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Three Budgets of Deficits and Debts

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With the introduction of new fiscal year (1 August - 31 July) for Fiji, we have completed an early round of three budgets presented to and passed by parliaments in Fiji, Samoa and Tonga for their respective fiscal years (1 June - 31 May) and (1 July - 30 June). Three other major Pacific island countries (PNG, Solomon Islands, and Vanuatu) will present their 2017 budgets later for their fiscal years (January to December).

Change or no change in fiscal years, budget time is always stock-taking time. It is also the time for reviewing past year performance and chalking out response to new challenges foreseen and unforeseen.

Parliament discussions are always lively. They are looked forward to by the public and media, as legislators display their knowledge of public finance and their debating skills. Legislators could be harsh; and constructive as well. Harsh criticism from the opposition is often taken in stride. However, when it comes from within the ruling party every one sits up and listens. The media laps it up: you do not get to see “same-side goals” often in any soccer match.

“Same side goals”

The Samoa Observer reports Mr. Nafoitoa Talaimanu Keti, the Deputy Speaker of Samoa’s Parliament and a member of the ruling party, while speaking during the budget debate sounded alarm bells cautioning the government against reliance on foreign assistance for ever.

With the country staring at a foreign debt of more US$580 million or a close 70 percent of the country’s GDP, Nafoitoa said “it was important for Parliament and the government to lead the way when it comes to living within our means”. The Deputy Speaker wanted to “reduce borrowing and encourage people to play their part in the development of Samoa.”

In his maiden budget speech, the new Finance Minister Epa Tuioti explained the reasons: the circumstances were beyond control; cost of rehabilitation works following cyclone Evan was high. Acknowledging that much needed to be done, he indicated the need to: reduce the budget deficit below 3.5 percent of GDP; cut personnel costs as a percentage of total current expenditure be constrained to a range of 40 - 45%; improve the performance of public enterprises to avoid extra burden on Government budget through default loans; and promote greater efficiencies in revenue collection.

Debt service ratio

In the case of Tonga, the estimated budget deficit is 1.3 percent of GDP, which is higher than in 2015 deficit (-0.2). It total debt is estimated to rise to 55 percent of GDP. About 90 percent of total debt is external debt. Two thirds of it is owed to EXIM Bank of China.
Fiji with a per capita income of US$4530 is in the upper middle income group (US$4,036 to US$ 12,475). All others being low or low middle income countries are entitled to concessional loans from World Bank and ADB.

The debt service ratios (DSR), defined as servicing charges as percent of export earnings in the past were low. External debt was not burdensome. With decline in export earnings, DSR is increasing: 6.1 for Samoa and 7.8 for Tonga. Both have to strive hard for greater earnings from their limited range of commodity exports, tourism and remittances.

Fiji has been more fortunate with diversified base. Its debt service ratio has remained low around 2 percent. Its external debt has also remained low at 20.7 percent of GDP. The latest 2016-17 budget approved by Fiji's parliament shows a rise in deficit of 4.7 percent of GDP (- 1.6 percent for 2015-16). The rising budget deficit is obviously due to additional expenditure on rehabilitation of Cyclone Winston affected physical infrastructures as in the case of Samoa (Cyclone Evan); and Vanuatu (Cyclone Pam). Vanuatu's budget deficit rose to 7.1 percent in 2015 just as Samoa's budget deficit of 4.7 percent.

Fiji has borrowed this year, both domestically and externally to finance deficits. Domestic debt rose from 32.7 percent of GDP in 2015 to 33.8 percent as of July 2016. It is expected to be around 34.2 percent in 2017.

Two emergency loans on concessional terms from ADB and World Bank totaling US$100 for supporting rehabilitation and reconstruction would raise the external debt from current 14.1 percent to 16.2 percent of GDP. Total debt (both domestic and external) would rise to 50.4 percent of GDP over the year from current 47.9 percent.

Fiji's domestic debt to external debt composition is 71: 29. The exchange rate risk has to be taken care of.

The government is aware that with uncertain global situation, any decline in tourism, inward remittances or commodity export receipts would increase DSR. Fall in the value of domestic currency would also increase the domestic value of outstanding external debt and the debt ratio.

Concerns expressed on budget deficits and debts cannot be ignored. Rephrasing a well known quote, one can say: "Eternal fiscal vigilance is the price of good governance".

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