Addressing Macroeconomic Challenges in Small States

Jeffrey D. Lewis

Director, Economic Policy, Debt and Trade Department

World Bank





What makes many small states different from larger peers?

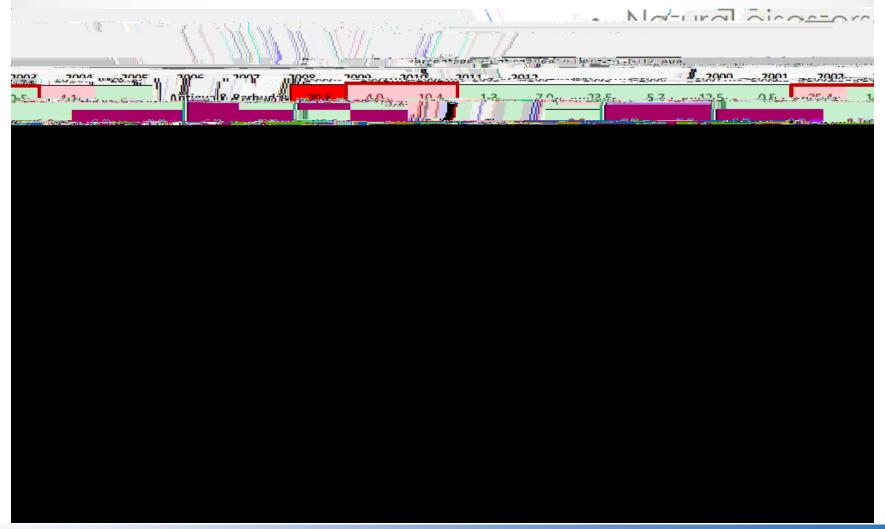
High Vulnerability

Restricted Policy Space/Limited Resilience





Impact of Natural Disasters in Caribbean states











Some additional issues for small higher-income countries

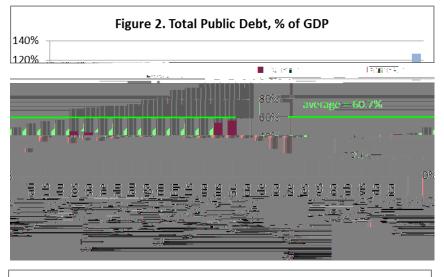
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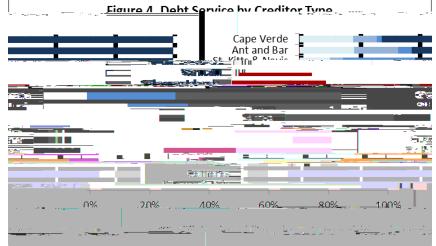
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Proposals on financial instruments to small states

- Debt swaps for climate change adaptation and mitigation
 - Challenge: unlikely to represent a comprehensive solution
- Vulnerability as a criteria for eligibility to access concessional resources
- World Bank initiatives:
 - In IDA-17 lending terms to small island states exempted from lowering maturity and grace of regular IDA terms
 - Annual minimum base allocation increased from SDR 3 million to 4 million, which likely benefits mostly small states
 - Countercyclical loans (IDA-17 Crisis Response Window)
- Resilience building as a policy condition for international financial institution lending





The Challenge: Building Resilience

- Macro/budget management
 - Prudent macroeconomic management best positions the economy against shocks and facilitates rapid donor response
 - Sound budget management maximizes value from resources
- Debt headroom
 - Maintaining thresholds provides room to use concessional loans to mitigate the impact of shocks on the economy
- Asset buffers
 - Build prudential reserves
 - Catastrophe loans/bonds/contingent credit lines
- Reduce vulnerability
 - Facilitate use of alternative energy to reduce oil dependence
 - Facilitate natural resource/tourism industry development
 - Expand labor market access to secure remittances





The Comprehensive Debt Framework







Implementation of the CDF and Similar Approaches in SIDS





