“Strengthening the Vulnerability Resilience of SIDS: International Monetary Fund Perspectives”

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Coverage of presentation

1. SIDS recent macroeconomic performance
2. IMF engagement with SIDS
3. Policy recommendations for strengthening resilience
1. SIDS’ recent macro performance: The good news...

SIDS have higher per capita incomes and better development ratings than larger peers...

![Graph showing per-capita GDP and Human Development Index comparison between Small States and Non-Small States](image-url)
1. SIDS’ recent macro performance:
The bad news….

- SIDS growth is slowing, just as larger peers are taking off…
1. SIDS’ recent macro performance: More economic volatility...

![Graphs showing volatility of Real per-capita GDP Growth, CA-to-GDP Ratio, Aid-to-GNI Ratio, and Fiscal Balance-to-GDP Ratio from 2000 to 2011 for Small States and Non-Small States.](#)
1. SIDS’ recent macro performance: Larger impact from natural disasters...

Average Annual Cost-to-GDP Ratio (mean, 1987-2011)

- Small State 1/
- Micro State
- Non-Small State
- Micro State in Pacific
- Micro State in Caribbean
1. SIDS’ recent macro performance:
Low buffers to weather shocks...
1. SIDS’ recent macro performance: ...imply continuing high vulnerability

Growth Decline Vulnerability Index

(Share of Risk Category)

1/ LICs excluding small states, fragile states and net oil exporters.
1. SIDS’ recent macro performance:

- The unanswered question...
- Is the weaker relative performance of SIDS due to:
  - (a) A global economic environment that favors larger states (supply chains, etc)?
  - (b) Lagging macro reforms by smaller states?
1. SIDS’ recent macro performance

Comparison between the Caribbean and PICs

<table>
<thead>
<tr>
<th>Country Group</th>
<th>GDP per capita (current US$)</th>
<th>GDP per capita growth (annual %)</th>
<th>Net ODA received (% of GDP)</th>
<th>Public Debt (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-10</td>
<td>2000-10</td>
<td>2010</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Caribbean SS</td>
<td>6088</td>
<td>1.6</td>
<td>3</td>
<td>73</td>
</tr>
<tr>
<td>PICs</td>
<td>2301</td>
<td>0.7</td>
<td>20</td>
<td>28</td>
</tr>
</tbody>
</table>
1. SIDS’s recent macro performance:
Debt is a major issue for Caribbean SIDS

Total Public Debt to GDP Ratio (2011)

Source: IMF Staff calculations
2. IMF engagement with SIDS

--Concessional financing

- IMF concessional financing available to:
  - **Regular LICs** (per capita incomes up to $2,390)
  - **Small states** (per capita incomes up to $3,585): Cape Verde, Guyana, Maldives, Timor Leste, Vanuatu
  - **Micro states** (per capita incomes up to $7,170): Dominica, Grenada, Marshall Islands, Micronesia, Samoa, St. Lucia, St. Vincent & Grenadines, Tonga, Tuvalu
2. IMF engagement with SIDS
--Financial support and other programs

– 9 SIDS have used one-off emergency IMF loans;
– 10 SIDS have used IMF program-based loans;
– Borrowing is more common for the smallest SIDS with lowest incomes;
– Caribbean SIDS borrow more frequently than those from the Pacific (where ODA is typically higher).
2. IMF engagement with SIDS
-- Technical Assistance

Technical assistance provided, 2011
(Person years per million population, median)

TA delivery by PFTAC
(field time delivery in person-years)

TA delivery by CARTAC
(field time delivery in person-years)
2. IMF engagement with SIDS

--Debt Relief

- 3 SIDS have benefitted from IMF debt relief (MDRI) as well as international debt relief (HIPC)—Comoros, Guyana, Sao Tome and Principe;
- IMF has supported middle-income debt restructuring for 5 SIDS—Belize, Dominica, Grenada, Seychelles, and St. Kitts and Nevis)
2. IMF engagement with SIDS

--Policy Advice

• Small states guidance note for IMF staff (by end-2013);

• Ongoing analytical work (e.g., fiscal rules at Small States Forum in October);

• Engagement with SIDS through conferences—Bahamas (September), Vanuatu (November).
3. Building Resilience

**Nature of shocks:**
External environment, diseconomies of scale, natural disasters, etc.

**Policy design and implementation:**
Macro management, fiscal and external buffers, business climate, etc.

**Resilience to shocks**

**International support:**
(including from IMF): policy analysis and advice, financing, technical assistance, capacity building, etc.

**Underlying growth and recovery from shocks:**
Living standards, development gains.
3. Building resilience
--Nature of macroeconomic shocks

• **Natural disasters** (floods, cyclones, earthquakes, rising sea level)

• **Industry shocks** (crop failure, drop in global prices for exports)

• **External earnings shock** (loss of migrant earnings, uncertain aid flows, cyclical FDI)

• **Security/governance** (civil unrest, loss of government authority/recognition)
3. Building resilience
--Proactive investments to mitigate risks

• **Options**: sea walls, flood channels, earthquake reinforcement
• **Need to create fiscal space for investments**
• **Funding options**: revenue mobilization, borrowed funds, or development assistance?
3. Building resilience
--Safety nets for most vulnerable

• **Targeting**: to reduce costs to affordable levels;

• **Responsiveness**: Should quickly provide expanded relief in event of shocks;

• **Collaboration**: Use parallel expertise in World Bank and regional development banks.
3. Building resilience
--Fiscal buffers to weather shocks

• Likely cost of outlays? Insurance options?
• Contingency provision in budget;
• Low fiscal deficits and public debt levels provide a buffer;
• How to bring the budget back on track after a shock?
• Accountability for disaster-related spending.
3. Building resilience

--External buffers to weather shocks

• **Buffers**: High international reserve cover helps weather shocks

• **Exchange rate**: Case for adjustment/flexibility?

• **Financing**: New resources from IMF and other sources can help weather shocks
4. Bottom line

- SIDS facing real macroeconomic challenges
- Need combination of international and domestic effort
- Priorities vary across countries and regions
- IMF providing stepped-up range of targeted support
- Continuing to refine our engagement