

Session 9A: Challenges of Managing Public Debt in a Small Nation

Challenges of Managing Public Debt in a Small Nation

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**2026 Asian Regional
Public Debt Management Forum**
27-29 May 2026 | Colombo, Sri Lanka



ADB



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Challenges of Managing Public Debt in a Small Nation

Ian Storkey

Consultant to ADB

28 May 2026

Rather than repeating what the other Speakers cover, I will focus on my own Personal Experiences

1. Experience gained from New Zealand debt management reforms and DeMPA tool
2. Consulting for ADB and other agencies across 50+ countries including 12 small island nations
1 x Indian Ocean, 3 x Caribbean, 8 x Pacific
3. Draw on five country examples to highlight key challenges and some significant achievements

NZ and DeMPA Experiences

- NZ Debt Management
 - Same challenges as for small nations
 - Domestic debt market development
 - Elimination of FX exposure
 - Establishment of NZDMO now NZDM
 - Move to ALM and active LMOs
 - Integrated into management of government balance sheet
- DeMPA
 - Internationally accepted diagnostic tool
 - Framework and principles apply to small nations
 - Scoring of performance indicators does not suit small nations

Country Examples

1. Fiji
2. PNG
3. Nauru
4. Solomon Islands
5. Vanuatu



Fiji

- Debt data validation
 - at end of 2001, ~25% external debt inaccurate
- Institutional strengthening
 - established DCFMU
- Domestic market influenced by dominance of FNPF (~80%)
- In 2015, first global bond issued (US\$200m), repaid in 2020
- In 2017, first emerging market to issue sovereign green bond (US\$50m)



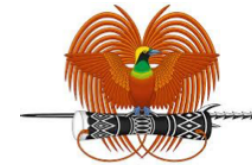
GOVERNMENT OF FIJI
**MEDIUM-TERM DEBT MANAGEMENT
STRATEGY**
FISCAL YEAR 2024-2026

MINISTRY OF FINANCE, STRATEGIC PLANNING,
NATIONAL DEVELOPMENT & STATISTICS

SUVA

Papua New Guinea

- External debt
 - 2003: 63%
 - 2024: 51%
- High dependency on Tbills
 - in 2003, ATM was 55 days
- Development of the Treasury bond (inscribed stock) market
 - in 2023, ATM was 2.3 years
- Inaugural US\$500m Eurobond, issued in late 2018, matures 2028



Independent State of Papua New Guinea

2024 – 2028 MEDIUM TERM DEBT STRATEGY

As we navigate the complex challenges of economic development, it is essential to have a clear and sustainable debt management strategy. This debt strategy provides a roadmap for responsible borrowing, ensuring that our debt burden remains manageable while supporting our nation's growth objectives.

Papua New Guinea Department of Treasury
October, 2024

Nauru

1. Defaulted on debt in 1995
 - including 2 Samurai bonds issued in 1989
 - undertook debt renegotiation in 2021
2. Bank of Nauru (central bank)
 - became insolvent in 2004
3. Fiscal risks from SOEs
 - non-payment of on-lending
4. Financial Instruction Liabilities
 - introduced November 2021
 - updated May 2026 - with Cabinet
5. **PDM Law enacted on 12 May 2026 (first Pacific Island)**



REPUBLIC OF NAURU

PUBLIC DEBT ACT 2026

No.19 of 2026

An Act to provide for the control and management of public debt in the Republic and for other related purposes.



Republic of Nauru

Financial Instruction

Liabilities

May 2026

Solomon Islands

- SIG became insolvent around 2002
 - fiscal crisis and civil unrest in the late 1990s and early 2000s
- In May 2005, SIG Honiara Club debt restructuring as not a member of the Paris Club
 - New Zealand acted as the “honest broker” as not a creditor
- Outcome: Major debt relief and return to debt sustainability


The 2024 Debt Sustainability Analysis (DSA) indicates that overall risk of debt distress in Solomon Islands remains moderate, while the risk of external debt distress has improved to low from moderate in the 2023 DSA.

Source: IMF (February 2025)



Vanuatu

- Cyber attack
 - November 2022
 - ComSec had copy of debt data
- Hurricanes
 - Judy and Kevin in March 2023
- Earthquakes
 - 7.0 January 2023
 - 7.3 December 2024
- Air Vanuatu
 - voluntary liquidation in May 2024
 - returned to normal service



GOVERNMENT OF VANUATU
DEPARTMENT OF FINANCE AND TREASURY

Issue 011 Quarterly Debt Bulletin December 2024

1. INTRODUCTION
The Debt Management Unit (DMU) was established in 2016 to minimize public debt management costs and borrowing in the long run. It promotes sustainable capacity for managing public debt and developing policies that respond to emerging debt issues. Public debt accumulates from government borrowing to finance recurrent and development operations. This quarterly Debt Bulletin covers central government and central government-guaranteed debt. All Government Bond holders are residents.

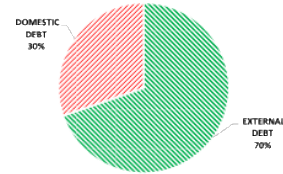
2. CENTRAL GOVERNMENT DEBT

2.1 Total Public Debt
At the end of December 2024, total public debt was VUV 58 billion, equivalent to 44% of GDP¹. The total amount outstanding comprised public external loans of VUV 39.7 billion, public domestic Bonds of VUV 16.6 billion, and Government Guarantees of VUV 1.9 billion. Continuous disbursement for external loans, domestic Bonds issuance, and depreciation of VATU against all the loan currencies were the main contributors to the increases.

Table 1. Government's Debt Flow and Stock (in VT million)

	DECEMBER 2024			
	External Loans	Domestic Bonds	Government Guarantees	Total Public Debt
Disbursements	9	0	0	9
Amortisation	109	0	0	109
Interest payments	121	119	NA	240
Debt Stock Outstanding	39,735	16,592	1,943	58,272

Chart 2.1: Share of Total Public Debt as of December 2024

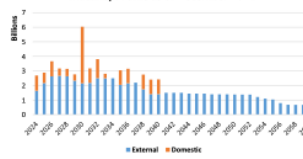


2.2 Total Disbursement
In this Quarter, the government drawdowns on both external loans and domestic bonds a total amount of VUV 0 billion.

2.3 Total Debt Service Payment
In this quarter, the total debt service was VUV 349 million (Principal repayment VUV 109 million/Interest Rate payment VUV 240 million).

2.4 Maturity Profile

Maturity Profile as of December 2024



3. EXTERNAL LOAN

3.1 Total Public External Loan
The public external loan outstanding at the end of December 2024 was VUV 39.7 billion, equivalent to 30% of GDP.

3.2 Creditors Composition of External Loan

¹ Provisional: The 4th Macroeconomic Committee (MEC) 2024 GDP Figures

Problem: Quarterly Debt Bulletin has not been maintained and published on the website

Key Challenges for Debt Managers

1. Legal and Institutional Framework
 - often fragmentation and few staff
2. Debt recording and debt data integrity
 - present difficulties for in-house systems and IT resources
3. Debt transparency and reporting
 - difficulties to generate reports on regular and timely basis
4. Domestic market for government securities
 - limited investor base and portfolio concentration
5. Risk management including operational risk
 - high risk arising from natural disasters and unplanned events
 - budget and resource constraints limit scope for BCP/DRP

My overall assessment: debt managers in small nations perform exceptionally well due to their dedication and commitment

Recent World Bank Publication

The World Bank Group (WBG) has prepared a Small States Strategy to help address the unique challenges they face, including remoteness, small populations, heavy import dependence, narrow economic base, and high exposure to shocks

Summary: Strategy at a Glance

Diagnostics

Symptoms:

- Low and volatile growth and low employment.

Root causes:

- Inadequate infrastructure, poor health and education systems, unreliable access to energy, compounded by **high exposure** to economic and climate shocks.

Heterogeneity:

- Differences in **size, remoteness, and connectivity** among the group of 41 countries.

Lessons from rapidly growing WBG engagement:

- Portfolio fragmentation;
- Limited deployment of WBG public-private engagements;
- High cost of operational engagement.

Strategy

WHAT:

Applying the WBG **jobs framework** to target critical **structural constraints** to growth and jobs in the context of **high exposure to shocks**.

HOW:

Deploying a fit-for-purpose delivery model geared toward **scale and replication**.

- **Remote micro- and small states** (e.g., Pacific islands): Hub-and-spoke regional solutions to increase efficiency and replication, with larger small states as hubs.
- **Connected micro- and small states** (e.g., Caribbean islands and those adjacent to larger non-small states): Meshed regional integration, combining competition and collaboration, or deepening ties with adjacent larger non-small states.
- **Connected larger small states** (e.g., Botswana, Jamaica): Closer to engagement in non-small states, upgrading transport, energy, and digital infrastructure to deepen global integration, strengthen MSME participation in value chains.

Ensuring **operational effectiveness**.

Approach

Selective menu of public-private solutions, informed by WBG jobs framework and focused on **strengthening foundations, enabling policies, and mobilizing the private sector**. Country programs focused on few transformational engagements, anchored on:

- Critical, and scalable priorities, "**Lighthouse Initiatives**," where WBG knowledge and experience can deliver high impact: (i) resilient infrastructure and disaster preparedness; (ii) fiscal sustainability & sound public-debt management; (iii) health delivery and services; (iv) physical and digital connectivity; (v) access to affordable, reliable energy; and (vi) MSMEs.
- Existing and future **thematic corporate strategies**.

- **Lighthouse Initiatives** to account for a significant share of WBG engagement in small states with interventions at the country-level to be designed to address critical constraints by country type (see Fig. 3 for details); to be implemented using MPA, regional projects, and other operational approaches that support **replicability and scale**.
- Small number of **complementary sectoral interventions** to account for the remainder of the country program with a focus on addressing the **most critical constraints to growth and employment creation**; to be implemented in line with Implementation Plans for corporate strategies and as WBG.

Efficiency through flexibility, innovation and simplification:

- **E&S and procurement** with strong focus on **client capacity**;
- Solutions that provide liquidity and investment and help mobilize private capital (e.g., blended finance, guarantees);
- **Partnerships** that maximize complementarities and minimize transaction costs.

World Bank (2026). Small States Strategy (English). Washington, D.C. : World Bank Group.

<http://documents.worldbank.org/curated/en/099527204142642939>