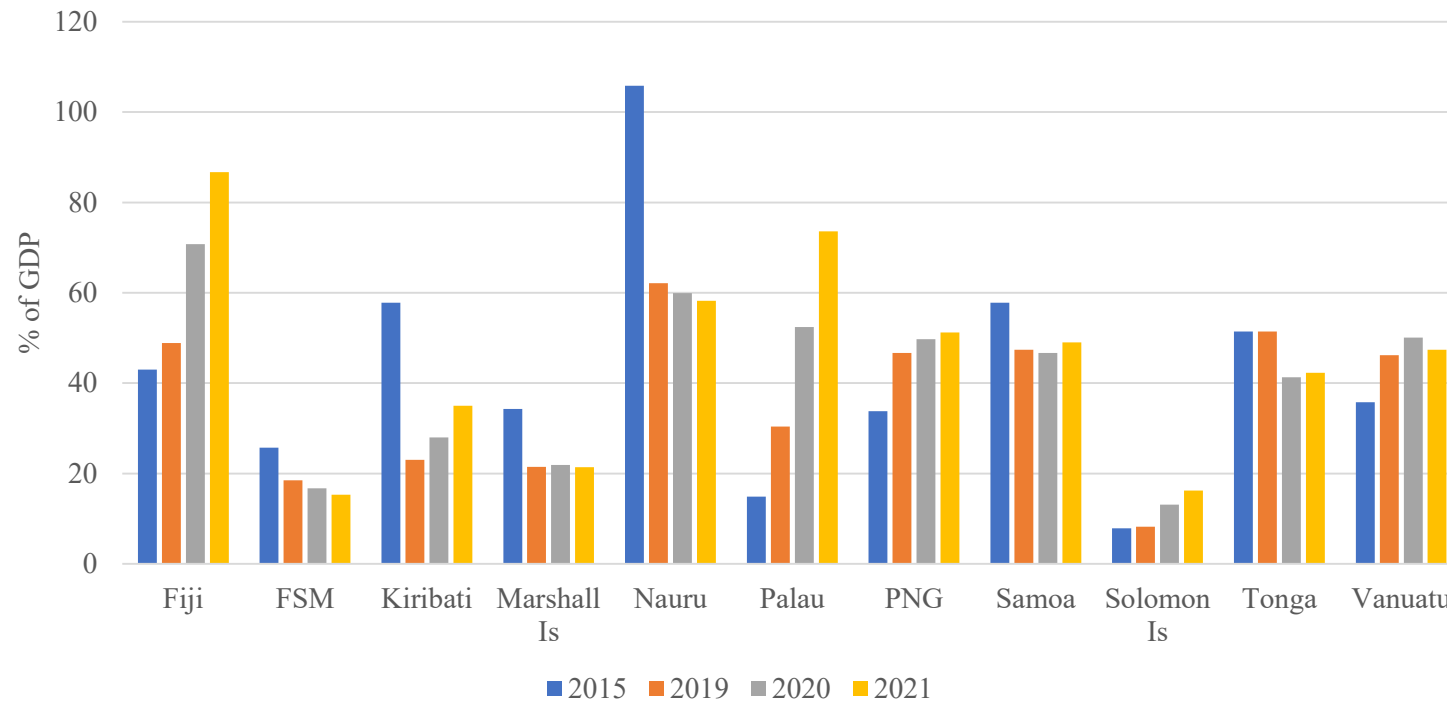
*Neelesh Gounder*

*University of the South Pacific*

*neelesh.gounder@usp.ac.fj*

# 1. Debt Scenario

- Debt/GDP ratios in most PIDEs have risen significantly during the pandemic.



Overall debt distress (based on Debt Sustainability Analyses Under the Joint World Bank – IMF Debt Sustainability Framework for Low Income Countries):  
High: FSM, Kiribati, Marshall Islands, PNG, Samoa, Tonga.

Sources: IMF Country Reports; UNESCAP

# 1. Debt Scenario

- Current Debt/GDP levels for most PIDEs are regarded as ‘high’ (IMF, 2022).
- In 2018, Tonga had called on Pacific Island leaders to unite and ask China to write off their debts.
- Multilateral institutions and international community have taken some action (2020/2021):
  - Fiji, PNG, Samoa and Tonga sought relief (defer debt repayments) under the Debt Service Suspension Initiative (DSSI) established by Paris Club, IMF and World Bank.
    - 48 out of 73 eligible countries sought relief.
  - IMF approved financing request to PNG, Samoa, Solomon Islands, and Tonga amounting US\$424.1 million through the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI).

# 1. Debt Scenario

- Debt service burden is now at its highest levels in some countries (for example, Fiji).
- Overall debt distress (based on Debt Sustainability Analyses Under the Joint World Bank – IMF Debt Sustainability Framework for Low Income Countries):
  - High: FSM, Kiribati, Marshall Islands, PNG, Samoa, Tonga, Tuvalu.
  - Moderate: Solomon Islands, Timor Leste, Vanuatu.
- Contingent liabilities have also increased during the pandemic as some PIDEs extended loan guarantees to state enterprises.
- Exacerbated by the pandemic. The situation could have been worse without multilateral and bilateral financial support during the pandemic.

## 2. Risk of Debt Distress

- Despite the economic recovery, fiscal situation in most PIDEs is expected to remain weaker than pre-pandemic levels.
- PIDEs face greater risks and challenges than emerging markets and developing economies.
  - Low economic growth – continuous challenge in expanding government revenue and consistent drag on debt dynamics.
  - Fiscal consolidation not an option – SDG Targets and political economy considerations.
  - Exposure to shocks – natural disasters.
- Is expenditure management possible? As PIDEs seek to provide for universal access to social services, closing the digital divide and strengthening climate action, government debt levels in many economies is expected surge in coming years.
- Escalation of indebtedness and the increased cost of servicing debt will become highly challenging.

### 3. Key Challenges towards Economic Recovery

- New investment – more closely linked to the development aspirations of the region.
- Economic recovery – synonymous with inclusive growth.
  - Agriculture
  - Education
  - Employment – rural/urban; gender
  - Climate risk
- Translating SDGs into a realistic agenda that is tailored to the local development context.
- Pacific Roadmap for Economic Development (PRED) provides an opportunity for the region to deal with these challenges.