

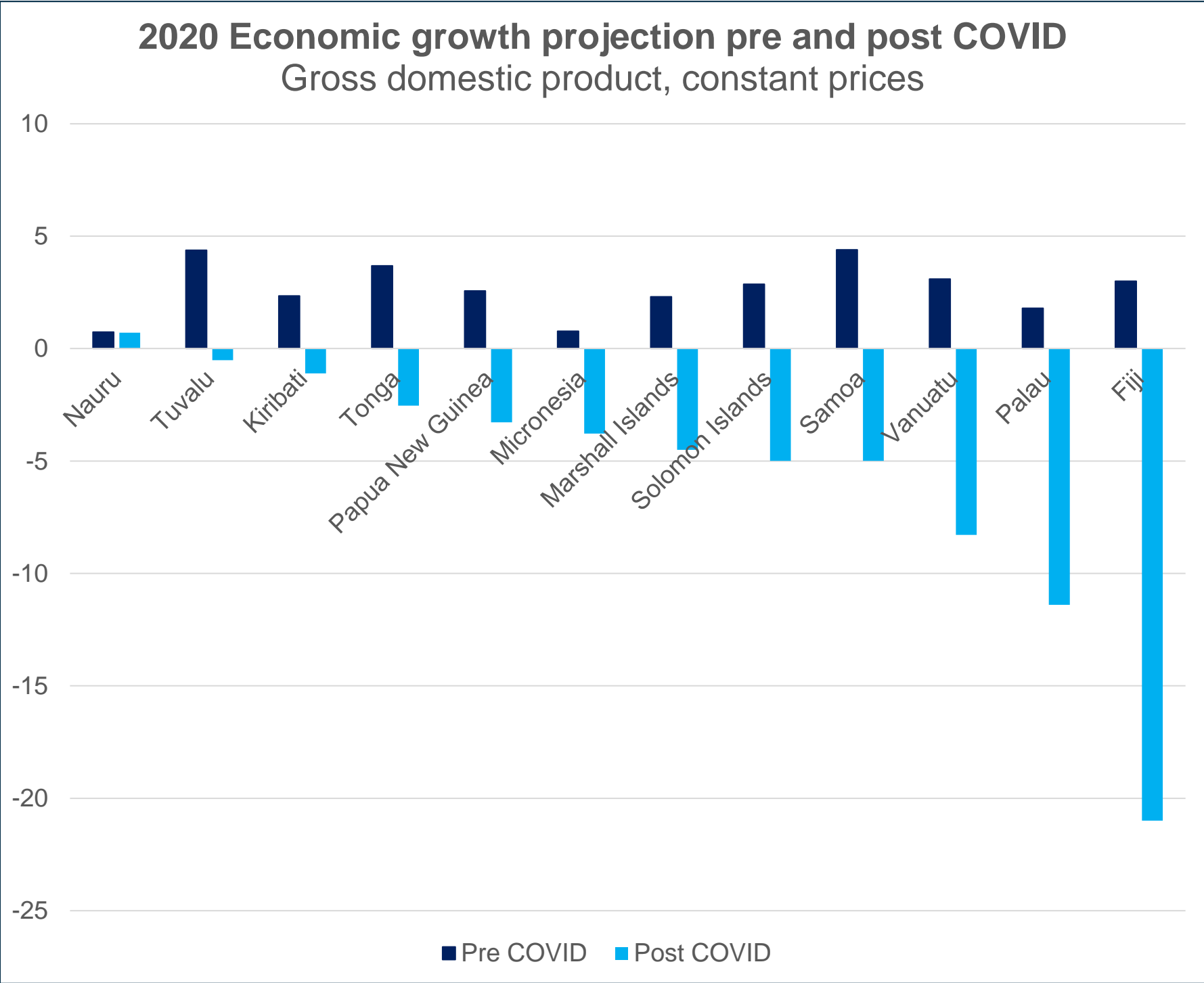
29 / JUNE 2022

Pacific Islands debt: financing post-COVID-19 recovery amid precarious sustainability

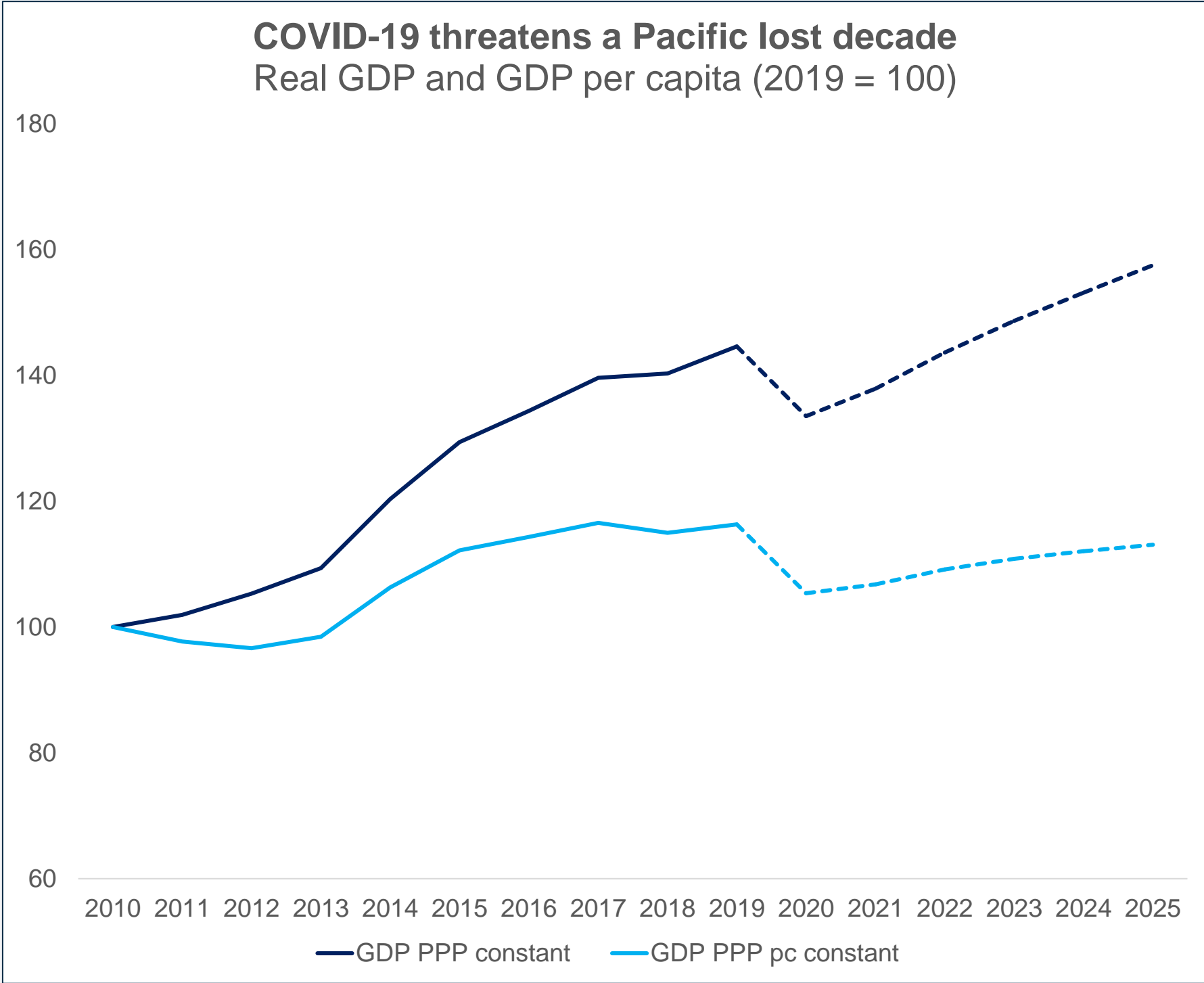
Alexandre Dayant – Roland Rajah

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Pacific hard-hit by Covid-19 with long lasting damage



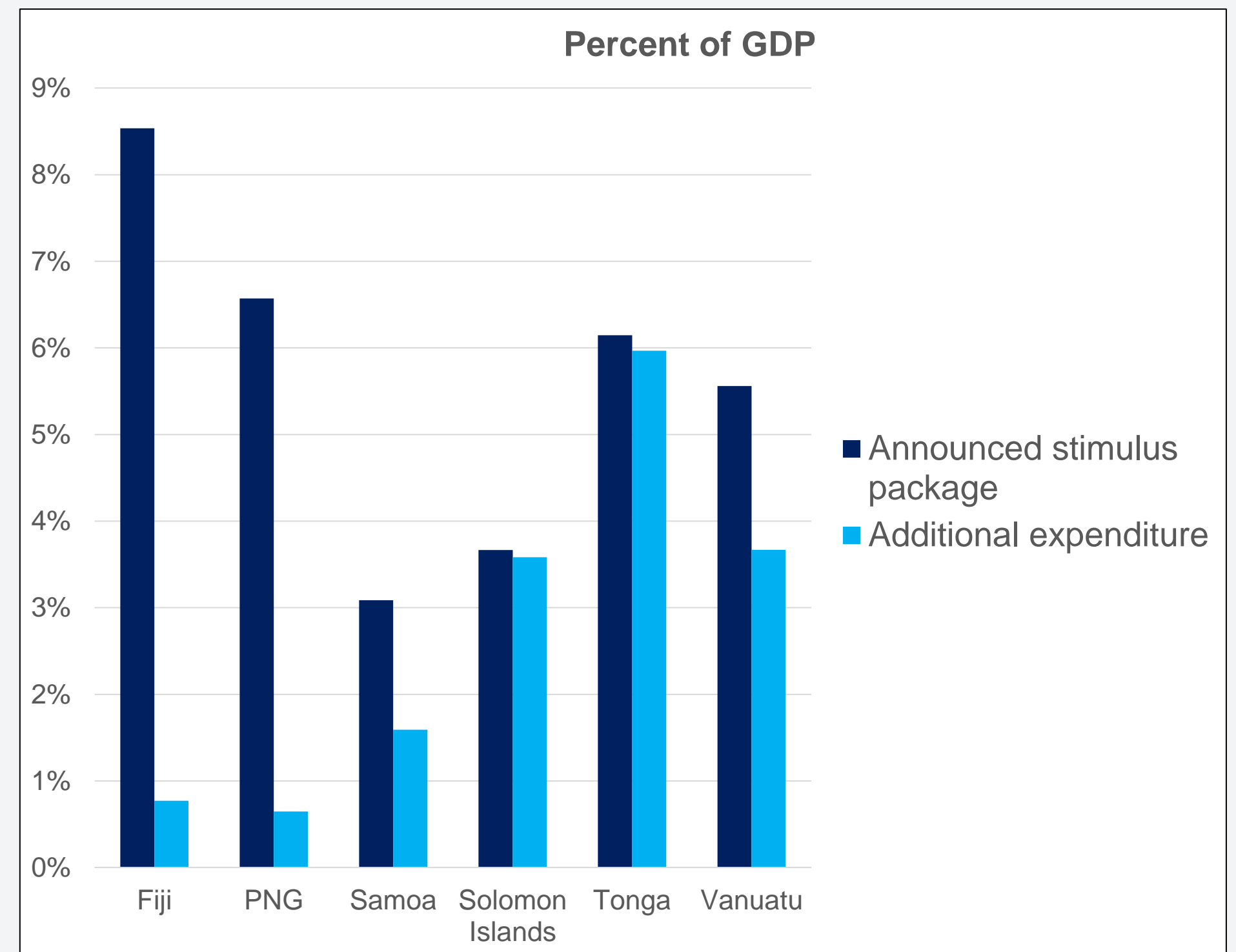
Source: IMF October 2021 World Economic Outlook database



Source: IMF October 2020 World Economic Outlook database

Big 'stimulus' packages but constrained fiscal expansion

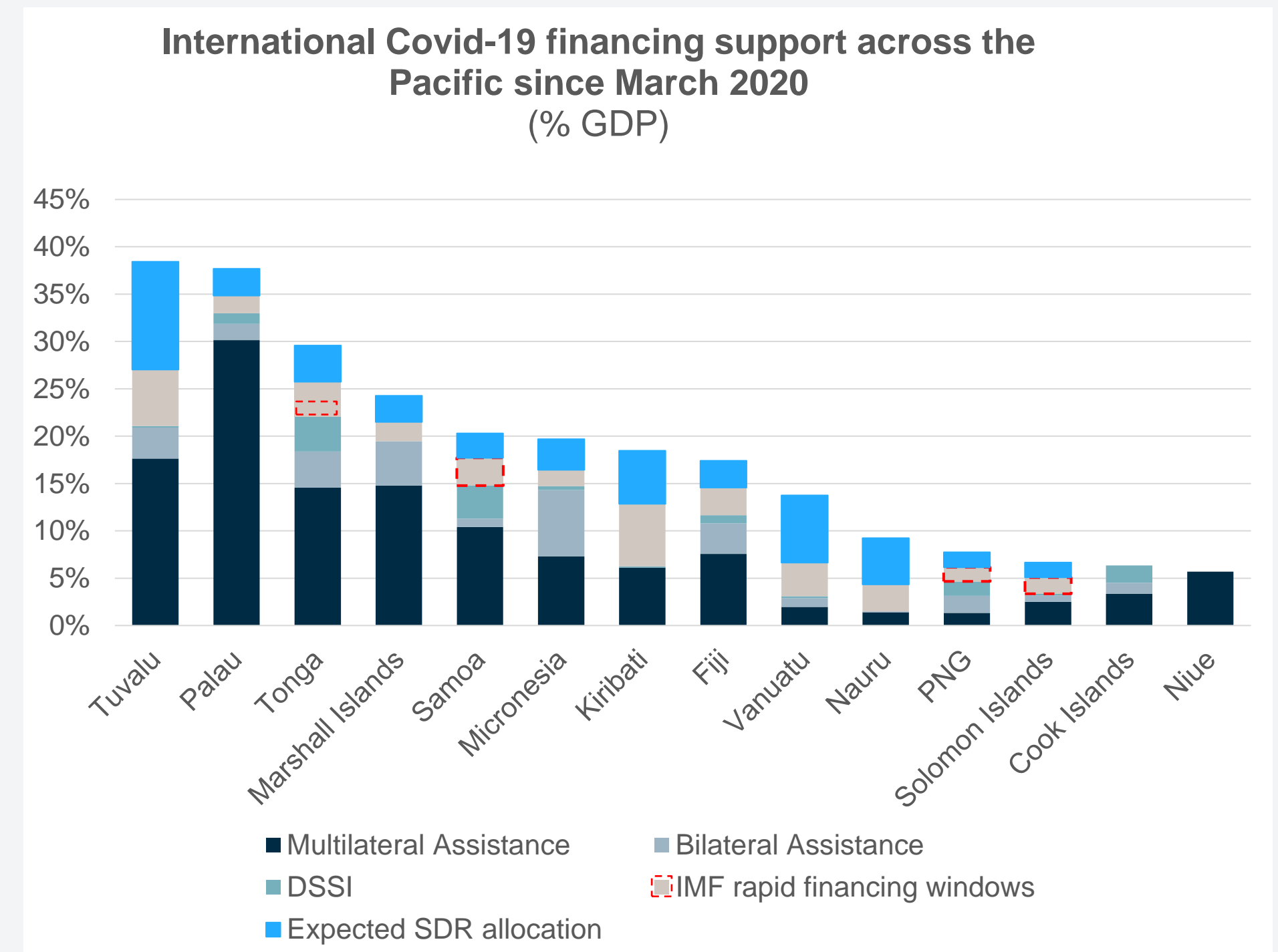
- Stimulus packages composed of a mix of *government, banking, pension and monetary easing measures*.
- But limited fiscal expansion.



Source: Development Policy Centre, Australian National University

International support substantial but limited

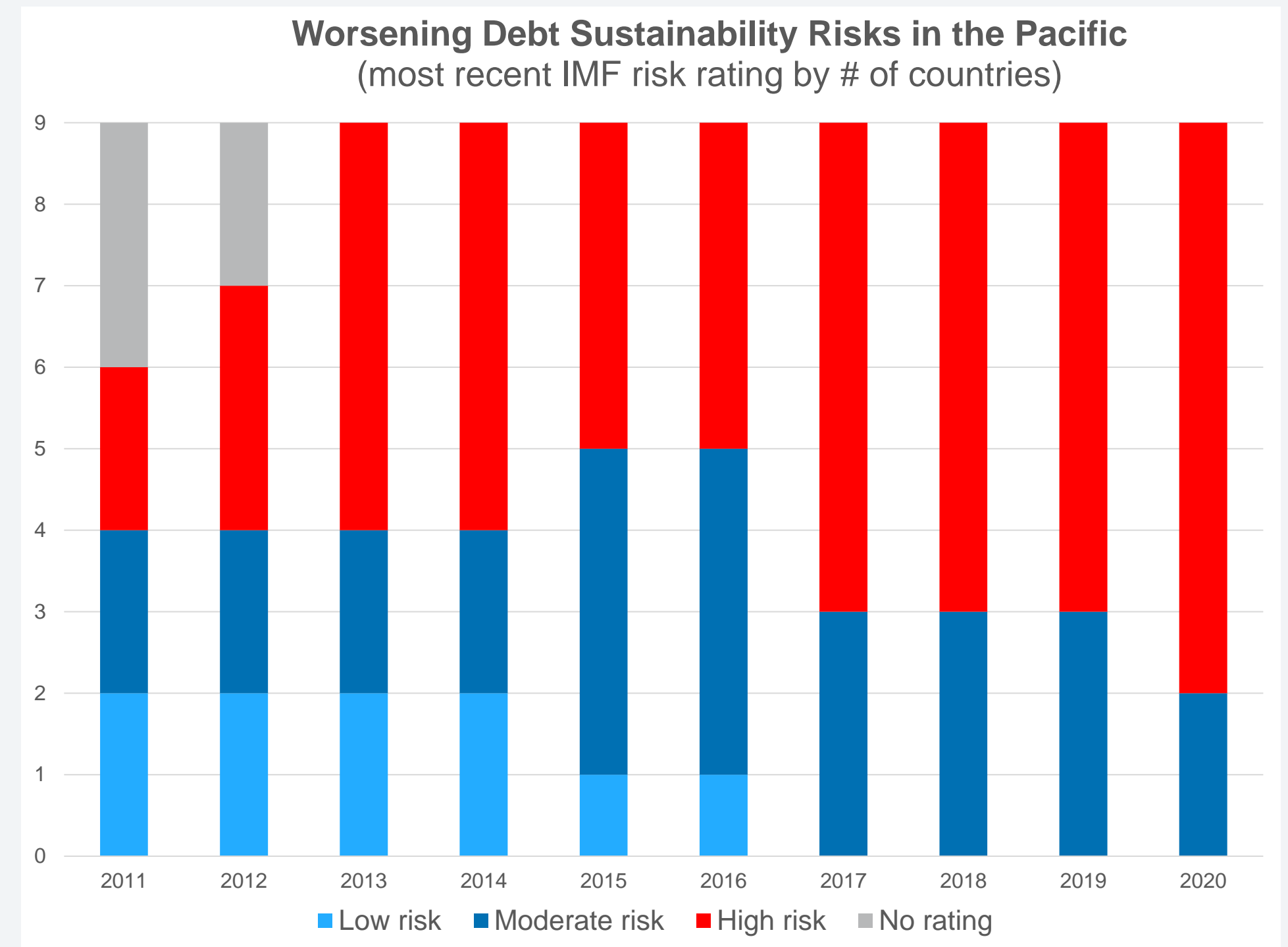
- About US\$3.3 billion (10% GDP)
- But ultimately not enough
 - Small in comparison to shock
 - Uneven – low support in PNG & Fiji
 - Financing challenges will persist



Source: Asian Development Bank; World Bank; IMF and Pacific budget documents

A looming Pacific debt crisis?

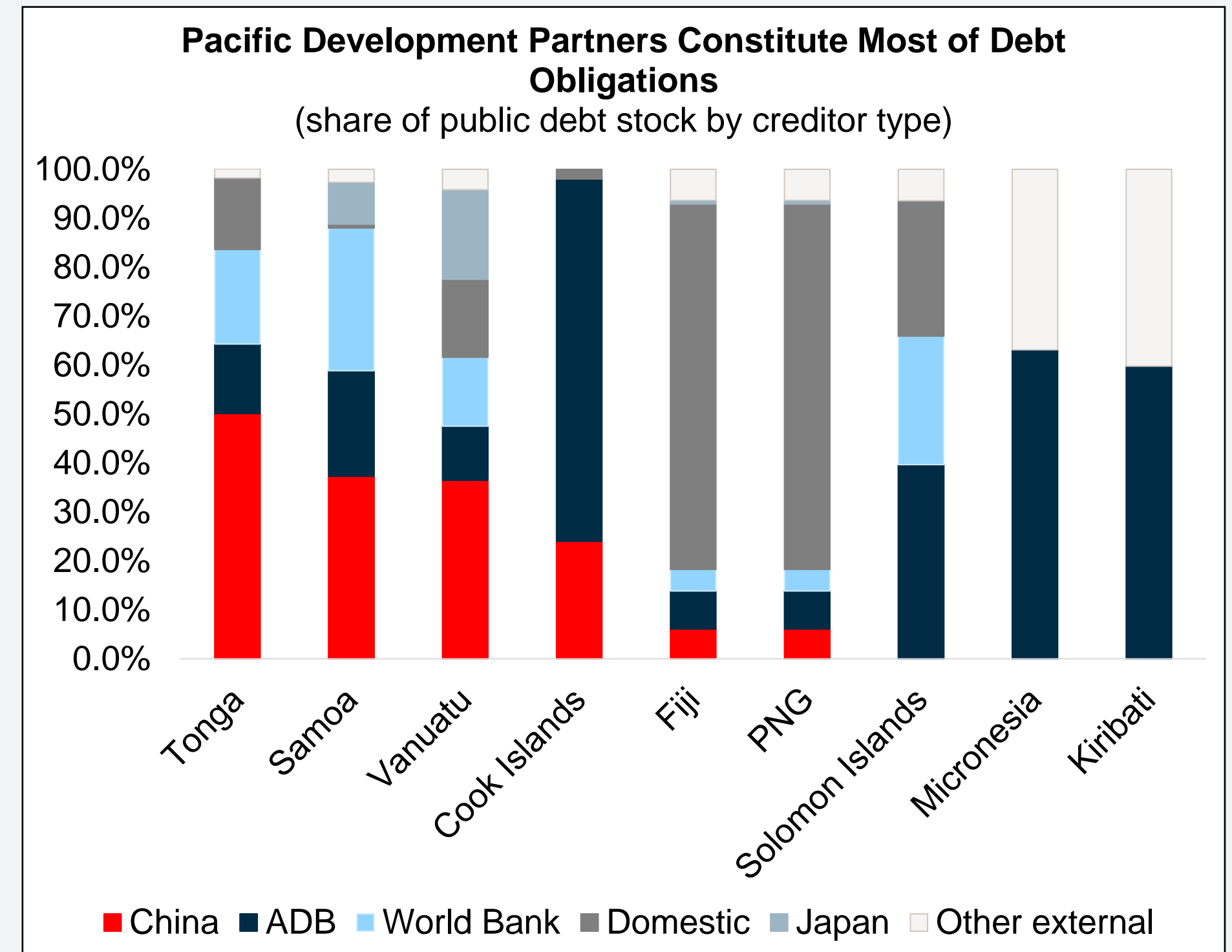
- Reasons to be concerned: structural vulnerability
 - Small size (e.g., population, GDP)
 - Remoteness from major international economic centres
 - High vulnerability to effects of climate change



Sources: International Monetary Fund; World Bank

A looming Pacific debt crisis?

- Reasons to be **less** concerned: the role of Development Partners
 - Limited borrowing from international private creditors
 - PRC loans semi-concessional
 - Heavily reliance on official development partners for public sector borrowing

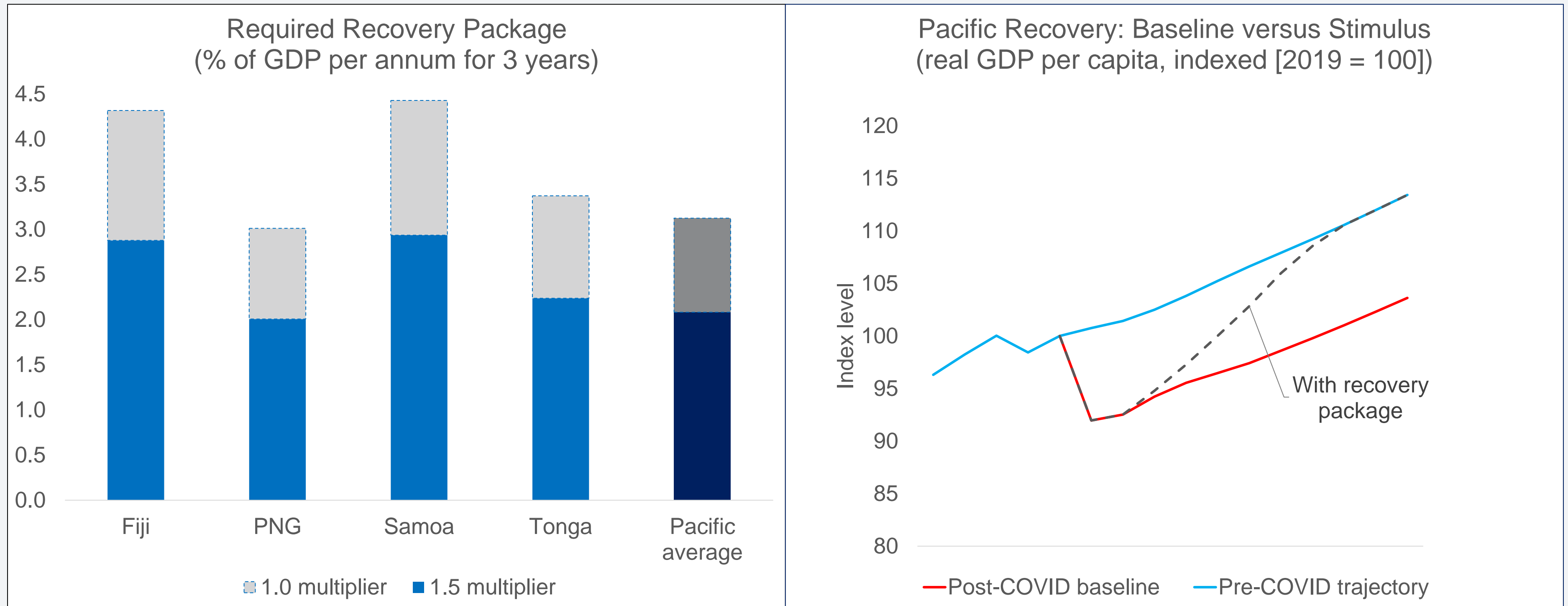


Source: Authors' calculations; Government budget documents; International Monetary Fund

Aiding the Pacific Economic Recovery

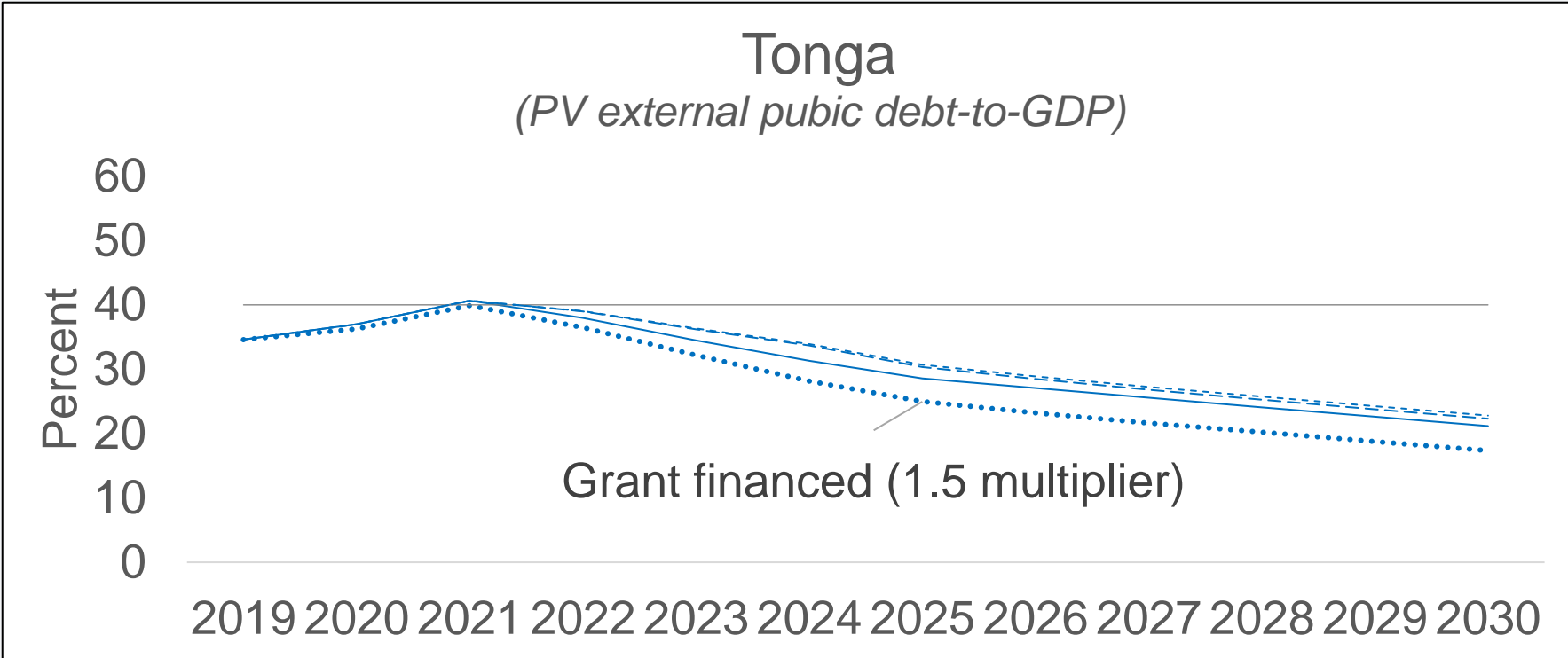
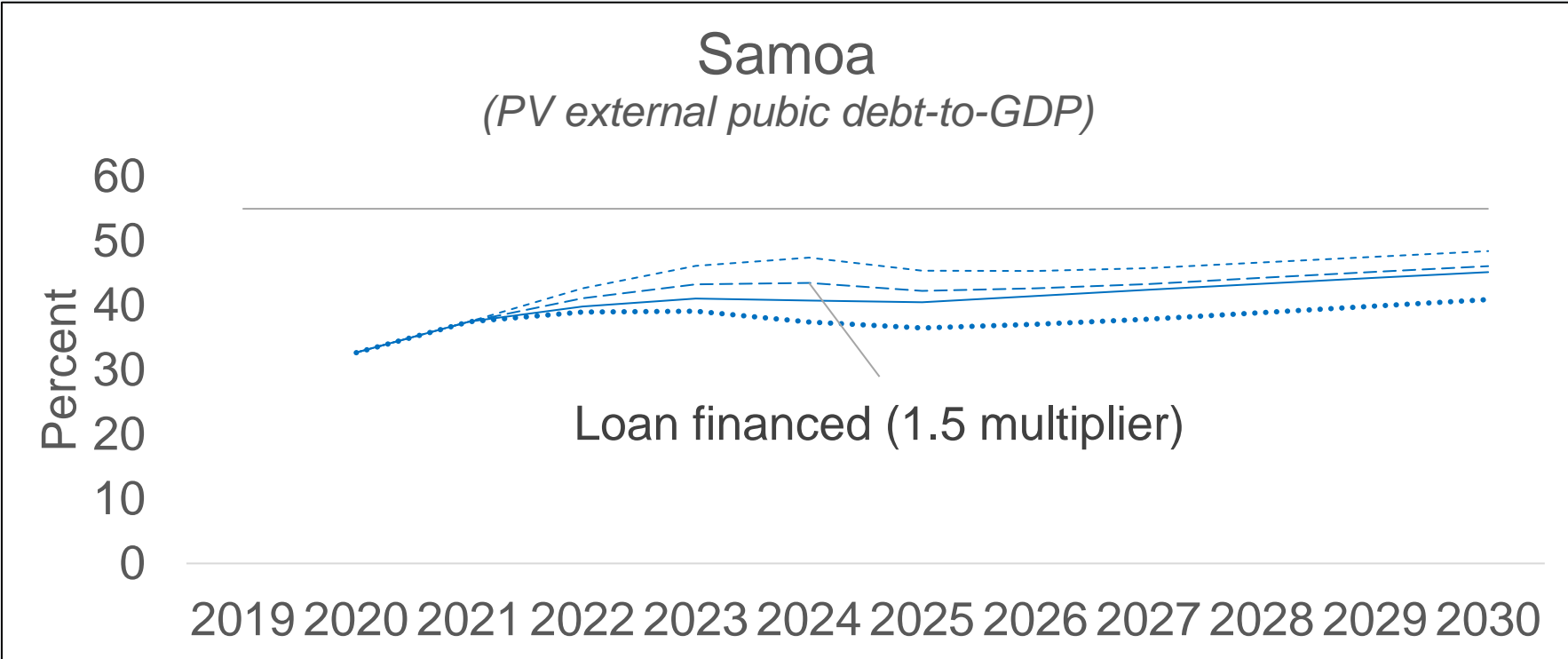
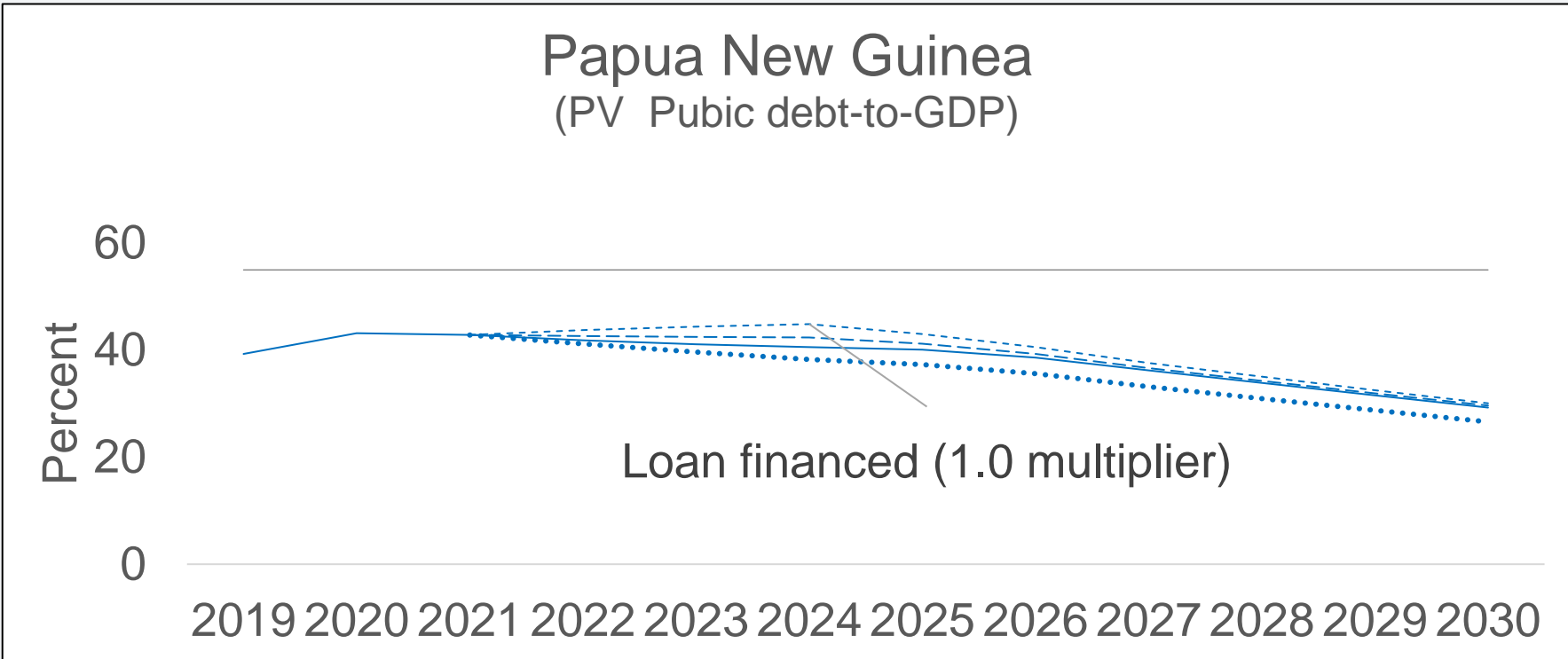
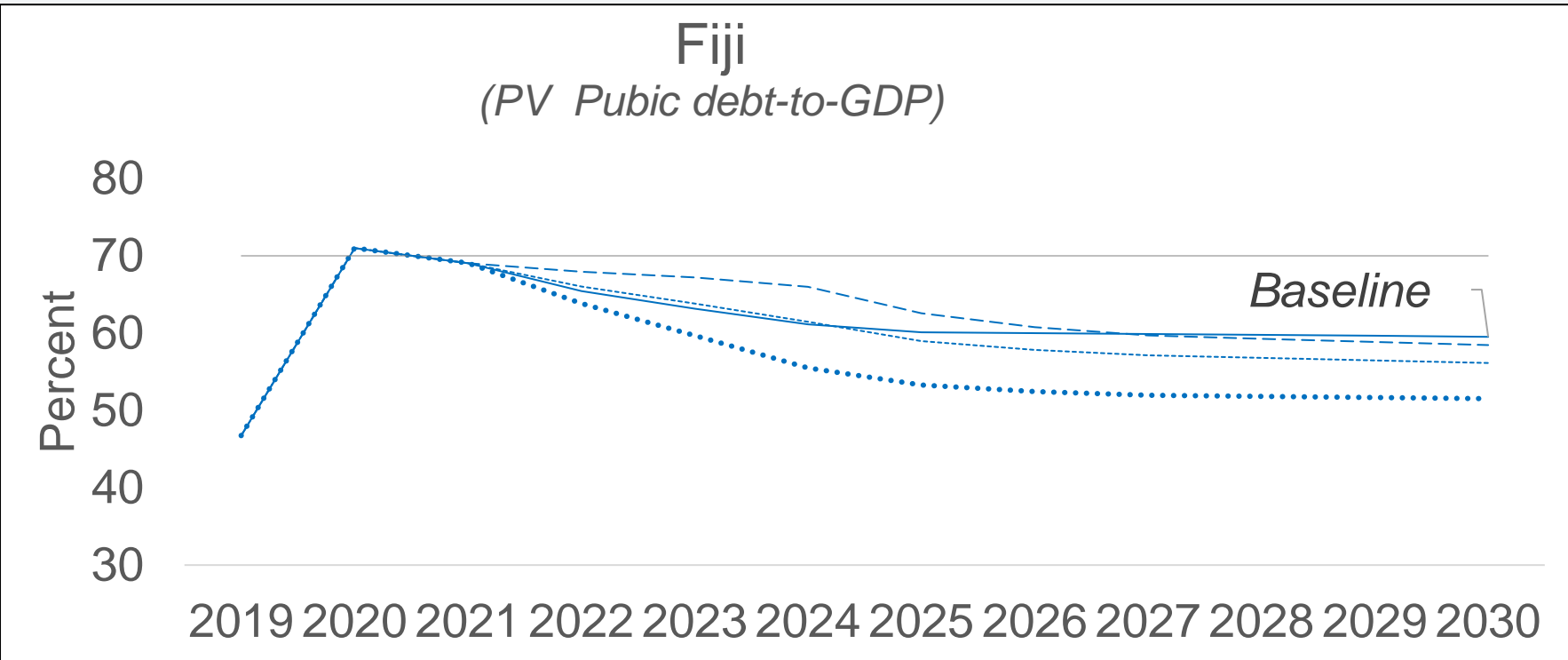
- Economic recovery hinges on resolution of the global health crisis
- Strength of the global economic recovery, notably in key economies like Australia, China and New Zealand
- **Fiscal stimulus** is needed, but how large?
 - Probably high fiscal multiplier:
 - ✓ Recession
 - ✓ Maximized if directed at productive investments
 - ✓ Additional Technical Assistance
 - ❖ **Fiscal multiplier = 1.0 – 1.5 => US \$2.3 billion – \$3.5 billion**

Aiding the Pacific Economic Recovery



Source: IMF World Economic Outlook database

Impact of “recovery package” on Pacific long-term debt sustainability



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