

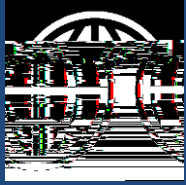


THE PACIFIC ISLANDS

SMALL AND ISOLATED (BY LAND) | LARGE AND CONNECTED (BY OCEAN)

Pacific Islands: Extreme Remoteness from Major Markets





OUTLINE

Vulnerability to shocks ➡ volatility is the norm

Fiscal policy responses to shocks

Building resilience to cope with volatility



FIVE SOURCES OF VOLATILITY

Concentration of Exports

- Shocks to key natural resource or cash crop exports
- Economic downturns in tourism source countries

High Import Dependence

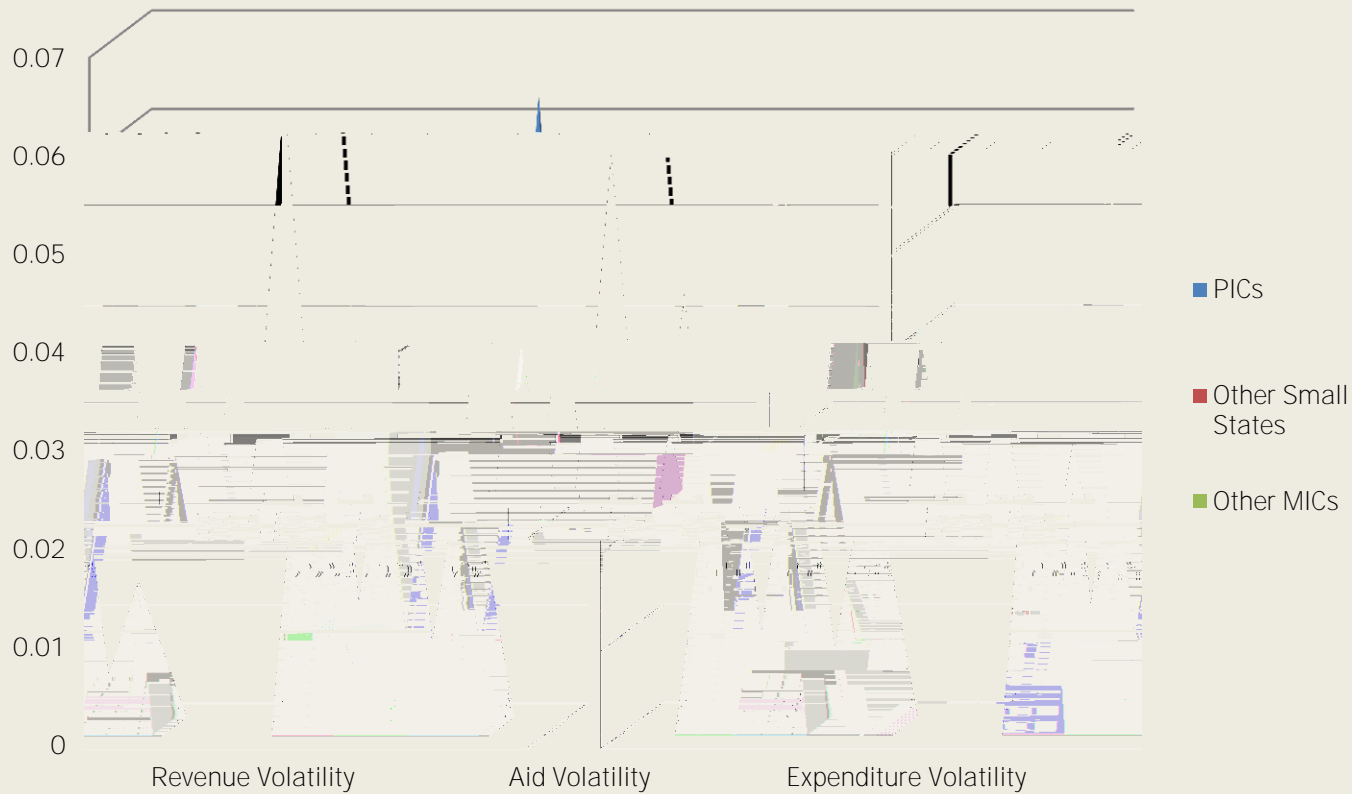
- Fuel price shocks
- Food price shocks





REVENUE, AID AND EXPENDITURE VOLATILITY

Pacific Islands: Volatility in Revenue, Aid and Expenditure





FOUR MAIN FISCAL POLICY RESPONSES

/ Assets

- Trust funds / sovereign wealth funds
- Reserves
- Cash balances

/ Debt

- Concessional loans from IFIs
- Loans from bilateral donors
- Domestic borrowing, bank overdrafts

Address Quality of Spending

- Protects service delivery in the event of revenue shortfalls, without increasing deficits
- Augments value of other fiscal buffers

/ Grants

- Grants from bilateral donors
- Grants from IFIs (for countries at high risk of debt distress)



FIVE AVENUES TO BUILD 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



RULES AND RESILIENCE

Fiscal discipline can be important for building and maintaining the resilience to manage shocks

Fiscal disciplines have tended to work well where –

- For deficits, they have been target ceilings (rather than rules) with justification required for breaches of the targets

- For debt, they have either been target ceilings, with justification required for breaches, or they have been policy moratoriums on contracting new debt, in contexts where new debt is not justifiable

- For sovereign wealth/trust funds, they have been rules for maintaining the value of the funds, in contexts where donors have provided additional grant support in extraordinary circumstances

In each case, the appropriateness of the form that fiscal discipline has taken has been context specific and it has been only one part of a broader fiscal management approach, including support from development partners

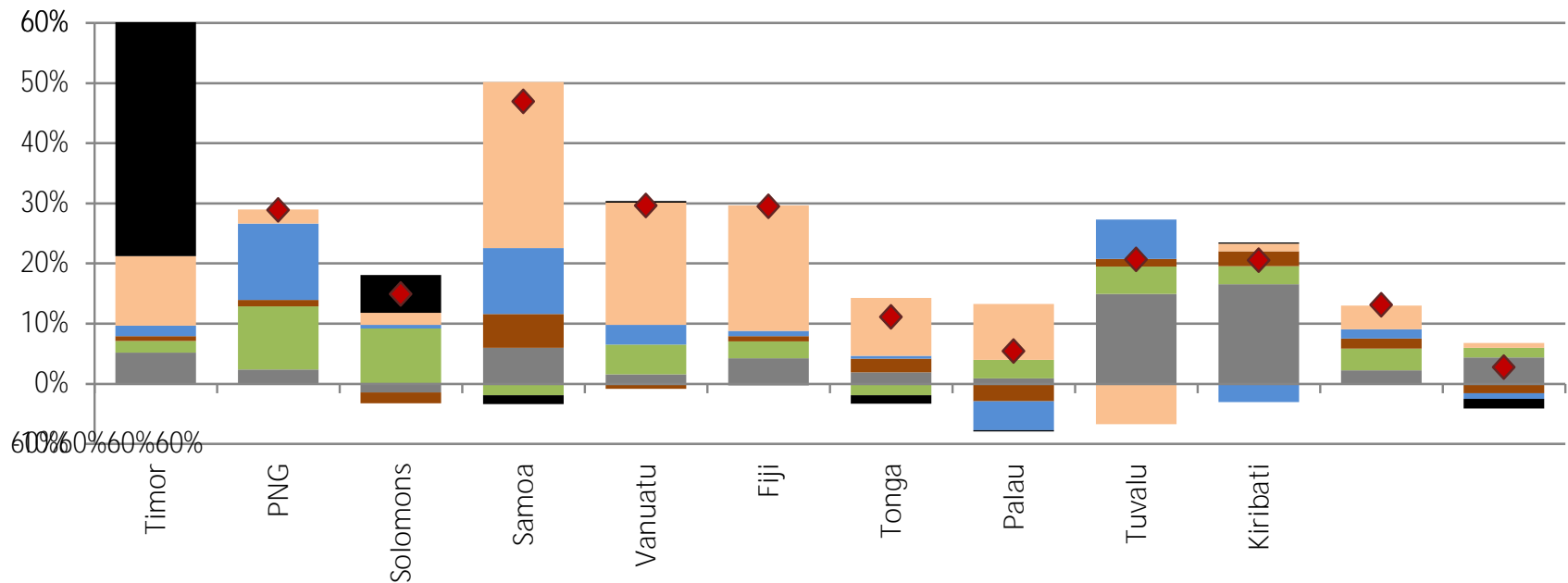
THANK YOU

The World Bank
Pacific Department
www.worldbank.org/pi





ANNEX 1: DIFFERENT TYPES OF ECONOMY



Structure of Pacific economies reflects the special challenges and opportunities facing small, remote economies.



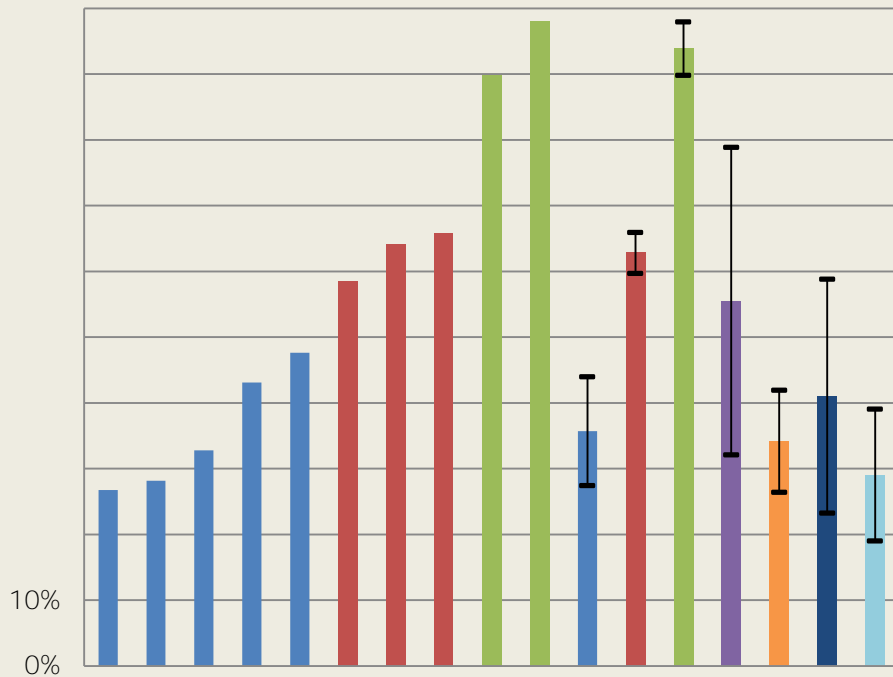
ANNEX 2: IMPORTANCE OF AID



ANNEX 3: SIZE OF GOVERNMENTS

Pacific Islands: Total Expenditure Share of GDP

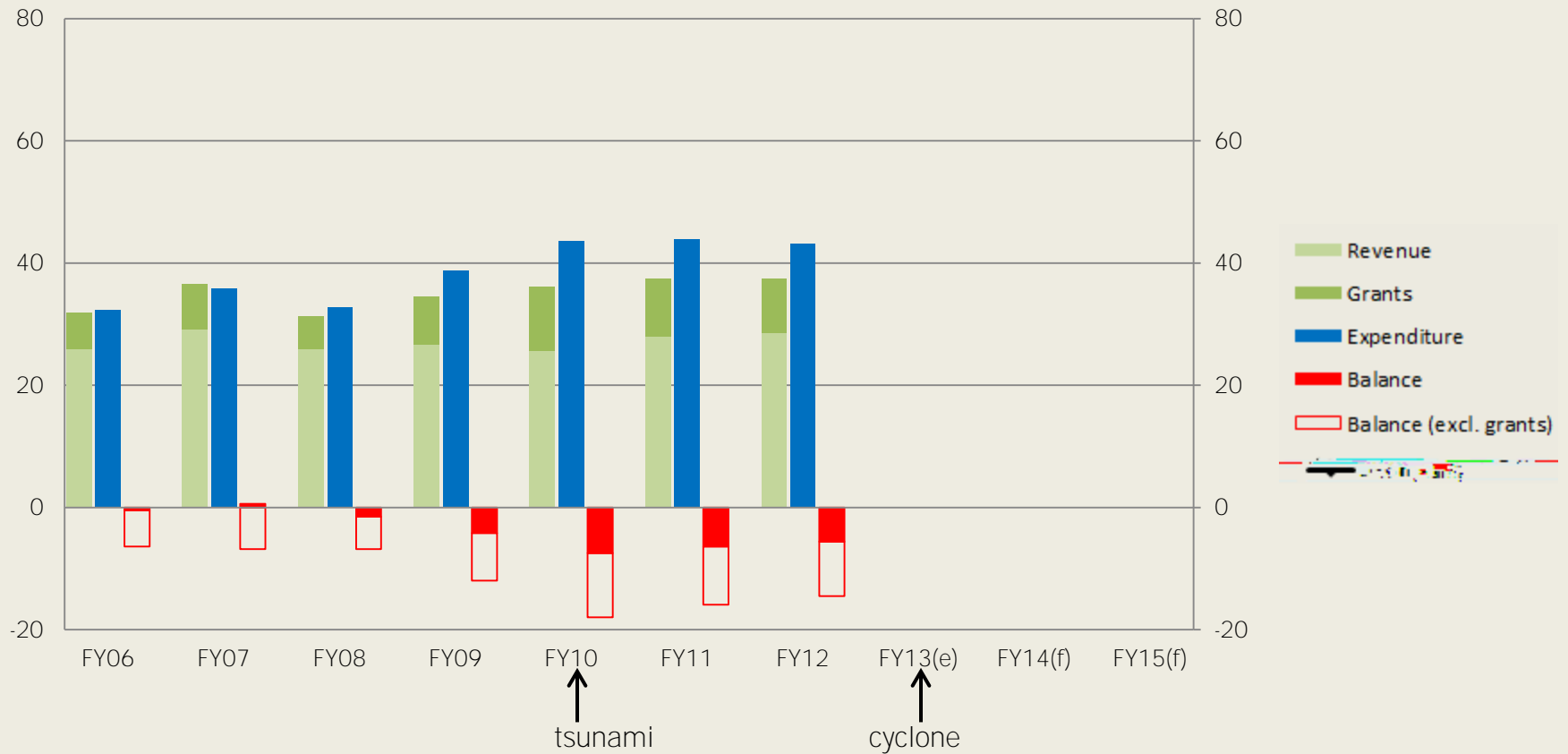
Pacific Islands: Wage Bill Share of GDP





CASE STUDY: NATURAL DISASTERS IN SAMOA

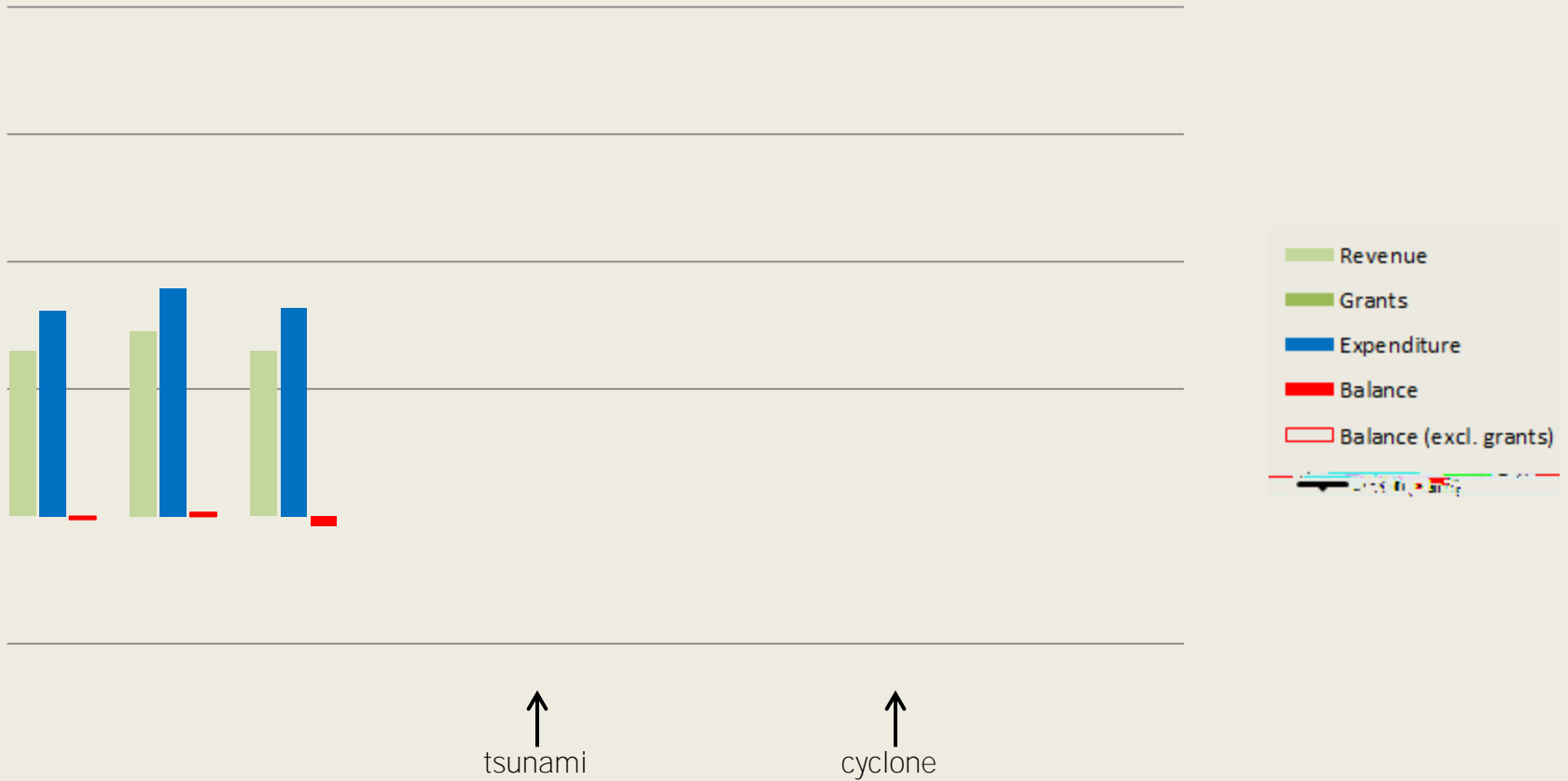
Samoa: Fiscal Responses to Successive Natural Disasters





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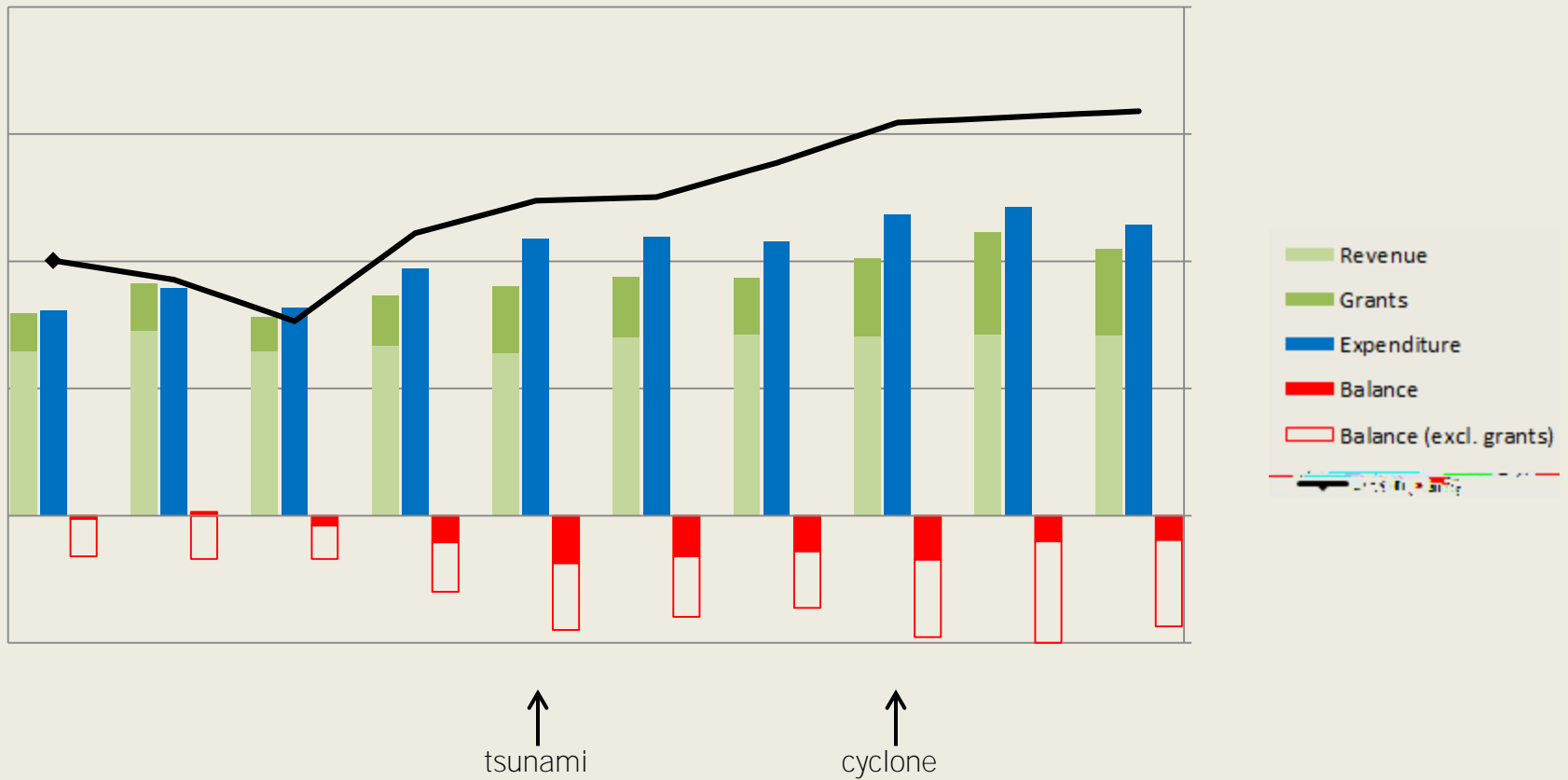
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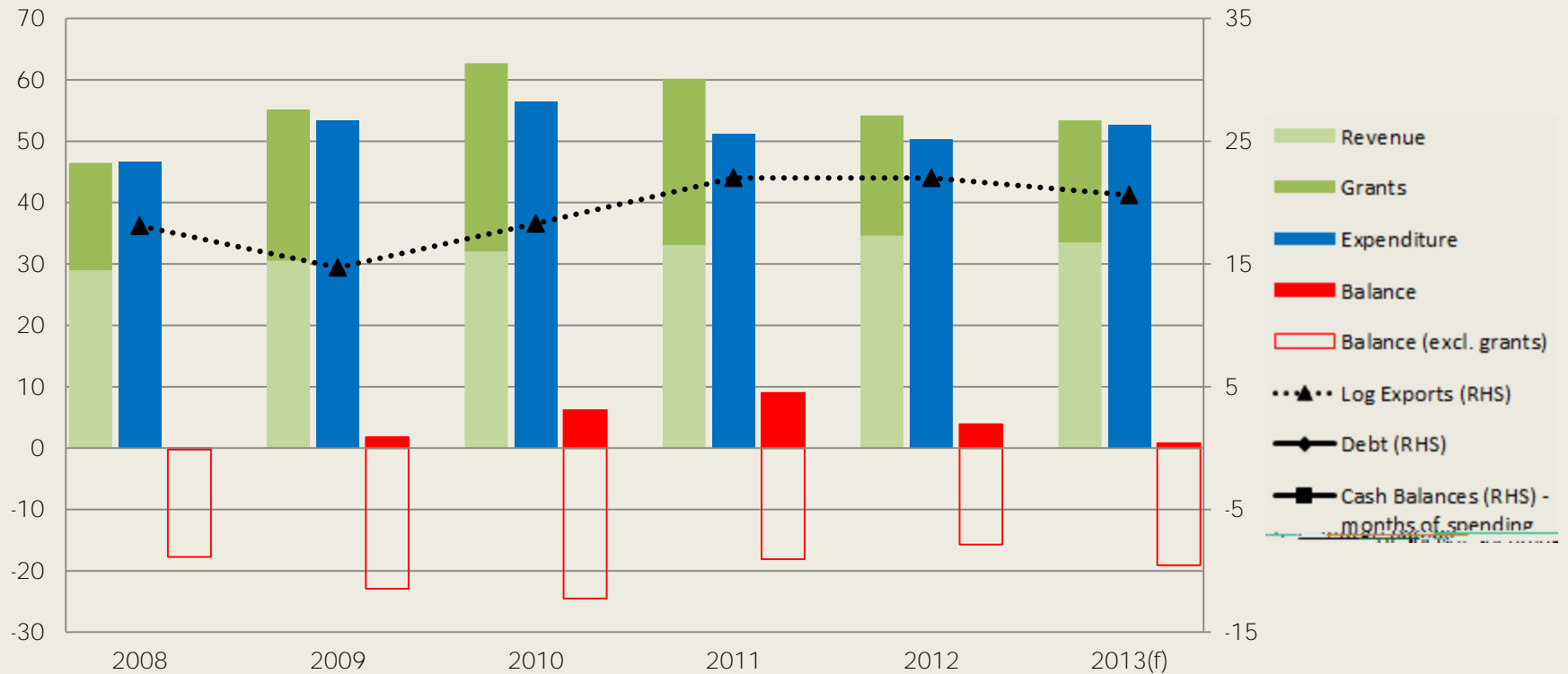


No new borrowing
Increased grants
Improved quality of
spending to mitigate
the impact of the
decline in revenue on
service delivery
Closer alignment of



CASE STUDY: WINDFALL GAINS IN SOLOMON IS

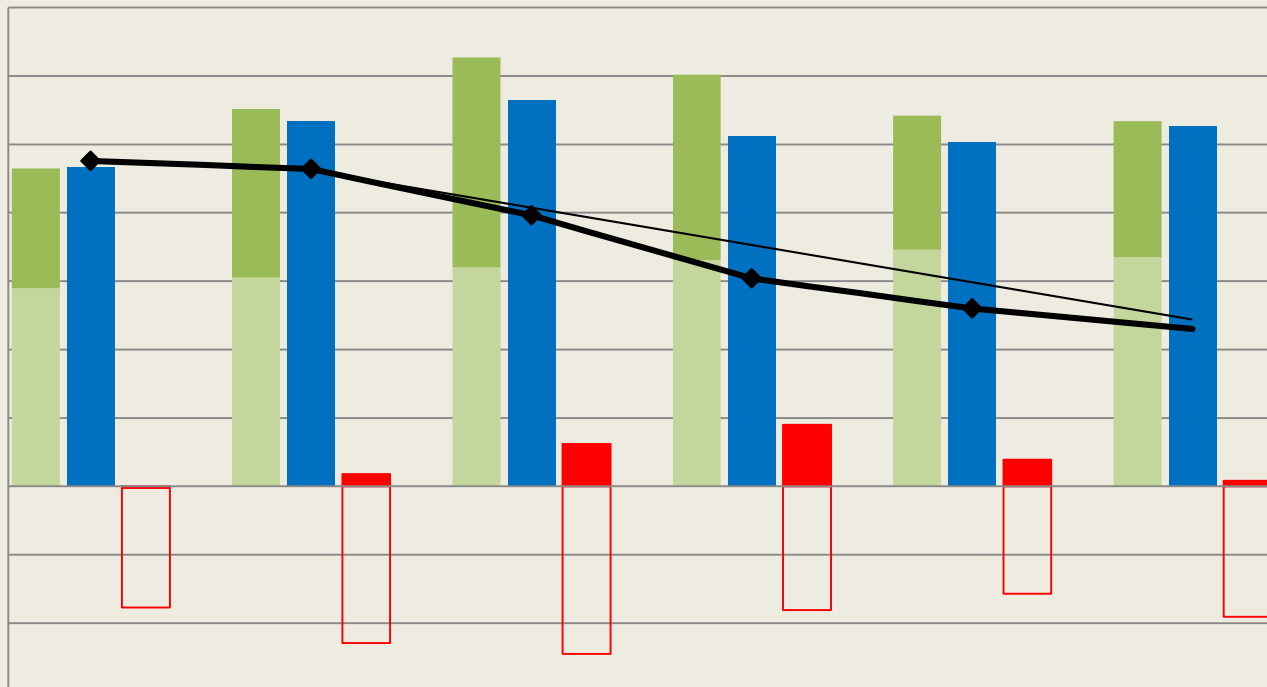
Solomon Islands: Paying Down Debt and Building Up Cash Balances in the Good Years





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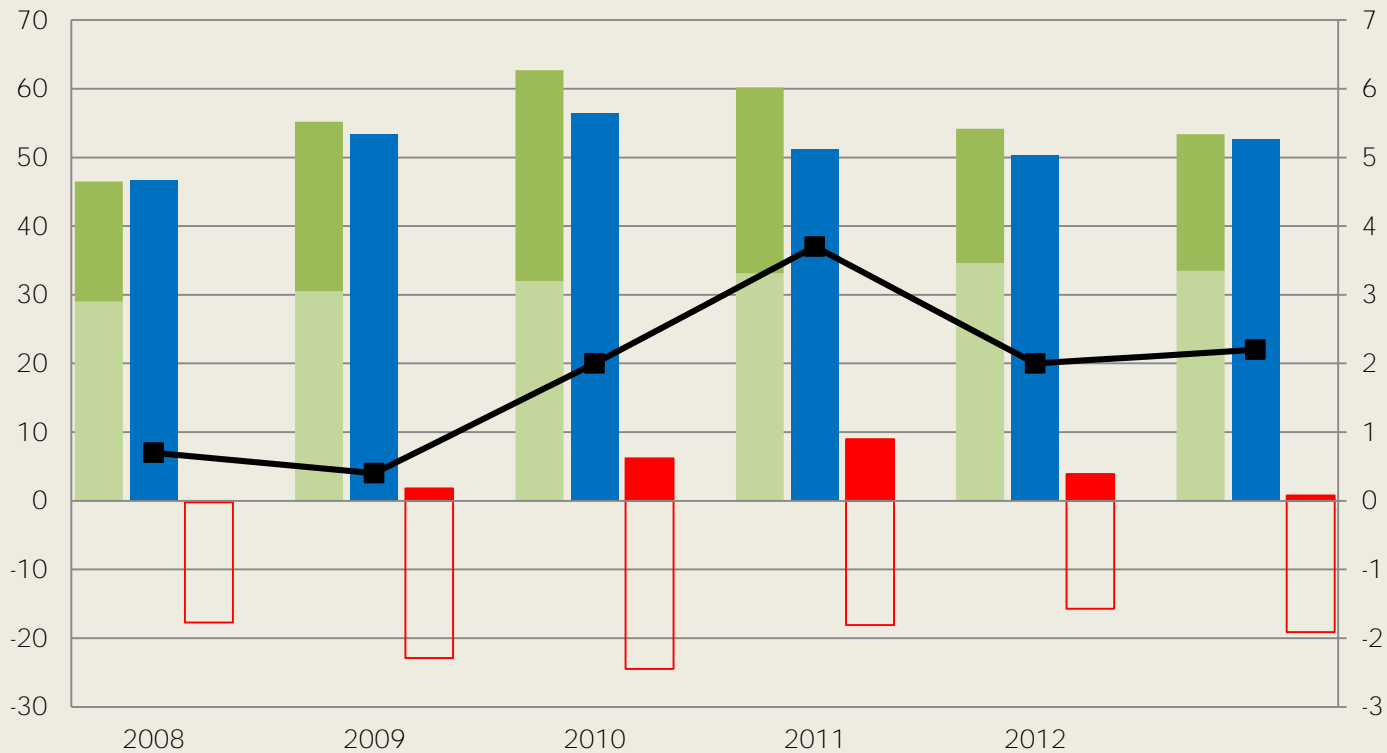
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CASE STUDY: GFC ON KIRIBATI AND TUVALU



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Kiribati sought to maintain the real per capita value of its sovereign wealth fund at 1996 levels

Since the early 2000s, drawdowns to fund deficits have exceeded sustainable levels, and Kiribati might benefit from an updated, formal rule to maintain the real per capita value at its current level

Tuvalu only receives distributions from its trust fund when the market value of the fund exceeds its targeted value (which is linked to the Australian CPI)

Distributions accumulate in a reserve fund, which is available for budgetary spending

Tuvalu seeks to have a sufficient balance in this reserve fund to cover a 'dry spell' (four years without trust fund distributions)

In good years, the reserve fund should be built up so that in bad years it can be run down while financing the budget

The reserve fund thus serves as an important fiscal buffer

