



# KIRIBATI

May 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KIRIBATI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Kiribati, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 1, 2024 consideration of the staff report that concluded the Article IV consultation with Kiribati.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, 2024, following discussions that ended on February 21, 2024, with the officials of Kiribati on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 11, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Kiribati.

The documents listed below have been or will be separately released.

### Selected Issues

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**International Monetary Fund**  
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## IMF Executive Board Concludes 2024 Article IV Consultation with Kiribati

FOR IMMEDIATE RELEASE

**Washington, DC – May 10, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Kiribati.

The economy strengthened after the removal of all COVID-19 restrictions in the second half of 2022. With the resumption of infrastructure projects, improved weather conditions, supportive fiscal measures, and a recovery in international arrivals, growth is estimated to have improved to 4.2 percent in 2023 from 3.9 percent in 2022. Inflation has decelerated from its recent peak, driven by the moderation of global commodity prices, improved supply-side conditions, and base effects. The current account is estimated to shift back to a surplus of 10.2 percent of GDP in 2023, buoyed by a resurgence in fishing license fees, a rise in remittances, and a decline in global commodity prices.

Economic activity is expected to accelerate in 2024. Real GDP growth is projected at 5.8 percent in 2024, primarily driven by higher consumption following a 38 percent increase in civil service wages. Meanwhile, headline inflation is projected to average 4.5 percent in 2024, largely driven by increased domestic demand. While the current account is expected to remain in surplus over the medium term, the surplus will remain below its historical average, reflecting an increase in imports required for domestic consumption and infrastructure projects, and a gradual decline in fishing license fees as a percent of GDP. Risks to the outlook are tilted to the downside, with key risks including an intensification of regional conflicts, deepening geo-economic fragmentation, an abrupt global slowdown, commodity price volatility, higher demand-driven inflation, and climate change.

### Executive Board Assessment<sup>2</sup>

Executive Directors welcomed the strong economic recovery on the back of supportive fiscal policies and increased infrastructure investment. Directors noted that risks are tilted to the downside and that Kiribati, as a small island economy, remains vulnerable to global shocks and climate change. They encouraged the implementation of sound policy measures and structural reforms, supported by capacity development, to enhance private sector led growth, promote fiscal and debt sustainability, and enhance inclusiveness and climate resilience.

Directors agreed that fiscal consolidation is crucial for safeguarding fiscal and debt sustainability. They highlighted the uncertainties related to fishing revenue and external grants, alongside Kiribati's substantial climate adaptation needs, and concurred that

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

enhancing revenue mobilization is key. Directors also emphasized the need to rationalize recurrent expenditure including the elevated public wage bill, streamlining the copra subsidy, and improving the targeting and efficiency of social protection payments. Formulating a sustainable fiscal framework would also help promote fiscal discipline. Directors concurred that promptly reforming the sovereign wealth fund withdrawal rule would help preserve the fund's real value and facilitate budget planning. A few Directors saw merit in the authorities' easing of the withdrawal rule to allow for allocating more resources toward infrastructure investment while preserving the value of the fund.

Directors commended the authorities' continued efforts to bolster institutional and administrative capacity. They agreed that further enhancing public financial management is key to supporting fiscal sustainability. Directors also encouraged additional actions to strengthen state owned enterprises' governance and transparency, including enhancing their commercial mandate and financial viability.

Directors underscored the importance of stepping up structural reforms to address the drivers of the economy's fragility and foster development. They welcomed recent initiatives to close the infrastructure gap and improve internet connectivity. Directors stressed the need for continued efforts to expand private sector employment and investment, upgrade exports, close human capital and gender gaps, and strengthen institutions and governance. They welcomed efforts to improve financial regulation and support financial inclusion, including the formation of the Kiribati Financial Supervisory Authority, and stressed its prompt operationalization.

Noting Kiribati's vulnerability to climate risks, Directors emphasized that investing in adaptation and securing climate finance remain critical. They concurred that efforts should continue to bolster the sustainable utilization of Kiribati's natural resources and emphasized the importance of finalizing the Environment Act and the Fisheries Act in this regard.

## Kiribati: Selected Economic Indicators, 2020–29

Per capita GDP (2022): US\$2,199.

Demographic: Population (2022): 123,375; Life expectancy at birth (2020): 67.3.

Poverty in percent of population (2019): Below \$2.15 a day: 1.7; Below the national poverty line: 21.9.

Inequality (2019, income shares): Top 10 percent: 22.9; Bottom 20 percent: 9.5.

IMF quota: SDR 11.2 million.

Main export products: Frozen yellowfin tunas, crude coconut oil, self-propelled works trucks, petroleum oil, and copra.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.				Proj.					
Real GDP (percent change)	-0.6	8.5	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1
Consumer prices (percent change, average)	2.6	2.1	5.3	9.3	4.5	3.0	2.5	2.0	1.9	1.8
Inflation (end of period)	2.8	2.5	16.2	-2.1	4.8	2.5	2.0	1.9	1.8	1.8
Central government finance (in percent of GDP)										
Revenue and grants	105	72	69	101	103	92	82	91	88	87
Total domestic revenue	75	64	56	71	65	63	63	62	62	62
<i>Of which: fishing revenue</i>	57	44	36	51	46	44	43	42	42	41
External grants	30	8	13	30	39	29	19	28	26	26
Expenditures	101	83	87	102	126	107	95	104	103	103
Current	63	67	67	71	73	72	70	68	68	68
Development	39	16	21	31	53	35	25	36	35	35
Domestic recurrent balance 1/	-45	-47	-47	-51	-54	-53	-50	-49	-48	-48
Recurrent fiscal balance (incl. budget support grants)	14	-2	-7	8	-7	-4	-4	-5	-5	-6
Overall balance 2/	4	-11	-18	-1	-22	-15	-13	-14	-15	-16
Financing	-4	11	18	1	22	15	13	14	15	16
<i>Of which: Revenue Equalization Reserve Fund (RERF)</i>	12	0	0	0	17	9	9	8	8	8
RERF										
Closing balance (in millions of A\$)	1172	1353	1194	1389	1414	1475	1529	1579	1642	1714
Per capita value (in 2006 A\$)	7264	8018	6530	7080	6835	6803	6772	6717	6710	6729
Balance (in percent of GDP)	362	351	306	330	301	294	290	287	287	288
Cash reserve buffer 3/										
Closing balance (in millions of A\$)	278	216	200	192	164	157	157	157	157	157
Closing balance (in percent of GDP)	86	56	51	46	35	31	30	29	27	26
In excess of 3-months of current spending and LCDF (in millions of A\$)	219	144	124	108	61	53	53	51	44	40
Balance of payments										
Current account including official transfers (in millions of US\$)	71	20.3	-6.5	28.6	30.2	30.4	29.2	29.4	30.5	31.3
(In percent of GDP)	31.8	7.0	-2.4	10.2	9.7	9.2	8.4	8.1	8.0	7.9
External debt (in millions of US\$) 4/	39	36	32	30	28	43	57	78	105	135
(In percent of GDP)	16	13	13	11	9	13	17	22	28	35
External debt service (in millions of US\$)	1.9	2.1	2.3	2.3	2.2	2.2	2.3	2.5	2.7	2.9
(In percent of exports of goods and services)	1.3	1.0	0.9	0.9	0.8	0.7	0.7	0.8	0.8	0.9
Exchange rate (A\$/US\$ period average)	1.4	1.3	1.4	1.5	...	...	...	...	...	...
Real effective exchange rate (period average)	75	78	78	83	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (in millions of A\$)	324	385	390	420	470	501	528	551	572	595
Nominal GDP (in millions of US\$)	224	290	271	279	311	329	342	354	366	382

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Cash reserve buffer includes the government's operational account and cash reserve account.

4/ The coverage is public external debt only.



# KIRIBATI

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 11, 2024

### KEY ISSUES

**Context:** Kiribati's economy recovered strongly from the pandemic on the back of supportive fiscal measures including subsidies, grants, and (most recently) an increase in civil service wages. Inflation, which has decelerated from its recent peak, is projected to pick up again mainly due to increased domestic demand. Kiribati is among the most vulnerable countries to the effects of climate change. Infrastructure gaps compound already challenging constraints imposed by distance and dispersion, limiting the development of the private sector in the state-dominated economy, and cementing its reliance on imports, especially for essential commodities such as food and fuel.

### Main Policy Recommendations

- Initiate an ambitious fiscal consolidation effort through scaling back recurrent spending and strengthening the fiscal policy framework.
- Reform the withdrawal rule of the sovereign wealth fund to benefit both current and future generations while preserving the real value of the fund.
- Mobilize revenue to generate more stable and sustainable fiscal resources, and improve processes for tax administration, registration, and compliance.
- Enhance institutional and administrative capacity by ensuring that the social safety net is well targeted and efficient, and continue reforms on public financial management to enhance efficiency and fiscal governance.
- Strengthen the accountability of the state-owned enterprises, enhance their commercial mandate, and place their finances on a sustainable footing.
- Implement structural reforms to raise private sector employment and investment, enhance export competitiveness, close infrastructure and human capital gaps, expand financial access, better utilize natural resources, and strengthen institutions and governance.
- Invest in adaptation to climate change, and leverage climate finance.
- Continue capacity development to produce high-quality statistics in a timely manner to support data-driven policy formulation.

Approved By  
**Corinne Deléchat (APD)**  
**and Fabian Bornhorst**  
**(SPR)**

Discussions took place in Tarawa, Kiribati during February 9–21, 2024. The mission comprised Yinqiu Lu (Head), Xuehui Han, and Seron Shivanjali (all APD), and Faizaan Kijat (FAD). Neil Saker (Resident Representative), Jae Woo Oh (OED), and Samuel Wills (WB) joined some of the meetings. Justin Flinner, Saraf Nawar, Patricia Tanseco, and Ni Wang (all APD), Danny Xufeng Jiang (SEC), and Daniel Ricardo Vela Baron (WB) contributed to the preparation of this report.

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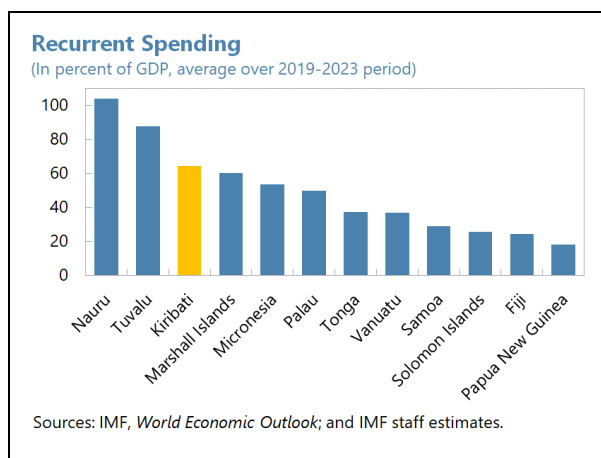
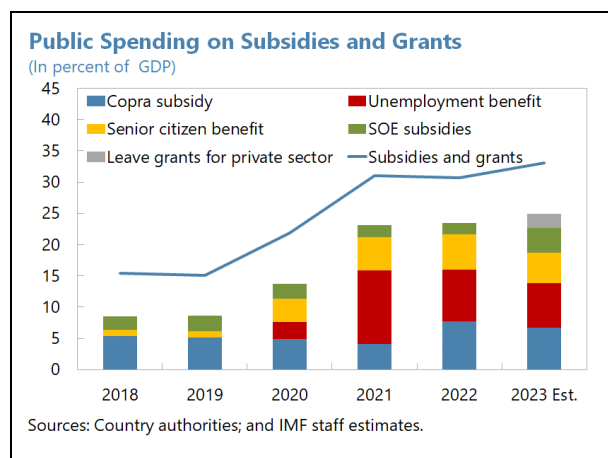
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## CONTEXT

**1. Kiribati's economy recovered strongly from the pandemic on the back of supportive fiscal policies.** After a mild, pandemic-inflicted recession followed by a strong recovery, the economy is estimated to be about 17 percent larger in 2023 compared to 2019. This recovery is attributed to a substantial increase in the government's recurrent spending from 2019 to 2023, mainly on subsidies and grants. The authorities introduced unemployment benefits (covering about 70 percent of the working age population) in 2020 and leave grants for the private sector in 2023. In addition, they bolstered existing support schemes such as the senior citizen benefit and copra subsidy. Notably, Kiribati has one of the highest recurrent spending to GDP ratios in the world (at 64 percent on average over 2019–23), surpassing most Pacific Island countries (PICs); this spending is largely financed by fishing revenue,<sup>1</sup> budget support from development partners, and tax revenues. State-owned enterprises (SOEs) operate across a wide range of industries such as utilities, transportation, housing, and financial services. Parliamentary elections are expected around August 2024, followed by presidential elections approximately two months later.



## 2. Significant structural and institutional barriers to economic development remain.

Kiribati is a small Fragile and Conflict-affected State (FCS).<sup>2</sup> Climate change presents an extraordinary challenge for Kiribati, with its low-lying atolls vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion. Weather patterns that have become less predictable due to global warming could exacerbate the volatility of tuna stocks—the country's largest and primary economic resource—with a direct impact on fiscal revenues and the current account. Furthermore, infrastructure gaps in utilities, transportation, and communications compound already-challenging constraints imposed by distance and dispersion, limiting the development of the private sector in

<sup>1</sup> In the case of Kiribati, fishing revenue is composed of fishing license fees, fish transshipment fees, and other fishing revenue. The fishing license fees account for more than 90 percent of total fishing revenue. They are considered as property income, i.e., the revenue receivable in return for putting financial assets and natural resources at the disposal of another unit. They are classified as other revenue, i.e., nontax revenues.

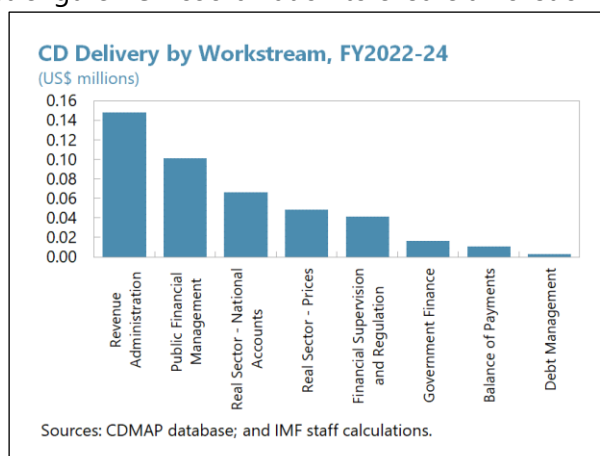
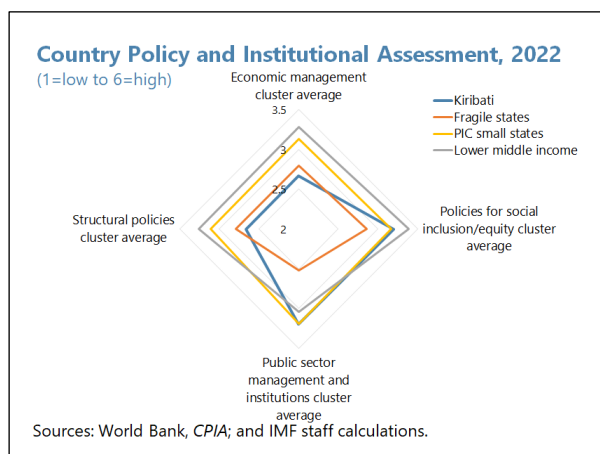
<sup>2</sup> It was added back to the FCS list in the IMF fiscal year 2024 (from May 1, 2023 to April 30, 2024), largely due to rating downgrades in the World Bank's Country Policy and Institutional Assessment (CPIA) index.



the state-dominated economy, and cementing the country's reliance on imports, especially for essential commodities such as food and fuel. Access to finance is limited: there is only one commercial bank, ANZ Kiribati.<sup>3</sup> The Australian Dollar is used as legal tender in Kiribati.

### 3. Kiribati has benefited from considerable capacity development (CD) from IMF and other development partners, but more support is needed (Annex I). Delivery of

in-person technical assistance (TA), including through the Pacific Financial Technical Assistance Center (PFTAC), is picking up as international borders reopened. Recent TA on revenue administration, public financial management (PFM), and the financial sector has informed staff's policy recommendations. With multiple development partners providing TA, efforts have been made to strengthen CD coordination to ensure a holistic approach to TA delivery, minimizing duplication and ensuring consistency with surveillance priorities. Progress has been made to improve data quality. With IMF TA support, the consumer price index (CPI) and GDP series were rebased (Annex II). Despite these advances, data deficiencies persist, particularly in national accounts statistics, government finance statistics (GFS), and financial sector data. Further efforts are needed to strengthen institutional capacity to produce high-quality statistics in a timely manner and thereby support data-driven policy formulation.



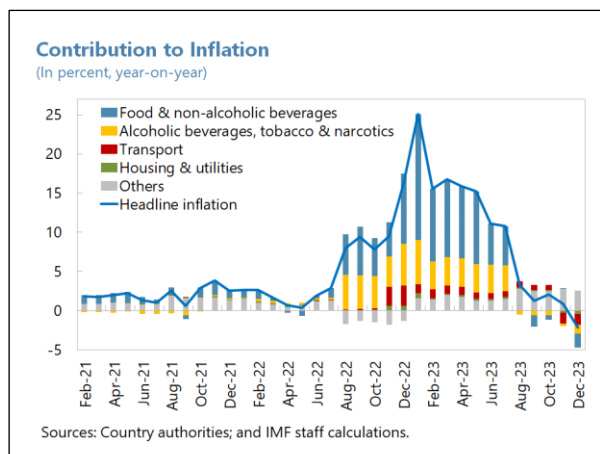
## RECENT DEVELOPMENTS

**4. Economic activity strengthened after the removal of all COVID-19 restrictions in the second half of 2022.** With the resumption of infrastructure projects, improved weather conditions, supportive fiscal measures, and a recovery in international arrivals,<sup>4</sup> growth is estimated to have improved to 4.2 percent in 2023 from 3.9 percent in 2022.

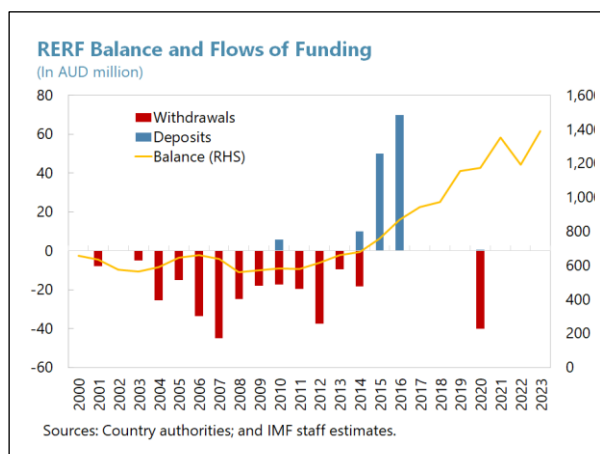
<sup>3</sup> ANZ Kiribati is a joint venture between ANZ and the Government of Kiribati. It is regulated by the Australian Prudential Regulation Authority and has the same correspondent banking relationships as its parent bank.

<sup>4</sup> A total of 5,905 international travelers (about 30 percent were leisure travelers) visited Kiribati in the first three quarters of 2023, representing around 75 percent of total visitor arrivals in 2019.

**5. Inflation has decelerated rapidly from its recent peak.** Headline inflation peaked at 25.1 percent y-o-y in January 2023, mainly due to a rebound in domestic demand, supply shortages, increases in global commodity prices, and rising freight costs. Inflation has since been trending down and reached -2.1 percent y-o-y in December 2023, driven by the moderation of global commodity prices, improved supply-side conditions, and base effects.



**6. The balance of payments is estimated to have improved in 2023.** The current account is estimated to have shifted back to a surplus, reaching 10.2 percent of GDP in 2023, buoyed by a rise in remittances, a decline in global commodity prices, and a resurgence in fishing license fees—on the back of favorable weather conditions and the reopening of the Phoenix Island Protected Area (PIPA). The balance of Kiribati’s sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), reached 330 percent of GDP at end-2023 after posting a strong annual return of 16.4 percent, driven by a recovery in global equity and bond valuations.<sup>5</sup> Staff assess that Kiribati’s external balance in 2023 is broadly in line with fundamentals and desirable policies (Annex III). However, the assessment is subject to significant uncertainty, given data gaps, data quality issues, and the high dependence of the current account on volatile and exogenous factors.



**7. The overall fiscal deficit narrowed in 2023, largely due to a recovery in fishing revenue.** Fishing revenue increased by 15 percentage points of GDP in 2023 compared to 2022 (an increase of 52 percent in nominal terms), more than compensating for the introduction of leave grants for the private sector (equivalent to 2¼ percent of GDP) and payments to the Kiribati Provident Fund (KPF) to cover a loan guarantee (equivalent to 2¾ percent of GDP). As a result, the overall fiscal deficit is estimated to have declined from 18 percent of GDP in 2022 to 1 percent of GDP in 2023. However, the domestic recurrent deficit (excluding fishing revenue and grants) is estimated to have increased to 51 percent of GDP in 2023 from 47 percent of GDP in 2022. Public debt stood at 12 percent of GDP at end-2023, mainly composed of external debt to the Asian Development Bank

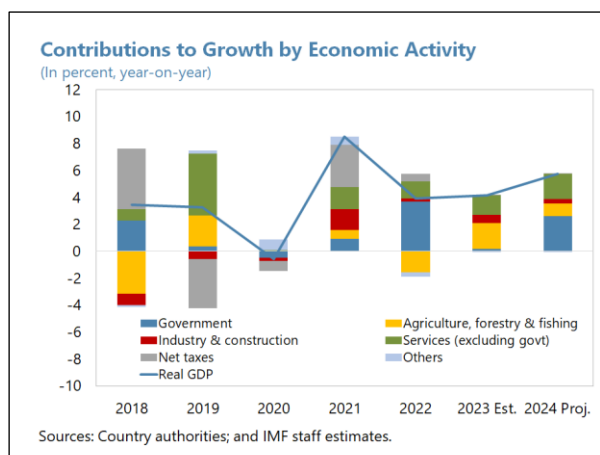
<sup>5</sup> The [portfolio of the RERF](#) is composed of global equities (excluding Australia) and Australian government fixed income managed by private asset managers. The asset allocation at end-2023 was 68 percent equity and 32 percent fixed income. The annual average returns (net of fees) for the past 3, 5, and 10 years were 5.8 percent, 8.1 percent, and 5.8 percent, respectively.

(ADB) and Taiwan Province of China. Kiribati's cash reserve buffer was about 46 percent of GDP at end-September 2023.

## OUTLOOK AND RISKS

### 8. Growth is expected to accelerate in 2024 but to moderate over the medium term.

Growth is projected to accelerate to 5.8 percent in 2024, primarily driven by higher consumption following a 38 percent increase in civil service wages. Real GDP growth is projected to decelerate towards 2 percent over the medium term, reflecting a moderation in population growth, and some improvement in total factor productivity (TFP) growth.<sup>6</sup> Average inflation is projected to be 4.5 percent in 2024, mainly driven by increased domestic demand. Inflation is expected to gradually converge to slightly below 2 percent over the medium term, in line with the trend of global commodity prices and inflation in Kiribati's main trading partners.



**9. The current account is projected to remain in surplus over the medium term.** Supported by favorable fishing activities with the commencement of El Niño, along with robust contributions from remittances and international travelers, the current account surplus is anticipated to be 9.7 percent of GDP in 2024. Over the medium term, the surplus is expected to remain below its historical average, reflecting an increase in imports required for domestic consumption and infrastructure projects, and a gradual decline in fishing license fees (as a percent of GDP) due to climate change.<sup>7</sup>

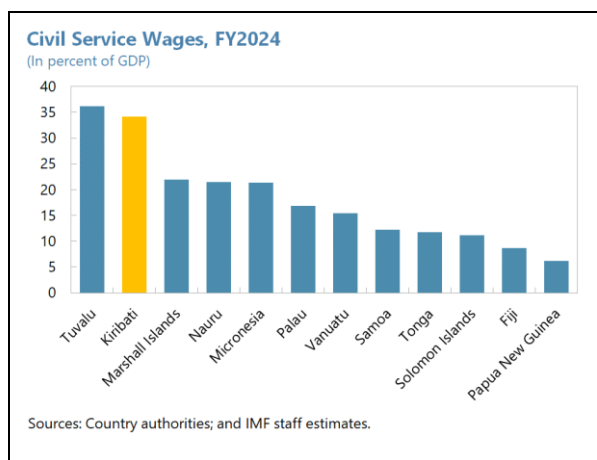
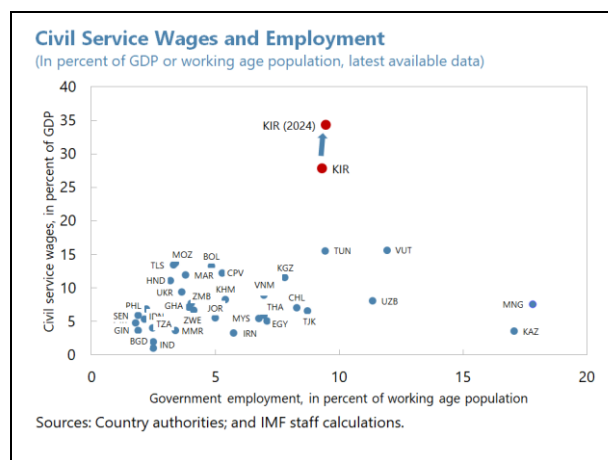
**10. The fiscal deficit is expected to widen to 22 percent of GDP in 2024 (accounting for RERF withdrawals as a financing item).**<sup>8</sup> The increase is driven by the wage increase, a decline in budget support from development partners (largely due to the operation cycles of some development partners), and an increase in development spending. The 2024 budget includes a 38 percent increase in civil service wages relative to the 2023 levels. This increase is twice the cumulative increase in consumer prices since 2018 (when the previous wage hike took place) and is

<sup>6</sup> IMF Selected Issues Paper, 2023, "Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms", [IMF Country Report No. 23/226](#).

<sup>7</sup> Gouquet, Fabien and Junting Zhou (forthcoming), "Size and Resilience of the Blue Economy in Pacific Island Economies", IMF Working Paper.

<sup>8</sup> The flows between the RERF and the budgetary central government are classified as transactions in financial assets based on a 2023 GFS TA report to reflect the investment and disinvestment nature of the flows.

equivalent to 9.4 percent of projected 2024 GDP.<sup>9</sup> Consequently, Kiribati's allocation to civil service wages, at 34 percent of GDP, stands out among a group of emerging and low-income countries, including PICs. Moreover, SOEs—which account for about 15 percent of total public sector employment—have also increased wages or are considering a wage increase. Loss-making SOEs are expected to request additional SOE subsidies to finance the wage increase. To finance the higher spending, a withdrawal of AUD80 million (17 percent of GDP, the maximum permitted amount under the 2020 withdrawal rule<sup>10</sup>) from the RERF is planned in the 2024 budget.



**11. Fiscal deficits are expected to persist in the foreseeable future.** Despite substantial support for development spending through project grants from development partners, the elevated levels of recurrent spending, coupled with the narrow domestic revenue base and a gradual decline in fishing revenue as a percent of GDP, imply a continued fiscal deficit from 2025 onwards. Staff's baseline forecasts for the overall fiscal balance are based on the assumptions that (i) development spending is largely financed by development partners and RERF withdrawals (Paragraph 15); (ii) recurrent spending gradually declines as a share of GDP, as some social protection payments are not expected to keep up with the pace of nominal GDP growth; (iii) fishing revenue declines gradually as a share of GDP; (iv) budget grants are projected to decline to one percent of GDP in 2027 and onwards to exclude uncommitted grants; and (v) climate adaptation and maintenance costs are assumed to increase from 3 percent of GDP per year in 2025 to the target of 6 percent of GDP by 2032 while continued support from development partners will be necessary to help Kiribati meet its climate resilience needs.<sup>11</sup> Under these projections, Kiribati is assessed to remain at a high risk of debt distress under the low-income country debt sustainability framework (LIC DSF).

<sup>9</sup> Out of the increase of AUD43.9 million, AUD1.1 million is for new positions. The salary increase is attained by adding AUD2,600 per annum to the current salary scale across the board with an additional 30 percent increase on top.

<sup>10</sup> In September 2020, with support from the World Bank, the authorities introduced a rule-based withdrawal policy, which permits drawdown of excess real return exceeding 5 percent, with withdrawals to be used for development purposes. The real return is calculated based on the inflation rate in Australia.

<sup>11</sup> [IMF Country Report No. 19/26](#).

**12. Risks are tilted to the downside** (Annex IV). An intensification of regional conflicts, deepening geo-economic fragmentation, and an abrupt global slowdown could reduce the price for fishing licenses and affect RERF returns due to increased global financial market volatility. Commodity price volatility could rekindle inflationary pressures and weaken the current account balance. Climate change remains a constant threat to the economy—including through its possible adverse impact on fishing revenue, and food and water security. Domestic risks include higher demand-driven inflation as the civil service wage increase could spill over to private sector salaries.

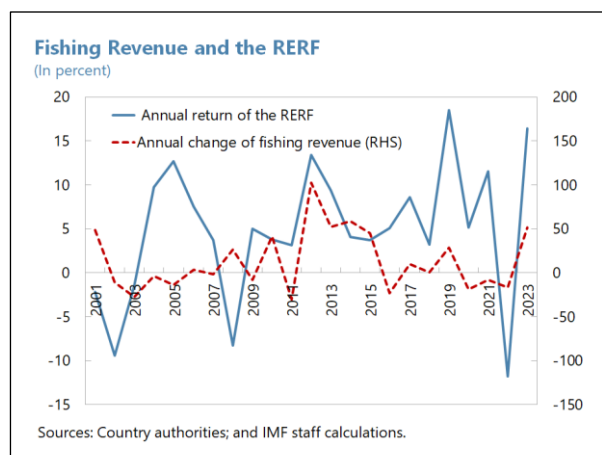
### **Authorities' Views**

**13. The authorities broadly agree with staff's assessment, highlighting the significant impact of external factors in driving Kiribati's economic outlook and risks.** They underscore that as a small island economy heavily reliant on imports (particularly for food and fuel), Kiribati remains vulnerable to global shocks. They believe that the recent increase in social protection payments and rising remittances have bolstered people's purchasing power, consequently translating into higher economic activity. While acknowledging the potential for higher inflation due to wage increases, the authorities underscore that such an increase has been long overdue since the last adjustment in 2018, aligns with recommendations from a performance-based job evaluation framework, and would help retain staff. In addition, they emphasize that SOEs operating at a loss would not get subsidies for salary increases.

## **POLICIES FOR GROWTH AND RESILIENCE**

### **A. Fiscal Policy to Ensure Sustainability and Resilience**

**14. Fiscal policy needs to ensure fiscal sustainability and build resources for development.** Kiribati's recurrent spending is mainly financed by volatile fishing revenue and budget grants, with project grants used for development financing. Although Kiribati does not currently face debt servicing risks thanks to its high cash reserve buffer, risks from unfavorable weather conditions (which would affect the price of fishing licenses) or a downturn in global financial markets (which would reduce the value of the RERF and KPF), dependence on grants from development partners, and significant climate adaptation costs call for greater fiscal prudence to safeguard debt sustainability.



**15. Against this background, initiating an ambitious fiscal consolidation while strengthening the fiscal policy framework have become urgent priorities.** Key elements should include the following:

- **Reducing recurrent spending to contain fiscal risks.** A reduction in recurrent spending by about 3 percentage points of GDP each year on average starting from 2024 to reach a recurrent deficit of 3 percent of GDP (excluding budget support) would help prevent the breach of the threshold that indicates a high risk of debt distress (Box 1). Given the already-elevated civil service wages and their substantial increase in 2024, an important priority would be to freeze the wage bill for three years till 2027 in nominal terms to generate 1 percent of GDP in savings. Subsequently, wages could be maintained constant in real terms with future adjustments guided by the outcomes of the job evaluation framework with fiscal affordability taken into account. Any adjustments would also need to consider their domestic spillover effects, including the impact of civil service wage increases on wage pressures for both SOEs and the private sector, and on higher social protection payments. The authorities should conduct payroll audits to ensure an accurate count of active employees and their corresponding pay grades. Rationalizing the copra subsidy<sup>12</sup> and unwinding some inefficient social protection spending, such as the leave grants for the private sector, would also support the fiscal consolidation effort. These actions would create fiscal space for financing additional climate adaptation and maintenance costs not included in the baseline without raising fiscal sustainability concerns (Box 1).
- **Mobilizing revenue to generate more stable and sustainable fiscal resources.** The accompanying regulations to the new Income Tax Act (ITA) were approved by the Cabinet in February 2024. The amendments to the Value-Added Tax (VAT) Act are currently under review by the Ministry of Finance and Economic Development (MFED) and are expected to be submitted to the new parliament after the elections. Key areas covered by the amendments include shifting the VAT base from "free on board" (FOB) to "cost, insurance, and freight" (CIF) to align with the international practice,<sup>13</sup> and removing tax exemptions for the SOEs. Despite these advances, more could be done to unlock the potential for a 3 to 5 percentage points of GDP increase in tax revenues and reduce the reliance on volatile fishing revenue,<sup>14</sup> including by (i) eliminating the VAT and excise tax exemptions provided to the SOEs to protect the tax base and create a level playing field for the private sector; (ii) refraining from reducing the VAT rate following the shift from the FOB to CIF value; (iii) increasing excise taxes on tobacco products, alcoholic beverages, and sugary drinks, introducing excise taxes on kava, and regularly reviewing other excise rates to ensure that they are effective in achieving their revenue and public health objectives; and (iv) consolidating the corporate income tax (CIT) rates from three progressive rates into one to streamline the CIT, as few companies pay at the lower rate.

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<sup>12</sup> See the companion IMF Selected Issues Paper, "Copra Subsidy in Kiribati: a Case Study" for more details.

<sup>13</sup> The shift from the FOB to CIF value of imported goods is estimated to raise about 0.5 percent of GDP in additional revenue.

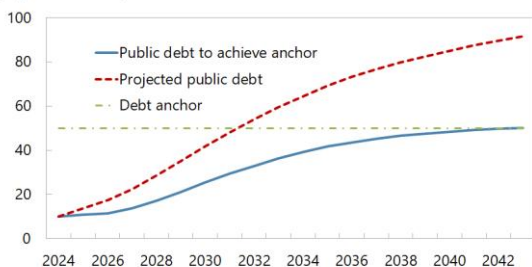
<sup>14</sup> IMF Departmental Paper, 2022, "[Funding the Future: Tax Revenue Mobilization in the Pacific Islands Countries](#)".

### Box 1. Fiscal Scenario Analysis to Safeguard Debt Sustainability

A reduction in public debt is required to ensure debt sustainability...

#### A. Public Debt Paths

(In percent of GDP)



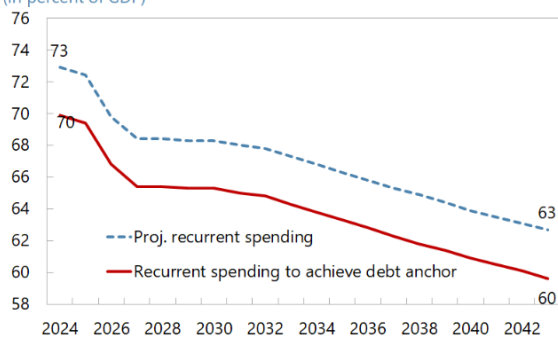
Source: IMF staff estimates.

Note: With an anchor of 50 percent for the public debt to GDP ratio, all debt burden indicators would most likely remain below their respective thresholds and benchmark over the 20-year projection horizon.

An annual recurrent spending reduction of about 3 percentage points of GDP is required in the consolidation scenario.

#### C. Recurrent Spending Paths

(In percent of GDP)

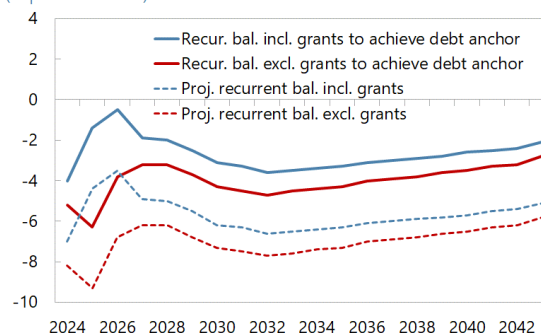


Source: IMF staff estimates.

...which requires a consolidation of the recurrent fiscal balance.

#### B. Fiscal Paths

(In percent of GDP)

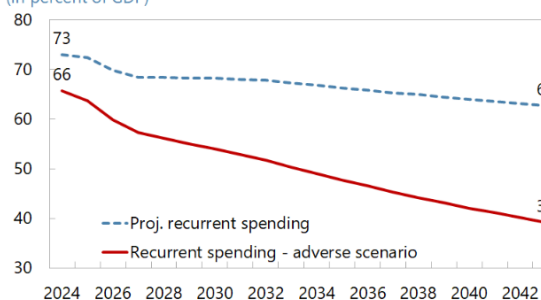


Source: IMF staff estimates.

The needed cut in recurrent spending will be more significant under an adverse scenario of a decline in fishing revenue.

#### D. Recurrent Spending Paths - Adverse Scenario

(In percent of GDP)



Source: IMF staff estimates.

Note: under the assumption of an annual decline of 0.3 percent of fishing revenue.

### Costing of the Rationalization of Recurrent Spending

(In percent of GDP)

	2024	2025	2026	2027	2028	2029	2030
Baseline recurrent spending	72.9	72.4	69.8	68.4	68.4	68.3	68.3
Proposed recurrent spending	69.9	69.4	66.8	65.4	65.4	65.3	65.3
Consolidation needed for recurrent spending	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Contribution from wage freeze	0.0	1.1	1.1	1.1	1.1	1.0	1.0
Contribution from streamlining subsidies	3.0	1.9	1.9	1.9	1.9	2.0	2.0

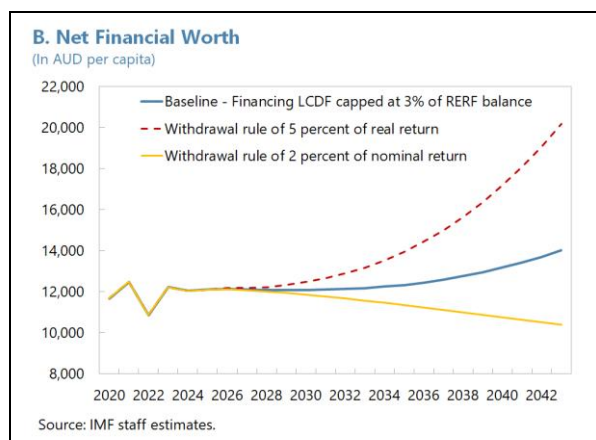
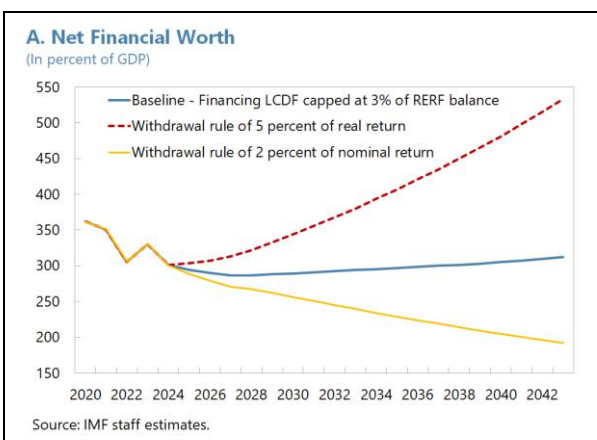
Source: IMF staff estimates.

- Formulating a sustainable fiscal framework to promote fiscal discipline.** Such a framework would help better manage volatile and exogenous components of the budget (fishing revenue and grants) and promote recurrent expenditure stability by preventing temporary surges in fishing revenue from feeding into unsustainable increases in spending, or temporary declines in

fishing revenue from forcing unnecessary and harmful spending cuts. The adjustment to revenue surprises should be biased towards saving revenue overperformance on the upside while adjusting recurrent expenditure gradually on a rolling basis on the downside; the objective being to achieve the targeted balance by the end of the medium term. These adjustments should be based on an assessment of the degree to which any revenue shock is likely to be temporary or permanent. The government's large cash balances could act as a buffer to absorb the inherent volatility in this process while a more permanent revenue decline would require further consolidation (Box 1).

- **Promptly reforming the RERF withdrawal rule to preserve its value for future generations.** The 2024 budget reflects a Cabinet decision to lower the annual RERF withdrawal threshold from 5 percent of real returns to 2 percent of nominal returns. Furthermore, as was previously the case, there is no cap on annual withdrawals and all excess can be withdrawn. The change has two effects: first, it lowers the minimum performance by the RERF needed in the preceding year to allow for a withdrawal; and second, for a given performance level, it also allows for larger absolute withdrawals than the previous rule. As such, this revision to the RERF withdrawal rule raises serious concerns about fiscal discipline and significantly elevates the risk of a gradual depletion of the RERF. Joint analysis by IMF and World Bank staff recommends a two-pronged alternative approach. First, to use the withdrawals to finance high-quality development spending, complementing efforts by development partners—particularly, through “Local Contribution to the Development Fund” (LCDF) but excluding copra subsidy, unemployment benefits, and leave grants for the private sector, as these should be classified as recurrent spending. Second, setting a cap on annual withdrawals will be critical. The cap should apply to a fixed share of the RERF balance (not the return) to keep the real per capita value of the RERF constant. Staff estimates (based on the assumed long-term real rate of return and population growth projections) indicate that the cap should be around 3 percent of the RERF balance. This alternative rule would facilitate budget planning by reducing the volatility of return-based withdrawals while protecting the RERF's long-term value and upholding the previous rule that limits RERF withdrawals to financing development spending (Annex V). This rule could be subject to a review every 5 years, taking into consideration previous and expected future returns to ensure the sustainability of the fiscal framework and safeguard the long-term value of the RERF. In addition, the RERF withdrawal rule should be subject to more legislative scrutiny (Paragraph 21).





### Authorities' Views

**16. The authorities are committed to adhering to fiscal responsibility ratios to anchor annual spending.**<sup>15</sup> They acknowledge the need to enhance the capacity to estimate future recurrent operational and maintenance costs for major donor-funded projects and incorporate them into the budget. These efforts will help government take a more medium-term approach to budgeting, smooth out recurrent spending estimates, re-prioritize non-performing projects, and ensure future service delivery of these projects. They anticipate a gradual reduction in unemployment benefits as more people get employed (including through the labor mobility programs). They appreciate staff's analytical work on the economic implications of the copra subsidy and acknowledge the need to improve the efficiency and profitability of the copra sector. However, they recognize the political challenges of reducing copra subsidies.

**17. The authorities recognize the importance of revenue mobilization in securing needed resources.** Priority has been given to implement the ITA and amend the VAT Act. In addition, they intend to review excise taxes, including the feasibility of increasing excise taxes on tobacco products and other unhealthy consumption goods, as well as imposing excise taxes on kava.

**18. The authorities emphasize that easing the RERF withdrawal rule would benefit both current and future generations.** They believe that allocating more funds towards infrastructure investment today would also benefit future generations while safeguarding the real value of the RERF. They express gratitude for the analysis conducted by IMF and World Bank comparing different withdrawal rules. They will consider and discuss staff's alternative rule, which will then be reviewed by the RERF Investment Committee. In addition, they advocate for classifying withdrawals as revenue, considering them as dividends from RERF investments, rather than financing.

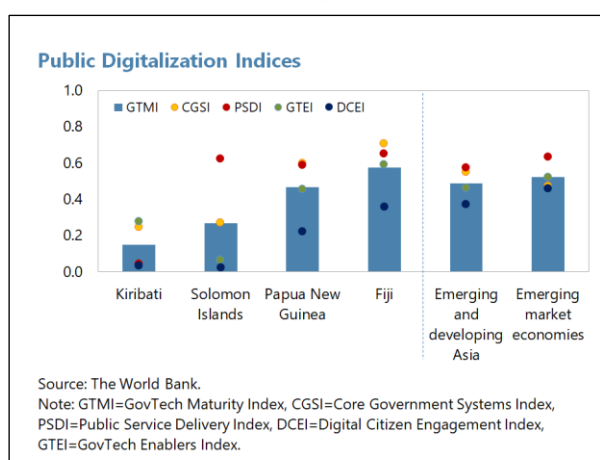
<sup>15</sup> The fiscal responsibility ratios include (i) departmental expenditure (i.e., wages and operational costs) not to exceed 50 percent of total expenditure in the recurrent budget; and (ii) maintenance of liquidity cash buffer of at least three months of expenditure.

## B. Enhancing Institutional and Administrative Capacity

**19. Efforts have been undertaken to improve the efficiency of social protection payments, but more could be done to review the social protection system with a view to improve their targeting.** The Social Protection Unit (SPU) within the Ministry of Women, Youth, Sport, and Social Affairs has made notable progress in reconciling the unemployment benefits paid over 2020–22, addressing the backlog of social protection payments, and harmonizing the operations manuals for unemployment benefits and senior citizen benefits. Collaborating with ANZ Kiribati, MFED is advancing a project to open bank accounts to facilitate social protection benefit payments, though progress remains slow. The next step would be to explore other technical options, such as mobile wallets, to enhance the delivery of social protection payments and improve their targeting. Over the medium term, the authorities should review the social protection system, including to better define the government’s objectives.

**20. Recent legislative changes and additional tax policy reforms need to be accompanied by improved tax administration processes.** The existing Revenue Management System (RMS) is outdated, lacks essential features (such as the ability to adjust tax rates and international transportation rates), and is no longer supported by software providers. To comply with the new ITA and prevent disruption in tax collection, there is a crucial need to either update or replace the RMS. Furthermore, ensuring an uninterrupted and stable supply of electricity and internet connectivity could facilitate online tax filing. Strengthening compliance efforts could involve incentivizing tax officers to follow up on returned tax payment checks and introducing a degree of separation between tax auditors and collectors.

**21. Further PFM reforms would help enhance efficiency and fiscal governance.** To strengthen fiscal data quality and reporting, the authorities procured an Integrated Financial and Management Information System (IFMIS) and a service provider in June 2022, a pivotal step in addressing the digital gap in government services (Annex VI). Phase I of the IFMIS, which covers budget preparation, management, execution, cash management, and procurement, was rolled out in July 2023. The bank reconciliation process is expected to be completed in early 2024 with the plan to produce the 2023 Annual Reports using the IFMIS in May/June 2024. However, the main challenge for the rollout and operation of the IFMIS lies in the internet connectivity, as its cloud-based nature necessitates a continuous online link (a challenge especially in the outer islands) and aligning the account structures of projects (supported from development partners) with the IFMIS chart of accounts. A PFM reform roadmap is expected to be submitted to the Cabinet in April, and an action plan matrix for sequencing reforms



and milestones for 2024 will be rolled out. With TA from IMF and other development partners, additional steps could be taken to address remaining shortcomings, including:

- Finalizing the drafting of an updated PFM Act.
- Revising the RERF Act to define the RERF's legal status and objectives, and subject its withdrawal rule to more legislative scrutiny, such as parliamentary approval.
- Publishing the fisheries report in a timely manner to enhance transparency.
- Executing effective controls over cash balances by finalizing the cash management policy to guide cash management practices and establishing a cash planning management committee to provide the Treasury with a regular update on expected cash flows. Exploring options to earn interest on the cash accounts (e.g., through a formal arrangement with ANZ Kiribati or an alternative investment strategy) could provide additional resources.

**22. To further reduce fiscal risks, it is essential to enhance the accountability of the SOEs and place them on a commercial and sustainable footing.** The SOE Monitoring and Advisory Unit (SOEMAU) within the MFED has issued new templates of the Statement of Intent and Performance Report to the SOEs and has been asking the loss-making SOEs to formulate financial scenarios containing a path towards viability. A draft SOE Act to strengthen the accountability of the SOEs is being finalized and expected to be submitted to the Cabinet in April/May 2024. 17 out of the 18 SOEs<sup>16</sup> have submitted the 2022 financial statements. However, the pace of auditing remains slow.<sup>17</sup> The government's support to the SOEs is often insufficient to compensate for the non-commercial activities carried out by the SOEs.<sup>18</sup> Major SOEs continue to face financial challenges, primarily stemming from large gaps between the subsidized prices charged to consumers and import costs or operational costs. Most recently, the pressure to increase wages could also worsen financial strains and potentially have fiscal implications. In line with previous recommendations from IMF and other development partners, the following measures should be taken to enhance the commercial mandate and governance frameworks of the SOEs:

- Continuing to build capacity in the SOEMAU.
- Improving SOE financial management and publishing SOE audited financial statements in a timely manner. Based on the financial scenarios, SOE tariffs could be recalibrated to help support cost recovery and improve financial viability (while protecting the most vulnerable); and a reform of the SOE subsidy system could be designed over the medium term.

<sup>16</sup> The newest SOE, the Tourism Authority of Kiribati (established in 2018), has not produced financial statements yet. The assets and liabilities of the 17 SOEs accounted for 68 percent and 11 percent of GDP in 2021, respectively.

<sup>17</sup> As of mid-February 2024, audits for 5 SOEs' 2022 financial statements and 9 SOEs' 2021 financial statements were completed.

<sup>18</sup> The support is largely through budget subsidies (about 2½ percent of GDP per year on average in the past five years) in the name of Community Service Obligations.

- Finalizing a formal dividend policy to ensure that the SOEs comply with their dividend payment obligations to the government.
- Divesting and outsourcing of SOE activities to help improve efficiency and strengthen public finances.

### ***Authorities' Views***

**23. The authorities are dedicated to improving revenue administration.** Recognizing the pressing need to update or replace the RMS, the tax commission has submitted a funding request to the Cabinet and is at the same time exploring funding alternatives from development partners. The authorities are focusing on improving compliance and have observed an improvement in VAT compliance following the introduction of leave grants for the private sector (as eligibility is limited to employees in VAT-registered businesses).

**24. The authorities remain strongly committed to PFM reforms.** Despite challenges, they are progressing with the phased implementation of IFMIS. They anticipate that having IT infrastructure in place would facilitate timely account integration among ministries, including those located in the outer islands. They plan to update the cash management policy and have initiated the process to consolidate various accounts and improve the returns of the cash reserves while taking into consideration liquidity needs. They aim to update the PFM Act and RERF Act, as well as to publish fisheries reports more regularly.

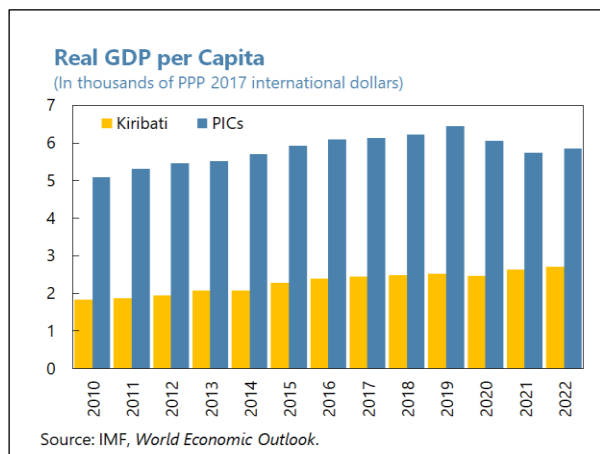
**25. Efforts to enhance the accountability and commercial mandate of SOEs continue.** The authorities have observed greater compliance with reporting requirements. Leveraging improved financial statements and viability scenarios, the SOEMAU is assessing the necessary level of government support and is prepared to recommend adjustments to tariff increases. In addition, work is underway to formulate a dividend policy, with plans to present it to the Cabinet in the near future. The SOEMAU intends to incorporate a general clause in the SOE Act, requiring ministries to settle outstanding bills owed to the SOEs and establish an SOE guarantee policy. Currently, there are no immediate plans to divest or outsource any SOE operations.

## C. Boosting Long-Term Growth Through Structural Reforms

### 26. Robust structural reforms are key to addressing sources of fragility, improving resilience, boosting long-term growth, and mitigating climate risks.<sup>19</sup>

Kiribati has experienced periods of high growth in the past (for example, in 2015 and 2021), often driven by high fiscal spending. However, across a longer period, GDP per capita has remained among the lowest in PICs. Determined structural reforms aimed at strengthening institutions, revitalizing the private sector, boosting export competitiveness, and strengthening financial

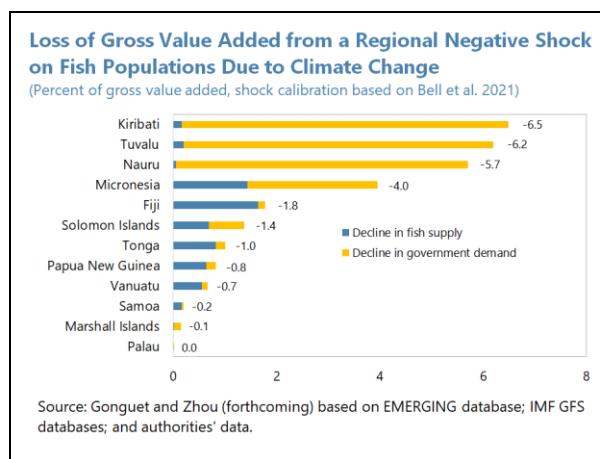
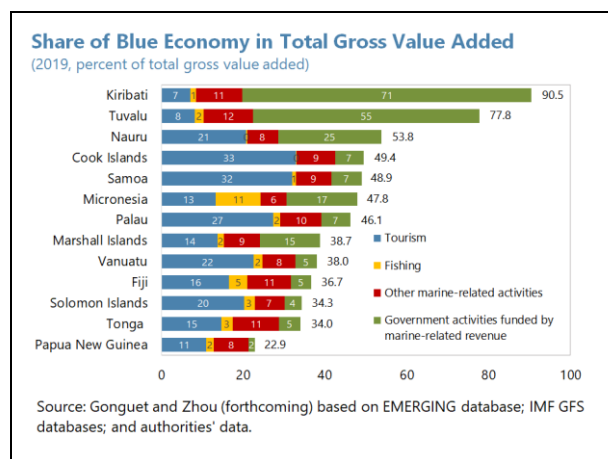
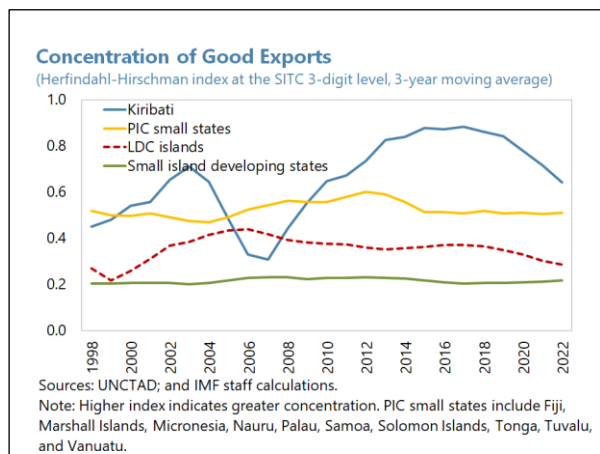
inclusion are crucial to closing these gaps and ensuring sustainable long-run growth. In addition, addressing the challenges posed by climate change needs to be a top priority.



**27. Raising private sector employment and investment could spur growth and reduce pressure for fiscal resources.** The private sector in Kiribati accounts for only 30 percent of total employment, and the labor force participation rate is low at 47 percent. These labor market conditions exert pressure on fiscal resources, by either driving up civil service wages or increasing social protection payments. Reforms that improve the business climate could help alleviate this strain and boost economic activity. In this regard, infrastructure investments to upgrade air transport, ports, shipping capacity, and power generation could expand market access. In addition, improvements to information and communication technology, where Kiribati underperforms relative to its peers, could ensure a more reliable internet supply, enhancing the business climate. Important initiatives are already underway in these areas: an undersea internet cable is scheduled to land in Tarawa in 2025, an online business registration initiative is planned for 2024, air connectivity has improved recently, and a master plan for updating the ports is supported by development partners. The recently-enacted Digital Government Act (2023) could also help accelerate the digital transformation of the public sector.

<sup>19</sup> A [Country Engagement Strategy](#) (CES) note is under preparation to be discussed with the authorities in the next Article IV consultation. The CES note will help identify the key drivers of fragility to better tailor Fund engagement and support the integration of surveillance and CD.

**28. Enhancing export competitiveness requires efforts to diversify and upgrade existing exports.** Copra, crude coconut oil, and fisheries accounted for more than 90 percent of Kiribati's exports in 2021. Such a high export concentration creates risks: adverse weather events could sporadically dampen coconut production, and climate change could pose threats to fisheries. The copra subsidy creates market distortions that are widely acknowledged by market participants.<sup>20</sup> To address these challenges, it would be important to diversify into new products such as aquaculture and seaweed; the latter was exported in the past and accounted for more than 20 percent of exports in prior years. Efforts to upgrade quality within existing products by expanding tuna processing capacity (as occurring in Solomon Islands and Papua New Guinea) and upgrading copra production to produce virgin coconut oil could also raise exports.



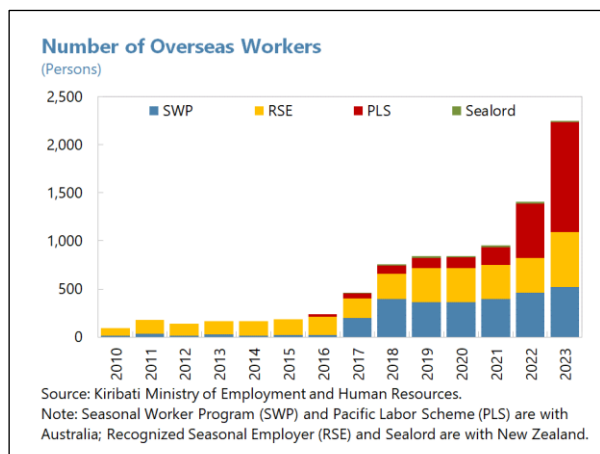
**29. Measures to increase the utilization of natural resources should be carefully considered.** It would be important to fully develop and finalize the accompanying regulations to the Environment Act (2021) and Fisheries Act (2021) to ensure their effectiveness. The reopening of the PIPA in April 2023 presents an important opportunity to boost fishing revenue though preventing illegal fishing or underreporting remains a challenge. It is important that the authorities proceed with their plans to develop a marine spatial plan to ensure the sustainability of fishing. The authorities passed legislation governing seabed mining in 2017 but no licenses have been officially awarded. It is encouraging that the authorities plan to conduct a full evaluation of the activity's potential before taking any concrete decision. They are also considering seeking support to improve

<sup>20</sup> See the companion IMF Selected Issues Paper, "Copra Subsidy in Kiribati: a Case Study" for more details.

practices of carbon reporting, specifically collection of broader data on greenhouse gas emissions beyond the energy and transport sectors.

### 30. Closing human capital gaps is crucial to improving growth prospects.

Over the last decade, Kiribati has made substantial progress in improving primary and early childhood education. Total school enrollment increased by about 9 percent on average annually between 2014 and 2019, resulting in primary school enrollment rates exceeding 95 percent. However, the education landscape faces major obstacles. Despite Kiribati being one of the highest spenders on education among PICs, learning poverty—a measure of how many 10-year-olds cannot read proficiently—exceeds 70 percent and upper secondary school completion rates are low at 20 percent.<sup>21</sup>

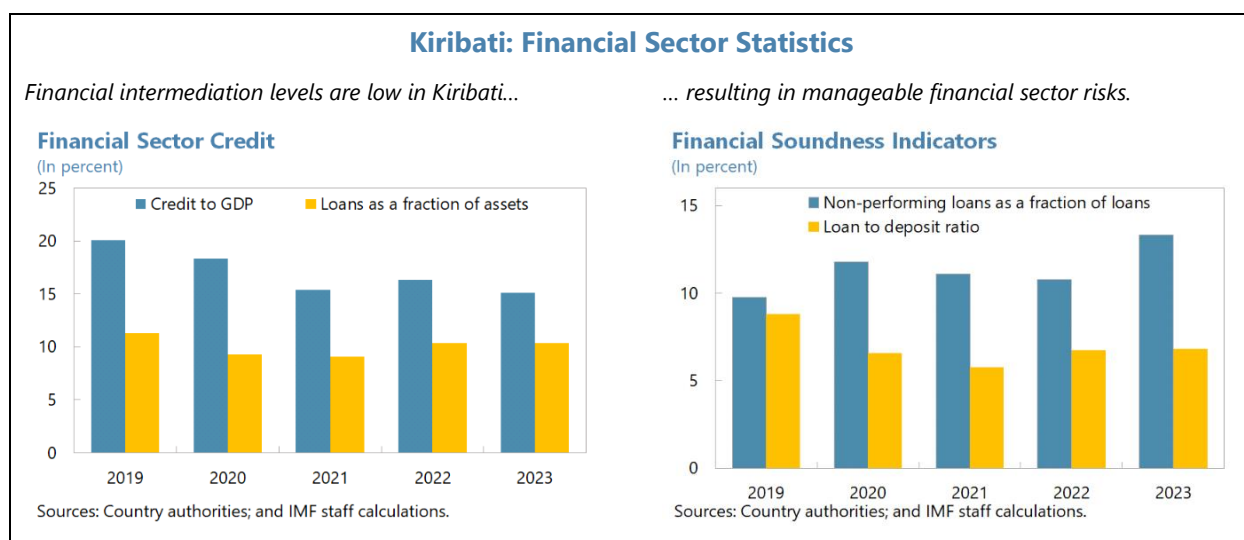


In the labor market, increased participation in seasonal worker programs has improved eligible workers' incomes but has previously contributed to domestic labor market shortages in key markets such as healthcare. To close these gaps, the authorities could consider improving data collection and transparency related to school enrollment, teaching practices, and overseas scholarships. In addition, improvements in teacher certifications could increase the quality of secondary school education and expanding technical vocational education and training (tested at a public school in 2023) would upskill the workforce and alleviate labor shortages caused by outward migration. The authorities have plans to review the current gender equality and women development policies to enhance women's economic empowerment. Collectively, these measures could raise human capital levels and improve growth prospects.

### 31. Financial intermediation is limited in Kiribati, containing financial sector risks but keeping financial inclusion low.

Though official statistics are unavailable, around 15 percent of the population is estimated to have access to banking services. The credit-to-GDP ratio has stagnated at around 15–20 percent of GDP in recent years, reflecting several interrelated challenges. These include low competition, geographic dispersion, high credit costs, and legal issues associated with seizing collateral due to land titling issues. Financial institutions are reluctant to lend and keep most deposits in cash—loans were equivalent to only 10 percent of banking system assets in 2023. Consequently, banks perform well according to standard financial soundness metrics—the system-wide loan-to-deposit ratio was 7 percent and the non-performing loan ratio was 13 percent in 2023, whereas ANZ Kiribati's regulatory capital adequacy ratio exceeded 30 percent in 2022.

<sup>21</sup> World Bank, 2023, "[2023 Public Expenditure Review \(PER\) for Nine Pacific Island Countries](#)".



**32. Expanding financial access and fully implementing recent financial sector legislations are key to enhancing financial inclusion and thereby boosting growth.** ANZ Kiribati has made progress in incentivizing usage of digital financial products such as internet banking and electronic point-of-sale terminals. The Chamber of Commerce plans to launch a credit union later this year with digital capabilities. Despite these developments, a large-scale transformation of the financial sector (including new bank entrants or higher loan growth) may not occur until the full operationalization of two key legislations, the Financial Supervisory Authority of Kiribati Act (2021) and the Kiribati Financial Institutions Act (2021), including establishing the Kiribati Financial Supervisory Authority (KFSA). While a board of directors has been appointed, the KFSA is not yet fully staffed (including the position of CEO). Going forward, it will be important that it is promptly and adequately resourced to effectively carry out its mandate.

**33. Investments in adaptation and leveraging climate finance are critical to tackling climate risks.** Kiribati is particularly vulnerable to climate-induced disasters.<sup>22</sup> Sea level rise has already forced some displacements, and fishing related activity is projected to decline substantially in an adverse climate scenario. Kiribati's annual adaptation costs to contain climate-related economic losses are estimated at 25 percent of GDP, the highest number among PICs.<sup>23</sup> In 2016, the government established a climate finance division within the MFED to coordinate access to climate funds. Several critical adaptation projects are already underway with the support of development partners.<sup>24</sup> However, the approved funding only covers a fraction of Kiribati's estimated investment needs, and direct access to climate funds remains elusive due to complex requirements and internal capacity constraints. To unlock further access to climate funds, the authorities could in the short run obtain funding through bilateral arrangements or partnership with existing accredited organizations

<sup>22</sup> IMF Selected Issues Paper, 2023, "Climate Change in Kiribati: The Way Forward", [IMF Country Report No. 23/226](#).

<sup>23</sup> IMF Departmental Paper, 2021, "[Fiscal Policies to Address Climate Change in Asia and the Pacific](#)".

<sup>24</sup> These include, among many others, the South Tarawa Renewable Energy Project, the Kiribati Outer Islands Resilience and Adaptation Project, and the Climate-Resilient Health Infrastructure and Systems Project.



(such as multilateral development banks or regional organizations), while building internal capacity to allow for direct access over the medium term.

**34. Efforts to improve governance should continue.** The government has established a Leadership Commission to investigate complaints against senior public officials and set up an anti-corruption unit within the Public Service Office. While progress has been made in investigating abuse of power, compliance rates for filing asset declarations have declined from 33 percent in 2019 to 10 percent in 2022.<sup>25</sup> More capacity and enforcement powers for these agencies aligned with country's risks would increase their effectiveness. On the judicial front, the government has recruited judges for the court of appeals and is looking to appoint a permanent Chief Justice.<sup>26</sup> These actions could help further streamline court case backlogs and resolve potential collateral issues.

### **Authorities' Views**

**35. The authorities acknowledge the significant growth challenges and the need for resolute structural reforms.** Upgrading exports remains difficult—the authorities acknowledge that the minimum support price for copra is disincentivizing the production of potentially competitive value-added products such as virgin coconut oil. Expanding tuna processing is financially infeasible due to the high cost of imported cans and chemicals. On a positive note, the authorities stress that increasing outward migration has not resulted in wide-scale labor shortages due to ample labor supply and active interventions by the employment ministry to address personnel shortages in sectors such as healthcare. They also highlight the continuing progress on improving transport, renewable energy, and climate-resilient infrastructure, and stress that they are coordinating closely across development partners to minimize duplication of efforts. They also acknowledge the importance of enhancing financial inclusion and improving financial sector regulation and are in the process of making the KFSa operational. On the judicial front, the authorities mention the successful reduction in case backlogs in 2023, noting that the courts closed around 40 percent of open cases, a much higher proportion than in previous years where the rate stood at 5–10 percent. The Leadership Commission has plans to submit amendments to Leaders' Code of Conduct Act to grant commissioners greater enforcement authority.

## **STAFF APPRAISAL**

**36. Kiribati's economy rebounded strongly from the COVID-19 pandemic.** After a mild, pandemic-inflicted recession followed by a strong recovery since 2021, the economy is estimated to be about 17 percent larger in 2023 compared to 2019. Growth is expected to reach 5.8 percent in 2024, primarily boosted by a 38 percent increase in civil service wages. Inflation decelerated from its recent peak but is projected to average 4.5 percent in 2024, mainly driven by increased domestic demand. The current account is estimated to have shifted back to a surplus of 10.2 percent of GDP in 2023. Kiribati's external position in 2023 is assessed to be broadly in line with the level implied by

<sup>25</sup> The compliance rates for 2020 and 2021 were 9 percent and 15 percent.

<sup>26</sup> [IMF Country Report No. 23/329](#).

fundamentals and desirable policies. Risks to the outlook are tilted to the downside, with key risks including an intensification of regional conflicts, deepening geo-economic fragmentation, an abrupt global slowdown, commodity price volatility, higher demand-driven inflation, and climate change.

**37. Initiating an ambitious fiscal consolidation is essential to safeguard sustainability.**

Kiribati's volatile fishing revenue, dependence on grants from development partners, and significant climate adaptation costs call for greater fiscal discipline. Given the already-elevated civil service wages and their substantial increase in 2024, an important priority would be to rationalize them. Additional fiscal consolidation could be achieved by streamlining the copra subsidy, improving the targeting and efficiency of social protection payments, enhancing revenue mobilization, and formulating a sustainable fiscal framework to better manage the volatile and exogenous components of the budget.

**38. Promptly reforming the RERF withdrawal rule would benefit both current and future generations while preserving its real value.** The recent Cabinet decision to lower the annual RERF withdrawal threshold elevates the risk of a gradual depletion of the RERF. A two-pronged alternative rule setting a cap on annual withdrawals and limiting their use to high-quality development spending would facilitate budget planning by reducing the volatility of return-based withdrawals while protecting the RERF's long-term value. In addition, the RERF withdrawal rule should be subject to more legislative scrutiny.

**39. Enhancements in institutional and administrative capacity are crucial to a successful consolidation.** The authorities' efforts to implement the IFMIS are commendable and should continue. Upgrading or replacing the current RMS and improving revenue administration are needed to maximize the benefits from recent tax policy reforms. PFM could be further improved by updating the PFM Act and RERF Act, publishing the fisheries report more regularly, and more effectively controlling cash balances, including generating higher interest income. Continued efforts are needed to strengthen SOE governance, while enhancing their commercial mandate and putting their finances on a sustainable footing.

**40. Accelerating structural reforms to address the drivers of fragility remains critical to Kiribati's overall development.** Recent initiatives to close the infrastructure gap and improve internet connectivity are commendable. Continued efforts are needed to raise private sector employment and investment, update export quality and diversification, improve infrastructure, nurture human capital, and strengthen institutions and governance. Investments in adaptation and leveraging climate finance are critical to tackling climate risks.

**41. Efforts to increase the sustainable utilization of natural resources should continue.** Priorities include fully developing and finalizing the accompanying regulations to the Environment Act and Fisheries Act. The reopening of the PIPA in April 2023 presents an opportunity to boost fishing revenue. It is important that the authorities proceed with their plans to develop a marine spatial plan to ensure the sustainability of fishing.

**42. Enhancing access to finance remains key to boosting growth.** The formation of the KFSa is a major milestone as currently the responsibilities for supervising Kiribati's financial sector are spread across various stakeholders. Going forward, it will be important that the KFSa is promptly and adequately resourced so that it can effectively carry out its mandate.

**43. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.**

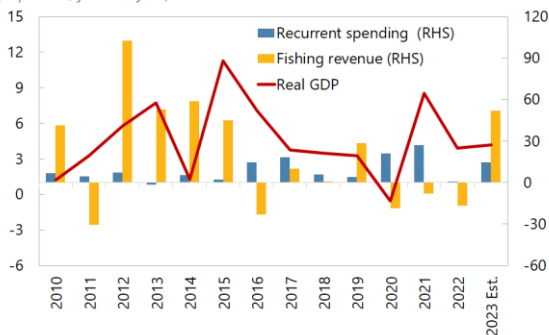
**Figure 1. Kiribati: Recent Developments**

Economic growth decelerated in 2022 due to a drought but is estimated to have picked up in 2023.

Nonetheless, per capita income remains among the lowest in the region.

**Growth Rates**

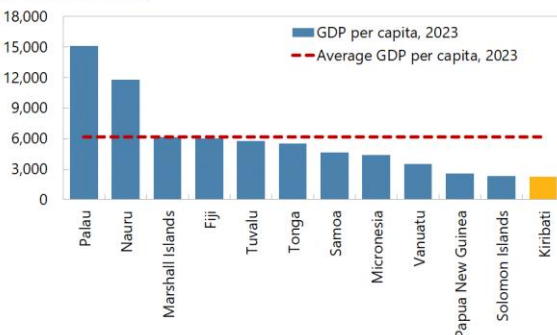
(In percent, year-on-year)



Sources: Country authorities; and IMF staff estimates.

**Per Capita Income, 2023**

(In current U.S. dollars)



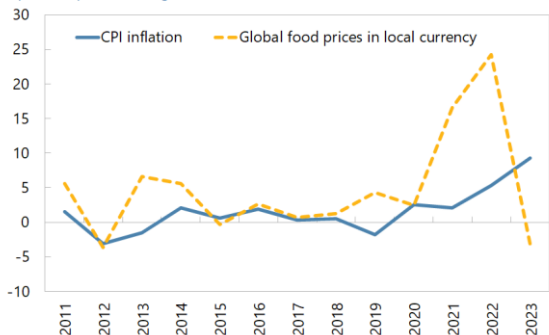
Sources: Country authorities; and IMF, *World Economic Outlook*.

Inflation peaked in early 2023 with a lagged effect of higher global food prices.

Fishing revenue recovered in 2023 after several years of decline.

**Inflation Rates**

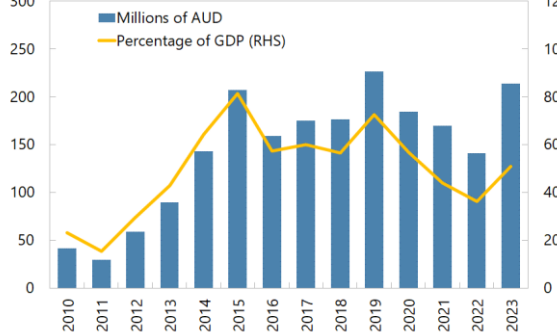
(In percent, period average)



Sources: Country authorities; IMF, *Global Assumptions*; and IMF staff estimates.

**Fishing Revenue**

(In current U.S. dollars)



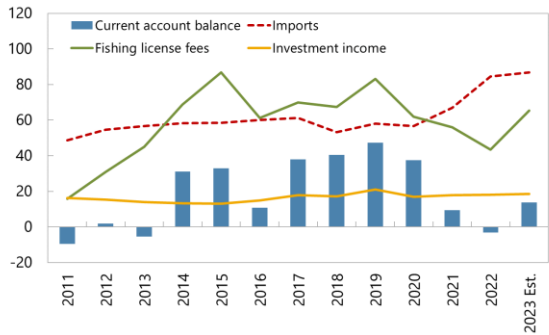
Sources: Country authorities; and IMF staff estimates.

The current account balance is estimated to have shifted back to a surplus in 2023 due to higher fishing license fees, remittances, and grants.

The fiscal deficit is estimated to have narrowed in 2023, largely due to higher fishing revenue.

**Current Account Balance**

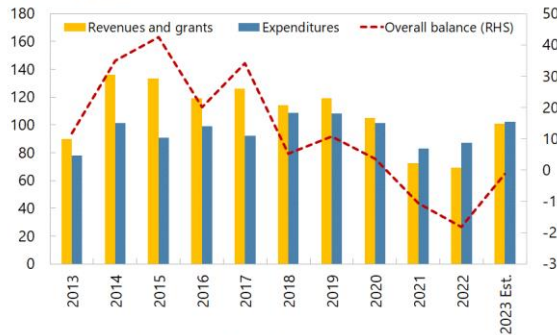
(In percent of GDP)



Sources: Country authorities; and IMF staff estimates.

**Revenues, Expenditures, and Overall Balance**

(In percent of GDP)



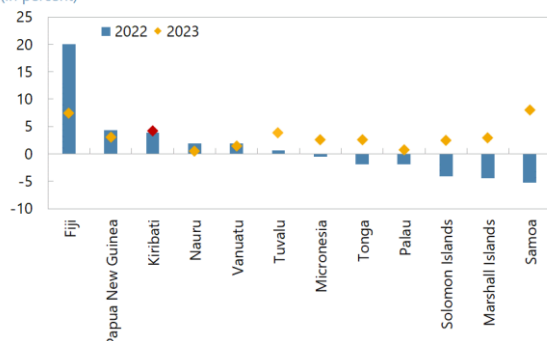
Sources: Country authorities; and IMF staff estimates.

**Figure 2. Kiribati: Constraints to Raising Growth Potential (I)**

*Kiribati posted relatively strong post-COVID GDP growth...*

**Real GDP Growth, 2022 and 2023**

(In percent)

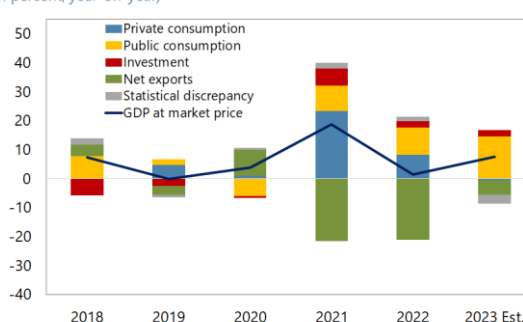


Sources: Country authorities; and IMF, *World Economic Outlook*.

*...supported by public consumption.*

**Contributions to Growth by Expenditure**

(In percent, year-on-year)

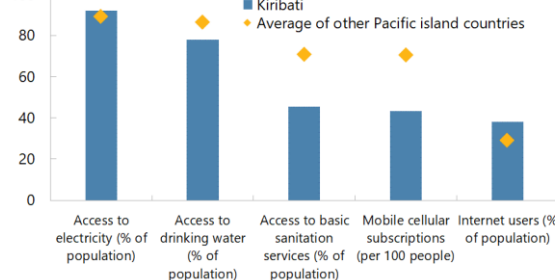


Sources: Country authorities; and IMF staff estimates.

*Kiribati is challenged by significant infrastructure gaps...*

**Infrastructure Gap**

(In percent)

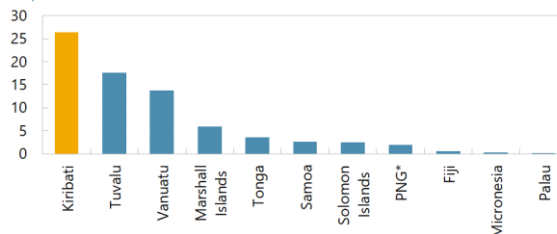


Sources: Country authorities; and World Development Indicators.  
Notes: 2020 data. Kiribati's access to electricity is based on the data in South Tarawa. Outer islands will have lower access.

*...and high climate adaptation costs.*

**Estimated Annual Climate Adaptation Costs**

(In percent of GDP)

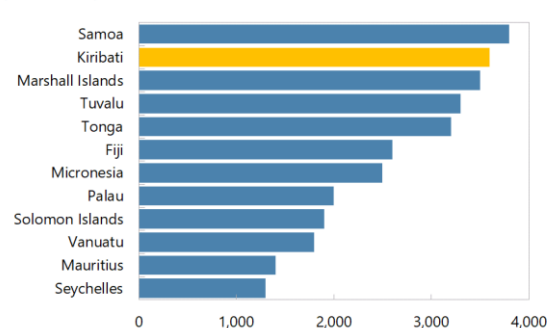


Sources: Dabla-Norris et al. (2021); and IMF staff calculations.  
Notes: Bars correspond to the sum of upgrading and retrofitting costs in the public sector and coastal protection costs. The level of protection being costed corresponds to the protection that keeps average annual losses below 0.01 percent of local GDP for protected areas. \*Missing values in the private sector for Papua New Guinea.

*Its remoteness hinders attracting foreign investors and exports growth.*

**Distance to the Nearest Continent**

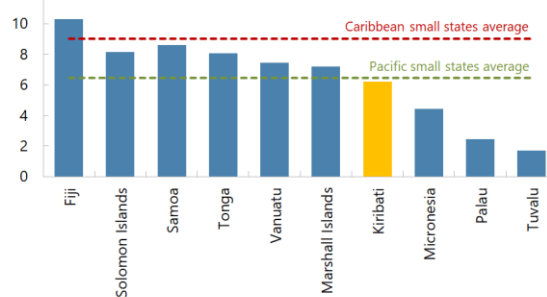
(In kilometers)



Sources: Google Earth; and IMF staff calculations.

**Liner Shipping Connectivity Index, 2021**

(Index value)

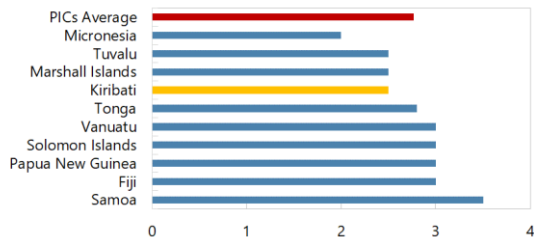


Source: World Development Indicators.  
Note: A smaller number indicates lower connectivity and higher transportation costs. 100 is the maximum index value.

**Figure 3. Kiribati: Constraints to Raising Growth Potential (II)**

An improvement in the regulatory environment would promote private sector development...

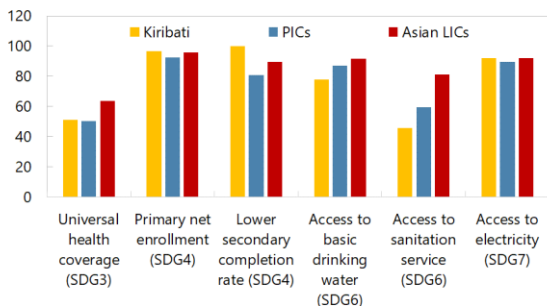
**CPIA Business Regulatory Environment Rating**  
(2018-22 average)



Source: World Bank, CPIA Database.  
Notes: Higher value corresponds to higher CPIA rating, and hence, better legal, regulatory and policy environments that help private businesses.  
Non-IMF indicators provide qualitative information about the business regulatory environment.

Kiribati is in line with peers in meeting education and health-related SDGs, while infrastructure gaps remain.

**Sustainable Development Goals, 2023**

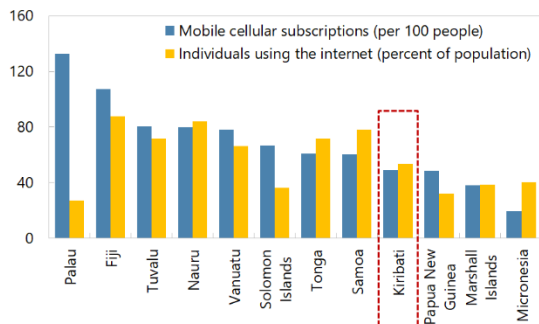


Source: United Nations Sustainable Development Report, 2023.  
Note: Scores range from 0 (worst) to 100 (best performer) following Sachs and others (2020). Column plots indicate the means for PICs and LICs in Asia.

Kiribati's remoteness can be partially mitigated by increasing internet usage...

**Internet Usage**

(2022 or latest available data)

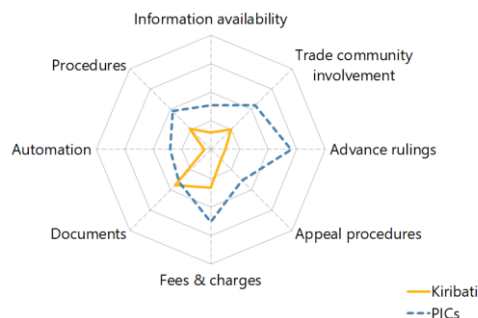


Source: World Development Indicators.

... and facilitate trade.

**Trade Facilitation Indicators, 2022**

(Farthest from center = best performance that can be achieved)

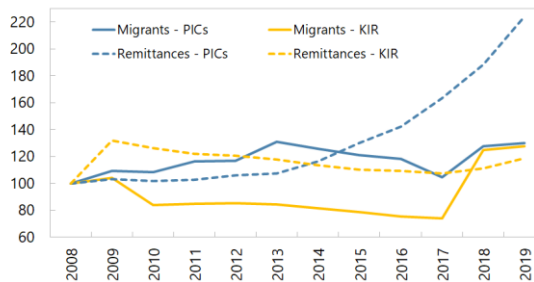


Source: OECD, Trade Facilitation Indicators, 2022.

An increasing number of overseas workers reduces unemployment and contributes to remittances but could contribute to a labor drain.

**Remittances and Migrants Evolution**

(Index based on average cross country growth for remittances over GDP and migrants over population. 2008 = 100)

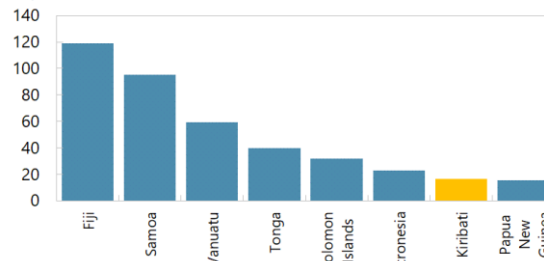


Sources: OECD; Australia and New Zealand governments; and IMF staff calculations.

... and improving connectivity and operationalization of financial sector regulations could boost financial access.

**Domestic Credit to Private Sector, 2022**

(In percent of GDP)



Sources: World Development Indicators and IMF staff calculations.  
Note: Ratio for Kiribati estimated based on the loans outstanding for ANZ Kiribati, Development Bank of Kiribati, and KPF; 2021 data for Micronesia.

**Table 1. Kiribati: Selected Economic Indicators, 2020–29**

Per capita GDP (2022): US\$2,199.

Demographic: Population (2022): 123,375; Life expectancy at birth (2020): 67.3.

Poverty in percent of population (2019): Below \$2.15 a day: 1.7; Below the national poverty line: 21.9.

Inequality (2019, income shares): Top 10 percent: 22.9; Bottom 20 percent: 9.5.

IMF quota: SDR 11.2 million.

Main export products: Frozen yellowfin tunas, crude coconut oil, self-propelled works trucks, petroleum oil, and copra.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.			Proj.			
Real GDP (percent change)	-0.6	8.5	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1
Consumer prices (percent change, average)	2.6	2.1	5.3	9.3	4.5	3.0	2.5	2.0	1.9	1.8
Inflation (end of period)	2.8	2.5	16.2	-2.1	4.8	2.5	2.0	1.9	1.8	1.8
Central government finance (in percent of GDP)										
Revenue and grants	105	72	69	101	103	92	82	91	88	87
Total domestic revenue	75	64	56	71	65	63	63	62	62	62
<i>Of which: fishing revenue</i>	57	44	36	51	46	44	43	42	42	41
External grants	30	8	13	30	39	29	19	28	26	26
Expenditures	101	83	87	102	126	107	95	104	103	103
Current	63	67	67	71	73	72	70	68	68	68
Development	39	16	21	31	53	35	25	36	35	35
Domestic recurrent balance 1/	-45	-47	-47	-51	-54	-53	-50	-49	-48	-48
Recurrent fiscal balance (incl. budget support grants)	14	-2	-7	8	-7	-4	-4	-5	-5	-6
Overall balance 2/	4	-11	-18	-1	-22	-15	-13	-14	-15	-16
Financing	-4	11	18	1	22	15	13	14	15	16
<i>Of which: Revenue Equalization Reserve Fund (RERF)</i>	12	0	0	0	17	9	9	8	8	8
RERF										
Closing balance (in millions of A\$)	1172	1353	1194	1389	1414	1475	1529	1579	1642	1714
Per capita value (in 2006 A\$)	7264	8018	6530	7080	6835	6803	6772	6717	6710	6729
Balance (in percent of GDP)	362	351	306	330	301	294	290	287	287	288
Cash reserve buffer 3/										
Closing balance (in millions of A\$)	278	216	200	192	164	157	157	157	157	157
Closing balance (in percent of GDP)	86	56	51	46	35	31	30	29	27	26
In excess of 3-months of current spending and LCDF (in millions of A\$)	219	144	124	108	61	53	53	51	44	40
Balance of payments										
Current account including official transfers (in millions of US\$)	71	20.3	-6.5	28.6	30.2	30.4	29.2	29.4	30.5	31.3
(In percent of GDP)	31.8	7.0	-2.4	10.2	9.7	9.2	8.4	8.1	8.0	7.9
External debt (in millions of US\$) 4/	39	36	32	30	28	43	57	78	105	135
(In percent of GDP)	16	13	13	11	9	13	17	22	28	35
External debt service (in millions of US\$)	1.9	2.1	2.3	2.3	2.2	2.2	2.3	2.5	2.7	2.9
(In percent of exports of goods and services)	1.3	1.0	0.9	0.9	0.8	0.7	0.7	0.8	0.8	0.9
Exchange rate (A\$/US\$ period average)	1.4	1.3	1.4	1.5	...	...	...	...	...	...
Real effective exchange rate (period average)	75	78	78	83	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (in millions of A\$)	324	385	390	420	470	501	528	551	572	595
Nominal GDP (in millions of US\$)	224	290	271	279	311	329	342	354	366	382

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Cash reserve buffer includes the government's operational account and cash reserve account.

4/ The coverage is public external debt only.

Table 2a. Kiribati: Summary of Central Government Operations, 2020–29

(In millions of Australian dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.				Proj.					
Total revenue and grants	340	278	270	423	485	462	433	499	504	520
Revenue	242	246	219	297	304	316	332	343	356	366
Tax revenue	52	66	63	68	80	85	95	99	103	108
Nontax revenue	190	180	156	230	224	231	237	243	252	259
<i>Of which: fishing revenue</i>	184	169	141	214	214	221	227	233	239	246
Project grants	91	28	36	92	175	122	84	149	141	146
Budget support grants	7	4	14	34	6	25	18	7	7	7
Total expenditure	328	319	341	429	590	537	501	575	592	615
Current expenditure	203	258	261	298	342	363	368	377	391	407
Wages and salaries	85	103	98	117	161	165	168	171	175	178
Subsidies and grants	71	120	120	139	148	149	147	148	154	160
<i>Of which: copra subsidy</i>	16	16	30	28	30	35	35	35	36	38
<i>Of which: SOE subsidy</i>	8	7	7	17	20	16	16	16	16	17
<i>Of which: unemployment benefit</i>	9	45	31	30	28	28	28	28	28	28
<i>Of which: senior citizen benefit</i>	12	20	22	20	23	23	23	23	24	25
<i>Of which: leave grants for private sector</i>	...	...	...	10	10	11	12	13	13	14
Other current expenditure	46	35	42	42	34	35	35	36	38	39
Interest payment	1	1	1	1	1	1	1	1	1	2
Contingency and maintenance rel. to climate change adaptation	...	...	...	...	...	14	17	20	24	28
Infrastructure maintenance	...	...	...	...	...	11	12	12	13	13
Other climate change adaptation costs	...	...	...	...	...	3	5	8	11	15
Development expenditure	125	61	80	131	247	174	133	198	200	208
<i>Of which: local contribution to development fund (LCDF)</i>	34	33	44	39	72	52	49	49	60	62
Domestic recurrent balance 1/	-145	-181	-182	-215	-253	-267	-263	-267	-275	-286
Recurrent fiscal balance (excl. grants)	39	-12	-41	-1	-39	-46	-36	-34	-36	-40
Recurrent fiscal balance (incl. budget support grants)	46	-8	-27	33	-33	-22	-18	-27	-28	-33
Overall fiscal balance 2/	11	-41	-71	-5	-105	-74	-68	-76	-88	-95
Financing	-11	41	71	5	105	74	68	76	88	95
Domestic financing	-10	43	74	8	108	52	45	45	47	49
Revenue Equalization Reserve Fund (RERF)	40	0	0	0	80	45	45	45	47	49
Cash reserve buffer	-50	43	74	8	28	7	0	0	0	0
External financing (net)	-2	-2	-3	-3	-3	22	23	31	41	46
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth including RERF (in millions of A\$) 3/	1395	1515	1342	1532	1532	1564	1595	1614	1636	1663
Net financial worth incl. RERF	430	393	344	364	326	312	302	293	286	279
Net financial worth excluding RERF (in millions of A\$)	223	162	148	143	118	89	66	35	-6	-52
Net financial worth excl. RERF	69	42	38	34	25	18	12	6	-1	-9
RERF balance	362	351	306	330	301	294	290	287	287	288
RERF real per capita value (in 2006 A\$)	7264	8018	6530	7080	6835	6803	6772	6717	6710	6729
Cash reserve buffer 4/	86	56	51	46	35	31	30	29	27	26
Cash reserve buffer in excess of 3-months of current spending and LCDF	68	37	32	26	13	11	10	9	8	7
Overall fiscal balance (authorities' definition, in millions of A\$) 5/	51	-41	-71	-5	-25	-29	-23	-31	-41	-46
Public debt (in millions of A\$)	56	54	52	49	47	68	91	122	163	209
Public debt 6/	17	14	13	12	10	14	17	22	28	35
Nominal GDP (in millions of A\$)	324	385	390	420	470	501	528	551	572	595

Sources: Kiribati authorities; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall fiscal balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Balance of the RERF, cash reserves account minus public debt.

4/ Cash reserve buffer includes the government's operational account and cash reserve account.

5/ Withdrawals from the RERF are classified as revenue.

6/ In this table, the coverage of public sector debt is the central government and Kiribati Provident Fund( KPF).



**Table 2b. Kiribati: Summary of Central Government Operations, 2020–29**  
(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.				Proj.					
Total revenue and grants	105	72	69	101	103	92	82	91	88	87
Revenue	75	64	56	71	65	63	63	62	62	62
Tax revenue	16	17	16	16	17	17	18	18	18	18
Nontax revenue	59	47	40	55	48	46	45	44	44	43
<i>Of which: fishing revenue</i>	57	44	36	51	46	44	43	42	42	41
Project grants	28	7	9	22	37	24	16	27	25	25
Budget support grants	2	1	4	8	1	5	3	1	1	1
Total expenditure	101	83	87	102	126	107	95	104	103	103
Current expenditure	63	67	67	71	73	72	70	68	68	68
Wages and salaries	26	27	25	28	34	33	32	31	30	30
Subsidies and grants	22	31	31	33	31	30	28	27	27	27
<i>Of which: copra subsidy</i>	5	4	8	7	6	7	7	6	6	6
<i>Of which: SOE subsidy</i>	2	2	2	4	4	3	3	3	3	3
<i>Of which: unemployment benefit</i>	3	12	8	7	6	6	5	5	5	5
<i>Of which: senior citizen benefit</i>	4	5	6	5	5	5	4	4	4	4
<i>Of which: leave grants for private sector</i>	...	...	...	2	2	2	2	2	2	2
Other current expenditure	14	9	11	10	7	7	7	7	7	7
Interest payment	0	0	0	0	0	0	0	0	0	0
Contingency and maintenance rel. to climate change adaptation	...	...	...	...	...	3	3	4	4	5
Infrastructure maintenance	...	...	...	...	...	2	2	2	2	2
Other climate change adaptation costs	...	...	...	...	...	1	1	2	2	3
Development expenditure	39	16	21	31	53	35	25	36	35	35
<i>Of which: local contribution to development fund (LCDF)</i>	11	9	11	9	15	10	9	9	10	10
Domestic recurrent balance 1/	-45	-47	-47	-51	-54	-53	-50	-49	-48	-48
Recurrent fiscal balance (excl. grants)	12	-3	-11	0	-8	-9	-7	-6	-6	-7
Recurrent fiscal balance (incl. budget support grants)	14	-2	-7	8	-7	-4	-4	-5	-5	-6
Overall fiscal balance 2/	4	-11	-18	-1	-22	-15	-13	-14	-15	-16
Financing	-4	11	18	1	22	15	13	14	15	16
Domestic financing	-3	11	19	2	23	10	9	8	8	8
Revenue Equalization Reserve Fund (RERF)	12	0	0	0	17	9	9	8	8	8
Cash reserve buffer	-15	11	19	2	6	1	0	0	0	0
External financing (net)	-1	-1	-1	-1	-1	4	4	6	7	8
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth incl. RERF 3/	430	393	344	364	326	312	302	293	286	279
Net financial worth excl. RERF	69	42	38	34	25	18	12	6	-1	-9
RERF balance	362	351	306	330	301	294	290	287	287	288
RERF real per capita value (in 2006 A\$)	7264	8018	6530	7080	6835	6803	6772	6717	6710	6729
Cash reserve buffer 4/	86	56	51	46	35	31	30	29	27	26
Cash reserve buffer in excess of 3-months of current spending and LCDF	68	37	32	26	13	11	10	9	8	7
Overall fiscal balance (authorities' definition) 5/	16	-11	-18	-1	-5	-6	-4	-6	-7	-8
Public debt 6/	17	14	13	12	10	14	17	22	28	35
Nominal GDP (in millions of A\$)	324	385	390	420	470	501	528	551	572	595

Sources: Kiribati authorities; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall fiscal balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Balances of the RERF, cash reserve buffer accounts minus public debt.

4/ Cash reserve buffer includes the government's operational account and cash reserve account.

5/ Withdrawals from the RERF are classified as revenue.

6/ In this table, the coverage of public sector debt is the central government and Kiribati Provident Fund( KPF).

**Table 3a. Kiribati: Balance of Payments, 2020–29**

(In millions of Australian dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.			Proj.			
Current account	103	27	-9	43	46	46	44	44	46	47
Balance on goods	-142	-180	-242	-259	-290	-300	-315	-326	-337	-347
Goods, credit (exports)	14	13	12	14	16	18	20	21	22	23
Goods, debit (imports)	156	193	255	273	307	318	335	347	358	370
Balance on services	-42	-74	-96	-98	-108	-108	-113	-113	-117	-116
Services, credit (exports)	17	2	16	17	21	24	25	28	29	33
Services, debit (imports)	59	76	111	115	129	132	139	140	146	149
Balance on goods and services	-185	-254	-338	-357	-398	-409	-428	-439	-454	-462
Balance on primary income	225	215	204	283	288	295	301	310	319	324
Primary income, credit	229	220	210	291	296	304	311	320	330	335
of which: Fishing license fees	171	161	130	205	205	211	217	223	229	235
of which: Investment income	47	51	55	58	60	59	58	61	63	60
Income from RERF	41	43	43	48	49	48	47	49	51	48
of which: Remittances (COE)	12	8	25	27	31	33	35	37	38	40
Primary income, debit	4	6	6	8	9	9	9	10	10	11
Balance on secondary income	63	67	125	117	156	160	171	173	180	185
Secondary income, credit	65	70	126	119	158	162	172	175	182	187
General Government, credit	55	59	111	118	158	162	159	180	190	197
Secondary income, debit	3	3	2	2	2	2	2	2	2	2
Capital account	10	14	44	34	25	28	30	45	43	42
Capital transfers	10	14	44	34	25	28	30	45	43	42
General Government, Credit	12	15	45	35	26	30	31	46	45	44
General Government, Debit	2	1	2	1	1	1	1	2	2	2
Financial account	29	-40	28	30	34	37	38	40	41	43
Direct investment, net	-4	-1	-4	-3	-3	-3	-4	-4	-4	-4
Direct investment, assets	0	0	0	0	0	0	0	0	0	0
Direct investment, liabilities	4	1	4	4	4	3	4	4	4	4
Portfolio investment, net	3	9	7	8	8	9	9	10	10	10
Portfolio Investment, assets	3	9	7	8	8	9	9	10	10	10
Portfolio Investment, liabilities	0	0	0	0	0	0	0	0	0	0
Other investment, net	29	-47	25	26	29	31	33	34	35	37
Other investment, assets	28	-23	28	30	33	38	40	42	44	45
Other investment, liabilities	-1	24	3	4	4	7	8	8	8	9
Loans, liabilities	-1	-2	3	-3	-3	22	23	31	41	46
Net Errors and Omissions	10	-18	7	0	0	0	0	0	0	0
Reserve Assets	95	63	13	47	36	37	36	49	48	46
Net International Investment Position	1515	1673	1492	1645	...	...	...	...	...	...

Sources: Kiribati authorities; and IMF staff estimates and projections.

**Table 3b. Kiribati: Balance of Payments, 2020–29**  
(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.			Proj.			
Current account	31.8	7.0	-2.4	10.2	9.7	9.2	8.4	8.1	8.0	7.9
Balance on goods	-43.9	-46.8	-62.0	-61.7	-61.8	-59.9	-59.7	-59.2	-58.8	-58.2
Goods, credit (exports)	4.3	3.3	3.2	3.3	3.5	3.6	3.8	3.8	3.8	3.9
Goods, debit (imports)	48.2	50.1	65.2	65.0	65.3	63.5	63.4	63.0	62.6	62.1
Balance on services	-13.1	-19.2	-24.5	-23.3	-23.0	-21.6	-21.5	-20.5	-20.5	-19.5
Services, credit (exports)	5.2	0.4	4.1	4.1	4.5	4.7	4.8	5.0	5.0	5.5
Services, debit (imports)	18.2	19.6	28.5	27.4	27.5	26.4	26.3	25.5	25.5	25.0
Balance on goods and services	-57.0	-66.0	-86.5	-85.0	-84.8	-81.5	-81.1	-79.7	-79.3	-77.7
Balance on primary income	69.5	55.7	52.2	67.4	61.2	58.8	57.1	56.4	55.8	54.5
Primary income, credit	70.7	57.2	53.9	69.2	63.0	60.6	58.9	58.2	57.6	56.3
<i>of which:</i> Fishing license fees	52.6	41.9	33.4	48.9	43.5	42.1	41.1	40.4	40.0	39.4
<i>of which:</i> Investment income	14.5	13.3	14.0	13.9	12.9	11.9	11.1	11.0	10.9	10.1
Income from RERF	12.6	11.1	11.0	11.5	10.4	9.6	9.0	8.9	8.8	8.0
<i>of which:</i> Remittances (COE)	3.6	2.0	6.5	6.5	6.6	6.6	6.7	6.7	6.7	6.7
Primary income, debit	1.2	1.5	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Balance on secondary income	19.3	17.3	31.9	27.8	33.3	31.9	32.4	31.4	31.5	31.1
Secondary income, credit	20.2	18.0	32.3	28.2	33.7	32.3	32.7	31.7	31.8	31.5
General Government, credit	17.0	15.3	28.3	28.0	33.6	32.4	30.1	32.7	33.2	33.2
Secondary income, debit	0.8	0.7	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Capital account	3.1	3.7	11.2	8.0	5.2	5.6	5.6	8.1	7.6	7.1
Capital transfers	3.1	3.7	11.2	8.0	5.2	5.6	5.6	8.1	7.6	7.1
General Government, Credit	3.6	4.0	11.7	8.3	5.5	5.9	5.9	8.4	7.9	7.3
General Government, Debit	0.5	0.3	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial account	8.9	-10.3	7.2	7.2	7.2	7.4	7.2	7.2	7.2	7.2
Direct investment, net	-1.1	-0.3	-1.0	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Direct investment, assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, liabilities	1.2	0.4	1.1	0.9	0.8	0.7	0.8	0.7	0.7	0.7
Portfolio investment, net	0.9	2.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Portfolio Investment, assets	0.9	2.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Portfolio Investment, liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	9.1	-12.3	6.4	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Other investment, assets	8.7	-6.0	7.1	7.1	7.1	7.6	7.6	7.6	7.6	7.6
Other investment, liabilities	-0.4	6.3	0.7	0.9	0.9	1.4	1.4	1.4	1.4	1.4
Loans, liabilities	-0.5	-0.6	0.7	-0.6	-0.6	4.4	4.3	5.6	7.1	7.7
Net Errors and Omissions	3.2	-4.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Assets	29.3	16.3	3.2	11.1	7.7	7.4	6.8	8.9	8.4	7.8
Net International Investment Position	467.2	434.4	382.2	391.3	...	...	...	...	...	...

Sources: Kiribati authorities; and IMF staff estimates and projections.

Table 4. Kiribati: Sustainable Development Goals Monitoring

Goals	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Poverty</b>										
Income share held by lowest 20%	-	-	-	-	-	-	9.5	-	-	-
Poverty gap at \$1.90 a day (2011 PPP) (%)	-	-	-	-	-	-	0.3	-	-	-
Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)	-	-	-	-	-	-	1.7	-	-	-
Poverty headcount ratio at national poverty lines (% of population)	-	-	-	-	-	-	21.9	-	-	-
<b>Hunger</b>										
Prevalence of overweight, weight for height (% of children under 5)	-	-	-	-	-	2.1	-	-	-	-
Prevalence of stunting, height for age (% of children under 5)	-	-	-	-	-	15.2	-	-	-	-
Prevalence of undernourishment (% of population)	12.6	11.4	10.9	10.9	10.9	11.5	12.2	12.1	12.1	-
Prevalence of underweight, weight for age (% of children under 5)	-	-	-	-	-	6.9	-	-	-	-
Prevalence of wasting, weight for height (% of children under 5)	-	-	-	-	-	3.5	-	-	-	-
<b>Good Health and Well-being</b>										
Births attended by skilled health staff (% of total)	-	-	-	-	-	-	91.9	-	-	-
Mortality rate, under-5 (per 1,000 live births)	60.7	59.1	57.5	56.1	54.4	52.9	51.4	49.8	48.2	-
Mortality rate, neonatal (per 1,000 live births)	24.3	24.0	23.5	23.1	22.6	22.2	21.7	21.2	20.8	-
Demand for family planning satisfied by modern methods (% of married women with demand for family planning)	-	-	-	-	-	-	-	-	-	-
Adolescent fertility rate (births per 1,000 women ages 15-19)	44.0	43.4	43.4	43.6	43.6	43.8	43.1	41.9	40.5	-
Smoking prevalence, males (% of adults)	-	-	60.4	-	-	56.2	55.2	53.9	-	-
Source data assessment of statistical capacity (scale 0 - 100)	20.0	20.0	20.0	20.0	20.0	20.0	20.0	30.0	-	-
<b>Gender Equality</b>										
Proportion of seats held by women in national parliaments (%)	8.7	8.7	8.7	6.5	6.5	6.5	6.5	8.9	6.7	6.7
Women who were first married by age 15 (% of women ages 20-24)	-	-	-	-	-	-	2.4	-	-	-
Women who were first married by age 18 (% of women ages 20-24)	-	-	-	-	-	-	18.4	-	-	-
<b>Clean Water and Sanitation</b>										
People using at least basic drinking water services (% of population)	70.1	70.8	71.4	72.0	72.6	73.2	73.7	74.3	74.9	75.7
People using at least basic sanitation services (% of population)	41.8	42.2	42.6	43.0	43.4	43.7	44.0	44.3	44.5	45.2
<b>Affordable and Clean Energy</b>										
Access to electricity (% of population)	78.8	83.4	90.6	92.6	85.7	87.5	89.3	91.0	92.8	-
Access to clean fuels and technologies for cooking (% of population)	4.8	5.5	6.3	7.1	8.0	9.1	10.0	11.3	12.4	-
<b>Decent Work and Economic Growth</b>										
Unemployment rate (% of total labor force) 1/	-	-	9.3	-	-	-	8.6	11.0	-	-
Employment to Population Ratio (% of population) 1/	-	-	46.9	-	-	-	39.6	50.7	-	-
Labor force participation rate, female (% of female population ages 15+) 1/	-	-	33.6	-	-	-	28.7	40.6	-	-
<b>Peace, Justice and Strong Institutions</b>										
Corruption Perception Index (worst 0-100 best)	-	-	-	-	-	-	-	-	-	-
<b>Global Partnerships for the Sustainable Development</b>										
Individuals using the Internet (% of population)	11.5	12.3	14.9	19.4	25.3	33.0	43.0	45.1	53.6	-

Source: World Bank, *World Development Indicators*.

1/ Data is the national estimate.

## Annex I. Integration Matrix of Surveillance Issues and Capacity Development

Surveillance Issues	ADB		DFAT		European Union		IMF		MFAT		World Bank	
	FY2023	Planned/ Ongoing	FY2023	Planned/ Ongoing	FY2023	Planned/ Ongoing	FY2023	Planned/ Ongoing	FY2023	Planned/ Ongoing	FY2023	Planned/ Ongoing
<b>Fiscal Sector</b>												
Public financial management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Expenditure framework	✓	✓					✓	✓			✓	✓
Revenue framework	✓	✓			✓	✓	✓	✓			✓	✓
<b>Macroeconomic Analysis</b>												
Macroeconomic programming framework								✓				
Debt management								✓				
<b>Macro-Financial Issues</b>												
Financial supervision and regulation							✓	✓				
Financial market development												
Correspondent banking												✓
<b>Macro-Structural issues</b>												
Infrastructure	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓
Private sector development	✓	✓							✓	✓	✓	✓
Governance issues	✓	✓									✓	✓
Poverty/Gender/Inequality	✓	✓	✓	✓	✓	✓					✓	✓
Climate change and environment	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓
Natural disaster management			✓								✓	✓
Financial inclusion			✓	✓								
Labor markets			✓	✓					✓	✓		
Land												✓
Business climate	✓	✓										✓
<b>Statistics</b>												
Data enhancement	✓	✓					✓	✓			✓	✓

Sources: Asian Development Bank (ADB); Australia Department of Foreign Affairs and Trade (DFAT); European Union; New Zealand Ministry of Foreign Affairs and Trade (MFAT); IMF; and World Bank.

## Annex II. Rebasing of Kiribati's CPI and GDP<sup>1</sup>

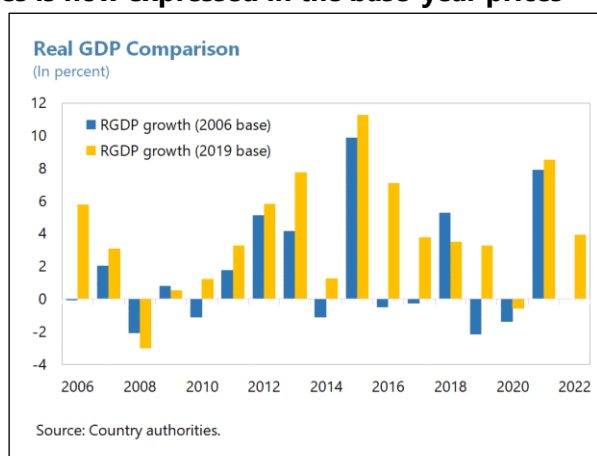
**1. Kiribati's CPI has been rebased to June 2023 from October 2006 with assistance from the Statistics Department of the IMF.** The revised CPI index series includes enhancements to the compilation methodology. An updated basket of goods and services, along with new expenditure weights were developed based on the results of the 2019/20 Household Income and Expenditure Survey (HIES), which identifies household expenditure on different categories of consumption goods and services.

**2. The rebased CPI index has a wider outlet sample and broader geographic coverage.** The sample has been expanded to 23 outlets, from across South Tarawa, compared to just 3 outlets under the previous base, along with an increase in the number of price observations. The number of sub-categories has increased to 12 from 10 with items included in the subcategories adjusted as well as their weights. In addition, the full adoption of the classification of individual consumption by purpose (COICOP) classification system is also expected to improve the calculation of deflators in the national accounts.

October 2006 = 100	Weights	June 2023 = 100	Weights
<b>All Items</b>	<b>100.0</b>	<b>All Items</b>	<b>100.0</b>
Food	40.6	Food and non-alcoholic beverages	40.0
Drinks	10.6	Alcoholic beverages, tobacco, and narcotics	11.0
Alcohol, Tobacco	18.0	Clothing and footwear	2.9
Clothing	2.0	Housing and utilities	5.3
Transport	8.1	Furnishings, household equipment and routine household	4.9
Utilities	5.2	Health	0.1
Housing	5.0	Transport	9.1
Education	3.2	Communication	5.2
Recreation	2.0	Recreation and culture	5.8
Household Operation	5.3	Education	1.1
		Restaurants and hotels	8.1
		Miscellaneous goods and services	6.5

**3. Correspondingly, Kiribati's real GDP series is now expressed in the base-year prices for 2019, compared to the previous base year of 2006.** The new base year was updated using the results of the 2019/20 HIES while the deflators are mainly sourced from the rebased CPI series. Other data sources include administrative data from the customs and the government financial accounts, and financial accounts from the SOEs.

**4. Both nominal and real GDP are higher under the new base.** The 2021 nominal GDP is 27 percent higher under the 2019 base compared to the 2006 base. The nominal growth rate averaged at 6.2 percent under the new base compared to 4.8 percent under the old base over the 2006–21 period. The real GDP growth is on



<sup>1</sup> Prepared by Seron Shivanjali (APD).

average 2.1 percentage points higher under the 2019 base compared to the 2006 base over the same period (i.e., 3.9 percent versus 1.8 percent).

**5. The findings from the forthcoming 2023/24 HIES could be used for the next update of the CPI and GDP.** Supported by funding from the World Bank, a field testing of an updated 2023/24 HIES questionnaire has been commenced, results of which could be used as the basis for updating the CPI basket of goods and services, as well as their weights in the next planned update of the CPI. Furthermore, as part of the upcoming HIES, an experimental price collection will be conducted on Kiritimati Island, Kiribati's second port of entry. This initiative could potentially broaden the geographic coverage of the CPI. The Kiribati National Statistics Office aims to carry out the next revision of the CPI in 2026.

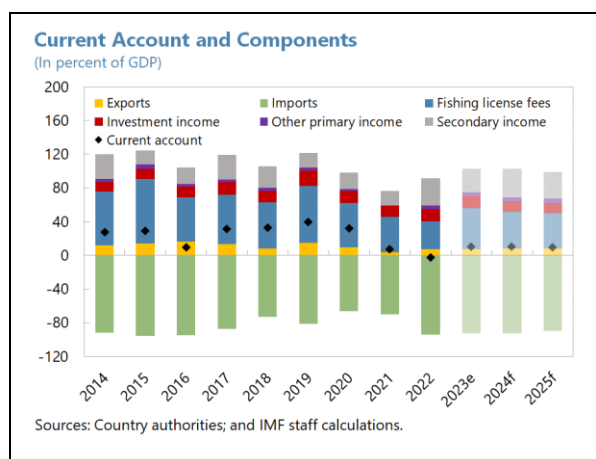
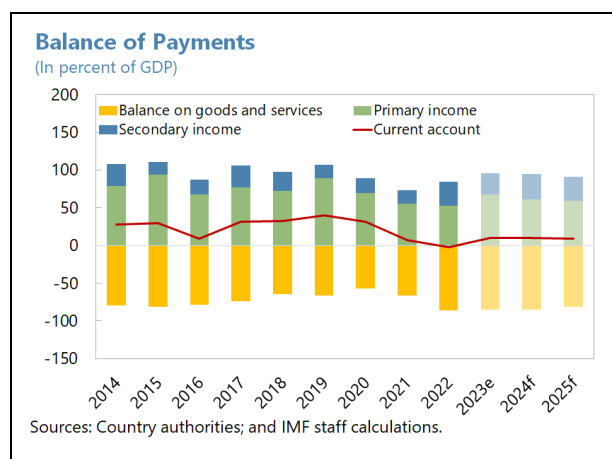
## Annex III. External Sector Assessment<sup>1</sup>

**Overall assessment:** The external position of Kiribati in 2023 is assessed to be broadly in line with the level implied by fundamentals and desirable policies, but Kiribati is highly vulnerable to external shocks. After recording a deficit in 2022, the current account is estimated to turn around and register a surplus in 2023, underpinned by a recovery in fishing license fees, a rise in remittances, and a decline in global commodity prices. However, this assessment is subject to substantial uncertainty, given data gaps, concerns on data quality, and the high dependence of current account determination on volatile and exogenous factors.

**Potential policy responses:** Structural reforms aimed at closing infrastructure and human capital gaps, promoting private sector development, and diversifying the export base could enhance Kiribati's competitiveness and improve its export capacity. Economic policies should also focus on scaling back recurrent spending and reducing dependency on volatile revenue sources such as fishing license fees and grants.

### Current Account

**1. After registering consecutive surpluses from 2014 to 2021, the current account recorded a deficit in 2022.** The trade deficit widened further, as imports rose to 93.8 percent of GDP (from around 75.7 percent of GDP on average over the 2017–21 period) due to increased freight costs and higher import prices, particularly for food and fuel. The decline of fishing license fees more than offset higher remittances and investment income, leading to a decline in the primary income balance. On the other hand, the secondary income balance improved, led by increased current transfers to the government (budget support and project grants). Consequently, the current account recorded a deficit of 2.4 percent of GDP in 2022.



<sup>1</sup> Prepared by Seron Shivanjali (APD).



**2. The current account is estimated to have shifted back to a surplus in 2023, supported by a recovery in fishing license fees, a steady inflow of remittances, higher budget grants, and a drop in global commodity prices from its historical high levels.** The current account surplus is expected to continue into the medium term; however, it will remain below its historical average, due to projected higher imports for domestic consumption and infrastructure projects.

**3. The external position in 2023 is assessed to be broadly in line with the level implied by fundamentals and desirable policies.** The EBA-Lite CA model results indicate a positive gap of 0.7 percent of GDP in 2023, consistent with an estimated cyclically adjusted CA surplus of 10.5 percent of GDP and a model-based CA norm of 9.8 percent of GDP. Thus, the CA in 2023 is assessed to be broadly in line with fundamentals and desirable policies. The positive CA gap is in part explained by the policy gap, which is largely driven by reserve accumulation and public health underspending at the global level. Nonetheless, the idiosyncratic features of Kiribati, particularly, the volatile fishing license fees and significant data gaps, imply a substantial degree of uncertainty around this assessment. Risks to the external sector outlook include protracted declines in fishing license fees, upswings in global commodity prices (especially for food and fuel), and uncertainty in global financial markets that can affect the returns on the RERF.

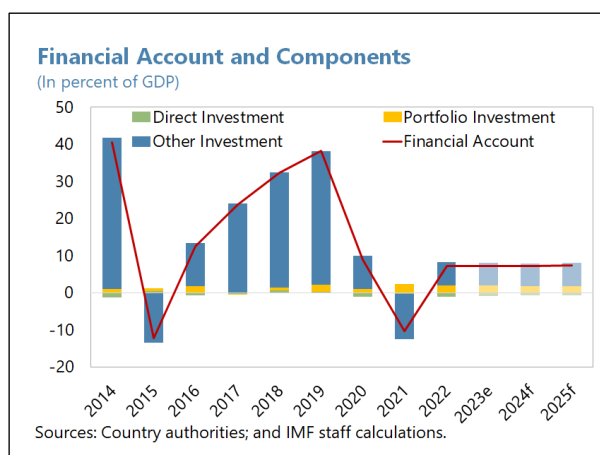
	CA model 1/ (In percent of GDP)
<b>CA-Actual</b>	<b>10.2</b>
Cyclical contributions (from model) (-)	-0.3
Additional temporary/statistical factors (-)	0.0
Natural disasters and conflicts (-)	0.0
<b>Adjusted CA</b>	<b>10.5</b>
<b>CA Norm</b> (from model) 2/	<b>9.8</b>
Adjustments to the norm (-)	0.0
<b>Adjusted CA Norm</b>	<b>9.8</b>
<b>CA Gap</b>	<b>0.7</b>
o/w Relative policy gap	3.4
Elasticity	-0.3
<b>REER Gap</b> (in percent)	<b>-2.4</b>

1/ Based on the EBA-Lite 3.0 methodology.  
2/ Cyclically adjusted, including multilateral consistency adjustments.

## Capital and Financial Accounts

**4. Kiribati's capital and financial account flows are mainly driven by project-related capital grants and other investment assets.**

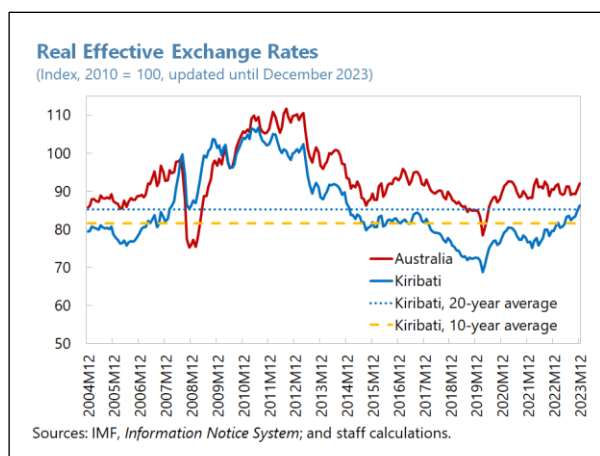
The capital account is estimated at 8.0 percent of GDP in 2023, driven by higher transfers to government. The financial account balance is estimated to be positive mainly due to the accumulation of other investment assets. Foreign direct investment is expected to remain modest in Kiribati due to its remoteness and distance from the major markets. Its flow of reserve assets is estimated at 11.1 percent of GDP in 2023.



## Exchange Rate

### 5. The fluctuations in the REER largely reflect movements of the Australian dollar, which is the legal tender in Kiribati.

The REER recovered after declining in 2022 and appreciated by an average of 6.1 percent in 2023, however, it was 3.0 percent below its 20-year average. Based on the EBA-Lite CA model, the estimated CA gap and the elasticity of trade balance implied that Kiribati's REER is undervalued by 2.4 percent. However, it should be noted that the REER gap does not automatically indicate the need for an exchange rate adjustment. In addition, there is uncertainty surrounding this assessment given that the official BOP data for 2023 are yet to be published.

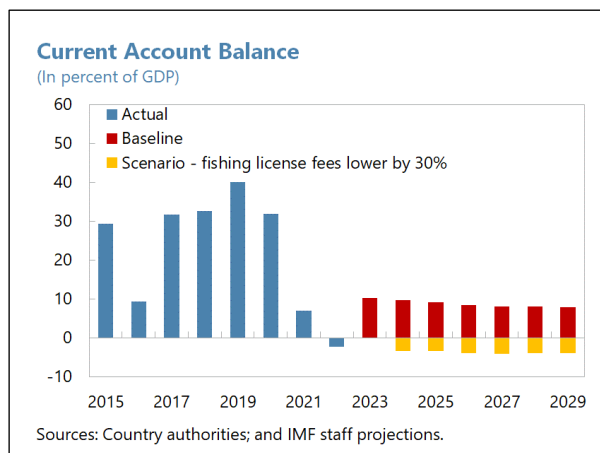


## International Assets and Liabilities

**6. The net international investment position (NIIP) for Kiribati remained positive.** The NIIP is estimated to have increased to 391.3 percent of GDP at end-2023, from 382.2 percent of GDP at end-2022, underpinned by an increase in assets which more than offset an increase in liabilities. Measured in US dollars, the NIIP is estimated to have increased to US\$1.1 billion in 2023 from US\$1.0 billion in 2022.

**7. Given the external risks, it is essential for Kiribati to enhance the resilience of its economy through:**

- Improving competitiveness and buttressing external sustainability through appropriate structural reforms.** Investments to close infrastructure and human capital gaps and promote private sector development would expand the country's export capacity and attract FDI while increasing efficiency. Further diversification could be pursued through the development of niche tourism markets (such as that of fishing expeditions and cruise ships) and increasing participation in the fishing value chain. Securing grants from development partners for development spending and avoiding any new non-concessional borrowing are critical.



- Pursuing prudent fiscal policy to build up fiscal buffers and preserve external balance.** In the absence of monetary and exchange rate policies, Kiribati relies on fiscal policy and structural

reforms to ensure external sustainability. While the large size of the RERF (330 percent of GDP at end-2023) limits immediate risks, the RERF is subject to the withdrawal rules and remains susceptible to global financial market vulnerabilities. Its size could decline markedly in the longer run with downside scenarios of low fishing license fees and volatile global financial markets. Therefore, a fiscal adjustment in the domestic recurrent balance in line with staff advice would provide some cushion to Kiribati's external sustainability. Such adjustment could also provide additional space for high priority-investment spending.

**8. The use of the Australian dollar as the legal tender remains appropriate.** It provides a strong nominal anchor given Kiribati's close trade and financial linkages with Australia, its small size, and limited capacity to operate an independent central bank.

## Annex IV. Risk Assessment Matrix<sup>1</sup>

Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
<b>Domestic Risks</b>			
<b>Heavy Reliance on fishing revenue.</b> Fishing license fees, the main source of government revenues, is volatile, vulnerable to fishing cycle and changing climatic conditions.	<b>High</b>	<b>High:</b> A prolonged period of low fishing activity will endanger long-run fiscal sustainability. The cash reserve buffer can mitigate the shock if the decline is temporary.	Fiscal consolidation through scaling back recurrent spending. Continue to strengthen tax revenues by phasing out tax exemptions, exploring additional avenues of tax collection, and improving tax administration.
<b>Higher demand-driven inflation.</b> The civil service wage increase could spill over to private sector salaries.	<b>High</b>	<b>High:</b> A higher inflation could erode the purchasing power of consumers and increase costs for the private sector.	Rationalize wage bill and consider domestic spillover effects in future wage adjustments.
<b>External Risks</b>			
<b>Intensification of regional conflict(s).</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts disrupt trade (e.g., energy, food, tourism, and/or critical supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	<b>High</b>	<b>High:</b> Prolonged conflicts could increase global financial market volatility and affect the returns on the RERF, constrain economic growth, disrupt trade, remittance and financial flows which would adversely affect current account and fiscal sustainability.	Continue to strengthen tax revenues and public finance. In the long-term, expand export base and boost export competitiveness.
<b>Commodity price volatility.</b> A succession of supply disruptions (e.g., due to conflicts, export restrictions and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers and social and economic instability.	<b>High</b>	<b>High:</b> An increase in global commodity prices, especially for food and fuel, could increase domestic inflation pressure and worsen current account balance given Kiribati's high reliance on commodity imports.	Provide targeted support to vulnerable households. Support small-scale food production such as in coconut industry and coastal fishing.
<b>Deepening geoeconomic fragmentation.</b> Broader conflict(s), inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, technological and payments system fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	<b>High</b>	<b>High:</b> Further increase in food and commodity prices caused by supply disruption could push up inflation and affect fiscal and external sustainability.	Improve public financial management and diversify the economy with the aim to enhance resilience against volatile aid inflows and a slowdown of the global economic growth.
<b>Abrupt global slowdown.</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	<b>Medium</b>	<b>Medium:</b> Global slowdown could affect Kiribati's trading partners and development partners and negatively impact fishing revenue, growth, remittances, trade, and support from development partners.	Manage prudently public resources. Maintain prudent fiscal policy through scaling back recurrent spending and mobilizing revenues, including exploring more sustainable sources of revenues.
<b>Extreme climate events.</b> Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	<b>High</b>	<b>High:</b> Regarded as one of the world's most remote and climate-vulnerable countries, Kiribati is regularly impacted by droughts, floods, storm surges, and rising sea levels.	Maintain a strong cash reserve buffer. Build resilience and adaptation to the impacts of climate change. Leverage technologies for land protection. Diversify revenues beyond the fisheries sector.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

## Annex V. A Backtesting Analysis of the Performance of the Revenue Equalization Reserve Fund Under Four Withdrawal Rules<sup>1</sup>

*The recent relaxation of the withdrawal rule of the Revenue Equalization Reserve Fund (RERF) elevates the risk of a gradual depletion of the RERF. This analysis, conducted through a backtesting analysis spanning close to four decades, evaluates the performance of the new rule in comparison to three other alternatives. The findings indicate that a rule that permits an annual withdrawal of up to 3 percent of the RERF balance proves most effective in preserving the fund's value. In addition, it benefits both the current and future generations while facilitating budget planning by having the lowest volatility of withdrawals.*

**1. The RERF serves as a crucial financial asset for Kiribati.** Founded in 1956, its balance reached AUD1.4bn at end-2023, equivalent to 330 percent of the 2023 GDP. By allocating the financial resources from the RERF towards infrastructure investment, the government aims to benefit both the current and future generations while preserving the real value of the RERF.

**2. The withdrawal rule of the RERF was recently changed.** Initially introduced in September 2020 with support from the World Bank, the previous rule permitted a drawdown of excess real return (relative to the inflation rate in Australia) exceeding 5 percent, with withdrawals to be used for development purpose. In November 2023, the Cabinet decided to lower the RERF withdrawal threshold to 2 percent in nominal return. The change has two effects: first, it lowers the minimum performance by the RERF needed in the preceding year to allow for a withdrawal; and second, given a performance level, it allows for large absolute withdrawals than the previous rule.

**3. An analysis is conducted to compare the performance of the RERF under the new rule with three alternative rules.** The assessment of this new rule revolves around three core dimensions aligned with the RERF's objectives: (i) the ability to preserve the capital value of the RERF in the long term; (ii) the frequency of withdrawals; and (iii) the amount of withdrawals it allows in a long-term horizon. Three alternative rules have been employed for comparison:

- The previous rule of 5 percent real return threshold. For example, if the Australian inflation rate for a particular year stood at 3 percent, withdrawals would only occur if the annual return of the RERF is above 8 percent in nominal terms during that period.
- A "high water mark" rule. Withdrawals are only permitted when the value of the RERF surpasses that of any previous year, defined as the "high water mark". This rule takes into consideration the wealth accumulated over time. The "high water mark" is determined as the cumulative inflation plus 2 percent of population growth, aiming to preserve the real per capita value of the RERF.

<sup>1</sup> Prepared by Daniel Ricardo Vela Baron (World Bank Treasury) and Yinqiu Lu (APD).

- A rule that allows an annual withdrawal of a maximum of 3 percent of the RERF balance, irrespective of the annual or cumulative returns, thereby mitigating withdrawal volatility.

### Assumptions for the Analysis

#### 4. In this analysis, data spanning from December 1985 to December 2023 is employed.<sup>2</sup>

To simplify calculations, the initial value of the fund is set at 100. The investment benchmark portfolio endorsed in September 2020 is used, consisting of 50 percent in Australian Government bonds, and 50 percent in Unhedged Global Equities Excluding Australia. It assumes that rebalancing of the portfolio occurs when the allocation of asset classes deviates by 10 percentage points from the benchmark. For example, if one asset class exceeds or falls short of 50 percent by 10 percentage points, the allocation is adjusted to meet the target.<sup>3</sup> It is assumed that withdrawals will be executed whenever the stipulated rules are satisfied.

### Results

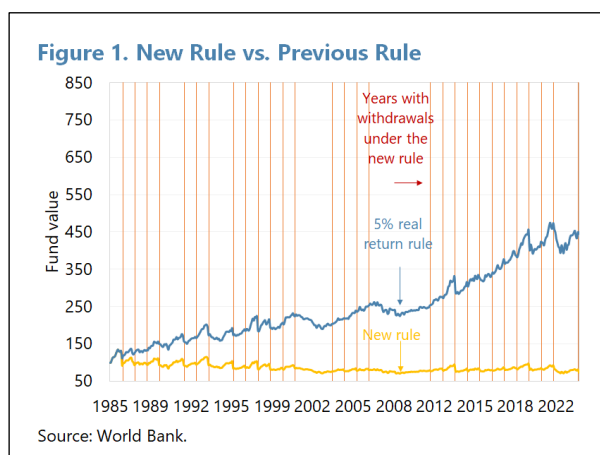
#### (i) Ability to preserve the capital value of the RERF in the long term

#### 5. The reduced threshold of the new rule notably affects the fund's long-term value.

Illustrated in Figure 1, the final value of the fund would have been 73.5, equivalent to an annual growth rate of -0.8 percent, effectively leading to the fund's depletion over time. Across various starting dates, under the new rule, the fund would consistently experience a decline in its capital.

#### 6. The new rule proves inadequate in safeguarding the fund's capital due to the substantial withdrawals it allows, hindering the accumulation of wealth crucial for preparing the fund for years of negative returns.

The single annual return-based rule overlooks the impact of financial volatility on the fund's long-term value. For example, suppose the fund's value drops by 30 percent in one year, followed by a 15 percent increase in the subsequent year. Despite no withdrawals in the first year, 13 percent of the balance will be withdrawn in the second year, even though the fund's balance (prior to withdrawal) is 19 percent lower than its initial value, thus failing to preserve the capital in the long term. Although a similar scenario could occur under the previous rule, the higher threshold of the



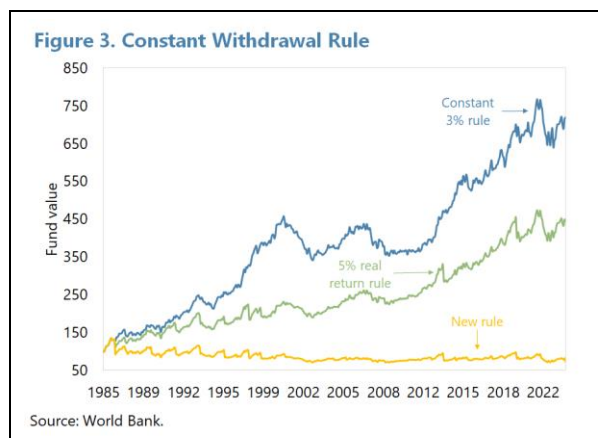
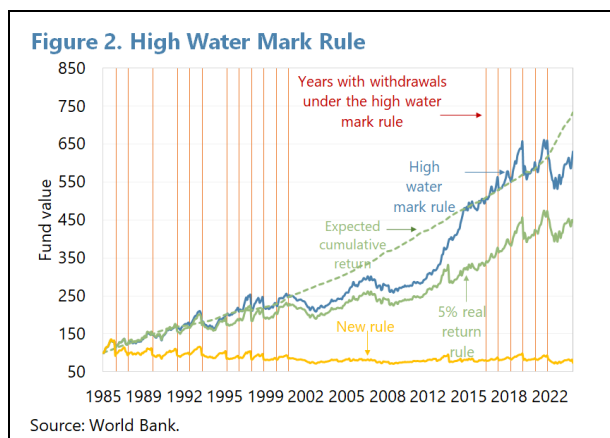
<sup>2</sup> Various starting points have been tested to check the robustness of the analysis. Across different inception dates, both the high-water mark and the constant 3 percent balance rule consistently optimize the fund's long-term value compared to the current rule of a 2 percent nominal return threshold.

<sup>3</sup> The results change slightly when there is no rebalancing or rebalancing occurs annually. Nevertheless, the conclusions remain consistent throughout.

previous rule mitigates the extent of the impact from financial volatility. For instance, under the previous rule, the backtesting analysis demonstrates the fund would ultimately achieve a value of 445, equivalent to an annual growth rate of 4 percent.

**7. A rule based on a high-water mark effectively mitigates the challenges posed by financial volatility.** As illustrated in Figure 2, withdrawals are authorized solely when the cumulative portfolio return (represented by the blue line) exceeds the “high water mark” threshold (illustrated by the green dotted line). This rule aligns the fund’s value with the implicit objective established by the high-water mark (comprising cumulative inflation plus 2 percent). Consequently, the final portfolio value (631) is higher than those attained under both the current and the previous rules, equivalent to an annual growth rate of 5 percent.

**8. The final alternative, permitting a maximum withdrawal of 3 percent of the balance regardless of annual or cumulative returns, demonstrates the highest ultimate value over the specified time period** (Figure 3). During periods of elevated returns, this alternative ensures a greater long-term growth of the fund, as fewer funds are withdrawn compared to both the current and previous rules. This creates a reserve for years when performance is negative and falls below the expected long-term real return (ELTRR). Its ultimate value is 719, equivalent to an annual growth rate of 5.3 percent, surpassing that of other rules. However, when the backtesting analysis starts in 2000, during a period featuring multiple years of negative returns, this alternative does not outperform the previous rule but still outperforms the new one.



**(ii) Frequency of withdrawals**

**9. With a reduced threshold, the new rule permits a higher frequency of withdrawals than the previous one.** Since 1985, the new rule has authorized withdrawals in 76 percent of the years, whereas the 5 percent real return threshold rule allowed withdrawals in only 53 percent of the years.

**10. A high-water mark exhibits the least frequent withdrawals.** In the backtesting analysis, there are 15 continuous years (2001–16) wherein no withdrawals are authorized, as the cumulative

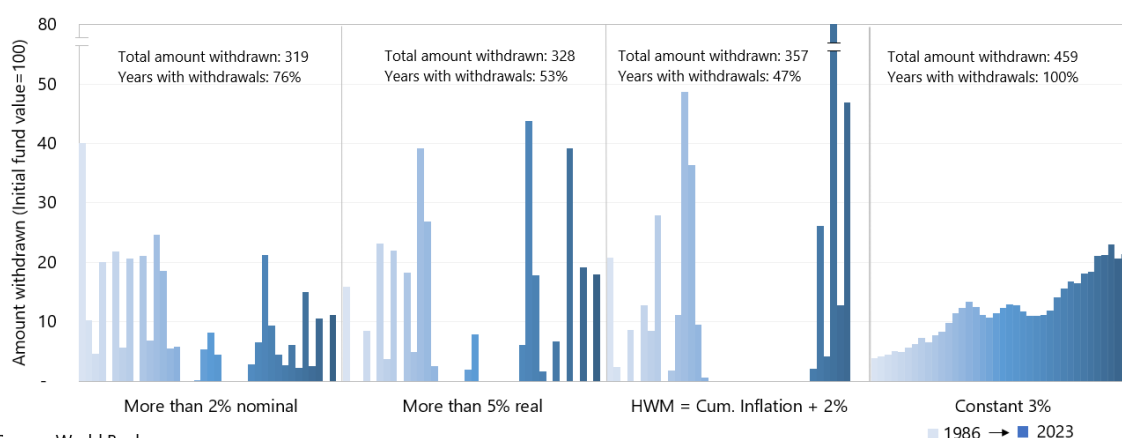
returns remain below the high-water mark. In total, across the 38-year span of the analysis, withdrawals are permitted in only 47 percent of the years.

**11. The maximum 3 percent balance rule is structured to accommodate annual withdrawals.** Even amidst negative performance in calendar years, this rule remains aligned with the objective of capital preservation. In addition, it enables greater integration of fund withdrawals into the budgeting process, thereby facilitating budget planning.

**(iii) Amount of withdrawals**

**12. The maximum 3 percent balance rule permits the largest total withdrawal and most stable withdrawals** (Figure 4). Initially, withdrawals are smaller compared to other alternatives, but as the fund's value outpaces alternatives over time, withdrawals also increase. Consequently, it accumulates the largest total withdrawals. Conversely the new rule records the lowest cumulative withdrawals as the fund's balance diminishes over time. In a backtesting analysis with a shorter timeframe (i.e., starting in 2000), the new rule allows more withdrawals than other alternatives, but at the cost of rapid depletion.

**Figure 4. Amount Withdrawn Through Time**



**Comparisons of Four Withdrawal Rules**

(Ranks: 1-4)

Rules	Long-term value	Withdrawal frequency (%)	Total amount withdrawn
1 2 percent nominal return threshold	4 (73.5)	2 (76)	4 (319)
2 5 percent real return threshold	3 (445)	3 (53)	3 (328)
3 High water mark	2 (631)	4 (47)	2 (357)
4 Maximum 3 percent balance	1 (719)	1 (100)	1 (459)

Source: World Bank.

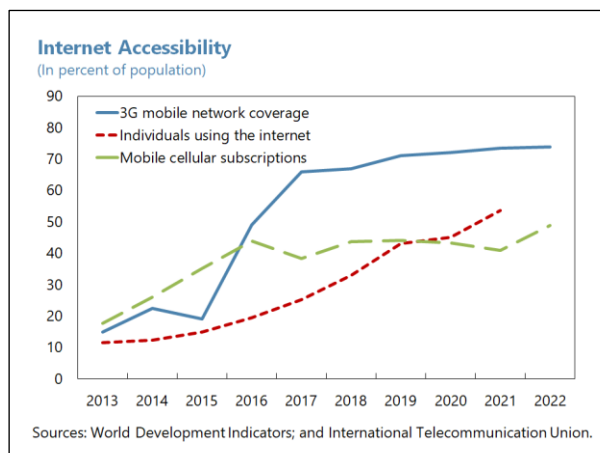


## Conclusion

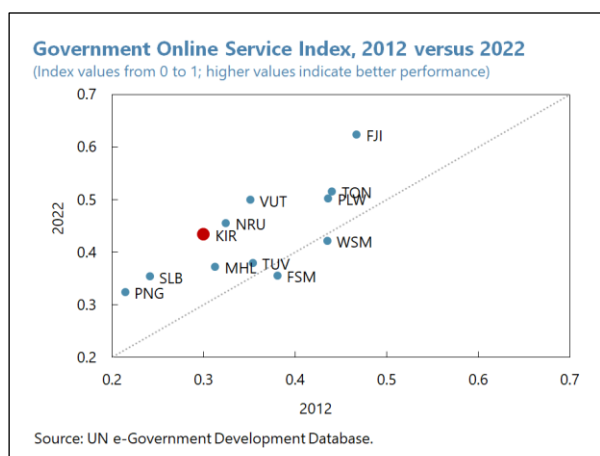
**13. The backtesting analysis indicates that a rule enforcing a constant maximum withdrawal of 3 percent yields the optimal performances overall.** This rule ensures the predictability of resources for supporting infrastructure investment, independent of short-term market volatility. It also maximizes the fund's value and ensures capital preservation compared to other alternatives. Given the significance of setting the maximum withdrawal rate (i.e., 3 percent in this analysis) to prevent fund depletion in periods of market downturn, a review over a 5-year period, taking into account the past returns and expected returns, is imperative to safeguard the long-term value of the RERF.

## Annex VI. Digital Transformation<sup>1</sup>

**1. In recent years, Kiribati has made substantial strides in enhancing digital access.** The Communications Act (2013, amended 2016) laid the foundation for liberalizing the information and communication technology (ICT) sector. The government sold the assets of the state-owned telecommunications company in 2015 and licensed two new mobile operators, both of which remain well established in the market. Efforts to enhance internet connectivity continue, with an ongoing initiative to provide internet connectivity to Tarawa via an undersea internet cable, and the completion of the connection to the Southern Cross NEXT internet cable on Kiritimati in 2022. The government is also committed to expanding the use of digital technologies to enhance service delivery. The National ICT Policy (2019) lays out multiple targets related to the digital economy, including universal internet access. The Digital Government Master Plan (2021) further emphasizes a comprehensive digital transformation, starting with the digitization of government processes, data sharing, and the development of e-services for citizens. In addition, the recently-enacted Digital Government Act (2023) established a Digital Transformation Office tasked with developing ICT policies and coordinating the delivery of digital government services. These efforts have collectively borne fruit: 3G mobile network coverage rose from 15 percent of the population in 2013 to 74 percent in 2022, whereas mobile cellular subscriptions increased from 18 to 49 per 100 individuals during the same period.



**2. Despite this progress, many gaps persist in key areas such as the quality of e-government services.** Data networks have limited capacity, resulting in slow data transmission, particularly in the outer islands. Mobile broadband services cost around 6 percent of monthly gross national income (GNI) per capita, well above the UN's affordability target of 2 percent. In addition, Kiribati significantly lags peer countries in digital public service delivery, as shown by its performance in the World Bank's GovTech Maturity Index (Paragraph 21 in the main text) and the UN's e-government assessments (though Kiribati has overtaken some PICs since 2012). While certain accompanying regulations to the National ICT Policy were adopted in 2021 (e.g., laws on e-transactions and



<sup>1</sup> Prepared by Faizaan Kisat (FAD, previously APD).

cybercrime), other key legislations in the areas of data privacy and consumer protection are not in place. Most government transactional services such as business registration, birth and death registration, and tax payments continue to be paper based. Digital skills among government employees and the broader population are also limited. According to the Kiribati Social Development Indicator Survey (2018–19), only 30 percent of prime-age men (24 percent of women) performed at least one of nine computer-related activities such as using copy/paste.

**3. Addressing these gaps through improved digitalization could spur growth, generate social benefits, and boost spending efficiency.** Existing research shows that increasing internet usage can produce gains in labor force participation and secondary education test scores (Kumar, Amaglobeli, and Moszoro, 2023). In healthcare, the use of GovTech can improve quality, increase coverage, and reduce inefficiencies. A transition to e-filing and the adoption of e-invoicing can also raise tax revenues, according to a cross-country analysis (Amaglobeli et al., 2023). Kiribati can reap these benefits through several policy actions, some of which are already envisaged: the launch of a national digital ID system could improve the targeting of social protection payments and lower barriers to access for consumers. Swiftly introducing legislations governing digital payments and data privacy would enhance private sector credit access. Finally, investing in digital skills development and advancing the interoperability and interconnectivity of government systems would build public trust, increase accountability, and lower costs for both consumers and the government.

## Annex VII. Implementation of Main Recommendations of the 2023 Article IV Consultation

2023 Article IV Consultation Recommendations	Actions Since the 2023 Article IV Consultation
<b><i>Fiscal Policy</i></b>	
Implement fiscal consolidation to reduce risk risks by scaling back recurrent spending, while ensuring that the social safety net is well-targeted and efficient.	The SPU has made notable progress in reconciling the unemployment benefits, addressing the backlog of social protection payments, and harmonizing the operations manuals for unemployment benefits and senior citizen benefits.
Enhance revenue mobilization to finance Kiribati's development goals.	The new Income Tax Act was passed by the Parliament in August 2023 and came into effect in January 2024. The accompanying regulations were approved in February 2024. The amendments to the VAT Act were currently under review and are expected to be submitted to the new Parliament after the elections.
Promote fiscal discipline by formulating a sustainable medium-term fiscal framework and adhering to rule-based withdrawals from the sovereign wealth fund.	The 2024 budget reflects a Cabinet decision to lower the RERF withdrawal threshold, shifting from 5 percent in real returns to 2 percent in nominal returns.
Improve public financial management by strengthening budget planning, timely accounting and reporting of fiscal operations, and establishing central controls over cash balances.	Phase I of the IFMIS, which covers budget preparation, management, execution, cash management, and procurement, was rolled out in July 2023.
Place SOEs on a commercial and sustainable footing to further reduce fiscal pressures.	The SOEMAU has issued new templates of the Statement of Intent and Performance Report to the SOEs and has been asking the loss-making SOEs to formulate financial scenarios containing a path towards viability.
<b><i>Structural Reforms</i></b>	
Operationalize the recently approved legislations in the financial sector to enhance credit access and promote financial deepening.	A board of directors for the FSAK has been appointed. MFED, in collaboration with ANZ Kiribati and development partners, is leading a project to increase the number of bank accounts. An account opening pilot for this project has been rolled out to two outer islands.
Raise Kiribati's standard of living by implementing reforms to boost export competitiveness, improve connectivity, support private sector development, and better utilize natural resources.	Development partners are supporting authorities' plans to increase port capacity. PIPA was reopened in April 2023, resulting in an increase in fishing activity. The state-owned coconut company (Kiribati Coconut Development Ltd.) has plans to establish a second copra mill (in Kiritimati) to process copra into coconut oil.
<b><i>Capacity Development and Data Issues</i></b>	
Continue capacity development and strengthen the institutional capacity to produce high-quality statistics in a timely manner to support data-driven policy formulation.	The authorities have taken technical assistance from the IMF Statistics Department and PFTAC to improve institutional capacity and enhance the quality of data. CPI and GDP data have been rebased using the 2019/20 HIES. The work on implementing Enhanced General Data Dissemination (e-GDDS) has been initiated. It is expected that TA from IMF will still be needed to help improve data quality especially for national accounts, GFS, and financial sector data.

## Annex VIII. Sustainable Development Goals and Strategic Surveillance Matrix

Pillar in KV20	Key Priority Areas	Corresponding SDGs	Key Outcomes	Role of the IMF
Pillar 1: Wealth-- Human Capital	1. Education	4. Quality Education	1. Promote education by fostering the development of early childhood education, strengthening curricula, supporting enrollment, strengthening performance assessment, and support students with special needs 2. Strengthen and provide pathways for ease of access to formal and informal training opportunities	Policy advice on human capital development
	2. Health	3. Good Health and Well-being	1. Reduce the prevalence of common noncommunicable diseases and communicable diseases 3. Improve access to quality health care 2. Improve reproductive maternal, newborn, child, and adolescent health 4. Strengthen partnership with communities to improve health	Coordination with the World Bank and development partners
	3. Employment Opportunities	8. Decent Work & Economic Growth 10. Reduced Inequalities	1. Increase overseas decent employment opportunities by expanding and creating access to overseas labor markets 2. Maintain the existing and secure new domestic employment markets	Policy advice on development of the private sector to generate employment
Pillar 1: Wealth-- Natural Capital	4. Economic Growth and Poverty Reduction	1. No Poverty 2. Zero Hunger 8. Decent Work & Economic Growth 10. Reduced Inequalities	1. Diversify fisheries sector 3. Promote product development and diversification through value addition 5. Enable business environment for both private and foreign investment 2. Promote and strengthen sustainable tourism and cultural industry development 4. Broaden and deepen market access 6. Strengthen and improve collection of existing revenue resources; and enhance management of the RERF	Surveillance and policy advice on macroeconomic and fiscal policies Technical assistance on public investment management Technical assistance and training on statistics
	5. Environment	11. Sustainable Cities and Communities 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water 15. Life on Land	1. Reduce vulnerabilities and respond to observed and likely impacts of climate change and disaster risks 3. Strengthen and improve the protection, conservation, management, sustainability, and resilient building measures and approaches 5. Foster behavioral change through education, awareness raising, and research that promotes best waste management and pollution prevention practices 2. Promote food and nutrition diversity 4. Enhance measures to address land development issues 6. Improve quality of the environment in urban areas	Surveillance and policy advice on climate change-related vulnerabilities Analytical work on estimating climate change adaptation costs Analytical framework on how to incorporate climate change adaptation costs into the macroframework
Pillar 2: Peace and Security	6. Secure, safer and peaceful Kiribati	16. Peace, Justice and Strong Institutions	1. Strengthen national security governance – policy frameworks 2. Institutional strengthening including through reviewing and updating legislation	Coordination with the World Bank and development partners
Pillar 3: Infrastructure for Development	7. Economic infrastructure and social infrastructure	7. Affordable and Clean Energy 6. Clean Water and Sanitation 9. Industry, Innovation, and Infrastructure	1. Build upgrade and sustain roads, causeways, bridges and runways 2. Improve land, air, and sea transport service 3. Improve energy supply 4. Enhance access to communication, technologies, connectivity and quality information and services	Surveillance and policy advice on diversification, including through renewable energy and infrastructure maintenance Technical assistance on public investment management with a focus on improving project selection and procurement
Pillar 4: Governance	8. Corruption free society	5. Gender Equality 16. Peace, Justice and Strong Institutions	1. Improve and strengthen legal sectors and institutions; strengthen accountability and transparency; and promote and advocate good governance 2. Improve and strengthen institutional service delivery and people centered service delivery	Surveillance and policy advice on fiscal institutions, the supervisory framework for financial institutions, governance, and fisheries

Sources: Kiribati 20-Year Vision 2016-36; and Kiribati Development Plan 2020-23.



# KIRIBATI

April 11, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department  
(in consultation with other departments)

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## FUND RELATIONS

As of March 31, 2024

**Membership Status:** Joined June 3, 1986; accepted Article VIII.

**General Resources Account:**

	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	11.20	100.00
Fund holdings of currency	9.80	87.51
Reserve tranche position	1.41	12.58

**SDR Department:**

	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	16.06	100.00
Holdings	14.72	91.64

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

**Projected Obligations to Fund:** None

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

**Exchange Arrangements:** The Australian dollar circulates as legal tender. The exchange rate arrangement is an exchange arrangement with no separate legal tender. There is no central monetary institution, and the authorities do not buy or sell foreign exchange. The Australia and New Zealand (ANZ) Bank (Kiribati) Limited, the only commercial bank, quotes daily rates for 15 currencies on the basis of their respective rates against the Australian dollar. Kiribati has accepted the obligations under Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

**Article IV Consultation:** Kiribati is on a 12-month consultation cycle. The previous Article IV consultation was concluded on April 12, 2023, reflecting discussions that took place during January 27–February 8, 2023.

**Technical Assistance (TA):** Experts from PFTAC and IMF headquarters provided support for capacity development in strengthening compilation and dissemination of real sector, external sector, and government finance statistics; strengthening revenue administration management and governance arrangement; improving law and effective PFM institutions; and developing and strengthening the supervision of the financial system.

**Resident Representative:** The Regional Resident Representative office for Pacific Island Countries is based in Suva, Fiji and was opened in September 2010. The office covers 12 IMF member countries in the Pacific, including Kiribati. Mr. Neil Saker is the current Resident Representative since April 2022.



## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank Group:  
[http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode\\_exact=KI](http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KI)
- Asian Development Bank:  
<https://www.adb.org/countries/kiribati/main>
- Pacific Financial Technical Assistance Center (PFTAC):  
<https://www.pftac.org/content/PFTAC/en1/capacity-development/countries-wp1.html>

## STATISTICAL ISSUES

As of April 1, 2024

<b>I. Assessment of Data Adequacy for Surveillance</b>
<p><b>General:</b> Data provision has shortcomings but is broadly adequate for surveillance. Improving the timely collection and dissemination of national accounts, external sector data and government finance statistics is a priority. Consolidated financial sector statistics is also necessary.</p>
<p><b>National accounts:</b> A TA mission was undertaken in November 2023 to assist KNSO to update the GDP estimates to 2022 and complete a full rebasing exercise. The rebased CPI (June 2023=100) was re-referenced to 2019 prices for national accounts purposes to match the 2019/20 Household Income and Expenditure Survey (HIES), and the GDP series were rebased to 2019 base year prices. Obtaining and using business license, survey and VAT data in the next update, along with further capacity building should improve the quality of national accounts data.</p>
<p><b>Price statistics:</b> The authorities, in consultation with STA, carried out the CPI rebase to June 2023=100, with updated weights based on 2019/2020 HIES results. The sample outlets were also expanded (to 23, from just 3 previously) from across South Tarawa. The monthly CPI is produced with a short lag (about a month). There are no producer, wholesale, or trade price indices. Field testing of the updated 2023/24 HIES questionnaire has commenced, the results of which will be used for the next update of the CPI. The KNSO aims to undertake the next update of its CPI in 2026. A lot of emphasis was placed on increasing staff capacity at KNSO, staff are skilled in MS Excel and knowledgeable of CPI methods.</p>
<p><b>Government finance statistics (GFS):</b> With the help of TA coordinated through PFTAC, the authorities have compiled and disseminated annual GFS data in line with the Government Finance Statistics Manual (GFSM) 2014 for the general government with data available from 2011–21. These data continue to be refined and improved, with further refinements made in the TA mission in January 2023, which also included the expansion of the GFS coverage in the general government sector via the production of satellite account for the RERF. Another TA mission in January–February 2024 focused on reviewing the newly introduced Integrated Financial Management Information System (IFMIS) chart of accounts and making further improvements to mapping economic transactions and stocks to the GFSM 2014, as well as on reviewing the compilation of net investment in non-financial assets.</p>
<p><b>Monetary and financial statistics (MFS):</b> While some data on financial institutions were shared with staff during the 2023 Article IV mission, monetary and financial statistics (MFS) and financial soundness indicators (FSIs) are not reported to STA. Kiribati has reported data until 2013 on some key series of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).</p>
<p><b>External sector statistics (ESS):</b> An ESS mission to Kiribati was conducted by the Statistics Department in April 2023 to support advancements in Kiribati's ESS compilation program. The main results and recommendations of the mission included improving timeliness for quarterly BOP and IIP; review of estimation models that were outdated; addressing under-coverage of grants and official aid; reviewing coverage of direct investment and the reconciliation between GFS and BOP to identify discrepancies. The mission recommended a detailed one-year action plan to make headway in improving ESS. Further work is still needed to improve and update estimation techniques to fully comply with the BPM6 requirements and to improve the quarterly data compilation.</p>
<b>II. Data Standards and Quality</b>
<p>Kiribati participates in the IMF Enhanced General Data Dissemination System (e-GDDS), the first tier in the IMF Data Standards Initiatives aimed at promoting data transparency, but the country does not yet disseminate the economic data recommended under the e-GDDS through a National Summary Data Page (NSDP). The work on implementing data distribution through e-GDDS has been initiated. No data ROSC is available.</p>

<b>Kiribati: Table of Common Indicators Required for Surveillance</b>					
	<b>Date of latest observation</b>	<b>Date received</b>	<b>Frequency of data</b>	<b>Frequency of reporting 7/</b>	<b>Frequency of publication 7/</b>
Exchange Rates	3/2024	3/2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	NA	NA	NA	NA	NA
Reserve/Base Money	NA	NA	NA	NA	NA
Broad Money	NA	NA	NA	NA	NA
Central Bank Balance Sheet	NA	NA	NA	NA	NA
Consolidated Balance Sheet of the Banking System	NA	NA	NA	NA	NA
Interest Rates 2/	NA	NA	NA	NA	NA
Consumer Price Index	12/2023	1/2024	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ - General Government 4/	2022	12/2023	A	A	I
Stocks of Central Government and Central Government-Guaranteed Debt 5/	2022	12/2023	A	A	A
External Current Account Balance	Q4/2022	12/2023	Q	Q	Q
Exports and Imports of Goods and Services	Q4/2022	12/2023	Q	Q	Q
GDP/GNP	2022	12/2023	A	A	A
Gross External Debt	2022	12/2023	A	A	A
International Investment Position 6/	Q4/2022	12/2023	Q	Q	Q

<sup>1</sup>Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup>Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup>Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).



# KIRIBATI

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 15, 2024

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Kiribati: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of Judgment	Yes. The projection horizon was extended to 20 years to capture the impact of climate change on debt dynamics.

*The 2024 Low-income Country Debt Sustainability Analysis (LIC DSA) indicates the risk rating of debt distress for Kiribati remains high but is sustainable.<sup>1</sup> Judgment was applied to extend the projection horizon to 20 years as opposed to the standard 10 years. This is to adequately capture Kiribati's vulnerability to climate-related events on debt dynamics. High recurrent spending amid a decline in fishing revenue has led to large fiscal deficits in 2022. The fiscal deficit in 2023 is reduced due to the recovery of fishing revenue and strong grants despite the introduction of the leave grants for private sector employees. Increasing civil service wages while maintaining the existing high social protection spending as in the 2024 budget will lead to large fiscal deficits over the medium term. It is a departure from the surpluses prior to the pandemic. As a result, the ratio of the present value (PV) of the public and publicly guaranteed (PPG) external debt-to-GDP is expected to breach the indicative threshold starting in 2036 under the baseline scenario. The PV of the total public debt-to-GDP ratio is expected to remain below the indicative benchmark under the baseline scenario. Stress tests confirm the vulnerability of the debt position to*

<sup>1</sup> Kiribati's Composite Indicator (CI) index is 2.689 calculated based on the October 2023 World Economic Outlook (WEO) and the 2022 Country Policy and Institutional Assessment (CPIA). The current CI score implies weak debt-carrying capacity. As two consecutive assessments of "weak" are needed to adjust the debt-carrying capacity classification from "medium" to "weak", Kiribati's debt-carrying capacity classification remains "medium".

*exports and growth shocks. Despite high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable. It is due to several mitigating factors: (i) the country currently benefits from grant-only status for financing from the multilateral development banks (MDBs) and it is likely to maintain access to highly concessional financing over the long term; (ii) the government has large cash buffers which can be drawn on to finance deficits in the near term; and (iii) in the baseline, the breaches occur only in the long term and only for the PV of the external debt-to-GDP ratios, while all the other ratios are expected to remain well below their indicative thresholds. Although Kiribati does not currently face debt servicing risks thanks to its high cash buffers, risks from unfavorable weather conditions or a downturn in global financial markets (which would reduce the value of Kiribati's sovereign wealth fund) call for greater fiscal prudence. Adhering to a prudent withdrawal rule for the sovereign wealth fund is crucial to reduce the risk of a gradual depletion of the fund. Fiscal consolidation, by scaling back recurrent spending and reducing reliance on volatile sources of revenues, is needed to safeguard sustainability. Further progress in structural and fiscal reforms, such as strengthening the fiscal policy framework, improving public financial management, and placing the state-owned enterprises (SOEs) on a commercial and sustainable footing, is also needed to improve debt trajectories and safeguard medium- and long-term fiscal sustainability. Containing the risk of debt distress also requires continuing grants to support the country's large development needs.*

## PUBLIC DEBT COVERAGE

**1. The coverage of Kiribati’s public sector debt is the central government, central government-guaranteed debt, and social security fund** (Text Table 1). The DSA is conducted on residency basis. Data availability and timeliness issues continue to limit the debt coverage, especially the lack of information on a regularly-updated balance sheet for the SOEs. Recent and planned technical assistance aims to improve data availability and coverage over time by compiling and disseminating the annual government financial statistics (GFS), and expanding the GFS coverage to the general government sector via the production of satellite accounts for the Revenue Equalization Reserve Fund (RERF), and enhanced data collection for the SOEs. Supported by the World Bank’s FY2023 Sustainable Development Financing Policy (SDFP), the authorities published a Fiscal Reporting Policy in 2022, setting out new standards for regular public reporting on revenue, expenditure, public debt, and performance of the SOEs and the RERF. Kiribati aims to further enhance debt and fiscal transparency by implementing an integrated financial management information system (IFMIS), supported by the World Bank’s FY24 SDFP.

**Text Table 1. Kiribati: Public Sector Debt Coverage**

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

**2. A stress test for the combined contingent liability accounts for implicit liabilities and a potential financial market shock** (Text Table 2). This stress test reflects the possible consequences for the path of public debt of a shock that requires the government to cover some contingent liabilities—including liabilities which are incurred only after the assumed shock. The test incorporates contingent liabilities amounting to 16 percent of GDP, which comprises 11 percent of GDP of all the liabilities of the SOEs at end-2021<sup>2</sup> and a standard 5 percent of GDP cost to the government of a financial crisis.

<sup>2</sup> There are 18 SOEs in Kiribati, operating across a wide range of industries such as utilities, transportation, housing, and financial services. The newest SOE, the Tourism Authority of Kiribati (established in 2018), has not produced financial statements yet. The liabilities of the 17 SOEs accounted for 11 percent of GDP in 2021, as reported in the [2024 Recurrent Budget](#). It is assumed that the contingent liability to the government related to the SOEs include all the SOE non-guaranteed liabilities.

**Text Table 2. Kiribati: Combined Contingent Liability Shock**

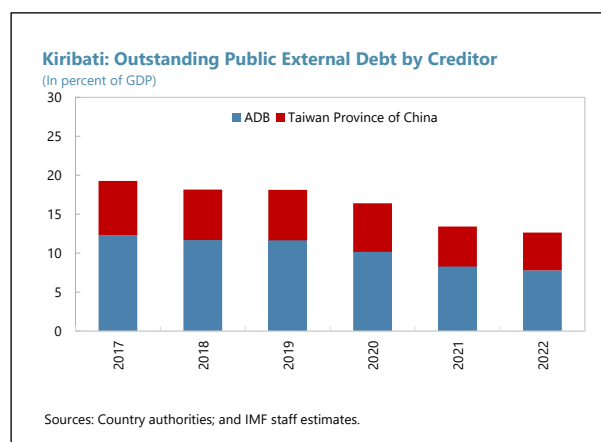
1 The country's coverage of public debt		See Text Table 1	
		Default	Used for the analysis
2 Other elements of the general government not captured in 1.		0 percent of GDP	0.0
3 SoE's debt (guaranteed and not guaranteed by the government) 1/		2 percent of GDP	11.0
4 PPP		35 percent of PPP stock	0.0
5 Financial market (the default value of 5 percent of GDP is the minimum value)		5 percent of GDP	5.0
Total (2+3+4+5) (in percent of GDP)			16.0

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

## BACKGROUND ON DEBT

**3. Kiribati is a small state in the Pacific and one of the most remote countries in the world.** Its geography raises the cost of delivering public services, and contributes to infrastructure gaps. A narrow production and export base (mainly related to tuna fishing and copra) makes the country highly dependent on revenues from selling fishing licenses under various fisheries agreements and support from development partners for infrastructure investment. Kiribati has a sovereign wealth fund, the RERF, which was established in 1956. The RERF's balance was about AUD1.4 billion (close to 330 percent of GDP) at end-2023.

**4. Kiribati's PPG debt, at 15.7 percent of GDP at end-2022, is composed of external debt and government guarantees.** The external debt has slightly declined in recent years, as Kiribati has not incurred new external debt since 2014 on the back of strong fishing revenue and cash reserves. The fiscal deficit in 2022 was financed by cash reserves. Kiribati has only PPG external debt from the Asian Development Bank (ADB) and Taiwan Province of China. The combined outstanding debt from these two creditors stood at AUD49.3 million (about 12.6 percent of GDP) at end-2022 (Text Table 3 and text chart), and is estimated to decline to AUD47.0 million (about 11.2 percent of GDP) at end-2023. In terms of domestic debt, the government has guaranteed the loans that the Kiribati Provident Fund (KPF) provided to two SOEs, i.e., Air Kiribati Limited (AKL) and Development Bank of Kiribati (DBK) in the total amount of AUD11.8 million (3 percent of GDP at end-2022) in addition to a loan of AUD2.6 million owed to the KPF on behalf of the DBK. In 2023, the government paid the KPF AUD11.6 million for the loans that the KPF provided to AKL. The remaining government guaranteed SOE loans are the outstanding guarantee to DBK (AUD0.35 million at end-2023).



**Text Table 3. Kiribati: Public External Debt Balance as of End-2022**

Creditor	Balance
Asian Development Bank	AUD30,425,604
International Cooperation and Development Fund, Taiwan Province of China	AUD18,908,767
Source: Country authorities.	

## BACKGROUND ON MACRO FORECASTS

**5. Economic activity has strengthened after the removal of all COVID-19 restrictions in the second half of 2022.** Due to the restrictions imposed in the first half of 2022 and a severe drought which affected the agriculture sector, real GDP growth decelerated to 3.9 percent in 2022 from 8.5 percent in 2021 despite the doubling of the copra subsidy in 2022. With the resumption of infrastructure projects, improved weather conditions, supportive fiscal measures, and a recovery in international arrivals, growth is estimated to have improved to 4.2 percent in 2023.

**6. Inflation has decelerated rapidly from its recent peak.** Headline inflation peaked at 25.1 percent y-o-y in January 2023, mainly due to a rebound in domestic demand, supply shortages, increases in global commodity prices, and rising freight costs. An acceleration in the prices of food and non-alcoholic beverages (mainly sugar) accounted for about 65 percent of the rise in inflation. Inflation has since been trending down and reached -2.1 percent y-o-y in December 2023, driven by the moderation of global commodity prices, improved supply-side conditions, and base effects.

**7. Key assumptions over the medium term reflect the updated data provided by the authorities and estimated by staff** (Text Table 4). Growth is expected to accelerate in 2024, primarily driven by higher consumption following a 38 percent increase in civil service wages. As the impact is projected to dissipate gradually, the medium-term growth trend is expected to surpass the projections in the previous DSA analysis conducted in 2023. The following lists the key macroeconomic assumptions used for the baseline scenario.

**Text Table 4. Kiribati: Baseline Macroeconomic Assumptions**

(In percent of GDP, unless otherwise noted)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2012-22 Historical average	2023-33 Average	2034-43 Average
<b>Current DSA</b>												
Real GDP growth (in percent)	8.5	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1	5.0	2.9	2.0
Inflation, average (change in percent)	2.1	5.3	9.3	4.5	3.0	2.5	2.0	1.9	1.8	0.8	2.9	1.8
Current account balance	7.0	-2.4	10.2	9.7	9.2	8.4	8.1	8.0	7.9	18.5	7.9	4.3
Overall fiscal balance	-10.6	-18.3	-1.3	-22.4	-14.8	-12.8	-13.8	-15.4	-16.0	11.7	-14.6	-14.5
<b>Previous DSA</b>												
Real GDP growth (in percent)	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	1.8			
Inflation, average (change in percent)	2.1	5.3	8.6	4.5	2.1	1.9	1.8	1.8	1.2			
Current account balance	8.9	-4.0	8.4	10.3	11.7	12.3	6.3	6.5	14.9			
Overall fiscal balance	-11.2	-19.8	-11.9	-12.2	-11.4	-10.5	-14.8	-15.4	-12.4			

Sources: Country authorities; and IMF staff estimates.

Note: GDP was rebased from 2006 to 2019 in late 2023, resulting in higher GDP (e.g., the nominal GDP in 2021 is 27 percent higher under the new base).



- **Real GDP** growth is projected at 2.9 percent on average in 2023–33, reflecting the short-term impact from the civil service wage increase, and in line with staff’s analysis based on a long-term growth model.<sup>3</sup> Economic growth is expected to gradually decelerate towards 2 percent over the medium to long term, mainly reflecting the envisaged moderation of population growth, and some improvement in total factor productivity (TFP) growth, and the potential impact of climate change-related events (further details on the impact of climate change are incorporated in the analysis below).<sup>4</sup> Annual population growth is estimated to average about 1.6 percent over the projection period (broadly in line with the United Nations’ World Population Prospects). Risks are tilted to the downside. An intensification of regional conflicts, deepening geo-economic fragmentation, and an abrupt global slowdown could reduce the price for fishing licenses, and affect RERF returns due to increased global financial market volatility. Commodity price volatility could rekindle inflationary pressures and worsen the current account balance. Climate change, in particular global warming, remains a constant threat to the economy—including through its possible adverse impact on fishing revenue, and food and water security.
- **Climate change and natural disasters.** In line with the 2016 IMF Board Paper on “[Small States’ Resilience to Natural Disasters and Climate Change—Role for the IMF](#)”, staff’s analysis of the baseline scenario explicitly reflects their impact in the long run given Kiribati’s susceptibility to natural disasters and climate change. Compared with the non-disaster potential growth rate, Kiribati’s long-term growth projections in the baseline are adjusted downward by 0.1 ppt. The current account is projected to further decline by 1 ppt of GDP on average in the long run to take into account the impact of natural disasters and climate change. No major disasters are assumed under the baseline scenario over the medium term.
- **Inflation** is projected to average 2.9 percent in 2023–33. The average inflation rate is projected to be 4.5 percent in 2024, mainly driven by increased domestic demand. One domestic risk is the higher demand-driven inflation as civil service wage increase could spill over to private sector salaries. Inflation is expected to gradually converge to slightly below 2 percent over the medium term, in line with the trend of global commodity prices and inflation of Kiribati’s main trading partners.
- **Fiscal revenue increased in 2023 due to both higher revenue and grants.**
  - **Fishing revenue** is reported at AUD214 million in 2023 (51 percent of GDP, an increase of 15 ppts of GDP from 2022, and an increase of 52 percent in nominal terms), marking the end

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<sup>3</sup> IMF Selected Issues Paper, 2023, “Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms”, [IMF Country Report No. 23/226](#).

<sup>4</sup> Diversification efforts continue despite challenges. They include expanding port capacity for connectivity and export competitiveness, advancing internet connectivity with an ongoing initiative to provide internet connectivity to Tarawa via an undersea internet cable, establishing a Digital Transformation Office for information and communication technology policy formulation and service coordination, and outlining plans for a second copra mill by the state-owned coconut company in Kiritimati to process copra into coconut oil. Further diversification could be pursued through the development of niche tourism markets (such as that of fishing expeditions and cruise ships) and increasing participation in the fishing value chain.

of three consecutive years of decline from all-time high revenues in 2019 (at 73 percent of GDP). Staff project that fishing revenue as a ratio of GDP would decrease mildly (despite a gradual increase in nominal terms) and average about 43 percent of GDP in 2023–33, as climate change, specifically alterations in seawater temperature, is anticipated to impact the size and distribution of global fish populations, thereby affecting both fish supplies and associated government revenue. This assumption is subject to considerable uncertainty, given unpredictability in weather conditions and migratory patterns of fish.

- **External grants**, including project-based grants and budget support,<sup>5</sup> are estimated to have increased to 30 percent of GDP in 2023 from 13 percent of GDP in 2022 and are expected to remain around 29 percent of GDP on average in 2024–26. External grants are assumed to gradually decline in the long term and average about 25 percent of GDP in 2027–33. As some budget grants have not been committed after 2026, budget support is assumed at 1 percent of GDP from 2027, a decline of 2 ppts of GDP compared to the 2026 level.<sup>6</sup> External grants from 2027 onward would mainly consist of project grants, which are used exclusively for development financing. The high reliance on grants highlights the need for the authorities to continue to seek grant support from bilateral development partners and international financial institutions.
- **Fiscal expenditure** in 2023 is estimated to be 15 ppts of GDP higher than the level in 2022.
  - Kiribati's **recurrent spending** has increased and remained elevated since 2020, largely due to the unemployment support scheme (covering 70 percent of Kiribati's working age population) introduced in 2020, the increases in the wage bill and senior citizen's benefits in 2021, a doubling of the copra subsidy in 2022, and a new leave grants to private sector employees in 2023.<sup>7</sup> The 2024 budget increased civil service wages by AUD43.9 million (38 percent increase). Climate change-related maintenance and contingency expenditures are assumed to gradually reach around 6 percent of GDP in 2032 and remain at that level thereafter.<sup>8</sup> There are currently no plans to roll back recurrent spending. Without a concrete consolidation plan, recurrent spending is expected to increase to around 72 percent of GDP in 2025 before declining to around 68 percent of GDP over the medium term.

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<sup>5</sup> Budget support is provided by development partners including the ADB, Australia, the European Union (EU), New Zealand, and the World Bank.

<sup>6</sup> In line with the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, the DSA includes firmly committed grants.

<sup>7</sup> Leave grants are grants that the authorities provide to private sector employees of the VAT-registered companies for their home leaves. It is designed to encourage individuals to join the private sector, incentivize companies to register for VAT, and subsidize transport costs to the outer islands.

<sup>8</sup> This assumption is informed by estimates from the literature. [Climate Change and Disaster Management](#) (World Bank, 2016) estimates that the additional cost of coastal protection and infrastructure adaptation due to rainfall and temperature increases for Kiribati could amount to 12 percent of GDP annually by 2040. The DSA assumes that half of the costs will be borne by the budget, while the rest would need to be financed by development partners.

- **Development expenditure** is estimated to increase to 31 percent of GDP in 2023, 10 ppts higher than the 2022 level. Development expenditure is expected to further increase to 53 percent of GDP in 2024 as large infrastructure projects are resumed and is expected to gradually decline due to the completion of major pipeline projects.<sup>9</sup>
- **The fiscal position** is expected to remain in deficit if no reforms are made to scale back the fiscal supports introduced recently and constrain wage increases. With COVID-related spending and the introduction of unemployment benefits in 2020, increases of the wage bill, senior citizen's benefits, and unemployment benefit in 2021, the doubling of the copra subsidy and low fishing revenue in 2022, the overall fiscal surplus declined from 11 percent of GDP in 2019 to 4 percent of GDP in 2020, and has turned to a deficit of 11 percent of GDP in 2021 and 18 percent of GDP in 2022. Despite the introduction of the leave grants in 2023, with higher income from a recovery in fishing revenue and committed external grants, the fiscal deficit is expected to narrow to 1 percent of GDP in 2023. However, with the around 38 percent increase in civil service wages in 2024, the fiscal deficit is expected to widen to 22 percent of GDP in 2024 (accounting for RERF withdrawals as a financing item). As staff do not assume there will be significant fiscal consolidation but a moderate improvement in tax revenues associated with the recent and expected reform in tax legislations (including the new Income Tax Act, and the planned amendments to the Value-Added Tax Act), fiscal deficits are envisaged to remain elevated and hover around 16 percent of GDP over the medium and long term under the baseline scenario. However, fiscal deficits could be reduced relative to the baseline scenario if the authorities consolidate recurrent spending, further mobilize revenue, and improve the targeting and efficiency of the social safety net. Climate change could further impact the fiscal balance due to affected fishing revenue and higher climate change-related expenditure as discussed above.
- Kiribati's **current account** is estimated to shift back to a surplus, reaching 10.2 percent of GDP in 2023, buoyed by a resurgence in fishing license fees (on the back of favorable weather condition and the reopening of the Phoenix Island Protected Area), a rise in remittances, and a decline in global commodity prices. The current account is projected to remain in surplus in 2024, supported by favorable fishing activities with the commencement of El Niño, along with robust contributions from remittances and international travelers. Over the medium term, the surplus is expected to remain below historical averages, reflecting an increase in imports required for domestic consumption and infrastructure projects, and a gradual decline in fishing license fees (as a percent of GDP) due to climate change.

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<sup>9</sup> They include infrastructure projects such as the Outer Island Infrastructure Program amounting to AUD30 million (with no budget allocated for this program in 2023) and the allocation of AUD1.3 million for the Senior Secondary School in Kiritimati, compared to no allocation in the previous year. Further details are available in the [2024 Development Budget](#).

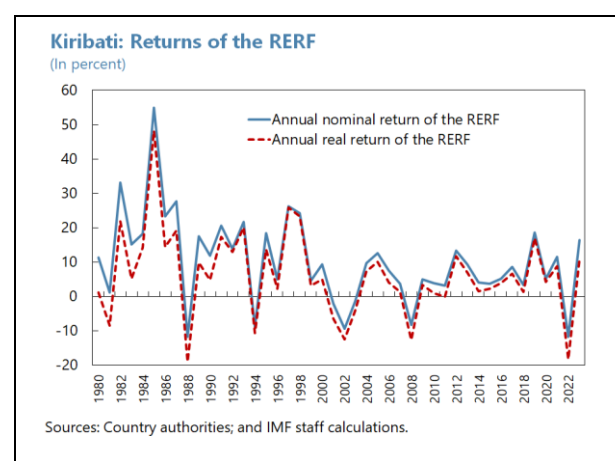
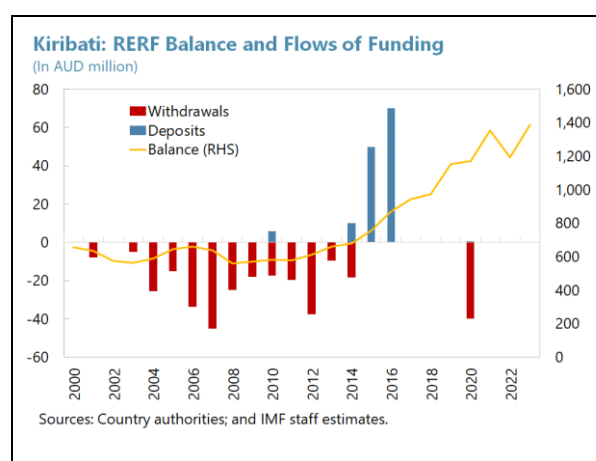
- Kiribati's **current debt portfolio** is mainly composed of external debt. The baseline and alternative scenarios do not assume any domestic debt over the short, medium, and long terms. External financing under the baseline scenario is assumed at highly concessional terms.

## 8. **Financing of fiscal deficits is assumed to be covered by cash reserves, external loans, and a withdrawal of RERF resources** (Text Table 5).

- **Cash reserves** are estimated to decrease to 46 percent of GDP at end-2023 from 51 percent of GDP at end of 2022 to finance the fiscal deficit and financing needs in 2023. Cash reserves would provide financing support in 2024 while staff assumes a prudent rule of using cash reserves to finance deficits to prevent them from being depleted in the long run. More specifically, under the baseline scenario, staff assumes cash reserves will be used to finance the Local Contribution to Development Fund (LCDF) needs that cannot be met by the RERF fund due to the 3 percent cap (see the bullet on the RERF) starting from 2028 which would ensure cash reserves to (barely) meet the requirement of at least three months of government spending by 2038, in line with the government's fiscal responsibility ratio.
- **External loans** will become more important over the medium term due to shrinking cash reserves. With a lack of domestic financing sources and given the need to preserve cash reserves, the volatility of the RERF returns, and avoiding a sharp decline of the financial net worth, external financing will have to be resorted to financing deficits if need arises. External financing under the baseline scenario is assumed at highly concessional terms.
- However, **withdrawals from the RERF** could help keep projected debt accumulation moderate. The RERF balance has significantly increased from 2015 (helped by the contribution from the budget and positive returns) before declining in 2022 due to the decline in global equity and bond valuations. The balance rebounded in 2023, reflecting a recovery in global equity and bond valuations (text chart). AUD80 million withdrawal (the maximum permitted under the 2020 withdrawal rule<sup>10</sup>) is budgeted for 2024 and an annual AUD45 million withdrawal is budgeted for 2025-2027. The 2024 budget reflects a cabinet decision to lower the RERF withdrawal threshold from 5 percent of real terms to 2 percent of nominal returns. The change has two effects: first, it lowers the minimum performance by the RERF needed in the preceding year to allow for a withdrawal and second, for a given performance level, it also allows for larger absolute withdrawals than the previous rule. As such, the revision to the RERF withdrawal rule raises serious concerns about fiscal discipline and significantly elevates the risks about a gradual depletion of the RERF. Joint analysis by IMF and World Bank staff recommends a two-pronged alternative approach. First, to use the withdrawals to finance high-quality development spending, complementing efforts by development partners—particularly, through LCDF but excluding copra subsidy, unemployment benefits, and leave grants for the private sector, as these should be classified as recurrent spending. Second, setting a cap on annual withdrawals

<sup>10</sup> In September 2020, with support from the World Bank, the authorities introduced a rule-based withdrawal policy, which permits drawdown of excess real return exceeding 5 percent, with withdrawals to be used for development purposes. The real return is calculated based on the inflation rate in Australia.

will be critical. The cap should apply to a fixed share of the RERF balance (not the return) to keep the real per capita value of the RERF constant. Staff estimates (based on the assumed long-term real rate of return and population growth) indicate that the cap should be around 3 percent of the RERF balance.<sup>11</sup> This alternative rule would facilitate budget planning by reducing the volatility of return-based withdrawals while protecting the RERF's long-term value and upholding the current rule that limits RERF withdrawals to financing development spending. This rule could be subject to a review every 5 years, taking into consideration the previous and expected future returns to ensure the sustainability of the fiscal framework and safeguard the long-term value of the RERF. In addition, the RERF withdrawal rule should be subject to more legislative scrutiny, such as parliamentary approval.



**Text Table 5. Kiribati: Baseline Assumptions on Financing**

(In percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2023-33 Average
<b>Overall Deficit</b>	-11	-18	-1	-22	-15	-13	-14	-15	-16	-15
<b>Financing Needs (net)</b>	11	18	1	22	15	13	14	15	16	15
of which: Cash reserves	11	19	2	6	1	0	0	0	0	1
RERF withdrawals	0	0	0	17	9	9	8	8	8	8
External financing (net)	-1	-1	-1	-1	4	4	6	7	8	5
<b>Balance</b>										
Cash reserves	56	51	46	35	31	30	29	27	26	29
<i>excess over the threshold 1/</i>	37	32	26	13	11	10	9	8	7	9
RERF	351	306	330	301	294	290	287	287	288	295
Public external debt	14	13	12	10	14	17	22	28	35	31

Sources: Country authorities; and IMF staff estimates.

1/ Cash reserves is required to maintain at least 3 months of recurrent spending and the Local Contribution to Development Fund.

<sup>11</sup> The nominal return of the RERF is assumed to be 7.5 percent on average over the medium and long term, in line with historical returns. This assumption, however, is subject to high uncertainty due to global financial market volatility.

9. **The realism tools suggest that the projections are reasonable** (Figures 3–4). The primary balance is expected to improve in 2023, largely due to the recovery of fishing revenue and strong grants. The primary balance is projected to remain in deficit with the wage increase in 2024. The outturn of growth in 2023 exceeds the scenarios under various fiscal multipliers, despite a decline of fiscal deficit by 17 ppts of GDP. This outcome is primarily attributed to the fact that the entire reduction of the fiscal deficit is due to the increase in fishing revenue in 2023 by 52 percent in nominal terms. Both public and private investment rates remain consistent for the projection period when compared to the previous DSA conducted in 2023. The large contributions of residuals to debt creation in both external and public debts reflect the fact that Kiribati uses its cash reserves and RERF withdrawals (when available) to finance deficits while accumulating cash buffers in time of a fiscal surplus.<sup>12</sup>

## COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

10. **The debt-carrying capacity has remained “medium” as in the last DSA** (Text Table 6). Kiribati’s current composite indicator (CI) score is 2.689, calculated based on the October 2023 WEO and the 2022 CPIA (published in July 2023). The current CI score implies weak debt-carrying capacity. As two consecutive assessments of “weak” are needed to adjust the debt-carrying capacity classification from “medium” to “weak”, Kiribati’s debt-carrying capacity classification remains “medium”. If the CI score continues to imply weak debt-carrying capacity in April 2024, the debt-carrying capacity will become “weak”. The relevant indicative thresholds for this category are 40 percent for the PV of the debt-to-GDP ratio, 180 percent for the PV of the debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. These thresholds are applicable to the PPG external debt. The benchmark for the PV of the total public debt-to-GDP ratio for medium debt-carrying capacity is 55 percent (Text Table 7).

Text Table 6. Kiribati: Composite Indicator Rating			
<b>Country</b>	Kiribati		
<b>Country Code</b>	826		
<b>Debt Carrying Capacity</b>	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Weak 2.689	Medium 2.691	Medium 2.704

<sup>12</sup> In 2019 and 2020, large fishing revenue and associated current account surpluses contained the PPG external debt and public debt, while a part of the surplus was accumulated as cash reserves or contributed to the RERF (shown as positive residuals). In the projected 5 years, prolonged fiscal deficits would explain the increase in public debt, as deficits are financed by deposit and RERF withdrawals (negative contribution of residuals in the public debt) and increased external financing despite running current account surpluses (positive contribution of residuals in the PPG external debt).

Text Table 7. Kiribati: Debt Thresholds

APPLICABLE		APPLICABLE	
<b>EXTERNAL debt burden thresholds</b>		<b>TOTAL public debt benchmark</b>	
<b>PV of debt in % of</b>		PV of total public debt in	
Exports	180	percent of GDP	55
GDP	40		
<b>Debt service in % of</b>			
Exports	15		
Revenue	18		

**11. Given that Kiribati is vulnerable to climate change, a tailored stress test for the natural disaster shock was conducted.** Climate change challenges pose significant downside risks. Kiribati's low-lying atolls are vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion. Kiribati is also subject to other climate change challenges, including drought, loss of groundwater, and high incidences of natural disasters. Economic activities related to agriculture and fishing can be negatively affected. The costs of mitigating the adverse effects of climate change can partially be met by Kiribati's operating budget. However, capital projects require continued support from development partners. The near-term risk of a one-off extreme natural disaster is incorporated in the DSA analysis through a tailored stress test with the default scenario assuming that a one-off extreme natural disaster in the second year of the projection period would cut real GDP growth and exports by 1.5 and 3.5 ppts, respectively.<sup>13</sup> This scenario aims to capture the possibility that the climate change adaptation costs may exceed the costs already incorporated in staff's macroeconomic framework (Paragraph 7) should an extreme natural disaster take place in the near term.

## DEBT SUSTAINABILITY ANALYSIS

**12. Risks to debt sustainability in Kiribati are assessed to be high.** While Kiribati's mechanical risk rating based on a ten-year horizon is moderate for both external and overall debt, judgement was applied by incorporating the expected long-term effects of climate change-related events, with breaches in years 11-20 used to arrive at the bottom-line risk assessment. External debt is expected to breach its threshold under the baseline scenario while the total public debt is expected to remain below the indicative benchmark. Stress test scenarios generally push both external and public debt above their relevant threshold/benchmark in the long run, with external public debt being vulnerable to export shocks and public debt vulnerable to growth shocks. Given that most scenarios flag high risks and with Kiribati's high exposure to climate change-related events, staff's judgement is that there is a high enough probability of

<sup>13</sup> See the "[Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries](#)".

large and protracted breaches in the long run to assign final ratings of a high risk of external and overall debt distress.

## A. External Debt Sustainability Analysis

**13. Under the baseline scenario, Kiribati's external debt trajectory is projected to breach the indicative threshold in the long run.**<sup>14</sup> The PV of the PPG external debt-to-GDP ratio is expected to increase and breach the indicative threshold (40 percent) in 2036 (Figure 1). As the bulk of the projected external debt, including new debt, is on concessional terms according to the World Bank's SDFP cap on non-concessional borrowing, debt service will remain relatively contained. However, the debt service-to-exports ratio will gradually increase over the projection period due to continued debt accumulation.

**14. Stress tests confirm the vulnerability of debt dynamics to export market developments as well as to macroeconomic shocks.** Under the extreme test scenarios, the PV of the PPG external debt-to-GDP ratio will breach its threshold starting from 2030 (Figure 1). The ratio of the PV of the PPG external debt-to-exports is vulnerable to shocks emanating from exports, breaching its threshold starting from 2037.<sup>15</sup> The other stress test scenarios, including the severe natural disaster scenario and the contingent liabilities test, illustrate the vulnerability of debt trajectory to the external and potential domestic shocks (Table 3).

## B. Public Debt Sustainability Analysis

**15. Public debt follows the same dynamics as the external debt, given that the limited domestic debt is the government guarantees to the SOE loans.** While the historical fiscal surpluses were largely driven by strong fishing revenue, the volatility of fishing revenue and contingent liabilities emanating from the government-managed pension fund<sup>16</sup> and SOEs pose risks and underscore the importance of placing SOEs on a commercial and sustainable footing, formulating a sustainable fiscal framework, improving the fiscal position, and supporting private sector development. Under the baseline scenario, the PV of the total public debt-to-GDP ratio will remain below the indicative benchmark (55 percent) (Figure 2).

**16. The extreme shock scenario indicates an earlier breach of the debt benchmark.** The most extreme stress test scenario of one standard deviation shock<sup>17</sup> to growth predicts that the PV of the total public debt-to-GDP ratio is expected to breach the benchmark (55 percent) starting from 2031 (Figure 2). The tailored natural disaster shock and combined contingent liabilities could cause the PV of the total

<sup>14</sup> The large residual in Table 1 is attributable to several factors: quality of balance of payments data, accumulation of assets in the RERF, and the partial utilization assumption regarding IDA/ADB commitments in the overall balance.

<sup>15</sup> For the purposes of the DSA, the exports data include fishing license fees, which would be counted as "primary income" under conventional balance-of-payments definitions.

<sup>16</sup> As provided under the Provident Fund Act 1977, the Government of Kiribati currently explicitly guarantees any obligations that are unable to be met by the KPF.

<sup>17</sup> Real GDP growth is set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.



public debt-to-GDP ratio to breach the benchmark from 2038 and 2040, respectively, illustrating the vulnerability of the debt trajectory to shocks (Table 4).

## RISK RATING AND VULNERABILITIES

**17. The DSA indicates that Kiribati's risk of external debt distress remains high.** Under the baseline scenario, the PV of the PPG external debt-to-GDP ratio is expected to increase over time and breach the indicative threshold starting from 2036. The debt service-to-export ratio, however, will remain relatively contained. However, this ratio will gradually increase over the projection period as the bulk of the projected external borrowing is on concessional terms.

**18. The DSA suggests that the overall risk of debt distress is also high.** The PV of the public debt-to-GDP ratio is projected to increase over time but does not breach the indicative benchmark. This increase reflects the high recurrent spending and investment needs, and declining grant commitments over the long term. It also follows the LIC-DSA's assumption that future financing is on credit rather than grant terms, and all future borrowing is assumed to be on concessional terms in line with the World Bank's SDFP. The debt trajectory is also vulnerable to growth, primary balance, natural disasters, and export shocks.

**19. Despite the high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable as its vulnerability to debt distress is mitigated by several factors.** The PV of the PPG external debt-to-GDP ratio will breach its indicative threshold/benchmark in the long term. While its budget depends on volatile fishing revenue, the country currently benefits from grant-only status for MDB financing and will likely maintain access to highly-concessional financing in the long term. The government has large cash buffers which can be drawn on to finance deficits in the near term, and it has resources in the RERF. However, these liquidity buffers could be depleted at a more rapid pace should sufficient access to external loans not be found and fiscal deficits continue to be elevated. It will therefore be important to maintain adequate cash buffers of at least three months of government spending, in line with the government's fiscal responsibility ratio.

**20. Given Kiribati's high risk of debt distress, it will be critical that Kiribati manages its fiscal framework prudently and continues to benefit from external grants.** No regular access to debt financing implies that large liquidity buffers could be vulnerable to depletion if fiscal deficits stay elevated. Hence, meeting the significant public spending needs to fill the infrastructure gap and reaching the development goals depends on employing the available fiscal resources in a prudent manner and securing grant support from development partners. The introduction and increases of several social benefits and grants since 2020, and civil service wage increase in 2024 would worsen Kiribati's fiscal stance. Furthermore, vulnerabilities could be exacerbated by climate change and contingent liabilities. Initiating an ambitious fiscal consolidation effort through scaling back recurrent spending<sup>18</sup> and reducing reliance on volatile sources of revenues will be necessary to reduce fiscal risks. Adhering to a prudent withdrawal rule of the sovereign wealth fund is crucial to reduce the risk of a gradual depletion of the fund. Further progress in

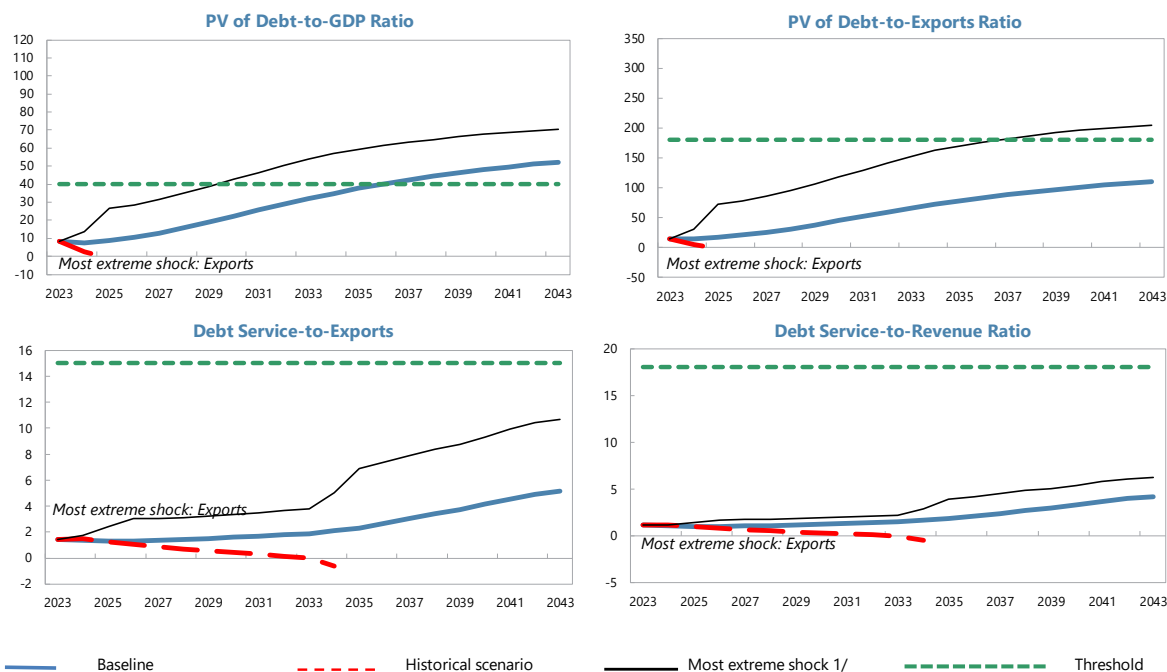
<sup>18</sup> By rationalizing civil service wages and copra subsidy, and unwinding some inefficient social protection spending, such as the leave grants for the private sector.

structural and fiscal reforms such as strengthening the fiscal policy framework, improving the targeting and efficiency of the social safety net, improving public financial management (including a need to revise the RERF Act to put withdrawals from the RERF under closer legislative scrutiny), and putting SOEs on a commercial and sustainable footing is also needed to improve debt trajectories and safeguard medium- and long-term fiscal sustainability. Containing the risk of debt distress also requires continuation of grants to support the country's large development needs.

## AUTHORITIES' VIEWS

**21. The authorities broadly agree with the DSA assessment.** They believe that allocating more resources from the RERF towards infrastructure investment could benefit both the current and future generations. They note that they will continue with the current plan of maintaining a balanced budget and contracting no new debt over the short to medium term. They emphasize the need for the wage increases in retaining staff, and the importance of social protection payments in improving living standards. While the authorities acknowledge the importance of fiscal consolidation, they believe that they have the financial means and fiscal buffers to deal with potential shocks. They expect revenue mobilization reforms to help generate additional revenues and improve the fiscal balance over the medium term. The authorities affirm that they will continue to seek grants from bilateral development partners and international financial institutions to keep debt at a prudent level. In this context, they also recognize the need to comply with the non-concessional borrowing policies for securing grant support from the ADB and the World Bank.

**Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2023–2043**



Customization of Default Settings		
	Size	Interactions
<b>Tailored Stress</b>		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

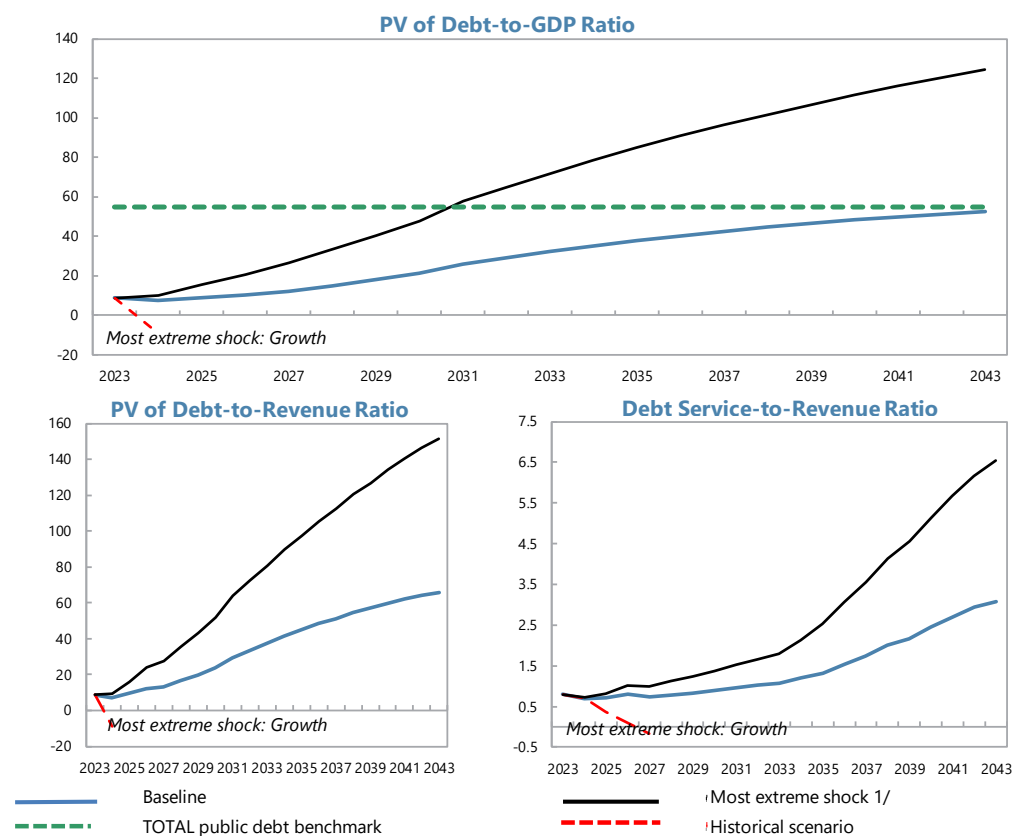
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	36	36
Avg. grace period	9	9

\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 2. Kiribati: Indicators of Public Debt Under Alternative Scenarios, 2023–2043**

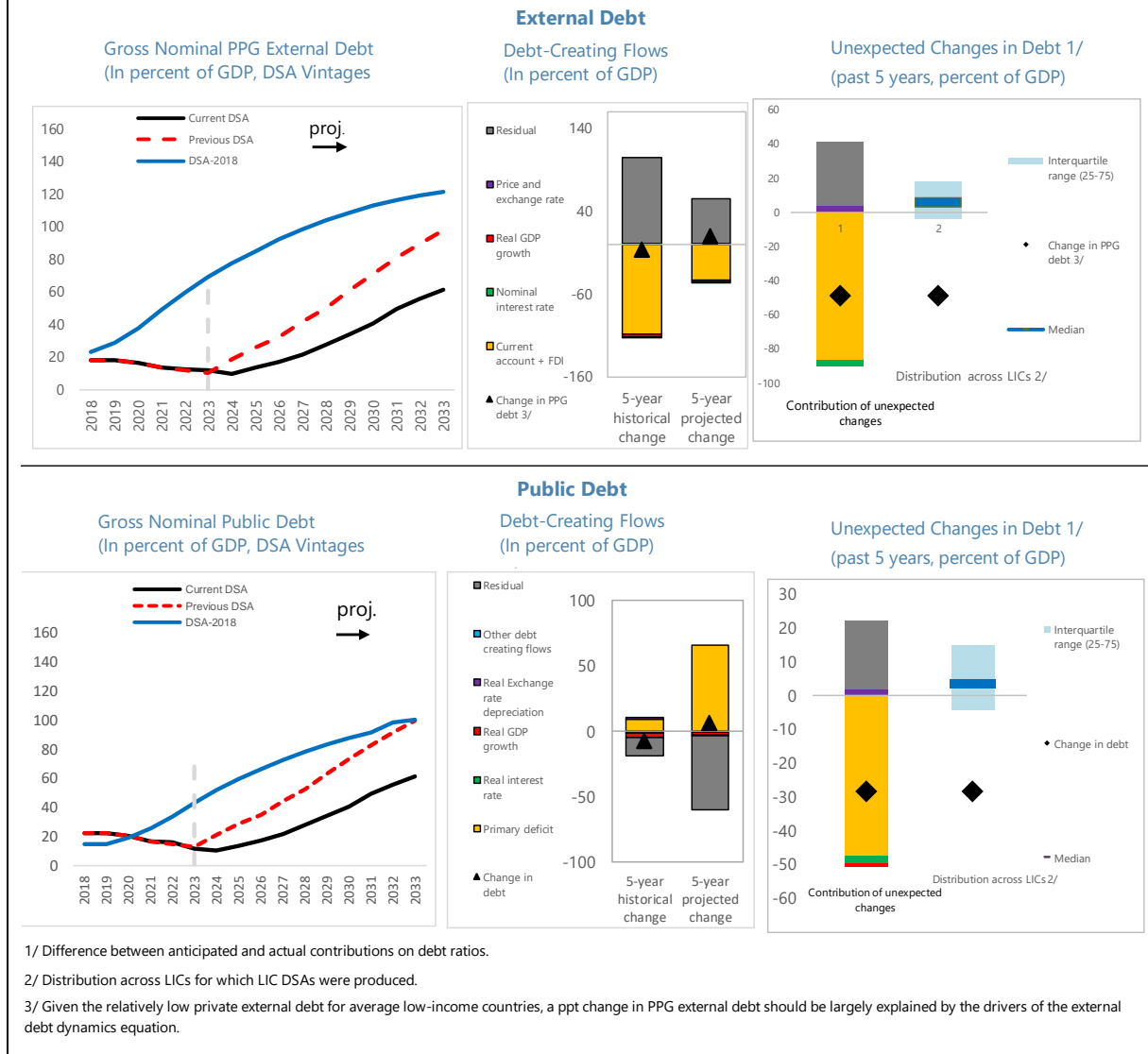
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
Avg. maturity (incl. grace period)	36	36
Avg. grace period	9	9
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
<b>Domestic short-term debt</b>		
Avg. real interest rate	0.0%	0.0%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

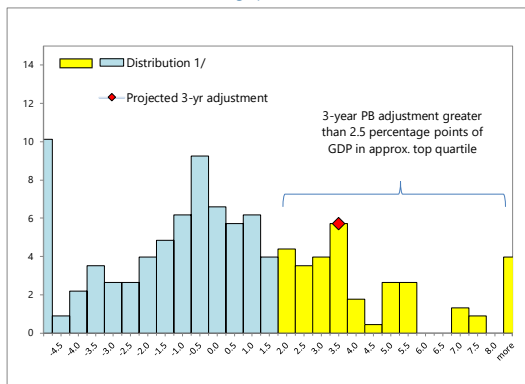
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 3. Kiribati: Drivers of Debt Dynamics - Baseline Scenario**



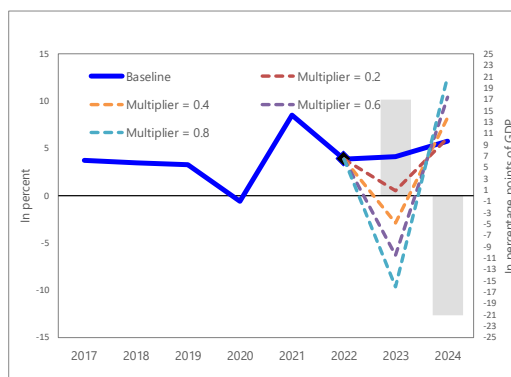
**Figure 4. Kiribati: Realism Tools**

**3-Year Adjustment in Primary Balance**  
(Percentage points of GDP)



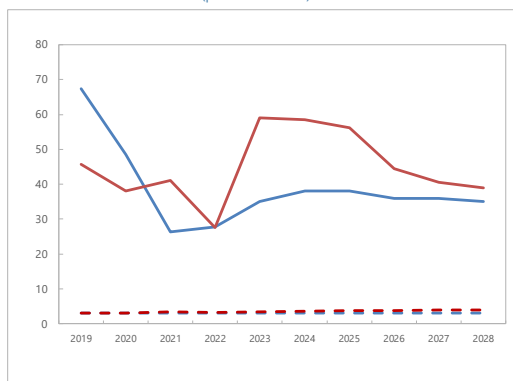
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

**Fiscal Adjustment and Possible Growth Paths 1/**



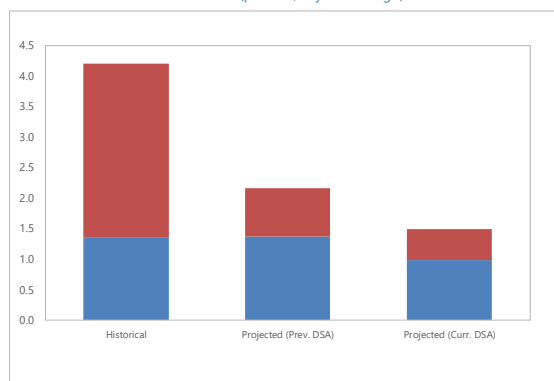
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates**  
(percent of GDP)



— Gov. Invest. - Prev. DSA      — Gov. Invest. - Curr. DSA  
- - - Priv. Invest. - Prev. DSA      - - - Priv. Invest. - Curr. DSA

**Contribution to Real GDP growth**  
(percent, 5-year average)



■ Contribution of other factors  
■ Contribution of government capital

Sources: Country authorities; and staff estimates and projections.

**Table 1. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2020–2043**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections										Average 8/			
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Historical	Projections
<b>External debt (nominal) 1/</b>	16.4	13.4	12.6	11.7	9.9	13.4	16.9	21.7	27.6	33.9	40.3	49.4	55.5	61.3	94.3	11.8	31.0
<i>of which: public and publicly guaranteed (PPG)</i>	16.4	13.4	12.6	11.7	9.9	13.4	16.9	21.7	27.6	33.9	40.3	49.4	55.5	61.3	94.3	11.8	31.0
Change in external debt	-1.7	-3.0	-0.8	-1.0	-1.8	3.6	3.5	4.8	6.0	6.3	6.4	9.1	6.1	5.8	1.9		
<b>Identified net debt-creating flows</b>	-31.3	-10.4	4.3	-9.9	-9.6	9.0	-8.2	-8.0	-8.0	-8.0	-7.1	-6.9	-6.5	-6.2	-5.3	-23.9	-8.0
<b>Non-interest current account deficit</b>	-32.1	-7.2	2.2	-10.4	-9.9	9.4	-8.7	-8.5	-8.6	-8.5	-7.5	-7.2	-6.7	-6.3	-5.1	-20.4	-8.3
Deficit in balance of goods and services	4.4	24.1	53.1	36.1	41.2	39.8	40.8	40.4	40.7	39.5	39.9	40.3	40.7	41.0	42.4		
Exports	62.1	45.6	40.6	56.3	51.5	51.0	50.7	50.8	50.5	50.4	49.7	49.4	49.0	48.7	47.5		
Imports	66.5	69.8	93.8	92.4	92.7	90.8	91.5	91.2	91.2	89.9	89.7	89.7	89.7	89.8	89.9		
Net current transfers (negative = inflow)	-19.3	-17.3	-31.9	-27.8	-33.3	-32.2	-33.0	-32.3	-32.6	-32.1	-31.5	-31.5	-31.2	-31.0	-30.2		
<i>of which: official</i>	-30.1	-8.3	-12.9	-30.0	-38.5	-29.5	-19.6	-29.3	-26.7	-26.6	-25.8	-25.1	-24.3	-24.3	-21.0		
Other current account flows (negative = net inflow)	-17.1	-14.0	-19.0	-18.7	-17.8	-16.9	-16.5	-16.6	-16.7	-15.8	-16.0	-16.0	-16.2	-16.3	-17.3		
<b>Net FDI (Negative = Inflow)</b>	1.1	0.3	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.4	0.7
<b>Endogenous Debt Dynamics 2/</b>	-0.3	-3.5	1.1	-0.3	-0.5	-0.3	-0.3	-0.2	-0.2	-0.3	-0.3	-0.4	-0.5	-0.6	-0.9	0.4	0.7
Contribution from nominal interest rate	0.3	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.9		
Contribution from real GDP growth	0.1	-1.1	-0.6	-0.5	-0.6	-0.4	-0.4	-0.4	-0.4	-0.6	-0.7	-0.8	-1.0	-1.1	-1.8		
Contribution from price and exchange rate changes	-0.6	-2.6	1.5	...	...	...	...	...	...	...	...	...	...	...	...		
<b>Residual 3/</b>	29.5	7.4	-5.1	9.0	7.8	12.6	11.7	12.8	14.0	14.3	13.5	16.0	12.6	12.0	7.2	22.6	12.4
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5		
<b>Sustainability Indicators</b>																	
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	9.0	8.4	7.2	8.8	10.4	12.7	15.8	19.0	22.3	25.6	28.8	32.0	52.2		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	22.2	14.9	14.0	17.2	20.5	25.1	31.2	37.6	44.9	51.9	58.8	65.6	110.1		
<b>PPG debt service-to-exports ratio</b>	1.3	1.6	2.1	1.4	1.4	1.3	1.3	1.4	1.4	1.5	1.6	1.7	1.8	1.9	5.2		
<b>PPG debt service-to-revenue ratio</b>	1.1	1.1	1.5	1.1	1.1	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.4	1.5	4.2		
Gross external financing need (Million of U.S. dollars)	-67.5	-17.7	11.1	-24.5	-26.2	-26.5	-24.9	-25.1	-26.1	-26.9	-23.9	-23.4	-21.8	-21.0	-12.7		
<b>Key Macroeconomic Assumptions</b>																	
Real GDP growth (in percent)	-0.6	8.5	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1	2.0	2.0	2.1	2.1	2.0	5.0	2.9
GDP deflator in US dollar terms (change in percent)	3.7	19.2	-9.8	-1.1	5.2	1.4	0.9	0.8	1.4	2.1	1.8	1.8	1.8	1.8	1.8	-1.7	1.6
Effective interest rate (percent) 4/	1.4	1.5	1.3	1.4	1.3	1.4	1.2	1.2	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	-22.3	-5.0	-16.5	42.6	1.9	4.6	3.7	3.4	3.1	4.1	2.4	3.1	3.1	3.2	3.8	4.4	6.8
Growth of imports of G&S (US dollar terms, in percent)	-16.0	35.8	26.0	1.5	11.7	3.4	5.1	2.9	3.5	2.8	3.6	3.8	3.9	3.9	3.8	5.0	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	52.8	52.8	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	...	54.0
Government revenues (excluding grants, in percent of GDP)	74.6	64.0	56.2	70.7	64.7	63.7	64.3	64.2	64.3	63.5	62.9	62.5	62.0	61.6	58.7	74.5	64.0
Aid flows (in Million of US dollars) 5/	67.5	23.9	34.9	83.8	119.8	113.0	83.8	125.8	126.6	133.6	136.8	138.1	139.5	144.1	180.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	30.0	38.5	32.1	22.2	32.7	31.0	31.1	30.5	29.7	28.8	28.7	24.7	...	30.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	100.0	100.0	93.4	90.9	91.9	89.6	89.1	88.5	88.5	88.4	88.5	88.8	...	91.7
Nominal GDP (Million of US dollars)	224	290	271	279	311	329	342	354	366	382	397	412	428	444	648		
Nominal dollar GDP growth	3.1	29.4	-6.3	3.0	11.3	5.6	4.2	3.3	3.6	4.3	3.8	3.8	3.9	3.9	3.8	3.2	4.6
<b>Memorandum Items:</b>																	
PV of external debt 7/	...	...	9.0	8.4	7.2	8.8	10.4	12.7	15.8	19.0	22.3	25.6	28.8	32.0	52.2		
In percent of exports	...	...	22.2	14.9	14.0	17.2	20.5	25.1	31.2	37.6	44.9	51.9	58.8	65.6	110.1		
Total external debt service-to-exports ratio	1.3	1.6	2.1	1.4	1.4	1.3	1.3	1.4	1.4	1.5	1.6	1.7	1.8	1.9	5.2		
PV of PPG external debt (in Million of US dollars)	...	...	24.5	23.5	22.4	28.8	35.6	45.1	57.8	72.4	88.6	105.5	123.3	142.0	338.4		
(PVT-PVt-1)/GDPt-1 (in percent)	...	...	-0.4	-0.4	2.0	2.1	2.8	3.6	4.0	4.2	4.3	4.3	4.3	4.4	3.2		
Non-interest current account deficit that stabilizes debt ratio	-30.4	-4.2	3.0	-9.4	-8.0	-13.0	-12.2	-13.3	-14.5	-14.8	-13.9	-16.3	-12.8	-12.1	-6.9		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g) + \epsilon\alpha(1+r)]/(1+g+\rho+g\alpha)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate,  $\rho$  = growth rate of GDP deflator in U.S. dollar terms,  $\epsilon$  = nominal appreciation of the local currency, and  $\alpha$  = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

The large residual in Table 1 is attributable to several factors: quality of balance of payments data, accumulation of assets in the RERF, and the partial utilization assumption regarding IDA/ADB commitments (these enter the DSA in full, but development expenditures as reflected in the overall balance are not utilizing these funds in full).

4/ Current-year interest payments divided by previous period debt stock.

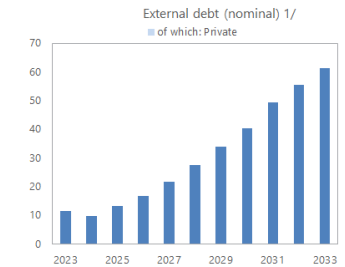
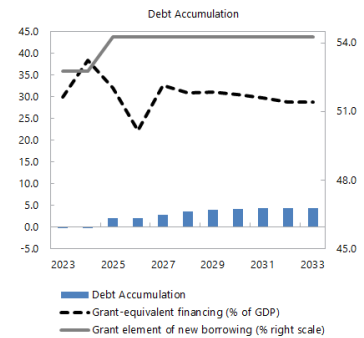
5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



**Table 2. Kiribati: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2043**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
<b>Public Sector Debt 1/</b>	20.0	16.5	15.7	11.7	9.9	13.5	16.9	21.7	27.7	61.3	94.3	14.4	31.1
<i>Of Which: External Debt</i>	16.4	13.4	12.6	11.7	9.9	13.4	16.9	21.7	27.6	61.3	94.3	11.8	31.0
<b>Change in public sector debt</b>	-1.9	-3.6	-0.8	-3.9	-1.8	3.6	3.5	4.8	6.0	5.8	1.9		
<b>Identified Debt-Creating Flows</b>	-5.6	8.4	19.0	0.6	21.7	14.5	12.6	13.7	15.3	14.9	11.2	-4.9	14.2
<b>Primary Deficit</b>	-3.5	10.6	18.3	1.3	22.4	15.0	13.1	14.2	15.9	16.5	13.8	-13.4	15.0
Revenue and grants	104.7	72.2	69.0	100.7	103.2	93.2	83.8	93.4	91.0	85.9	79.7	108.4	91.3
<i>of which: grants</i>	30.1	8.3	12.9	30.0	38.5	29.5	19.6	29.3	26.7	24.3	21.0		
Primary (noninterest) expenditure	101.2	82.9	87.3	102.0	125.5	108.2	96.9	107.7	107.0	102.4	93.5	95.0	106.3
<b>Automatic Debt Dynamics</b>	-2.1	-2.3	0.7	-0.7	-0.7	-0.4	-0.5	-0.5	-0.6	-1.6	-2.6		
Contribution from interest rate/growth differential	0.1	-1.8	-0.5	-0.7	-0.7	-0.4	-0.5	-0.5	-0.6	-1.6	-2.6		
<i>of which: contribution from average real interest rate</i>	-0.1	-0.2	0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.2	-0.5	-0.8		
<i>of which: contribution from real GDP growth</i>	0.1	-1.6	-0.6	-0.6	-0.6	-0.4	-0.4	-0.4	-0.5	-1.1	-1.8		
Contribution from real exchange rate depreciation	-2.1	-0.5	1.3	...	...	...	...	...	...	...	...		
<b>Other Identified Debt-Creating Flows</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Residual</b>	3.7	-11.9	-19.8	-4.5	-23.5	-11.0	-9.1	-9.0	-9.4	-9.2	-9.3	3.4	-10.0
<b>Sustainability Indicators</b>													
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	12.3	8.7	7.5	8.8	10.2	12.3	15.0	32.1	52.5		
<b>PV of public debt-to-revenue and grants ratio</b>	...	...	17.9	8.7	7.3	9.4	12.2	13.2	16.5	37.4	65.9		
<b>Debt service-to-revenue and grants ratio 3/</b>	0.8	1.0	1.2	0.8	0.7	0.7	0.8	0.7	0.8	1.1	3.1		
Gross financing need 4/	-2.7	11.3	19.1	2.1	23.1	15.6	13.8	14.9	16.7	17.5	16.3		
<b>Key Macroeconomic and Fiscal Assumptions</b>													
Real GDP growth (in percent)	-0.6	8.5	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1	2.0	5.0	2.9
Average nominal interest rate on external debt (in percent)	1.4	1.4	1.3	1.4	1.4	1.4	1.2	1.2	1.1	1.0	1.0	1.2	1.2
Average real interest rate on domestic debt (in percent)	4.9	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-11.7	-3.0	10.0	...	...	...	...	...	...	...	...	1.6	...
Inflation rate (GDP deflator, in percent)	4.5	9.5	-2.4	3.4	5.7	1.4	0.9	0.8	1.4	1.8	1.8	2.0	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.0	-11.1	9.4	21.7	30.2	-10.3	-7.4	13.8	1.5	1.6	1.5	6.1	5.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.7	14.2	19.1	5.2	24.2	11.4	9.6	9.5	10.0	10.8	12.0	10.5	10.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: See Text Table 1. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

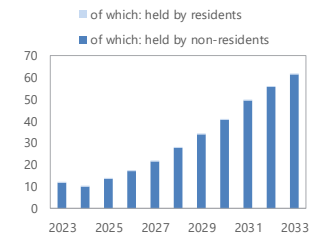
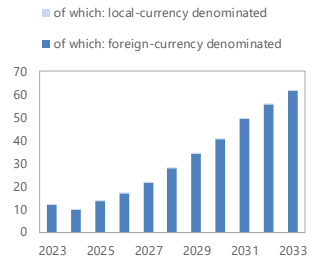
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/





**Table 3. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2043**  
(In percent)

	Projections 1/																						
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043		
<b>PV of debt-to GDP ratio</b>																							
<b>Baseline</b>	8	7	9	10	13	16	19	22	26	29	32	35	38	40	42	44	46	48	50	51	51	52	
<b>A. Alternative Scenarios</b>																							
A1. Key variables at their historical averages in 2023-2033 2/	8	3	-1	-5	-9	-12	-15	-18	-21	-25	-29	-33	-38	-42	-47	-51	-56	-60	-64	-68	-72		
<b>B. Bound Tests</b>																							
B1. Real GDP growth	8	8	10	12	14	18	21	25	29	32	36	39	42	45	47	50	52	54	55	57	58		
B2. Primary balance	8	17	28	29	32	35	38	41	45	48	51	54	56	58	60	62	63	64	66	67	68		
B3. Exports	8	14	27	29	31	35	39	43	46	50	54	57	59	61	63	65	66	68	69	70	71		
B4. Other flows 3/	8	16	26	28	30	33	37	40	43	47	50	52	54	56	57	58	59	60	61	62	63		
B5. Depreciation	8	9	5	7	10	14	18	22	26	30	34	38	41	45	48	51	53	56	58	60	62		
B6. Combination of B1-B5	8	19	27	29	32	35	38	42	46	49	53	56	58	60	61	63	64	65	66	67	68		
<b>C. Tailored Tests</b>																							
C1. Combined contingent liabilities	8	15	16	18	20	23	27	30	33	36	40	43	45	48	50	52	54	56	57	59	60		
C2. Natural disaster	8	13	14	17	19	23	27	31	34	38	42	45	48	51	54	56	59	61	63	65	67		
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Threshold</b>	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40		
<b>PV of debt-to-exports ratio</b>																							
<b>Baseline</b>	15	14	17	20	25	31	38	45	52	59	66	72	78	83	89	93	97	101	104	107	110		
<b>A. Alternative Scenarios</b>																							
A1. Key variables at their historical averages in 2023-2033 2/	15	5	-2	-10	-18	-23	-29	-36	-43	-51	-60	-69	-78	-88	-97	-107	-117	-126	-135	-144	-152		
<b>B. Bound Tests</b>																							
B1. Real GDP growth	15	14	17	20	25	31	38	45	52	59	66	72	78	83	89	93	97	101	104	107	110		
B2. Primary balance	15	32	54	58	62	69	75	83	91	98	105	111	116	121	125	129	132	135	138	140	142		
B3. Exports	15	31	72	78	85	96	106	118	130	141	152	162	170	176	182	187	192	196	200	203	205		
B4. Other flows 3/	15	32	52	55	60	66	73	80	88	95	102	108	112	116	119	122	125	127	129	131	132		
B5. Depreciation	15	14	8	11	16	22	28	35	42	49	56	62	69	74	80	85	89	94	97	101	104		
B6. Combination of B1-B5	15	39	48	64	70	78	86	96	105	114	123	130	135	140	145	149	152	155	158	160	162		
<b>C. Tailored Tests</b>																							
C1. Combined contingent liabilities	15	29	32	35	40	46	53	60	67	74	81	88	94	100	105	109	114	117	121	124	127		
C2. Natural disaster	15	25	29	33	39	46	54	63	71	79	87	95	102	109	115	121	126	131	135	140	143		
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Threshold</b>	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180		
<b>Debt service-to-exports ratio</b>																							
<b>Baseline</b>	1	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	4	4	5	5	5		
<b>A. Alternative Scenarios</b>																							
A1. Key variables at their historical averages in 2023-2033 2/	1	2	1	1	1	1	1	0	0	0	0	-1	-1	-2	-2	-3	-3	-4	-4	-5	-5		
<b>B. Bound Tests</b>																							
B1. Real GDP growth	1	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	4	4	5	5	5		
B2. Primary balance	1	1	2	2	2	2	2	2	2	2	2	3	4	5	5	6	6	6	6	7	7		
B3. Exports	1	2	2	3	3	3	3	3	4	4	4	5	7	7	8	8	9	9	10	10	11		
B4. Other flows 3/	1	1	2	2	2	2	2	2	2	2	2	3	4	5	5	6	6	6	7	7	7		
B5. Depreciation	1	1	1	1	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5		
B6. Combination of B1-B5	1	2	2	2	2	3	3	3	3	3	5	6	6	6	7	7	7	7	8	8	9		
<b>C. Tailored Tests</b>																							
C1. Combined contingent liabilities	1	1	2	2	2	2	2	2	2	2	2	2	3	3	3	4	4	4	5	5	5		
C2. Natural disaster	1	1	2	2	2	2	2	2	2	2	2	2	3	3	3	4	4	5	5	6	6		
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Threshold</b>	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15		
<b>Debt service-to-revenue ratio</b>																							
<b>Baseline</b>	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	4	4	4		
<b>A. Alternative Scenarios</b>																							
A1. Key variables at their historical averages in 2023-2033 2/	1	1	1	1	1	1	0	0	0	0	0	0	-1	-1	-2	-2	-3	-3	-3	-4	-4		
<b>B. Bound Tests</b>																							
B1. Real GDP growth	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3	4	4	4	4	5		
B2. Primary balance	1	1	1	2	2	2	2	2	2	2	2	3	4	4	4	5	5	5	5	6	6		
B3. Exports	1	1	1	2	2	2	2	2	2	2	2	3	4	4	5	5	5	5	6	6	6		
B4. Other flows 3/	1	1	1	2	2	2	2	2	2	2	2	3	4	4	4	4	5	5	5	6	6		
B5. Depreciation	1	1	1	1	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5		
B6. Combination of B1-B5	1	1	2	2	2	2	2	2	2	2	2	3	4	4	4	5	5	5	6	6	6		
<b>C. Tailored Tests</b>																							
C1. Combined contingent liabilities	1	1	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	3	4	4	4		
C2. Natural disaster	1	1	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	4	4	4	4		
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Threshold</b>	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18		

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

**Table 4. Kiribati: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2043**  
(In percent)

	Projections 1/																				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
<b>PV of Debt-to-GDP Ratio</b>																					
<b>Baseline</b>	9	7	9	10	12	15	18	21	26	29	32	35	38	40	43	45	46	48	50	51	53
<b>A. Alternative Scenarios</b>																					
A1. Key variables at their historical averages in 2023-2033 2/	9	-9	-21	-31	-41	-51	-61	-71	-83	-91	-99	-106	-112	-118	-124	-129	-134	-138	-142	-146	-149
<b>B. Bound Tests</b>																					
B1. Real GDP growth	9	10	16	21	27	33	40	48	<b>58</b>	<b>65</b>	<b>72</b>	<b>78</b>	<b>85</b>	<b>91</b>	<b>96</b>	<b>102</b>	<b>107</b>	<b>111</b>	<b>116</b>	<b>120</b>	<b>124</b>
B2. Primary balance	9	17	27	28	30	33	35	39	44	48	51	54	<b>56</b>	<b>58</b>	<b>60</b>	<b>62</b>	<b>63</b>	<b>64</b>	<b>66</b>	<b>67</b>	<b>68</b>
B3. Exports	9	13	23	24	26	29	32	35	40	44	47	49	51	53	55	<b>56</b>	<b>57</b>	<b>59</b>	<b>60</b>	<b>60</b>	<b>61</b>
B4. Other flows 3/	9	17	26	27	29	32	35	38	44	47	50	52	54	<b>56</b>	<b>57</b>	<b>59</b>	<b>60</b>	<b>61</b>	<b>62</b>	<b>62</b>	<b>63</b>
B5. Depreciation	9	9	7	6	5	5	4	4	4	4	4	4	4	4	4	4	4	3	3	3	2
B6. Combination of B1-B5	9	18	18	9	11	14	17	20	25	28	31	34	37	39	42	44	45	47	49	50	51
<b>C. Tailored Tests</b>																					
C1. Combined contingent liabilities	9	15	16	17	19	22	25	28	33	36	39	42	45	48	50	52	54	<b>56</b>	<b>57</b>	<b>59</b>	<b>60</b>
C2. Natural disaster	9	13	14	16	18	22	25	29	34	38	42	45	48	51	54	<b>57</b>	<b>59</b>	<b>61</b>	<b>63</b>	<b>65</b>	<b>67</b>
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>TOTAL public debt benchmark</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>
<b>PV of Debt-to-Revenue Ratio</b>																					
<b>Baseline</b>	9	7	9	12	13	17	20	24	29	34	37	41	45	48	51	54	57	60	62	64	66
<b>A. Alternative Scenarios</b>																					
A1. Key variables at their historical averages in 2023-2033 2/	9	(9)	(22)	(37)	(45)	(57)	(70)	(83)	(99)	(111)	(121)	(133)	(142)	(153)	(162)	(172)	(180)	(189)	(197)	(204)	(210)
<b>B. Bound Tests</b>																					
B1. Real GDP growth	9	10	16	24	28	36	43	52	64	73	81	90	97	106	113	120	127	134	140	146	151
B2. Primary balance	9	16	29	33	32	36	39	44	51	55	59	63	66	70	72	75	77	80	82	84	85
B3. Exports	9	12	25	29	28	32	35	39	46	50	54	58	61	64	66	69	70	73	74	76	77
B4. Other flows 3/	9	16	28	33	31	35	38	43	50	54	58	62	64	67	69	72	73	76	77	78	79
B5. Depreciation	9	9	8	7	6	5	5	4	5	5	5	5	5	5	5	5	5	4	4	3	3
B6. Combination of B1-B5	9	17	20	11	12	16	19	23	28	32	36	40	44	47	50	53	56	59	61	63	65
<b>C. Tailored Tests</b>																					
C1. Combined contingent liabilities	9	14	17	20	21	24	28	31	38	42	46	50	54	57	60	64	66	69	72	74	76
C2. Natural disaster	9	12	15	19	20	24	28	32	39	44	48	53	57	61	65	69	72	76	79	81	84
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>																					
<b>Baseline</b>	1	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3
<b>A. Alternative Scenarios</b>																					
A1. Key variables at their historical averages in 2023-2033 2/	1	1	0	0	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(2)	(3)	(4)	(4)	(5)	(6)	(6)	(7)	(7)	(8)
<b>B. Bound Tests</b>																					
B1. Real GDP growth	1	1	1	1	1	1	1	1	2	2	2	2	3	3	4	4	5	5	6	6	7
B2. Primary balance	1	1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	4	4	4	4
B3. Exports	1	1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	4	4	4
B4. Other flows 3/	1	1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	4	4	4	4
B5. Depreciation	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3
<b>C. Tailored Tests</b>																					
C1. Combined contingent liabilities	1	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3
C2. Natural disaster	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3	3
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities, and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Statement by Robert Bruce Nicholl, Executive Director for Kiribati, and  
Jae Woo Oh, Senior Advisor to the Executive Director  
May 1, 2024**

On behalf of the Kiribati authorities, we thank Ms. Yinqiu Lu and the team for the candid and constructive discussions during the 2024 Article IV consultations. The authorities place great value on the continued engagement of staff and appreciate the Fund's support for capacity development. They broadly concur with staff's assessment on the economic outlook and policy recommendations.

***Recent Developments and Outlook***

**Kiribati's economy has strongly recovered from the pandemic.** With limited reliance on tourism, the pandemic-induced recession was relatively mild compared to other Pacific Islands. Following the lifting of COVID-19 restrictions in late 2022, economic growth is estimated to have improved from 3.9 percent in 2022 to 4.2 percent in 2023, about 17 percent higher than pre-pandemic levels, driven by resumed infrastructure projects, favorable weather, and supportive fiscal measures. Staff project annual growth reaching 5.8 percent in 2024, largely due to higher consumption from a 38 percent increase in civil service wages as planned in the 2024 budget.

**Inflation has decelerated from its recent peak.** Headline inflation peaked to 25 percent y-o-y in January 2023, with food and non-alcoholic beverages accounting for over half the increase. However, it declined rapidly to -2.1 percent y-o-y in December 2023, reflecting easing global commodity prices and supply constraints. On the potential impact of the wage increase on inflation, the authorities emphasize that such an increase is much needed as it was last adjusted in 2018. Staff projects inflation to average 4.5 percent in 2024, on the back of rising domestic demand, and to gradually converge to slightly below 2 percent over the medium term.

**The balance of payments is expected to remain in surplus in the coming years.** Fishing revenue and the Revenue Equalization Reserve Fund (RERF) have performed well. Fishing revenue increased by 52 percent in 2023 compared to 2022 due to favorable weather conditions with the onset of El Niño and the reopening of the Phoenix Island Protected Area. The RERF recorded a strong annual return of 16.4 percent due to rebounding global financial markets. Given these factors and strong remittances, the current account is estimated to be in surplus at 10.2 percent of GDP in 2023. The authorities agree with staff's assessment that the external sector is broadly in line with fundamentals and desirable policies. The current account surplus is projected to be 9.7 percent of GDP in 2024.

**While expressing concern about the considerable influence of external factors on the economic outlook, the Kiribati authorities remain positive about the year ahead.** They stress that as a small island economy highly dependent on imports such as food and fuel, Kiribati remains vulnerable to global shocks. However, rising remittances from overseas workers and increased social protection payments are expected to strengthen purchasing power and lead to higher economic activity.

### *Fiscal Policy*

**The overall fiscal deficit is expected to widen this year.** Staff estimate that the fiscal deficit will narrow from 18 percent of GDP in 2022 to 1 percent in 2023, thanks to a recovery in fishing revenue. However, it is projected to widen again to 22 percent of GDP in 2024, due to the wage increase and reduced donor budget support. In addition, public spending on subsidies and grants has significantly increased since the pandemic, largely financed through volatile fishing revenue and budget grants that are highly dependent on weather and development partners' operational cycles. Under staff's baseline projections, Kiribati remains at a high risk of debt distress under the debt sustainability framework for low-income countries. However, given its strong cash reserve buffer of about 46 percent of GDP at end-September 2023, Kiribati does not currently face debt servicing risks.

**The authorities broadly concur with staff's proposals to strengthen fiscal discipline and revenue mobilization.** They follow fiscal responsibility ratios<sup>1</sup> to anchor annual spending. Recognizing the need to improve the efficiency and profitability of the copra sector, the authorities welcome the Fund's technical assistance scheduled for early May, while expressing concern about the political challenges of reducing copra subsidies. The authorities also anticipate a gradual reduction in unemployment benefits as employment increases, including through seasonal worker programs. To ensure sustainable fiscal resources, the authorities have prioritized amendment of the Value-Added Tax Act, including the removal of tax exemptions for state-owned enterprises (SOEs), and the implementation of the new Income Tax Act. In addition, the authorities will examine the possibility of raising excise taxes on tobacco products and other unhealthy consumer goods, and of imposing excise taxes on kava.

**The authorities are committed to formulating a sustainable fiscal framework.** They recognize the need for a more medium-term approach to budgeting by improving the capacity to estimate future recurrent spending, such as operation and maintenance costs for donor-funded projects. While staff are concerned that the recent Cabinet decision to lower the annual RERF withdrawal threshold may increase the risk of a gradual depletion of the RERF, the authorities see merit in relaxing the rule to benefit both current and future generations by

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<sup>1</sup> The fiscal responsibility ratios include that departmental expenditure on wages and operational costs should not exceed 50 percent of total expenditure in the recurrent budget and that the liquidity cash buffer should maintain at least three months of expenditure.

allocating more resources to infrastructure investment. The authorities intend to consider staff's recommendation for an alternative withdrawal rule to be reviewed by the RERF Investment Committee.

**The authorities agree on the importance of institutional and administrative capacity building to strengthen fiscal sustainability.** Efforts will continue to implement an Integrated Financial Management Information System for budget execution, with the expectation of more integrated public financial management (PFM) among ministries, including those in the outer islands, once the IT infrastructure is in place. Given the importance of fisheries as a revenue source, more regular fisheries reports will be published. Options to improve the return on the cash reserves while preserving liquidity will also be explored. In addition, the authorities are committed to improving tax administration and enhancing the accountability of SOEs. The Tax Commission has submitted a funding request to the Cabinet and is seeking development partners for funding to improve the Revenue Management System. The SOE Monitoring and Advisory Unit has required loss-making SOEs to formulate financial scenarios that include a path to viability and is preparing a dividend policy to ensure that SOEs meet their dividend payment obligations to the government.

### *Structural Policies*

Kiribati's GDP per capita remains among the lowest in Pacific Island countries (PICs). Infrastructure gaps and dispersed geography have limited private sector development in the state-dominated economy. The diversification and upgrading of exports remains a challenge due to limited human and financial resources. Access to finance is also limited, with only one commercial bank and an estimated 15 percent of the population having access to banking services. The credit-to-GDP ratio has stagnated at around 15 to 20 percent of GDP in recent years.

**The government recognizes these significant growth challenges and the need for robust structural reforms.** The authorities are committed to pursuing reforms that will improve resilience and support long-term growth. They concur with staff that to the extent reasonably achievable, priorities include raising private sector employment and investment, boosting export competitiveness, improving infrastructure and financial inclusion, nurturing human capital, and strengthening institutions and governance.

**Recently, the government has launched initiatives to close the infrastructure gap, improve the business climate, upgrade air connectivity and ports, and ensure more reliable internet service.** The authorities continue to make progress in improving infrastructure in the areas of utilities, transport, and communications, and emphasize close coordination with development partners to minimize duplication of efforts. They also recognize that the minimum support price for copra discourages the production of potentially competitive exports. Efforts to expand access to finance and improve financial sector

regulation will continue. In this regard, the Kiribati Financial Supervisory Authority should be adequately and promptly resourced for its full operation, which is a prerequisite for financial sector transformation, including the entry of new banks and higher credit growth. The Chamber of Commerce also plans to launch a credit union with digital capabilities later this year. Kiribati has made significant progress in strengthening institutions and governance and will continue its efforts. The Leadership Commission to investigate complaints against senior public officials has been established and an anti-corruption unit within the Public Service Office is operational. Various efforts are underway to strengthen the capacity and enforcement powers of these agencies.

**The authorities are committed to implementing measures to enhance human capital and alleviate labor shortages caused by emigration.** They are focusing on raising secondary school completion rates by improving the quality of secondary education and expanding technical vocational education and training. Despite an overall increase in the number of participants in seasonal worker programs, the authorities take a positive view that this has increased workers' incomes and provided opportunities for job training, rather than leading to widespread labor shortages. Current gender equality and women development policies are also being reviewed to increase women's economic participation to the extent possible.

**Kiribati is one of the most vulnerable countries to climate change,** with low-lying atolls susceptible to rising sea levels, storm surges, coastal erosion, and saltwater intrusion. Kiribati's annual adaptation costs to contain climate-related economic losses are estimated at 25 percent of GDP, the highest among PICs. Developing a clear plan and investing in adaptation, and mobilizing finance to support this, is therefore critical. Important adaptation projects are currently underway with the support of development partners. However, funding through bilateral arrangements and partnership with multilateral development banks covers only a fraction of Kiribati's estimated investment needs. Kiribati has an important but challenging medium-term task to build internal capacity to directly access finance to support its response to the outlook for increasing economic impacts of climate change.

### *Capacity Development*

**The authorities are dedicated to strengthening CD coordination with the Fund and other development partners.** They have benefited from recent technical assistance on revenue administration, PFM, macroeconomic and financial sector data, and expect further Fund's CD activities on the copra subsidies and high-quality statistics. The authorities also await a Country Engagement Strategy note in the next Article IV consultation as the Fund's new strategy for fragile and conflict-affected states. It is expected to help identify key drivers of fragility in order to better tailor the Fund's engagement and support the integration of surveillance and CD.