MACROECONOMIC STABILITY IN SMALL STATES

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Most small states, countries with population under 2 million, have perennially recorded twin deficits. This has resulted in a debt spiral for these economies. To address this problem an approach used by the international financial institutions has been with respect to fostering fiscal discipline. This paper conducts a survey of ensuing conditionality programmes faced by these states with respect to fiscal programme. We argue that fiscal programmes should be flexible enough to meet the varying balance of payments circumstances. Further, we argue that it is inadequate to qualify countries for concessionary financing in terms of income per capita in small states. This we argue should be open for negotiation with the small states.

This Draft: November

1.0 Introduction

For Small Island Developing States (SIDS), twin deficits and rising debt are emerging as growing sources of macroeconomic instability. The severity of the twin deficits coupled with natural disasters rob these countries of fiscal space to adjust to macroeconomic disturbances. As a result many countries had to resort to International Financial Institutions (IFIs) to source financing through loans and economic aid. However, this has led to conditionality programs and consequently the loss of autonomy of these countries.

Twin deficits can haemorrhage external capital inflows, owing to the assertion that these markets pose higher credit risks, see Goyal (2009) and Bagnai (2010). Persistence in twin deficits can sink the country reputational risks, increase credit risks and therefore raise the price at which these countries can access external finance.As a result, borrowing costs can surge for such countries thus fuelling higher debt overhang. Further it can increase the intensity of conditionality programs under which countries would access external finance to stabilise and develop their economies.

Budget deficits in an open economy would have an expansionary effect on external demand and therefore lead to external current account deficits, see Barrow (1989). As a result, conditionality programs have been premised on the idea that fiscal rules are necessary to constrain spending and therefore slowdown the rate of incurring external current account deficits.

Nevertheless, narrowness of the external current account balance is critical to their ability to be fateful to the conditionality programs of SIDS, where these programs feature fiscal rules. We argue that the balance of payment realities of SIDS can constrain fiscal spending in the long run, if increased spending is not supported by the generation of external revenue inflows. SIDS are characterised by high investment ratios and a high dependence of foreign savings, see Birchwood and Brackin (2009). Moreover, the production structure of SIDS is largely in terms of natural resource based type of production, they are susceptible to swings in external demand whether it is for commodities or services.

In light of economic imbalances and high dependence on external savings, these countries have relied on debt and aid inflows.In view of these realities, implementation of fiscal rules becomesan attractive proposition. Fiscal rules are numerical targets on fiscal aggregates to be followed by policy makers. However, fiscal rules imposed in SIDS run the risk of limiting fiscal policies useful to aid their expansion and competitiveness. Therefore, a challenge for SIDS is how to improve competitiveness and fast track development in order to catch up with the most advanced countries, while maintaining fiscal sustainability by controlling the degree of debt overhang.

In keeping with this, the lure to fiscal rules lies in the idea that if it is adhered to, it can strengthen fiscal balances, lead to fiscal consolidation and allow for the path towards debt sustainability, see Kumar et al (2009). The sentiments of Phillips (1997) aptly apply here, when they noted that fiscal restraint and deficit reduction are important buzz words in the design of fiscal rules in Canada. Indeed if rules governing fiscal balances and debt ceilings are adhered to, they may be useful for protecting future generations from the debt burden created from excessive spending by the current generation and therefore better permit intergenerational equity.

In the absence of optimum criteria, the selection of fiscal rules for different business cycles in SIDS should be done according to certain guidelines concerning desirable features. Here we use business cycle to mean fluctuation in economic activity, often measured in terms of GDP. A challenge for SIDS is how to make the rules sustainable through different phases of the business cycle. We contend that the business cycles in SIDS are largely shaped by the external accounts which include net revenues earned on the external current accounts and capital inflows derived through FDI. Indeed, we argue that the openness of the economy should guide the design of rules.The idea here is that fiscal rules may affect countries differently, dependent on the state of the external accounts. Thus we contend that the external accounts rather than growth cycles are critical in how SIDS are impacted.

Given these challenges, a tempting proposition is for SIDS to use fiscal rules as a means of encouraging fiscal discipline and therefore to reduce the impetus to accumulation of debt.[1]Fiscal rules are numerical targets on fiscal aggregates to be followed by policy makers. However, fiscal rules imposed in SIDS run the risk of limiting fiscal policies useful to aid their expansion and competitiveness. Therefore, a challenge for SIDS is how to improve competitiveness and fast track development in order to catch up with the most advanced countries, while maintaining fiscal sustainability by controlling the degree of debt overhang.

In keeping with this, the lure to fiscal rules lies in the idea that if it is adhered to, it can strengthen fiscal balances, lead to fiscal consolidation and allow for the path towards debt sustainability, see Kumar et. al. (2009). As a result, the important elements that characterise conditionality programs are fiscal restraint and deficit reduction, see Phillips (1997).

The idea here is that fiscal rules arising from conditionality programs may affect countries differently, dependent on the state of the external accounts. We contend that the external accounts rather than growth cycles are critical in how SIDS are impacted. Given our argument that the openness of the economy should guide the design of rules,a challenge for SIDS is how to

[1] A limitation of the study is that it does not make an attempt to answer the moral and political question as to whether the country should place priority in repaying debtors first at the expenseof economic development goals. That is outside the scope of this study.

make the rules sustainable through different phases of the business cycle. We contend that the balance of payment cycles in SIDS are largely shaped by the external accounts which include net revenues earned on the external current accounts and capital inflows derived through FDI.

This study discusses macroeconomic instability, their autonomy to develop stabilisation measures related to national development plans, their ability to attract development assistance and the relevance of design of conditionality programs for SIDS. To develop the study, we begin in Section 2 by examining stylised fact concerning SIDS. Here we note SIDS classification into income bracket is misleading and limit their access to concessionary financing as it does not match the resources of individual countries. We also observe twin deficits and the severity of these deficits recorded by SIDS. We go on to Section 3 where we discuss issues related to fiscal policy in SIDS. We note the globalisation of fiscal policy as highly indebted countries are made to follow conditionality programs to gain access to further financing. Programs also engender fiscal discipline. A survey of fiscal designs followed by SIDS find commonalities between those SIDS under programs as opposed to those that are not under programs. A common feature of the programs include best practice programs , towards fiscal rules to foster fiscal discipline. We then take a look in Section 4 at popular fiscal rules, suggesting that the external current account cycles should be taken into account for fiscal rules to be sustainable. The study then concludes in Section 5.

2.0 Stylised Facts

SIDS have had a short space of time to develop institutions to grapple with stabilisation, having recently gained independence. SIDS gained independence between 1960 to 1990, see Table 7 in the Appendix. As a result, they have had a short time to put in place the necessary data infrastructure, increase institutional and market sophistication to grapple with macroeconomic stabilisation issues and the necessary institutions to enable stabilisation.

It is striking that while SIDS gained independence not more than 52 years ago some already reached high income status in spite of severely constrained economic resources. Some SIDS that

have been classified as high income, while more resourceful countries like emerging market economies like china, India and Brazil are classified in the lower wealth categories, see Table 1. From a cursory look it would appear that the high income small island states are wealthier than the emerging market economies like India, China and Brazil. Yet the classification of wealth is biased against countries with small population size. That is countries with smaller population size can be elevated into the high income status category even though they may command less world resources. Yet this may be misinterpreted to suggest their earning capacity and institutional development.

Table 1 Wealth and Population Size

	Population Million	GDP Size $US Billion
The Bahamas High Income	0.35	11.2
Barbados High Income	0.28	6.6
Brunai Darussalam High Income	0.42	21.9
Cyprus High Income	0.82	23.8
Malta High Income	0.42	11.0
Trinidad and Tobago High Income	1.3	27.3
India Lower Middle Income	1.2 billion	4.8 trillion
China Lower Middle Income	1.3 billion	12.4 trillion
Brazil Upper Middle Income	183.2	2.4 trillion

When SIDS in the upper middle income group are included, then 60 per cent of the SIDS would belong to the upper middle to high income group, see Table A1. As a result of this classification, SIDS may find themselves unable to attract concessionary debt financing, to develop infrastructure.

Most SIDS recorded twin deficits in terms of external current and fiscal deficits, see Table ax in appendix.The most heavily indebted were St. Kitts and Nevis, and Jamaica. There is no standard as to how much debt to GDP ratio should be before it becomes critical. However, if we use the EU standard of 60 per cent for EU membership then most SIDS would have exceeded this level.

A relatively large number ofSIDS recorded fiscal deficitsthe severity of which places them in the bottom quarter when compared to global economies, see Table 2.The SIDS not shown in the Table would fall in the category between moderate to most severe fiscal deficit. In the most severe category SIDS rangedbetween 5.4 per cent and 14.5per cent. This is further evidence as to how under resourced these SIDS are, since in the majority of cases many of them tended to spend more than their revenue inflow.

Table 2 International country comparison for fiscal deficitsfor SIDS for 2011 or closest

Fiscal Surplus			Moderate Fiscal Deficit			Most Severe Fiscal Deficit		
	Fiscal Balance	Global Rank	Top half of the global economies with fiscal deficits of up to 3.1 per cent of GDP	Fiscal Balance	Global Rank	Countries with the most severe deficits in the lowest quarter of the world	Fiscal Balance	Global Rank
Malta	12.7	8	The Bahamas	-2.1	78	Antigua and Barbuda	-5.40	166
Dominica	7.6	12	Brunei	-2.0	73	Jamaica	-6.00	173
Seychelles	1.6	29	Guyana	-3.0	100	Cyprus	-6.50	178
Vanuatu	1.4	31	St. Lucia	-3.0	98	Lesotho	-12.40	205
Tonga	0.0	47	Fiji	-3.1	103	Maldives	-14.50	208
						Namibia	-9.90	196
						St. Vincent and the Grenadines	-10.70	201
						Samoa	-6.80	182
						Swaziland	-12.20	204

Source: Extracted from CIA World Fact Book 2011.

The persistency and or severity of fiscal and external current account deficits can also accelerate the debt situation in SIDS. If the external current account is taken as a given, then SIDS would need to address the fiscal current account. It can increase debt or the urgency of fiscal discipline.

Given the severity of fiscal deficits, some SIDS have incurred high debt overhang. The debt overhang is circular as high debt as high debt leaves the country with tight fiscal space which limits the ability of government to embark on steps towards the laying down of infrastructure and the use of fiscal incentives geared towards industrial development. It limits foreign exchange accumulation through earnings, thus leaving the country dependent on further borrowing or dependent on grants to accumulate foreign exchange. This further leaves the country further vulnerable to shocks in the global economy, such as rising fuel prices, since the debt constraint make it difficult for them to borrow further to meet increased costs. Moreover, the country is limited in the degree to which it can use fiscal policy to achieve competitiveness. For example, the country is constrained on the extent to which it can use fiscal incentives through targeted subsidies or targeted tax discounts to encourage investments by small and micro enterprises into productive activities. In addition, excessive debt servicing limit the ability of countries to make fiscal concessions designed to attract FDI. Also, it limits government ability to create new industries from own resources. Yet this may be a necessary step to assist SIDS to diversify their economies. Further it limits the country's ability to access cheaper finance to facilitate internal investment.

In the most severe case, some SIDS have benefited from debt relief. The multilateral debt relief initiative was agreed to between the G-8 countries. It was agreed that the three multilateral institutions – The IMF, the World Bank and African Development Bank would give a full cancellation of debt to countries accessing this form of relief. The IMF board sought to reflect uniformity of treatment. As a result it was decided that per capita income of US$380 or less will qualify for MRDI Debt relief out of IMF's resources. In 2005, Guyana was the only if of the SIDS to qualify for MRDI debt relief.

By orthodox conventions the remaining SIDS would not qualify for debt relief or debt cancellation from the IFIs. The SIDS with the highest debt levels would not qualify for debt relief or debt cancellation given the level of income at which they are classified...upper Middle income to high income levels, see Table 3.[2]

Table 3 Comparison of top debt levels by income classification vs low income levels by debt

	Debt level	Income Classification
St. Kitts and Nevis	151.2	Upper Middle Income
Jamaica	145.9	Upper Middle Income
Barbados	117.8	High Income
Gambia, The	74.9	Low Income
Solomon Islands	19.6	Low Income

Source: CIA World Fact Book 2011. World Bank 2012http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1261083100072/Country_Classification_by_Region_Income_Dec17.pdf

The IMF has developed emergency instruments for low income countries. Nine SIDS accessed IMF facilities between 2007 to 2012, see Table 4. The most popular facilities utilised were extended credit facility (ECF). This facility is designed for countries that record protracted balance of payment difficulties.The fund noted that ECF dominates the use of other instruments as the fund estimates about 30 such arrangements are accessed each year. The popularity of this facility was clear, in the case of SIDS accessing IMF funding.Also popular was Rapid Access Component and Extended Credit Facility (ECF).

Table 4IMF Programs Accessed by SIDS

	2007	2008	2009	2010	2011	2012
Dominica		ENDA	RAC	RAC		RCF
Gambia, The	ECF	ECF	ECF	ECF	ECF	ECF
Grenada	ECF	ECF	ECF	ECF. ECF	ECF	ECF
Lesotho				ECF	ECF	ECF
Maldives			SBA-ESF	SBA-ESF	SBA-ESF	SBA
Samoa			RAC	RAC		
Solomon				SCF	SCF.SCF	SCF

[2] On the other hand the SIDS that are classified at low income levels have low to moderate debt levels.

Islands						
St. Lucia			RAC0	RAC	ENDA.RCF	
St. Vincent and the Grenadines			RAC		RCF.RCF	RCF

Notes: ECF is Extended Credit Facility, SBA is Standby Arrangement, RAC is Rapid Access Component, RCF is Rapid Credit Facility, ESF is Exogenous Shock Facility, SCF is Standby Credit Facility, ENDA Emergency Natural Disaster Assistance.
Source.: Extracted from "Review of Facilities for Low Income Countries" IMF.

The definitions of the various instruments are reported in Table 5. The Rapid Credit Facility (RCF) has replaced the ESF-RAC, ENDA and EPCA as an emergency facility. The Fund noted that the demand for the use of this facility chiefly emanated from small countries inflicted by natural disasters. However, some small states also used this facility to grapple with shock emanating from the global economy.

Table 5 IMF Instruments for Lower Income Developing economies

Choice of Low-Income Country—Key Factors **Facility 1/**	**Duration of adjustment and BoP needs 2/**	**UCT conditionality standard 3/**	**Size and nature of balance of payments need 4/**	**Access**
Extended Credit Facility (ECF)	Protracted BoP problem. Time needed to achieve stable and sustainable macro position ≧ 3 years (in any case > 2 years).	Required.	Present or prospective BoP needs exist (even if minimal) over course of 3-year arrangement, but a present need is not necessary for each disbursement.	Norm is 120% of quota (or 75% if outstanding PRGT credit > =100% of quota). Annual/cumulative limit: 100/300% of quota.
Standby Credit Facility (SCF)	Time needed to achieve stable and sustainable macro position ≦ 2 years (in any case< 3 years).	Required.	SCF can be approved based on present, prospective, or potential short-term BoP needs. Precautionary use possible. Disbursements require a present need.	Norm is 120% of quota (or 75% if outstanding PRGT credit > = 100% of quota) for 18-month arrangement. Annual/cumulative limit: 100/300% of quota.
Rapid Credit Facility (RCF)	Could be short term or protracted.	UCT conditionality not needed or not feasible. No ex-post conditionality or reviews. Can help build track record.	Urgent (present) BoP need must exist. Prospective or potential needs may also exist.	No norm. Annual/cumulative limit: 25/75% of quota, or 50/100% in case of sudden exogenous shocks. 5/
Policy Support Instrument (PSI)	Broadly stable and sustainable macroeconomic position.	Required.	At the time of approval, BoP needs may exist, but would be expected to be met through financing from non-Fund sources.	No access. On-track PSI facilitates rapid approval of SCF or RCF, without need to cancel PSI.
Staff-Monitored Program (SMP)	Could be short term or protracted.	Not required. SMP's purpose is to build a track record toward a UCT-quality program.	Any type or size of BoP need may exist.	No access.

1/ For PRGT-eligible countries meeting the blending criteria, any concessional financial support should be blended with GRA financing, normally res

SBA, and RCF-RFI blends.
2/ Time needed to establish a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.
3/ UCT conditionality standard implies that the authorities have the commitment and capacity to implement a set of policies that is adequate to correct enable repayment to the Fund.
4/ Balance of payments (financing) needs can be present, prospective (i.e., a need that is expected/projected to arise in the future, including during the program), or potential (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based projections).
5/ An exogenous shock is defined in the same manner as under the ESF: an event beyond the control of the authorities of the member, with a significa economy. In view of these considerations, qualifying exogenous events could include inter alia terms-of-trade shocks, natural disasters, shocks to dem conflict or crisis in neighboring countries that has adverse balance of payments effects.
Source: IMF. Review of Facilities for Low Income Countries.

Table 6 gives four year averages of external current account and Fiscal current accounts. It is clear that most SIDS have recorded twin deficits. In just under have of the SIDS cases (46%), the SIDS with debt to GDP ratio above the EU criterion of 60 per cent, exhibited the most severe twin deficits. Even where they did not have the most severe deficit, the external current account deficit was severe.

Table 64-year average for external current and fiscal accounts, 2009 tax revenues and 2010 debt for SIDS

Country	External Current Account (2007-2010)	Average Fiscal Stance (2007-2010)	Total Tax Revenue o GDP 2009	Debt 2010
Antigua & Barbuda	-25.3	-8.3		104
Bahamas, The	-14.5	-3.7	18.7	46.9
Barbados	-6.8	-6.8	32.6	111.6
Belize	-6.3	-1.1	21.6	78.1
Dominica	-14.2	0.7	30.3	83.1
Fiji	-11.6	-2.4		54.3
Grenada	-35.6	-5.6		119.1
Guyana	-10.8	-3.8	31.9	63.9
Jamaica	-13.3	-6.8	27.2	135.7
Kiribati	-29.3	-14.7	69.7	31.9
Maldives	-29.2	-19	20.5	84.9
Malta	-4.7	-3.5	35.2	70
Mauritius	-8.1	-1	19	52.4
St. Kitts and Nevis	-29.8	-7.1		196.3
St. Lucia	-22.5	-3.8	23.1	79.1
St. Vincent and the Grenadines	-34.6	-5.7	26.5	91.7
Samoa	-8.0	-3.1	25.5	54.3
Sao Tome and Principe	-33.9	-6.3	17.4	76.7
Seychelles	-40.0	-0.4	32	82.6

Solomon Islands	-19.2	1.4	24.7	26.8
Tonga	-10.2	-2.0	27	42.8
Trinidad and Tobago	20.7	0.3	28	39.2
Tuvalu	-10.4			16.1
Vanuatu	-8.1	0.6	17.8	20.2

Source: Averages for external current accounts, fiscal current accounts and domestic debt were computed from data obtained from Global Finance; Tax revenue to FDP obtained from Heritage foundation.

The twin deficit hypothesis is attributable to Keynes. He contended that there is a positive relationship between fiscal and trade deficits. We can therefore see to what extent this hypothesis adequately describes SIDS. To investigate this we compare five year averages from 2007 to 2011 for external current account and fiscal current account balances, see Table 7. The five year averages are used to minimise current shocks.

The majority of SIDS recorded twin deficits in terms of fiscal and external current accounts, see Table 8 in the appendix. This was the case for 21 out of 25 SIDS (84%) for which data were available. In most cases, the external current account deficit outweighed the fiscal current account balance with the most extreme taking place with respect St. Vincent and the Grenadines and St. Kitts, with the gap been 27 and 18 percentage points respectively in terms of fiscal balance to GDP. The result suggests that it would take a large degree of fiscal consolidation to significantly reduce external current account deficits. This is supported Endegnanew et al. (2012). They found that for microstates, external current account contracted by 0.4 percentage points to GDP in reaction to a 1 per cent contraction in fiscal current account. However, they pointed out the effect of fiscal consolidation is more strongly associated with the contraction of imports.

There is a fairly high association between the deficits as the correlation between external current account deficits and fiscal current account deficits was 0.5. As such, it followed that genrerally SIDS with the higher external current account deficits exhibited the larger fiscal deficits. For example Maldives exhibited the largest fiscal deficit of 15.5 per cent in the presence of external current account deficit of over 20 per cent. However this patterns only generally held as there

were notable exceptions. Example, St. Vincent averaged a fiscal deficit of 3.2 per cent in the presence of an average external current account deficit of 30.7 per cent. It is possible that a reason why the correlation did not strictly held, was that some countries may lack fiscal space and may have been under conditionality programs to restrain their expenditure.

Nevertheless the nature of the deficits was severe. Over 80 per cent of the SIDS with deficits recorded fiscal deficits in excess 3 per cent. Moreover, two thirds of the SIDS with deficits recorded external current account deficits above 10 per cent of GDP. Countries with fiscal deficits in excess of 5 per cent also recorded external current account balance of over 8 per cent.

It is undetermined whether consolidation of external deficits would curb external current account deficits. However, given the magnitude of external deficits above fiscal deficits, then for fiscal consolidation to tighten external current account deficit, it would have to be the case the response of the external balance would be elastic to the expansionary budgets. Using the averages, the data shows that average external current account deficit was 10 times the average fiscal balance of the deficits. This is by no way an elasticity measure as the ratio is rudimentary. However, the ratio is calculated to show the extent to which the external current account deficit overlaps the fiscal current account.

SIDS lack the ability to generate internal funds through taxes to finance expenditure. Table 6 shows that tax collections for SIDS are close to that of the developed economies when compared to the advanced industrialised economies. In terms of data reported, we benchmark the tax revenue to GDP for SIDS with Canada 32%, UK at 39 and US at 26.9. The problem is that the small population size constrains the ability of SIDS to raise revenue through income taxes. SIDS are therefore limited by the extent to which they can cover capital development fiscal expenditure by raising tax revenue.

3.0 Fiscal Policy

The degree of autonomy to embark on macroeconomic stabilisation span the continuum from greater autonomy where the country is not under any conditionality programs to little autonomy

where the country is under externality programs emanating from donor or lenders. Where the country is not under conditionality programs,it possesses greater autonomy to stimulate aggregate demand, as they escape having to cope with stringent economic conditionality programs. According to Tan (2007) such countries possess "opportunities for expanding domestic policy space, enabling countries greater freedom over their macroeconomic and development policies...".On the down side, where the country is not under conditionality frame work, it is often influenced by electoral cycles. These countries often lack a common framework across political parties to guide the allocation of funds across sectors/programs, regardless of the political party in power.

SIDS that are not under conditionality programs embark on indigenous programs which tend to be demand stimulating in nature. This is designed to kick start economic growth through investments in infrastructure, raise output and to address fall outs in the labour market. These economies are more likely to use countercyclical fiscal policy where there is an economic downturn.

High income developed economies have had to resort to stimulus packages following the global depression which emerged from the latter end of 2008,see Ortiz (2009). The difference was that these economies had the resources to finance stimulus packages directed to consumers, firms and to accelerate public investments. Packages directed to firms essentially relied on tax breaks and subsidies. In addition, schemes directed to consumers relied on tax cuts, social security schemes inclusive of subsidies on basic goods and improving unemployment benefits. According to Ortiz (2009) investments on infrastructure also include the spending of large sums on physical and social infrastructure. These include spending on augmenting the housing stock and maintenance of infrastructure such as rail, highways and airports.

There are some similarities as some SIDS that depend on tourism as the mainstay have also used stimulus measures in the terms of lowering their hotel taxes and intensifying promotion to strengthen the tourism market.Nevertheless, SIDS ability to use expenditure to sustain aggregate demand is subject to limited fiscal space. These countries have limited capacity to conduct countercyclical fiscal policy using own resources. Qiung (2010) contended that in the face of

declining revenues, the global crises inhibited investments in infrastructure. Where fiscal space is tight, the use of taxes is more likely to be used as a stabilising tool.

In contrast, SIDS are more likely to follow fiscal rules where they are under external programs and rules are prescribed by donors or lenders. External lenders and aid donors tend to orient their conditionality programs towards the targeting of aggregate supply in order to bring about macroeconomic stability. Programs often entail expenditure cuts to restrict aggregate supply. Also, conditionality programs tend to bear broad similarities between SIDS that are indebted and those dependent on receiving aid.

The typical IMF/Worldbankconditionality programs for SIDSare instructive, as they often involve expenditure restraint, improved fiscal revenues and the prioritisation of infrastructural projects along with development projects. Theselargely involve measures aimed at the withdrawal of the state from markets in a bid to bring fiscal expenditure closer to revenue. The idea behind this is that fiscal consolidation can reduce public debt.

In addition to fiscal consolidation, programs often have elements of market fundamentalism. Here, the programs often involve market liberalisation in order to induce market clearing and improve the allocation of resources. Among the markets liberalised are the foreign exchange market.

4.1 Fiscal Discipline

As advocated by IFIs, the typical means of achieving fiscal discipline is through the exercise of fiscal rules.For example, the IMF has suggested that countries should follow multiple rules. These rules include balanced budget rules, debt rules which imposes limits on budget deficits and limits on domestic and foreign debt, golden rules which stipulates that funds borrowed, should only be used for investment purposes. In addition to this, some countries have experimented with placing rules on subsidies.

Schaechter et al. (2012) reported that the number of countries worldwide to implement fiscal rules grew from 5 in 1990 to 76 by 2012. Of these countries 10 were SIDS --- Antigua and

Barbuda, Jamaica, Malta, Mauritius, St. Kitts and Nevis, St. Lucia, St. Kitts and the Grenadines, Dominica, Grenada and Togo.

We suggest that the design of fiscal rules should take the external current account realities into account. Dillon et al (2011) shows that for the small states in the Caribbean, causality runs from external current account to fiscal balance.

Many countries have followed fiscal programs prompted by lending agencies. Some of these devices include, medium term budgeting as suggested by the IMF, Program based budgeting. The latter is accomplished by allowing the medium to long term to be manifested in terms of short term measures. In addition financing of the budget is to be performance based. This forces government to make expenditure choices.

SIDS appear to lack the political will and financial capacity to independently design and implement rules. They lack the necessary institutions to monitor enforcement. Rules followed are often designed by external agencies which sponsor programs. Highly indebted countries such as those of the Caribbean have had to rely on the IMF and world bank for loans. Rules in other territories have been influenced by AusAID, NZAID, Asian Development Bank, World Bank, European Union, African Development Bank (ADB) and its affiliate: Development Partners International.

SIDS lack the autonomy to independently execute and maintain fiscal rules. Advantages of the externally driven rules is that governments are obligated to follow rules regardless of election cycles given that their funding depend on it. Further, it provides a means of independent and external monitoring of rules. The downside risks is that countries may not develop a sense of ownership of rules.

Under conditionality programs, fiscal programs are devised for a multiyear basis in terms of medium to long term. At the moment, SIDS may not follow the multiyear framework where they function outside conditionality programs.

3.1Empirical survey of Fiscal Design for SIDS

An important issue here is whether fiscal policy has a discretionary role in macroeconomic planning. Kocke et al. (1996) pointed out that the OECD countries such as Japan and the US all resorted to discretionary fiscal policies at some point. Japan did so in the 1990s to combat deflation and the US to recover from the 2001 recession.

We conducted a survey of SIDS under conditionality programs and those that are not under such programs. The sample surveyed represented just under a third of the SIDS and the actual responses received were 20 per cent of the survey sample.As a result, two countries from the pacific and two from the Caribbean submitted responses. The two countries from the Caribbean were not under conditionality programs while the two countries from the pacific were under conditionality programs. The actual questionnaire used is given in chart x in the appendix and the survey results are summarised in Table x The survey results provide a summary of the results between those countries not under any conditionality program vs those countries under conditionality programs.

From the survey results, all countries revealed that they used fiscal policy to stabilise the economy. As such, the results were indicative that countries were prepared to us fiscal policy

However, there were differences between countries under stabilisation programs and those that are not under programs.A fundamental difference between both sets of countries was that those that are not under stabilisation programs engaged in expansionary budgets by targeted capital spending and in some ways did transfers to seek employment creation. This is in contrast to those that are under conditionality programs. Those countries laid greater emphasis on fiscal discipline and efficiency of public spending. This involved conditionality obligations to fiscal rules as they are requirement for accessing loans or grant financing. Moreover, the budget was exercised as a short-term means to implement medium to long term plans. By strict adherence to medium to long-term plans they were better able to prioritise short-term spending and therefore achieved a more efficient use of scarce resources.

Another important point to note is that fiscal discipline was of paramount importance to the countries under programs. As a result, these countries placed more emphasis on following fiscal rules. In particular they were more likely to implement debt ceiling, balanced budget rules and golden rule through legislation. In addition fiscal programs were likely to be multiyear, two to three years in scope. On the other hand, It was not guaranteed that SIDS not under program would deliver budgets based on a multiyear framework.

An advantage inherent in countries under programs is that there is more likely to be consistency of policies and programs across political regimes. This is likely as political regimes are more likely to follow conditionality programs in the interest of gaining further funding. As a result, conditionality programs forms the basic framework, leaving little space to implement election promises where it deviate from austerity measures.

A further important difference between the group of countries is in relation to the technical apparatus, with those under program more technical procedures in relation to budgeting. For them, fiscal forecast is based on their growth and development plan. On the other hand, those that are not under programs are likely to use a combination of statistical and intuitive judgement.

It can be further noted that countries not under conditionality programs are able to access more project financing and as such, they reported that 90 to 99 per cent of the funds accessed are expended on projects. This is in contrast to those that are under conditionality programs where they reported that they use less than 30 per cent for development programs. It may be the case that most of the funds accessed by these countries were for budgetary support.

The countries reported varying responses concerning their implementation of best practice standard. The common constraint in implementing standards related to data limitations. However, the most aggressive in terms of implementing best practice standards were those under conditionality programs. This included regular monitoring and provisioning of statistical indicators to guide the devising and implementation of fiscal policy for stabilisation.

4.0 Prerequisites for the implementation of Fiscal and Debt Rules for SIDS

The IMF (2009) study suggests that the implementation of rules in developing countries vary from developed countries in terms of institutional capacity and exposure to global shocks. A challenge in designing fiscal rules for SIDS is how to adequately make them sustainable through different economic cycles, led by different states of the external current accounts. To this end, rules should be simple but designed in such a way that they are complex enough to come to terms with tradeoffs that can arise owing to changes in external accounts.

Simone and Topalova (2009) point out that fiscal rules should have essential features in order for their implementation to be effective. Among these features is that fiscal rules should be clearly defined, simple to gain political and legislative support, flexible to accommodate exogenous shocks, enforceable and there should be independent monitoring. The monitoring of rules require timely and reliable data along with the establishment of 'minimum technical forecasting capacity', IMF (2009) p11. This is necessary to enable early warning signs with respect to the departures from fiscal rules so as to timely signal to policy makers whether policy changes are needed to meet fiscal targets.

It is desirable for the monitoring exercise to be carried out by independent agencies. Independent agencies are necessary to achieve effective transparency and accountability. Formal systems need to be developed to allow for wide coverage of aggregates for frequent monitoring of the ability of the fiscal authorities to meet the rules. The circulation of this information to the public is useful to allow for external monitoring of the country's likelihood to meet the rule.

We argue that the implementation of fiscal rules in SIDS is not straight forward as structural economic realities must be taken into account in designing fiscal limits and debt ceilings, in order to make their implementation realistic and sustainable. Here Birchwood and Mathias (2007) investigated the question of under what circumstances would developing countries run balanced budgets and contended that developing countries with better savings generation were more likely to be able to stage balanced budgets and minimise debt levels. For them savings generation com through stronger external current account surpluses, stronger foreign direct

investments and positive economic growth with these factors been more likely candidates to stage balanced budgets. These structural factors allow for the accumulation of resources for private sector borrowing and investment, thereby relieving the government of expenditure. The idea here is that weak private sector investment provokes higher level of government expenditure in order to attend to unemployment and capital accumulation.

4.1 Popular Fiscal Rules

IMF (2009) put forward the contention that fiscal rules can be a safeguard against the opportunistic raising of expenditure or the suggestion of use of taxes cuts to win elections. In keeping with this Kopitis (2001) pointed out that, as hazardous as discretionary fiscal policy may be, it is rational for a democratically elected government to depart from fiscal discipline and use discretionary fiscal policies to increase chances of winning elections. For example, governments can seek to enhance electoral chances at the polls by increasing wages financed by borrowing or by accessing grants. Accordingly, discretional intervention can be abused as a result of electoral cycles. As a result, fiscal rules can be a useful way of stemming abuses which can lead to or aggravate fiscal imbalances and ultimately increased borrowing.

The number of countries implementing fiscal rules is growing. The IMF reported in 2009 that eighty of its member countries implemented fiscal rules, compared to only seven in 1990. Of the countries using fiscal rules in 2009, eight were SIDS with six of these been from the Eastern Caribbean Block (ECCU). The ECCU countries aimed to reduce debt to 60 per cent of GDP. The other countries were Malta by been a member of the European Union would have been following the rules of the EU and Mauritius which used multiyear fiscal framework.

4.2 Rules Suggested by the IMF

To increase the effectiveness of fiscal rules to achieve sustainability, the Fund recommended that countries employ a combination of rules. The IMF (2009) suggested four sets of fiscal rules:

Balance budget rules: Balance budget rules can be specified in terms of overall balance, structural, cyclically adjusted balance. This is useful for achieving debt sustainability and economic stabilisation. Phillips (1997) cautioned that balance budget rules can fail to offset economic downturns when investment is most needed. It can limit government ability to meet basic human needs. Further it can fail to reduce disparities across social class and race. There is also the danger of sacrificing critical social spending in favour of exercising debt controls.

Debt rules: Debt rules rely on the setting of an explicit limits usually in terms of debt to GDP ratio. This is geared at achieving debt sustainability.

Expenditure rules: Expenditure rules are designed to contain the size of government expenditure. This can include the percentage of government expenditure on infrastructure for sectors such as education and health. This is useful to achieve economic stabilisation and to limit government size. As a biproduct it assists in containing expenditure and therefore to allow for debt sustainability. We contend that expenditure rules can also be useful in allowing for consistency in sectoral allocation such as consistency in allocation to education and health.

Revenue rules: imposed to set ceilings on tax collection. This can be employed to assist in achieving intergenerational transfer. This assists in achieving debt sustainability, economic stabilisation and containing government size.

4.3 Rules used in the EU

The European Stability Pact signed on to in 1997, specify a debt ceiling of 60 per cent of GDP at the end of the preceding fiscal year and a fiscal balance of under a 3 per cent deficit as a ratio of GDP. This was preceded by the Excessive Deficit Procedure followed by the Stability and Growth Pact. However, the EU came to realise that merely having the rules signed on to by countries would not necessarily lead to compliance.

Rules were violated by many EU member states, chief among been Germany, France, Italy and Spain. Italy and possibly Greece regularly broke the 3 per cent borrowing limit with Germany

been the first to break the rules. The key difference was that trade unions in Germany agreed not to agitate for higher wages so wages were held steady while in southern Europe unions successfully agitated for higher wages. The result was that Germany continued to be more competitive than southern Europe. Consequently Germany was more competitive and therefore had a huge trade surplus while the neighbours in the south lost in competitiveness and were therefore net importers. As a result the loss in competitiveness made the south needing to finance their imports through borrowing and therefore led to the temptation to violate fiscal rules.

On January 31st 2012, the EU announced that the majority of member countries, 25 out of 27, signed on to strengthen the implementation of the EU fiscal rules. This involved measures to allow for closer fiscal coordination in a bid to avoid excessive debts, with the European Court of Justice empowered to monitor compliance and impose fines. The agreement also gave the European Court of Justice the power to scrutinise national budgets to ensure that countries comply with EU fiscal rules. Further, structural borrowing in any year was limited to 0.5 per cent of output, while total borrowing is limited to 3 per cent of GDP for each year.

4.4 Rules used by the UK

Rules should be considered in terms of current and capital rules. The fiscal rules are judged over the fiscal cycles. Cycles are used as they are expected as when output dips, revenue collected from taxes is expected to fall. As a consequence, fiscal stance is expected to occur in accordance with business cycles.

Golden rule: The Golden rule in the UK is applied to the fiscal balance on the current account. Here "government will borrow only to invest and not to fund current spending" See Ian Lienhart and Gosta Ljungman (2009)p10 . It does not consider instances where government impose costs on future generation that is not reflected today. Instead current spending must be funded by current generation. A special case is with respect to spending on education as this can benefit the future generation and strictly should be borne by the that generation..

Sustainable Investment Rule: This rule prescribes a limit of 40 per cent be placed on net public sector debt to GDP. This rule is tied in the financing of public sector projects.

4.7 Attempt at Fiscal Rules in the US

The US went through a series of Acts in an attempt to devise fiscal rules. These Acts included Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Holdings Act 1) where numerical targets for Federal Budget deficit were established. Here the Act sought to impose annual limits on limits on fiscal deficits. This was followed by the Balanced Budget and Emergency Deficit Control Reaffirmation Act 1987 (Gramm-Rudman-Holdings Act II). Here the goal of balanced budgets were deferred to 1993. The Budget Enforcement Act of 1990 replaced the deficit targets with nominal ceilings on annual discretionary spending. The Act also addressed the enforcement of targets. Remarkably, balanced budget legislation was narrowly defeated in the US by a narrow margin of one vote

4.8 Some Other Countries with Fiscal Rules

Canada has a longer history among OECD countries of imposing legislated fiscal rules in 1991-2 and 1995-6 as it placed limits on annual spending. This included rules designed to place expenditure caps, anti-deficit rules and rules on taxes. In New Zealand, The Fiscal Responsibility Act of 1994 concentrated on accountability and long term fiscal planning. Australia also devised targets of net public debt in 1998. West Africa Economic and Monetary Union imposed limits on fiscal aggregates. India undertook fiscal rules in terms of a gradual progression.

Simone and Topalova (2009) pointed out that India outlined fiscal rules in terms of progressive progressive reductions in deficits and debt. The Act decreed that revenue deficit should be reduced by at least 0.5 per cent of GDP until it reaches 0. Also, the gross fiscal deficit should be reduce by 3.3 per cent and there should be a progressive reduction in public. India met fiscal targets through increases in government revenue rather than through cuts in government expenditure.

Nigeria in its Fiscal Responsibility Act 2007, provided for the appointment of a full time commission empowered to enforce the provisions of the act by compelling government to disclose information on public revenues and expenditure. Further, the commission was given monitoring and investigative powers. It created an expenditure rule that deficits are not to exceed estimated revenue by 3 per cent. The Act provided for accountability and transparency, with members of the commission not been allowed to serve for more than five years.

To some extent, commodity producing countries pursue a form of fiscal rules where they use the external key resource to base their fiscal expenditure on. For example, Garcia et al (2005) pointed out that fiscal rules have been prescribed for Chile in relation to fiscal revenue. The advantage of forming fiscal rules this way is that it links government expenditure directly to revenue generated by its primary export of Copper which accounts for a third of Chile exports. The government in Chile base its budget export expenditure on the forecast of copper prices. Similarly, for Trinidad and Tobago natural gas and oil account for the bulk of its export revenue, so the national budget is based on forecast of energy prices and consequently projected revenue. The difference for Chile is that the key export price is forecasted independently by a panel of experts.

There are some important lessons that can be learnt to aid the effectiveness of fiscal rules. Discipline is better achieved through the application of multiple rules. Instead of narrowly concentrating on debt rules, the combination of this with other rules provides a more robust method of cross checking the use of fiscal rules. Also, rules should be cyclical rather than instantaneous. Moreover, monitoring at the level of scrutinising fiscal budgets and debt should be constantly undertaking. Enforceability, possibly at judicial level, is necessary for the rules to be sustained. Ultimately medium to long term fiscal targets should be set. For example a possible target can be the attainment of zero or surplus fiscal balance. To achieve this, rules should be implemented in terms of incremental adjustments to achieved ultimate target.

4.9Imperatives for the Design of Fiscal Rules for SIDS

The design of fiscal rules for SIDS must be based on their ability to follow these rules, in order for their implementation to be successful across different states of the economy. We argue that these economies are inextricably tied to the state of their external accounts, given that they are highly open. In this regard we contend that the external economic circumstances of SIDS must be taken into account in designing fiscal rules for SIDS. An examination of the sample of SIDS in the commonwealth, show that less than half of them would have satisfied the fiscal criteria of the European Union of fiscal deficit of under -3 per cent. Indeed these countries could have economic biases towards deficit budgets and therefore to debt accumulation given persistent budget deficits. This raises the question concerning how fiscal rules address the tendencies of SIDS accrue deficits.[3]

5.0 Conclusion

A fundamental challenge confronting SIDS is how they can minimise dependence on the use of debt and aid to develop and stabilise their economies. We argue that for this to be successful, SIDS would require resources and strong foreign exchange inflows. To independently build this, they would need to develop their competitiveness and foreign exchange earning potential. Moreover, the development of internal stabilisation mechanisms would have to be accelerated. These mechanisms include market development and sophistication.

Most SIDS have been recording twin deficits and rising debt following their brief period of independence. The global community have come to their assistance, but at the cost of conditionality programs. As a result, SIDS have been compromised in their ability to develop ownership of development plans and use of stabilisation devices, since they have a high dependency on the use of foreign savings. SIDS are currently at that stage of development where they are drawing more resources from the rest of the worldin order to fast track their

[3]Even if the economic circumstances can be overcome in the design of fiscal rules for SIDS there are other issues that must be considered for the design and implementation of fiscal rules for SIDS. In general countries face strong legal constraints to the enforceability of fiscal rules, see Robinson (1996) for the development of this point. Among these hurdles were the failure to enforce sanctions and the failure of financial markets to be able to discipline government by constraining government spending.

development.[4] Also, the global community have developed best practices which have become conditionality programs tied into access to financing. The twin deficits and mounting debt have therefore cost SIDS their sovereignty to implement national solutions to stabilise their economies.

The type of macroeconomic stabilisation policies employed by SIDS depends on their autonomy and fiscal space. Where they have autonomy and fiscal space, SIDS are more likely to favour stimulus policies to stimulate demand. When countries are under donor supported programs, stabilisation programs tend to restrain supply.

The likely success of conditionality programs rests on the attainment of external balance. SIDS with external current account surpluses are more likely to have the fiscal space to stabilise their economies. However, they are more likely to follow fiscal rules if they are under external programs. For SIDS that are not under conditionality programs, fiscal balance is more likely to be shaped by electoral cycles. SIDS may lack the will to independently design and enforce their own fiscal rules. Consequently, there are advantages to rule been externally designed under conditionality programs.

It is inadequate to classify SIDS in terms of per capita income in order to determine whether or not they qualify for concessionary finance. In most cases, these countries lack own resources to be resilient against economic shocks. Such classification puts SIDS in the high income category above countries with more resources. There is need therefore to devise ways to classify SIDS in terms of access to resources. Challenges therefore remain as to how SIDS can design their fiscal rules so as to find a judicious mix between aggregate demand and supply strategies. Further, SIDS should negotiate alternative measures than GDP per capita with respect to how to qualify to access low cost resources from the international financial institutions.

[4] It should be noted that most advanced developed countries at one time would have drew on more resources from the rest of the world compared to what they contributed. Stabilisation requires fiscal space.

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Appendix

Table 7 Independence, Size and Wealth

Country	Independence	Relative Size of Economy		Income Classification		
		Population Million (2010 est)	GDP US$ billion (2010 est)	GDP Per Capita US$	GDP per capita ppp	Income Classification
Antigua and Barbuda	1981, November	0.09	1.6	14,285 (2009 est)	18,399 (2009 est)	Upper Middle Income
Bahamas, The	1973, July	0.35	11.2	24,29 (2008 est)	31,784 (2008 est)	High Income
Barbados	1966, November	0.28	6.6	16,629 (2009 est)	23,870 (2009 est)	High Income
Belize	1981, September	0.34	2.9	4,481 (2010 est)	8,412 (2010 est)	Lower Middle Income
Botswana	1966, September	1.8	31.1	8,888 (2008)	15,57 (2008)	Upper Middle Income
Brunai Darussalam	1984, January	0.42	21.9	30,355 (2010)	50,44 (2010)	High Income
Cyprus	1960. May	0.82	23.8	28,961	28,646	High Income
Dominica	1978, November	0.07	1.0	7,152 (2010 est)	14,203 (2010 est)	Upper Middle Income
Fiji	1970, October	0.89	4.25 (2007)	4,083 (2007 est)	4,728 (2007 est)	Upper Middle Income
Gambia, The	1965, February	1.7	3.5	508 (2010)	1884 (2010)	Low Income
Grenada	1974, February	0.1	1.5	8,211 (2009 est)	14,238 (2009 est)	Upper Middle Income
Guyana	1966, May	0.77	6.1	3,448 (2002 est)	7,830 (2002 est)	Lower Middle Income
Jamaica	1962, August	2.72	25.3	5,675 (2010 est)	9,199 (2010 est)	Upper Middle Income
Kiribati	1979, July	0.1	0.622	6,196	5,846	Lower

			(2009)	(2009 est)	(2009 est)	Middle Income
Lesotho	1966, October	2.54	4.05 (2008)	1.355 (2006 est)	2.073 (2006 est)	Lower Middle Income
Maldives	1965, July	0.32	3.0 (2009)	6,230 (2006 est)	9,078 (2006 est)	Lower Middle Income
Malta	1964, September	0.42	11.03	20,437 (2008 est)	25,875 (2008 est)	High Income
Mauritius	1968, March	1.29	20.2	8,635	12,595	Upper Middle Income
Namibia	1990, March	2.1	16.6 (2009)	5,907 (2008)	7,694 (2008)	Upper Middle Income
Nauru	1968, January					
St. Kitts and Nevis	1983, September	0.06	0.7	12,879 (2003 est)	15,617 (2003 est)	Upper Middle Income
St. Lucia	1979, February	0.17	2.2	7,772 (2010 est)	12,927 (2010 est)	Upper Middle Income
Saint Vincent and the Grenadines	1979, October	0.11	1.3	6,641 (2001 est)	11,864 (2001 est)	Upper Middle Income
Samoa	1962, January	0.18	1.1	3,748 (2008 est)	6,105 (2008 est)	Lower Middle Income
Seychelles	1976, June	0.09	2.3	10,309 (2009 est)	25,440 (2009)	Upper Middle Income
Solomon Islands	1978, June	0.53	1.9	1,769 (2009 est)	3,348 (2009 est)	Low Income
Swaziland	1968, September	1.03	6.1 (2009)	3,325 (2008 est)	5,248 (2008 est)	Lower Middle Income
Tonga	1970, June	0.1	0.8 (2009)	4,561 (2006 est)	7,510 (2006 est)	Low Middle Income
Trinidad and Tobago	1962, August	1.3	27.3	18,528	20,573	High Income
Tuvalu	1978,	0.001	0.04		3,400	Low Middle

	October					Income
Vanuatu	1980, July	0.25	1.3 (2009)	3,170 (2009 est)	5,065 (2009 est)	Low Middle Income

Source: Tuvalu data extracted from

Table 8 Twin Deficits of SIDS and Debt of SIDS

	External Current and Account 4 yr Average 2008 - 2011	Fiscal Balance 4 yr Average 2008 - 2011	Public Debt 2012
Antigua and Barbuda	-19.8	-6.4	80.4
Bahamas, The	-13.75	-3.9	49.9
Barbados	-7.95	-6.3	117.8
Belize	-5.3	-1.0	78.1
Botswana	-2.7	-8.3	16.2
Brunei Darussalam	47.2	21.1	na
Cyprus	-11.175	-4.3	74.3
Dominica	-23.3	-1.3	70.7
Fiji	-12.225	-1.9	53.5
Gambia, The	-13.55	-3.5	74.9
Grenada	-24.25	-4.3	88.5
Guyana	-11.375	-2.9	63.4
Jamaica	-11.75	-7.8	145.9
Kiribati	-20.3	na	Na
Lesotho	-6.2	-2.7	42.2
Maldives	-21.475	-15.5	79.0
Malta	-5.8	-3.7	71.4
Mauritius	-9	-3.3	51.3
Namibia	-0.85	17.8	25.3
Nauru	na	Na	
St. Kitts and Nevis	-21.475	-3.2	151.2
St. Lucia	-18.35	-4.1	76.4
Saint Vincent and the Grenadines	-30.675	-3.6	70.4
Samoa	-8.225	-5.6	na
Seychelles	-17.925	2.5	84.3
Solomon Islands	-20.95	2.9	19.6
Swaziland	na	-6.8	48.9
Tonga	-5.95	Na	Na
Trinidad and Tobago	19.85	0.0	37.3
Tuvalu	-10.4	Na	Na
Vanuatu	-7.7	-6.4	Na

Source: Global Finance

Table 9 Severity of Deficits by global comparison

	International country Comparison: Fiscal Balance to GDP (Greatest surplus to greatest deficit)	Fiscal Balance to GDP: 2011 or closest.
Antigua and Barbuda	166	-5.40
Bahamas, The	78	-2.1
Barbados	128	-4.00
Belize	111	-3.4
Botswana	117	-3.60
Brunei Darussalam	73	-2.00
Cyprus	178	-6.50
Dominica	12	7.6
Fiji	103	-3.1
Gambia, The		
Grenada	155	-4.90
Guyana	100	-3.00
Jamaica	175	-6.00
Kiribati	87	-2.5
Lesotho	2005	-12.40
Maldives	208	-14.50
Malta	8	12.7
Mauritius	137	-4.20
Namibia	196	-9.90
Nauru		
St. Kitts and Nevis	164	-5.40
St. Lucia	98	-3.00
Saint Vincent and the Grenadines	201	-10.70
Samoa	182	-6.80
Seychelles	29	1.6
Solomon Islands	15	6.2
Swaziland	204	-12.20
Tonga	47	0.00
Trinidad and Tobago	116	-3.60
Tuvalu	138	-4.30
Vanuatu	31	1.4

Table 10 Survey Results

	Question	Not Following Conditionality Programs	Following Conditionality Programs
1	Use of Fiscal Policy to Stabilise the Economy	Yes	Yes
2	How is Fiscal Policy used to Stabilise the economy?	Expansionary budgets to target capital spending through debt financing; Transfers for employment creation.	Budget should stem from a national development plan; Stress on Efficiency of public spending; Stress on fiscal discipline through fiscal rules to minimise debt.
3	What are some of the ways by which fiscal policy is used to stabilise the economy?	Subsidy on energy prices; Provisioning of public housing; Countercyclical spending; use of taxes as a stabilising tool.	Subsidy on energy prices; Provisioning of public housing; Countercyclical spending; use of taxes as a stabilising tool.
5.	Give the subject/targets with respect to institutions exercising conditionality programs.	Na	Policy Reform Matrix for budget support; Increasing the efficiency and effectiveness of public financial management and policies; Improving linkages between policy making and government spending; Grant aid is used to address fall in revenue; Monitoring by IFIs to ensure compliance; Restrict government discretion on various areas in exchange for rules.
7.	Periodicity covering fiscal programs.	Not commonly enforced. Zero to 3 years.	Multiyear basis: 2-3 years.
8.	Is there a framework to guide the percentage of fiscal allocation across sectors regardless of	No.	Yes.

	political regimes in power?		
9.	Are fiscal projections made for the medium term?	Mixed responses: yes-no	Yes.
10.	How long into the future are fiscal projections made?	3yrs	3-10 years.
11.	What method is used to project fiscal targets?	Combination of statistical and intuitive judgement.	Mixed responses: macroeconomic model, up to bottom approach.
12.	Is fiscal forecast based on predicted growth?	Mixed responses.	Yes
13.	Is fiscal forecast based on a growth/development plan?	No.	Yes.
14.	Is fiscal spending centralised through the ministry of finance?	Yes.	Yes.
18.	Is the government obligated to follow fiscal rules?	No.	Yes. Rules are legislated: Debt ceilings, Balanced budget rules, Golden rule.
23.	If fiscal rules are followed, does the observance of these rules arise from conditions attached to loans from external entities?		Yes attached to loan requirement. Rules also arise owing to national priorities and targets.
24.	Does the country have to cope with a multiplicity of conditionality programs placed on it by various institutions and or regional groupings?		Yes.
25.	If yes, does the multiplicity of these conditions present a challenge to the various ministries?		Mixed responses response.

27.	Identify major sources of external funding over the last three years.	The European Union, Venezuela, China, Taiwan, World Bank, Inter-American Development Bank, Commercial Banks.	China, IBRD, India, AFD, ADB, European Union
29.	What percentage of projects are externally funded?	90 - 99%	17.8 - 30%
32.	Is the ministry trying to implement IMF standards?	Mixed responses.	Yes.
34.	Is the ministry trying to implement IMF fiscal transparency standards?	Mixed responses.	Yes.
35.	Outline other best practice standards with respect to fiscal policy.	Mixed responses. Seeking to become a member of the IMF Special Dissemination System.	Mixed responses. Adoption of the five main internationally accepted macroeconomic statistical methodologies. Review of Public Expenditure Framework Assessment by the IMF in regular intervals. Developing proper fiscal ratios to guide the implementation of government's fiscal policies as well as ensuring a target of external debt to be equivalent or no more than 30% of GDP.