INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/172

KIRIBATI

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2025

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 2025 Article IV consultation with Kiribati, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on May 19, 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 June 18, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/247

IMF Executive Board Concludes 2025 Article IV Consultation with Kiribati

FOR IMMEDIATE RELEASE

- The Kiribati economy has rebounded following the COVID-19 pandemic and continues to grow steadily, despite shocks. Downside risks have increased but can be addressed with well-calibrated countercyclical fiscal policy and structural reforms.

- A credible fiscal consolidation over the medium term, accompanied by improved public investment efficiency, is needed to anchor debt and support higher investment in climate adaptation.

- Establishing a debt management framework, with enhanced capacity to analyze new borrowing and assess sources of risk, as well as strong governance, transparency and accountability, is vital for continued long-term growth.

Washington, DC – July 10, 2025: On July 9, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kiribati, and considered and endorsed the staff appraisal without a meeting.

Real GDP grew by an estimated 5.3 percent in 2024 and is now close to its pre-COVID trend. Recent growth has largely been supported by an expansion of the public sector amid relatively subdued private production. Inflation moderated in 2024, in line with global commodity prices, but has started to rise in 2025Q1 due to long-overdue increases in fuel prices and electricity tariffs. Fiscal policy was expansionary in 2024, with an increase in current expenditures to support a wage bill increase and a slight decline in fishing revenues as a share of GDP. The sovereign wealth fund (RERF) withdrawal rule was relaxed in 2024 to support government priority spending.

Real GDP growth is expected to moderate to around 3.9 percent in 2025 and to gradually decline to around 2 percent over the medium term. Economic activity in 2025 is expected to be driven largely by public consumption and the continuation of infrastructure projects. Productivity and population growth are expected to remain subdued and weigh on medium-term growth. Inflation is expected to increase to 7.8 percent in 2025, due to the one-off increase in fuel and electricity prices, and then moderate over the medium term, in line with trading partners' inflation. The current account deficit is expected to narrow to 0.6 percent of GDP in 2025, mostly owing to lower global commodity prices. The fiscal deficit is projected to narrow in 2025, thanks to efforts to contain current expenditures.

Executive Board Assessment

In concluding the 2025 Article IV consultation with Kiribati, Executive Directors endorsed staff's appraisal, as follows:

The Kiribati economy has been resilient, despite repeated shocks. Kiribati is pursuing an ambitious long-term development agenda, focused on infrastructure, social benefits, financial inclusion, and small businesses, including copra famers. Global trade policy changes in 2025 are expected to have only a small impact on GDP growth in the baseline, given Kiribati's limited exports of goods and services. Significant increases in the electricity tariff and fuel price in 2025 were needed to align them with market prices and are projected to temporarily increase inflation. The fiscal deficit narrowed in 2025, but a trend decline in fishing revenues and higher government spending have weighed on fiscal and current account balances relative to pre-COVID. The external position in 2024 is assessed to be weaker than the level implied by fundamentals and desirable policies, with government spending contributing to high demand for imports.

Risks have increased and are tilted to the downside. On the domestic side, under the current return-based withdrawal rule, weak financial market returns in 2025 could jeopardize the sovereign wealth fund withdrawal budgeted for 2026. This could lead to an unplanned fiscal consolidation, with a decline in public investment. External risks include commodity price volatility, intensification of conflicts that could raise shipping costs, and systemic financial instability, which could all increase risks to fiscal and external sustainability through their effects on the import bill, the sovereign wealth fund interest revenues, remittances, and growth. Kiribati remains highly vulnerable to the effects of climate change and natural disasters.

Countercyclical fiscal policy, integrated with a balance-based RERF withdrawal rule, could help to more consistently meet development needs and provide social benefits. Kiribati's revenues are highly volatile and fiscal policy has become procyclical in recent years, with potentially inefficient spending when revenues are above expectations and cuts when they are below expectations. To improve macroeconomic planning and management, RERF withdrawals and deposits could be integrated into a more developed medium-term fiscal framework, designed to offset revenue volatility and support macroeconomic stabilization. Adjusting the RERF withdrawal rule so that annual withdrawals are capped at 3 to 5 percent of the RERF balance would preserve RERF's long-term value and ensure that withdrawals are possible, if needed, even when RERF returns are low.

Over the medium term, a credible fiscal consolidation accompanied by improved public investment efficiency is needed to anchor debt and support higher investment in climate adaptation. Consolidation measures already implemented in 2025, including freezing nominal wages, reforming VAT, and streamlining subsidies, are welcome. Going forward, additional efforts are needed, including gradually reducing SOE and other tax exemptions, increasing the excise tax rate, enhancing fishing revenue, further rationalizing copra subsidies and streamlining SOE subsidies. To improve investment efficiency over the medium term, Kiribati could supplement the prioritized list of infrastructure projects with detailed costing, timeline and transparent criteria for project selection, and plan to integrate the recurrent budget with the development budget. Enhanced oversight and procurement procedures, as well as maintaining a fixed asset register, could help further improve quality and efficiency of public investment.

Establishing a debt management framework with strong governance, transparency and accountability is vital for continued long-term growth. In that regard, the priority is to strengthen the capacity to analyze and manage potential new debt and assess sources of risk. In addition, it would help to clarify the purposes of new borrowing or issuing guarantees and ensure that new borrowing is consistent with debt sustainability and the government's

development priorities, with a requirement of detailed annual reporting. Maintaining or expanding access to grants and highly concessional loans to finance infrastructure investment remains the preferred way to preserve debt sustainability.

Strengthening institutional capacity and raising human capital are crucial for sustaining development. Fiscal structural reforms that continue to focus on strengthening public financial management and revenue administration are welcome. Ongoing progress in building monetary and financial sector regulatory and supervisory institutions and making the new Kiribati Financial Supervisory Authorities fully operational, are important. Continued efforts to improve the quality of education and health are expected to strengthen the labor force and increase public health. Policies to enhance financial inclusion, the business regulatory environment and the quality of infrastructure will continue to promote private sector development.

Continued capacity building to enhance the quality of national statistics is welcome. While the quality of statistics has significantly improved over time, shortcomings that continue to somewhat hamper surveillance should be addressed, particularly in real and external sector statistics and government finance statistics. New challenges related to the recording of Joint Venture activities could be gradually addressed through ongoing capacity development by the PFTAC and other development partners.

Table 1. Kiribati: Selected Economic Indicators, 2021–30

Per capita GDP (2024e): US$2,419.
Demographic: Population (2024e): 127,317; Life expectancy at birth (2022): 67.7.
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.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Proj.			
Real GDP (percent change)	8.5	4.6	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1
Consumer prices (percent change, average)	2.1	5.3	9.3	2.5	7.8	3.5	3.0	2.5	2.0	2.0
Inflation (end of period)	2.5	16.2	-2.1	2.9	6.5	3.0	2.5	2.5	2.0	2.0
Central government finance (in percent of GDP)										
Revenue and grants	73	69	95	76	111	94	89	89	87	85
Total domestic revenue	65	56	71	65	60	60	59	59	58	58
Of which: fishing revenue	45	36	49	45	40	39	39	38	38	37
External grants	8	13	24	11	52	35	30	30	28	27
Expenditures	84	88	95	98	126	111	104	103	102	101
Current	68	67	68	73	68	69	68	67	67	67
Development	16	21	28	26	58	42	36	36	35	34
Domestic recurrent balance 1/	-48	-47	-45	-53	-49	-49	-48	-46	-46	-46
Recurrent fiscal balance (incl. budget support grants)	-2	-7	9	-7	-1	-6	-7	-6	-7	-7
Overall balance 2/	-11	-18	0	-22	-15	-17	-15	-13	-15	-15
Financing	11	18	0	22	15	17	15	13	15	15
Of which: Revenue Equalization Reserve Fund (RERF)	0	0	0	17	16	9	8	8	8	8
RERF										
Closing balance (in millions of A$)	1353	1194	1389	1509	1540	1600	1658	1725	1806	1892
Per capita value (in 2006 A$)	8020	6531	7080	7342	7193	7178	7144	7142	7180	7226
Balance (in percent of (GDP)	356	307	320	324	309	305	303	303	304	306
Cash reserve buffer 3/										
Closing balance (in millions of A$)	216	200	192	186	188	188	188	188	188	188
Closing balance (in percent of GDP)	57	51	44	40	38	36	34	33	32	31
In excess of 3-months of current spending and LCDF (in millions of A$)	144	124	109	83	87	84	85	84	78	73
Balance of payments										
Current account including official transfers (in millions of US$)	20	-33	-5	-6	-2	-3	-4	-5	-6	-6
(In percent of GDP)	7.1	-12.0	-1.8	-2.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.6
External debt (in millions of US$) 4/	47	43	33	29	27	53	76	95	120	148
(In percent of GDP)	17	16	11	10	9	16	22	27	33	39
External debt service (in millions of US$)	2.1	2.3	2.3	2.2	2.1	2.1	2.3	2.5	2.7	2.9
(In percent of exports of goods and services)	1.0	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Exchange rate (A$/US$ period average)	1.3	1.4	1.5	1.5	…	…	…	…	…	…
Real effective exchange rate (period average)	78	79	82	84	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (in millions of A$)	380	389	434	467	498	524	547	569	593	617
Nominal GDP (in millions of US$)	285	271	289	308	313	328	340	352	366	381

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.
1/ Domestic recurrent balance excludes fishing revenue, grants, and development 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.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

June 18, 2025

KEY ISSUES

Context. Kiribati faces significant development challenges due to its remoteness, limited landmass, and high exposure to climate-related shocks. The government has expanded social benefits and is pursuing an ambitious long-term development agenda focusing on health, education, financial inclusion, infrastructure and diversification. However, recent growth has been largely driven by public sector expansion. Fiscal and current account balances have deteriorated substantially in recent years, amid lower fishing revenues and increased current expenditures, contributing to the higher import bill and potentially weighing on long-term development.

Main Policy Recommendations.

- Integrate Revenue Equalization and Reserve Fund (RERF) withdrawals and deposits into a medium-term fiscal framework with countercyclical fiscal policy to support consistent development spending. Initiate a fiscal consolidation to allow additional, more efficient, climate adaptation investment while ensuring debt sustainability.
- Amend the RERF withdrawal rule to ensure access to RERF, if needed, even when annual returns are low, and to preserve the RERF's long-term value.
- Strengthen public financial management to increase efficiency of public spending and investment (e.g. improved national and sectoral infrastructure planning and project selection), which would raise output and improve the debt trajectory. Continue to build revenue administration capacity and improve tax compliance.
- Invest in climate-resilient infrastructure that can withstand floods and storm surges.
- Continue to establish monetary and financial sector regulatory and supervisory institutions, operationalize related legislation, and support financial inclusion.
- Establish a sound debt management framework and develop capacity to analyze new borrowing and assess sources of risk.
- Improve the quality and timeliness of statistics through continued capacity development.

Approved By
Corinne Deléchat (APD) and Niamh Sheridan (SPR)

Discussions took place in Tarawa on April 22-30, 2025, with a virtual concluding meeting on May 19, 2025. The team comprised N. Novta (Mission Chief), X. Han, N. Wang (all APD), S. Shivanjali (Pacific Islands Regional Resident Representative Office). N. Saker (Resident Representative). J. Oh (OED) attended some of the meetings. P. Sherpa (COM) coordinated media activities. S. Rao, Y. Xu and R. Davico supported the mission.

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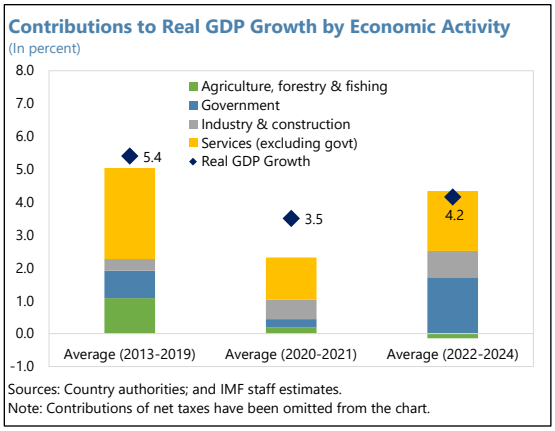
ANNEXES

CONTEXT: INCREASING SOCIAL BENEFITS AMID DEVELOPMENT NEEDS

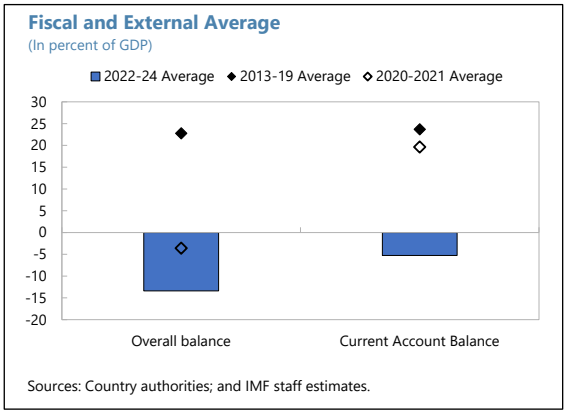
1. Kiribati is a small, remote island state with a vast ocean and large development needs. It has 3.5 million km2 of ocean—as large as one third of the United States—straddling both sides of the equator and the international dateline. It is among the poorest of the Pacific Island Countries (PICs), with large infrastructure needs. More than half of the approximately 120 thousand I-Kiribati live on the densely populated main island, the South Tarawa atoll, while the rest live on isolated outer islands, relying on subsistence agriculture and fisheries. Kiribati is classified as a fragile, low-income state due to weaknesses in economic management and structural policies. Its remoteness, limited land, and high exposure to climate-related shocks critically contribute to low human development.

2. The Kiribati authorities are pursuing an ambitious long-term development agenda. The focus is on improving health and education, extending social benefits, increasing financial inclusion, and supporting small businesses, including copra farmers. To diversify their export base and ignite growth, the authorities are also seeking to develop tourism and have started multiple fisheries Joint Venture (JV) companies with overseas partners since 2019, although recent contributions to GDP growth from fisheries so far appear limited. Other priorities to support growth include raising funds for climate adaptation, improving physical and digital infrastructure, and developing and protecting Kiribati's vast marine resources (Appendix I: Country Engagement Strategy).



Sources: Country authorities; and IMF staff estimates.
Note: Contributions of net taxes have been omitted from the chart.

3. Higher spending to implement the government's development agenda, coupled with a decline in fishing revenue, has led to a deterioration of fiscal and current account balances. The overall fiscal balance[1] has moved from an average surplus of 23 percent of GDP pre-COVID to an average deficit of 13 percent of GDP during 2022-24. This was driven by declining fishing revenues as well as an expansion of social benefits and civil servants' wage increases. This increase in



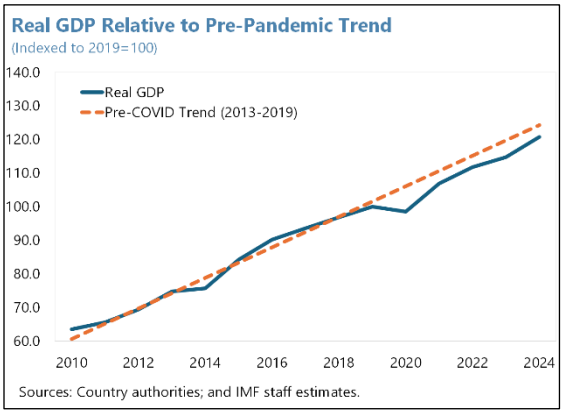
Sources: Country authorities; and IMF staff estimates.

[1] The overall fiscal balance is calculated treating withdrawals from the Kiribati sovereign wealth fund (the Revenue Equalization and Reserve Fund, RERF) as a financing item.

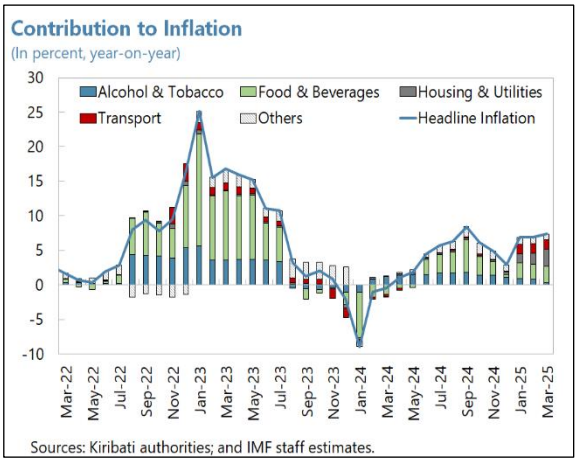
government spending likely also contributed to a large and sustained increase in imports, which resulted in the current account balance declining from an average surplus of 23.7 percent of GDP pre-pandemic to an average deficit of 5 percent of GDP during 2022-24. This shift from saving to dissaving can be justified given Kiribati's large development needs. But it also increases risks to future debt sustainability and can hurt competitiveness, which could undermine the long-term development agenda.[2]

RECENT DEVELOPMENTS: PUBLIC SECTOR EXPANSION

4. The economy has remained resilient amid repeated shocks. After a strong recovery in 2021-22, growth moderated in 2023 to 2.7 percent, due to a post-COVID outflow of seasonal workers and softened real domestic spending amid the global cost-of-living crisis. Real GDP grew by an estimated 5.3 percent in 2024 and is now close to its pre-COVID trend. An increase in public sector salaries of around 40 percent in 2024 supported consumption. Despite overall resilience, recent growth has largely been supported by an expansion of the public sector amid relatively subdued private production.



5. Inflation had moderated significantly from its peak in 2023, although it has risen in 2025Q1. Average headline inflation, driven by imported goods' prices, declined from 9.3 percent in 2023 to 2.5 percent in 2024, in line with global commodity prices and an improvement in supply-side conditions. Prices started to increase in early 2025 due to long-overdue increases in fuel prices and electricity tariffs of 64 and 50 percent, respectively, with only a marginal inflationary push from higher wages. Unemployment conditions have likely improved, in part thanks to overseas work, but timely labor market data are unavailable.

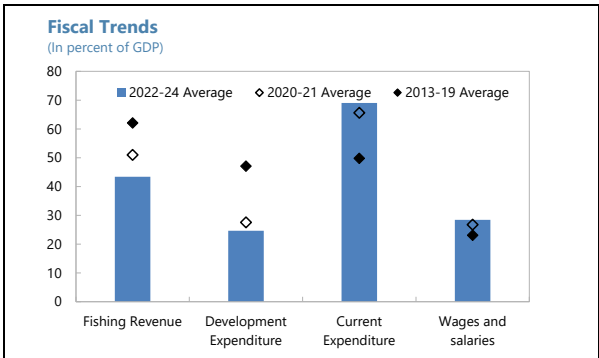


[2] Relative to pre-COVID, the decline in the fiscal balance has been larger than the decline in the current account balance. The somewhat narrower current account deficit indicates that the large dissaving by the central government, via the fiscal deficit, is partly balanced by continued saving in other parts of the economy, including the RERF and the pension fund (Kiribati Provident Fund), both of which have sizable investment income. During the COVID years (2020-2021) the high current account surplus was likely maintained due to involuntary saving by households, who were unable to spend on imports due to COVID-related disruptions to supply chains and cargo ship deliveries.

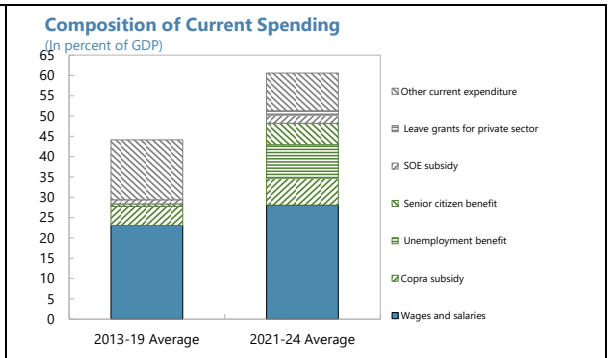
6. Fiscal policy was expansionary in 2024 and has become increasingly procyclical. The overall deficit is estimated at 22 percent of GDP in 2024, down from a surplus of 0.1 percent in 2023, resulting in expansionary fiscal policy amid above-average GDP growth. The fiscal deficit in 2024 was driven by the following components:

- **Revenues fell due to fishing revenue decline** from 49 to 45 percent of GDP in 2024, below the pre-COVID average. Lower budget support was also a drag on revenues (fell from 5 to 1 percent of GDP in 2024), due to development partners' financial cycle. Tax revenue increased by 1 percentage point, to 17 percent of GDP.

- **Current expenditures increased in 2024 due to the wage bill increase.** Total current expenditure and the wage bill were at 73 and 34 percent of GDP in 2024, up from 68 and 26 percent in 2023, respectively, and well above their pre-COVID averages. Social spending and subsidies were broadly stable in 2024, though substantially higher than their pre-pandemic averages. Development expenditure declined from 28 to 26 percent of GDP in 2024, due to delayed project implementation, and is below the pre-COVID average of 47 percent of GDP.



Sources: Country authorities; and IMF staff estimates.



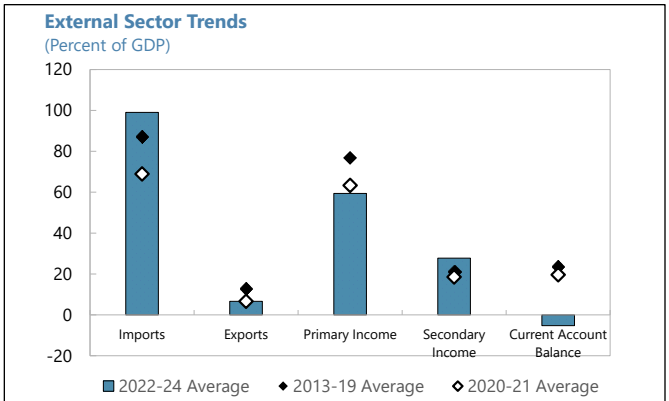
Sources: Country authorities; and IMF staff estimates.
Note: Other current expenditures include operating expenses, i.e., usage of electricity, internet bills, etc.

7. The sovereign wealth fund (RERF) withdrawal rule was relaxed in 2024 to help finance the deficit. The new rule allows withdrawals of excess annual returns above a 2 percent nominal threshold. This is a substantial relaxation from the previous rule which allowed withdrawals of returns in excess of a 5 percent real return threshold. The 2024 RERF withdrawal was AUD 80 million, around 17 percent of GDP. It came after 3 consecutive years of no withdrawals, and still met the previous rule given very high RERF returns in 2023. An additional 5 percent of GDP in financing needs was sourced from cash reserves. The RERF balance continued to increase and amounted to 324 percent of GDP at end-2024. Kiribati's public debt, mostly external, has been declining, reaching 9.9 percent of GDP at end-2024. Debt is assessed as sustainable, but at high risk of debt distress due to climate-related vulnerabilities.

8. In January 2025, the authorities increased the price of fuel and raised electricity tariffs, a key step towards sustainability of critical SOEs and mitigation of related fiscal risks. The increase in fuel prices was coupled with no budgeted subsidies for Kiribati Oil (KOIL) in 2025. Annually resetting fuel prices and regularly reviewing electricity tariffs would ensure cost-recovery

and allow greater self-sustainability of key utility service providers. Prepaid electricity meters for Ministries have been approved in 2024 and will be rolled out in 2025, with the expectation of improved collection rates. With assistance from development partners three utilities projects in South Tarawa, for renewable energy, water, and sanitation, came online in 2024.

9. The current account remains in deficit in 2024, and the external position is assessed to be weaker than the level implied by fundamentals and desirable policies (Appendix II). The current account deficit is estimated at 2 percent of GDP in 2024, after deficits of 12 and 1.8 percent of GDP in 2022 and 2023, respectively—all far below average pre-COVID surpluses.[3] The 2024 current account deficit is primarily driven by a drop in grants due to donors' financial cycles, amid a moderation in commodity prices that helped contain the import bill to 95 percent of GDP. The REER appreciated by 2.6 percent in 2024 and is stronger than the level implied by fundamentals, a sign of weakening exports' competitiveness. Despite consecutive current account deficits during 2022-23, international reserves have increased, buoyed by favorable global asset valuations, and the reserves level is assessed to be adequate.



Sources: IMF staff calculations.
Notes: Primary income includes fishing license fees, investment income, and remittances (compensation of employees). Secondary income reflects grants to the government.

10. Recent progress in implementing financial sector supervision is welcome. The Kiribati Financial Supervisory Authority (KFSA) was established in 2021, with the CEO, Deputy CEO and Board of Directors appointed since 2024. Recruitment of other staff is in progress. The KFSA is establishing relations with counterparts in other Pacific Island countries to assist with training and operationalization of KFSA. New prudential regulations for deposit-taking institutions are expected to be developed with assistance from IMF's Pacific Financial Technical Assistance Center (PFTAC).

OUTLOOK AND RISKS

11. The near-term outlook remains somewhat favorable, although weakening over the medium term.

- **Real GDP growth is expected to moderate to 3.9 percent in 2025,** with economic activity expected to be driven largely by public consumption and the continuation of infrastructure projects. In the baseline scenario, despite a weaker global outlook due to trade tariffs and financial market volatility, the immediate impact on Kiribati's GDP is projected to be small due to its limited exports of goods and services (around 6 percent of GDP). The fiscal deficit is expected

[3] Elevated public spending led to strong demand for imports, while surging commodity prices and freight costs increased the price of imports. This resulted in consecutive current account deficits in 2022-23.

to narrow relative to 2024 but would remain large from a historical perspective. Over the medium term, growth is projected to slow to around 2 percent, due to limited productivity and population growth (see Selected Issues Paper 2023).

- **Inflation is expected to increase to an average of 7.8 percent in 2025** primarily due to a 50 percent increase in electricity tariffs and a 64 percent increase in fuel prices. This will contribute to a one-off increase in inflation in 2025 and be partially offset by a projected decline in global commodity prices. Over the medium term, inflation is projected to decline to about 2 percent, in line with that of major trading partners.

- **The current account deficit is expected to narrow** to 0.6 percent of GDP in 2025, mostly owing to lower global commodity prices, as well as a slight expected moderation in imports and an increase in grants. Over the medium term, the current account deficit is projected to remain broadly stable at around 1.6 percent, driven by gradually moderating imports and declining fishing revenues.

- **The fiscal deficit is expected to narrow** to 15 percent of GDP in 2025 due to a freeze on nominal wages, a reduction in subsidies for SOEs, a decrease in unemployment benefits, and increased budget support from development partners. However, fishing revenues are expected to decline further due to changes in seawater temperature.[4]

12. Risks have increased and are tilted to the downside (Appendix III).

- **Downside risks.** Among external risks, greater commodity price volatility, intensification of conflicts that could raise shipping costs, and systemic financial instability due to escalating tariffs could all threaten fiscal and external sustainability through their effects on the import bill, RERF interest revenues, remittances, and growth. Kiribati also faces continued risks from natural disasters and weather-related events. Domestically, greater reliance on RERF withdrawals that are based on annual returns can exacerbate existing revenue volatility and hamper economic management. In a risk scenario of persistently weak financial markets in 2025 amid heightened trade uncertainty,

Text Table 1. Risk Scenario

	2025	2026
Baseline, post April 2		
GDP growth (percent)	3.9	3.2
Overall fiscal balance (percent of GDP)	-15.0	-16.6
RERF withdrawals (percent of GDP)	16.1	8.6
Risk scenario, post April 2		
GDP growth (percent)	3.9	1.5
Overall fiscal balance (percent of GDP)	-15.0	-8.0
RERF withdrawals (percent of GDP)	16.0	0.0

Source: IMF staff forecast

[4] The 2025 fiscal deficit projection is based on the recurrent and the development budget. The increase in project grants in the development budget is due to expected completion of major projects that have been delayed.

growth in 2026 would fall to 1.5 percent due to an unintended fiscal contraction of almost 9 percent of GDP (Text Table 1).[5]

- **Upside risks.** Stronger structural policies including investments in human capital and infrastructure, digital connectivity, structural reforms to strengthen institutional capacity and address structural bottlenecks could help with productivity improvements and growth. Acceleration of global growth due to easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms can boost remittances and RERF returns.

Authorities' Views

13. The authorities broadly agreed with staff's assessment of the outlook and risks. They acknowledged that inflationary pressures have increased recently due to fuel price and electricity tariff increase and reiterated this was necessary for the sustainability of the relevant SOEs, the Kiribati Oil Company and the Public Utilities Board. The authorities agreed with staff that direct impact of recent trade policy changes on Kiribati would be limited due to low trade exposures, but expressed concern about indirect impacts of these changes, including lower RERF returns due to financial market volatility and lower fishing license revenue due to weakening of the U.S. dollar. They broadly agreed with the findings of the external sector assessment.

POLICY DISCUSSIONS: CALIBRATING FISCAL POLICY FOR LONG-TERM DEVELOPMENT

Kiribati's development challenges stem from structural factors such as remoteness, exposure to floods and inundation, scarce freshwater, and limited and infertile soil. These factors have contributed to reliance on volatile fishing license revenues and international aid, and low resilience to shocks. To overcome these challenges, Kiribati will require a multi-pronged approach, including (1) building infrastructure that is resilient to natural disasters, enhances connectivity, and supports private sector development; (2) calibrating fiscal policy to enable long-term development despite revenue volatility; and (3) strengthening institutional capacity through structural reforms and investment in human capital to enable enduring, sustainable growth.

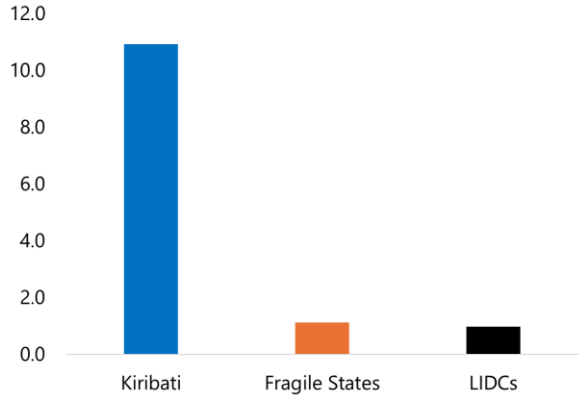
[5] Currently, the budget anticipates RERF withdrawal of 8.6 percent of GDP in 2026, which is contingent on RERF nominal returns exceeding 2 percent. In case this condition is not met, there would likely be a large (unintended) cut of 8.6 percent of GDP in capital expenditures, which assuming a fiscal multiplier of 0.2 would lower growth by about 1.7 percentage points in 2026.

A. Development Needs: Climate-Resilient Infrastructure, Connectedness and Diversification

14. The Kiribati authorities have substantially expanded social benefits, while working to improve infrastructure and maintain macroeconomic stability. Achieving all three goals simultaneously is a delicate balancing act, as efforts to advance two of the goals can come at the expense of the third one. Recent policies have focused on rapidly increasing social benefits while striving to expand infrastructure investment. However, this significant increase in spending, financed through either new private borrowing or large RERF withdrawals, has increased external imbalances and heightened debt sustainability risks. Over time, this can weaken macroeconomic stability and, ultimately, undermine future development efforts.

Social Assistance Spending

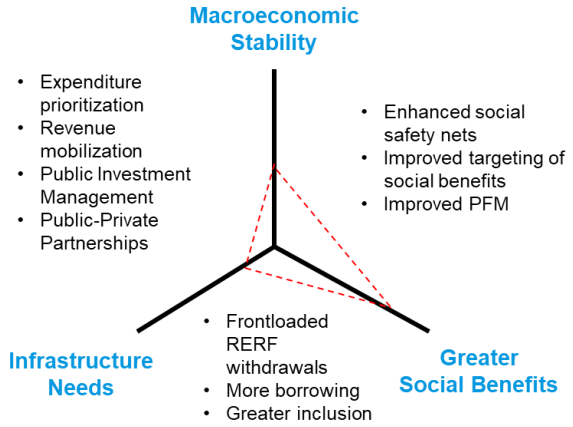
(In Percent of GDP)



Sources: IMF FAD Expenditure Assessment Tool; World Economic Outlook and ASPIRE, and IMF staff.

Note: For Kiribati, data are for 2024 and include the unemployment benefit and senior citizen benefit. For other countries, latest available data are used.

Policy Maker's Trilemma

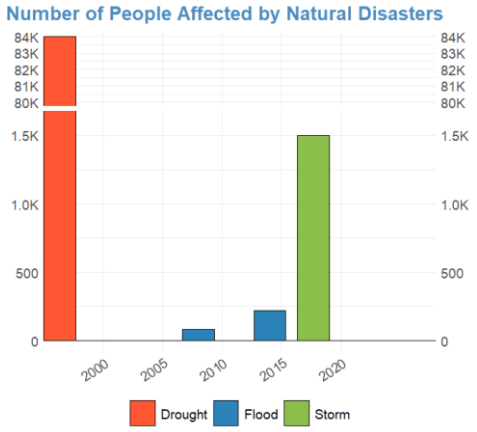


Source: IMF staff.

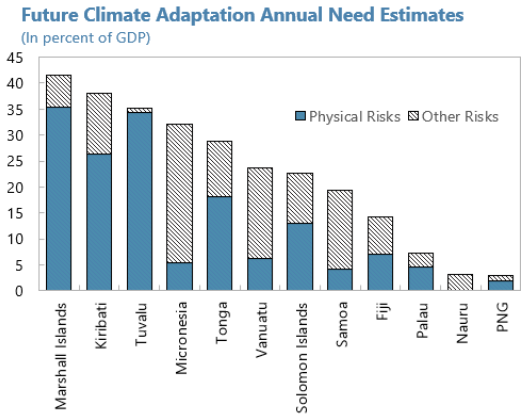
Note: Bullets provide examples of policies that could reach certain outcomes, as represented by different sides of the triangle.

15. Kiribati's infrastructure needs are extremely large, particularly in climate adaptation, water, and sanitation. The authorities have a strategy, embedded in the Kiribati development plan (KV20, the Kiribati Vision 2016-2036) that covers infrastructure needs. The priority areas for climate adaptation and mitigation are laid out in the Kiribati Joint Implementation Plan. Ongoing and planned climate adaptation projects include upgrading water and sanitation infrastructure, enhancing coastal zone management, and gradually implementing the new building code, passed in 2024. Further progress in reaching climate adaptation goals will depend on continued support from development partners. Multiple ongoing donor-supported programs are aimed at climate mitigation by expanding solar power. As part of its 2030 NDC, Kiribati has committed to reduce GHG emissions by 9.5 percent and 8 percent by 2025 and 2030, respectively, compared with the business-as-usual scenario. Additional emissions' reduction is conditional on international support.

16. Despite ongoing efforts to enhance climate resilience, substantially more investment is required to adapt to the physical risks of natural disasters and rising sea levels.[6] Kiribati is rain-dependent and faces a constant threat from gradually-rising sea levels, which is expected to increase the frequency and severity of storm surges and exceptional tides. Saltwater intrusion from storm surges and floods aggravates problems with access to drinking water and proper sanitation. Intensified coastal erosion will damage buildings and infrastructure. In the baseline scenario, Kiribati will only have low resilience to climate-related natural disasters. Kiribati will need an estimated annual investment in climate-resilient infrastructure of over 25 percent of GDP for moderate resilience (to withstand a 0.5-meter sea-level rise by 2100) and over 45 percent of GDP for high resilience (to withstand a 2-meter sea-level rise by 2200).[7]



Source: World Bank Climate Change Knowledge Portal.



Source: Dao et al. (forthcoming).

Note: Regarding estimates of climate adaptation needs, to address the potential double-counting of coastal protection costs, the WB CCDR for a 0.5-meter sea rise in 2070 is used, if available. Otherwise, the WB CCDM until 2040 is used. If both are unavailable Dabla-Norris and others (2021), IMF working paper is referenced.

17. Climate-resilient infrastructure that increases connectedness is needed for private sector development and economic diversification to drive growth (Appendix I). Building climate-resilient roads, runways, buildings, and coastal infrastructure is needed to facilitate transportation and expand access to foreign markets. Further investments in digitalization and greater digital connectivity would help raise productivity and develop the services sector.[8] Addressing infrastructure gaps would also support diversification within the blue economy, for

[6] Main sources of climate finance for Kiribati are MDBs such as the World Bank and ADB, and bilateral partners such as Australia and New Zealand. Securing direct access to climate funds has been very challenging for Kiribati and other low-income Pacific Islands and would require substantial improvements to public investment institutions (Fouad et al, 2021). But Kiribati can continue to access global climate funds through engagement with development partners.

[7] See the 2024 CCDR for Pacific atoll countries and 2025 Selected Issues Paper.

[8] An undersea internet cable is scheduled in late 2025. Air connectivity is expected to improve further with the arrival of an additional aircraft in 2025, as well as the planned upgrades to the Kiritimati airport. A master plan for updating the ports is supported by development partners.

example increasing exports of diversified tuna fish products, or developing niche tourism, which would increase value-added.

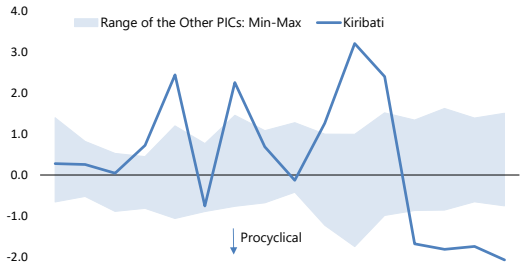
Authorities' Views

18. The authorities concurred that Kiribati faces significant investment needs for infrastructure development and resilience building. They are committed to balancing infrastructure investment and enhanced social protection, while preserving macroeconomic stability, and are reviewing policies to reduce leakage of social benefits. The authorities remain committed to the ambitious infrastructure development agenda included in the KV20, covering transportation, communications, energy, sanitation and water supply systems, improving access to services in the outer islands and supporting business operations. The authorities have made progress in increasing infrastructure maintenance provisions and are planning for a development partner roundtable to enhance coordination. They expressed concern over the long-term risks imposed by rising sea levels. To reduce dependence on imports, they are emphasizing renewable energy initiatives.

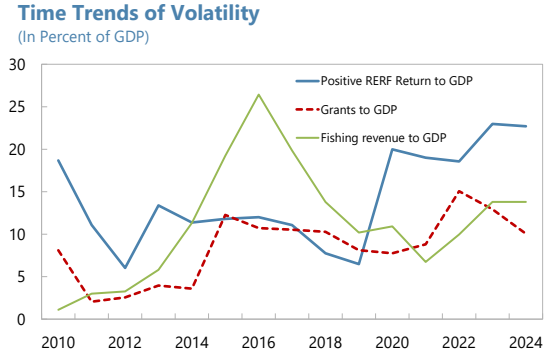
B. Enabling Development: Countercyclical Fiscal Policy

To meet Kiribati's large development needs and continue to provide social benefits, macroeconomic stability and growth-friendly countercyclical fiscal policy will be essential. Amending the RERF withdrawal rule to a balance-based rule and pursuing a gradual fiscal consolidation would help.

19. Countercyclical fiscal policy—spending more in times of weak growth and saving during strong growth—would better support equitable and sustainable growth. Fiscal policy has become increasingly procyclical in recent years, in contrast to other Pacific Islands. Kiribati relies on fishing revenues and grants, which are volatile and often correlated. Financing deficits through maximum RERF withdrawals based on the current 2 percent nominal return rule could exacerbate existing volatility, as recent RERF returns have been more volatile than either fishing revenues or grants. Procyclical fiscal policy could hamper macroeconomic planning and management and ultimately harm long-term growth, by supporting excessive, inefficient spending and investment when revenues and RERF returns are high, along with spending cuts when revenues are low (Appendix IV). Steady implementation of the national infrastructure investment plan, including climate adaptation, requires long-term planning and a stable, robust medium-term fiscal framework.



Sources: Flores et al. (2024); and IMF staff estimates.
Note: The cyclicality coefficient is estimated by regressing the overall balance on real GDP growth using a five-year rolling window (t-4 to t). A positive coefficient indicates a countercyclical fiscal stance, while a negative coefficient means a procyclical stance.



Sources: Country Authorities; and IMF staff estimates.
Note: The volatilities are calculated as standard deviation of a five-year rolling window between t and t-4.

20. RERF withdrawals should compensate for revenue volatility, be integrated in a medium-term fiscal framework (MTFF), and be capped at about 5 percent of RERF balance. In resource-rich countries, sovereign wealth funds often support economic stabilization while saving for future generations. The 2024 withdrawal rule would lead to no withdrawals approximately every 1 in 4 years. If maximum permitted withdrawals are made each year volatility would increase and the RERF would likely be depleted in the long run. Switching to a balance-based withdrawal rule could provide a welcome fiscal buffer. In normal times, Kiribati could plan to withdraw about 3 percent of the RERF balance. If revenues fall short relative to expectations (in a more developed MTFF), Kiribati could withdraw up to 5 percent of RERF (currently around 16 percent of GDP). When fishing revenues and grants exceed the alternative MTFF expectations, Kiribati should make RERF deposits or smaller RERF withdrawals, consistent with the MTFF (Appendix IV).[9] These changes would enable effective countercyclical fiscal policy, ensure access to RERF (if needed, even when annual returns are low), and preserve RERF's long-term value.[10] Revising the RERF Act to strengthen RERF governance and put it under closer legislative scrutiny would also help.

21. Over the medium term, the recommended reform scenario includes a gradual reduction in recurrent spending and increased revenues, coupled with additional, more efficient, climate adaptation investment (Box 1). Compared with the baseline, the reform scenario involves a combination of streamlining of subsidies, raising excise taxes and slightly increasing fishing revenues. These savings, along with additional concessional borrowing and RERF withdrawals, could be used for additional climate adaptation investment needed for sustainable

[9] In addition to the existing high-level fiscal strategy, the medium-term budget, the indicative fiscal balance target and fiscal responsibility ratios, and use of IMF projections of growth and inflation, the recommended medium-term fiscal framework would also have 1) a debt anchor (e.g. around 55 percent of GDP in the absence of major climate adaptation investment) with regular debt reporting and analysis, 2) include a detailed, prioritized medium-term public investment plan with costing, 3) integrate the RERF withdrawals and deposits, and 4) add more detailed risk considerations (climate risks, contingent liabilities, macroeconomic shocks).

[10] With the current (return-based) withdrawal rule, if RERF nominal returns are below 2 percent, RERF withdrawal is not permitted. Historically RERF nominal returns have been below 2 percent about a quarter of the time. A balance-based withdrawal rule allows withdrawals up to a certain percentage of the entire value (i.e. balance) of the RERF.

growth. The scenario also includes structural reforms to increase the efficiency of public investment in climate adaptation, which would improve the long-term debt trajectory. Specifically:

- *Baseline*. Staff project an increase in climate adaptation spending in the recurrent budget starting at 3 percent of GDP in 2026, rising to 6 percent of GDP in 2033 and onward, which along with 6 percent of GDP in adaptation financed by development partners after 2030, would only provide low resilience to climate-related shocks.[11] RERF withdrawals are projected at around 9 percent of GDP, based on the budget and consistent with the 2024 RERF withdrawal rule, assuming average RERF returns. There is no fiscal consolidation in the baseline, resulting in debt-to-GDP of 106 percent by 2044.

- *Recommendation I: Fiscal Consolidation*. To preserve debt sustainability, a gradual fiscal consolidation of about 3.5 percent of GDP each year from 2030 onward is needed, which would result in debt around 55 percent of GDP by 2044, assuming investment sufficient for low resilience (Text Table 2). On the expenditure side, measures should include further rationalizing the copra subsidy, streamlining SOE subsidies, and staying committed to the nominal wage freeze through 2028 as planned. On the revenue side, measures should include (1) removing tax and excise exemptions, (2) implementing VAT reforms, (3) increasing excise taxes on tobacco, alcoholic, and sugary drinks, and introducing excise taxes on kava, (4) increasing fishing license fee collection by 0.5 percent of GDP to partly offset the large projected decline relative to pre-COVID.

Text Table 2. Recommended Fiscal Consolidation
(In Percent of GDP)

	2026	2030-onward
Baseline Fiscal Balance	-16.8	-15.6
Recommended Fiscal Balance	-14.8	-12.1
Consolidation in Total	2.0	3.5
Contribution from tax mobilization	1.0	1.5
Enhanced Fishing Revenue	0.5	0.5
Excise Tax	0.4	0.8
VAT Reform	0.1	0.2
Contribution from streamlining subsides	1.0	2.0
Copra Subsides	0.8	1.5
SOE Subsidies	0.2	0.5

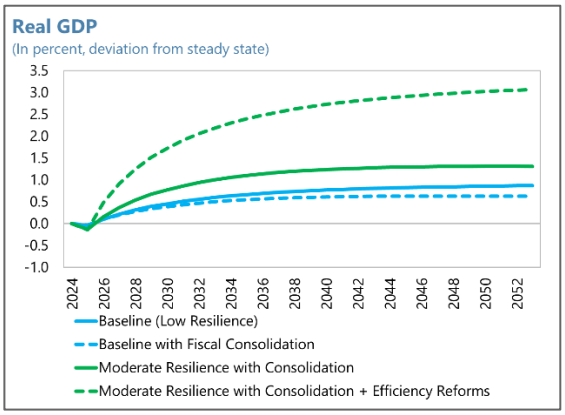
Source: IMF staff estimates.

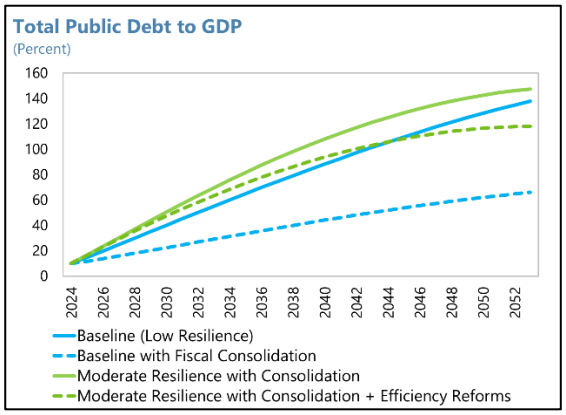
[11] The baseline level of climate adaptation investment is informed by the estimates in Climate Change and Disaster Management (World Bank, 2016).

Text Figure 1. Kiribati: Recommended Climate Adaptation and Fiscal Consolidation

				Baseline (Low Resilience)			Consolidation and Climate Adaptation		
	Average 2013-19	Average 2021-24	2025	2026	2030	Average 2031-44	2026	2030	Average 2031-44
Total Revenue	120	79	111	94	85	79	95	87	80
Tax revenue	14	17	18	18	19	19	19	20	20
Fishing revenue	62	44	40	39	37	35	40	37	36
Budget support	3	3	7	3	1	1	3	1	1
Project grants	38	11	45	31	26	21	31	26	21
Total Expenditure	97	91	127	111	101	95	110	99	93
Current spending	50	69	68	69	67	65	68	65	63
of which: Maintenance rel. to adaptation	...	...	...	3	5	6	3	5	6
Additional adaptation spending	...	...	...	...	...	...	12	13	13
Development expenditure	47	22	58	42	34	30	42	34	30
of which: LCDF	11	11	14	11	8	9	11	8	9
of which: Climate adaptation	...	...	...	3	5	6	3	5	6
Overall Balance	23	-13	-15	-17	-16	-16	-27	-25	-26
Financing									
of which: RERF				9	8	9	14	13	14
of which: External conces. loans				8	8	8	13	11	12

Sources: Country authorities; and IMF staff estimates.





Source: IMF staff calculations, based on the DIGNAD Toolkit.
Note: The table shows values in percent of GDP. The charts show the projected paths of real GDP and debt-to-GDP ratio for the baseline (low resilience), the baseline with fiscal consolidation, a climate adaptation scenario with fiscal consolidation that builds moderate resilience to climate related shocks, and the climate adaptation scenario with additional reforms that improve the efficiency of public investment. The resilience-building scenario prepares the economy for a 0.5-meter sea level rise by 2100. The real GDP impact incorporates the productivity gains from more resilient infrastructure and the general equilibrium effect of increased consumption taxes on GDP. Public investment efficiency measures the output efficiency relative to the best performers given GDP per capita and public capital stock. Kiribati's public investment efficiency is assumed to be around 20 percent of the most efficient peers, while the LIDC average (achieved in the reform scenario) is around 50 percent. The baseline debt trajectory is approximated by DIGNAD and may differ slightly from staff's projection in the DSA.

- *Recommendation II: Building moderate resilience to climate-related shocks.* Additional adaptation investment of 13 percent of GDP per year relative to the baseline is needed to achieve moderate resilience to climate shocks. This can be financed with the proposed fiscal consolidation and additional RERF withdrawals and concessional borrowing. GDP would be higher than in the baseline, reflecting increased public investment and the crowding-in of private investment due

to increased resilience to shocks. Debt-to-GDP ratio would reach 125 percent of GDP by 2044, although the increase relative to the baseline is modest due to higher GDP.

- *Recommendation III: Increasing efficiency of public investment.* To improve efficiency, Kiribati should (1) improve national and sectoral infrastructure planning, moving beyond KV20 aspirations toward a prioritized list of specific projects, including for SOEs, with identified partners, costing, and timeline, and with clear criteria for project selection; (2) integrate the recurrent budget and development budget, with the spending on selected infrastructure projects consistent with the medium-term fiscal framework. With efficiency improvements, despite the higher borrowing for climate adaptation, GDP would be significantly higher and debt-to-GDP would be around 106 in 2044, and lower than the baseline thereafter.

Authorities' Views

22. The authorities broadly agreed with staff's fiscal recommendations, emphasizing their track record of fiscal discipline. They noted their commitment to maintaining debt sustainability and did not see an immediate need to introduce a debt anchor or pursue additional fiscal consolidation. They maintained that the increase in current expenditure, compared to pre-COVID levels, was important for providing social benefits, and that the wage bill increase in 2024 had been long overdue. They emphasized their commitment to the nominal wage freeze and reducing subsidies by raising fuel and electricity prices, which further demonstrate fiscal discipline. They reiterated the social protection aspect of the copra subsidy but are actively considering reform options. They are focused on raising revenues to continue to provide social protection and are progressing with the implementation of the VAT reforms.

23. The authorities agreed on the need for climate adaptation and saw room for greater long-term financing by development partners that would also help investment planning and efficiency. The authorities noted that national development planning is outlined in the National Infrastructure Investment Plan (NIIP) and led by the Cabinet-level Development Coordination Committee, which is fit for purpose in Kiribati though reliant on external funding. They cited ongoing efforts to increase efficiency of implementation of public investment, noting that some delays are due to development partner processes as well as local capacity constraints. They highlighted the importance of mobilizing additional external funding for the operation and maintenance of improved infrastructure services, such as the Desalination Plant.

24. The authorities noted communication challenges associated with modifying the RERF withdrawal rule too often. They emphasized that their recent withdrawals have been measured and focused on development spending, after years of no withdrawals. They saw no risk of depleting the long-term value of the RERF, as they plan to withdraw less than maximum permitted amounts. They reiterated that RERF withdrawals should be recorded as revenue, not a financing item. In case low returns preclude RERF withdrawals in 2026, the authorities would adjust their capital spending.

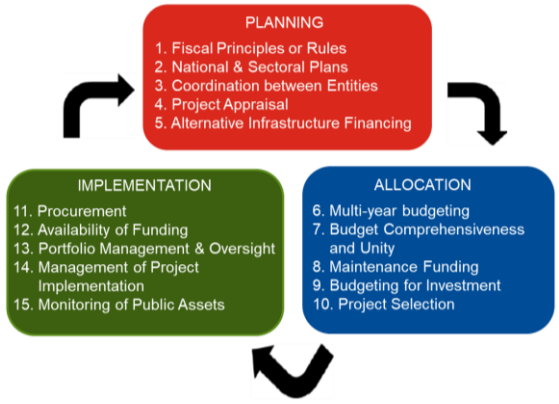
C. Sustaining Development: Institutional Capacity and Human Capital

To sustain development, countercyclical policies should be coupled with investing in human capital and strengthening institutional capacity. Structural reforms are needed to improve fiscal institutions, build financial sector regulatory and supervisory institutions, develop a debt management framework, strengthen the legal and governance framework for investment and FDI to facilitate trade and support private sector development (see also Appendix I).

25. Kiribati needs to strengthen institutional capacity through structural reforms. Fiscal structural reforms should include:

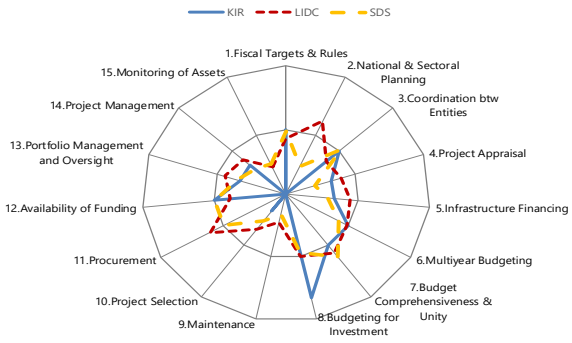
- **Strengthening Public Financial Management (PFM) to increase efficiency of public spending and investment.** While the authorities have established budget preparation and basic payment systems, a medium-term PFM capacity development roadmap is needed. This should include a clear medium-term expenditure framework, strengthened budget execution, improved cash management, stronger internal controls, accounting standards, auditing and transparency, including publication of annual financial statements of SOEs and other government agencies. A high-level political endorsement of the PFM roadmap and appropriate staffing at the Ministry of Finance and Economic Development (MFED) are prerequisites for success. Revising the RERF Act to strengthen RERF governance and put it under closer legislative scrutiny could help ensure it is most effectively used to meet Kiribati's development goals.

Public Investment Management Framework



Source: IMF, *"Public Investment Management Assessment - Review and Update"*, May 2018

Institutional Strength: Kiribati vs. LIDCs and SDSs

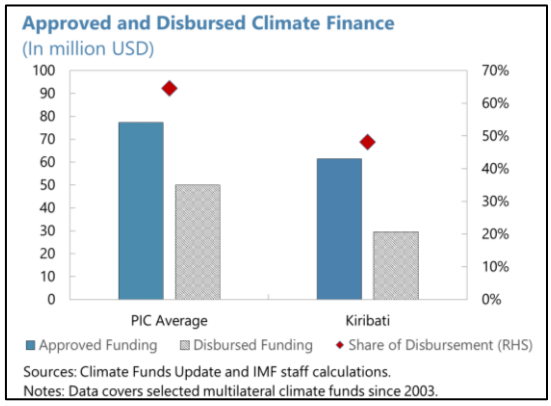


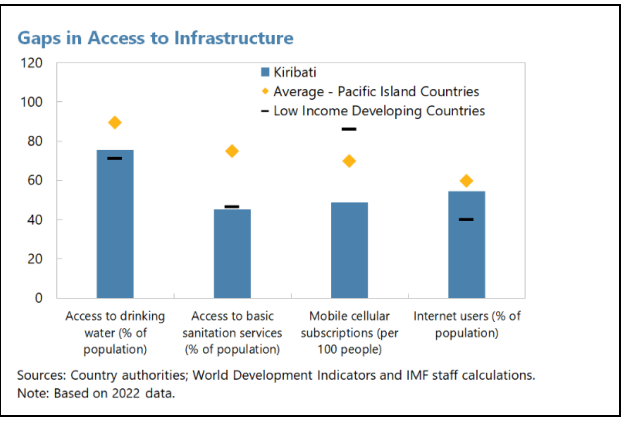
Source: IMF Staff Estimates, IMF FAD PIMA dataset
Note: Higher (better) scores are closer to the exterior of the circle; lower (worse) scores are closer to the center of the circle. LIDC=Low-income developing countries; SDS=small developing states.

- **Building revenue administration capacity.** To exit institutional fragility, Kiribati needs to strengthen core taxpayer functions. While broadening the taxpayer base, the authorities should improve tax compliance through better taxpayer services, and address potential conflicts of interest between tax collectors and taxpayers that can happen in small states. Introducing risk-based audit procedures and strengthening collection from large companies that benefit from Kiribati's marine resource wealth are priorities. The outdated Revenue Management System (RMS) needs to be replaced as part of a revenue administration digitalization upgrade.

26. Improved public investment management is needed to raise efficiency of development spending. Kiribati already has a high level of public investment but access to infrastructure—such as drinking water and solid waste management—is still lower than in many low-income countries due to low efficiency of public spending. Many projects have approved funding that is not promptly disbursed, often due to implementation delays amid insufficient planning and preparation, which indicates weak absorption capacity. In addition to reforms in section B, greater reliance on development partners for project implementation, with improved oversight, could significantly improve efficiency. Finally, improved monitoring of public assets through a fixed asset register and strengthened procurement requirements, especially if some development partners' own requirements are nontransparent, are also needed.

27. Establishing a sound debt management framework is a prerequisite for sustainable growth and diversification. Improved governance and transparency are key in the context of new loans for climate adaptation, which may be needed to increase resilience to climate-related shocks. The authorities urgently need to establish a debt management framework that ensures new borrowing is consistent with debt sustainability, clarifies the purposes of borrowing and issuing guarantees, and requires detailed annual reporting. The capacity to assess sources of risk, including from potential collateralized transactions, needs to be strengthened to ensure transparency and accountability before authorization.[12] Maintaining or expanding access to grants and highly concessional loans remains the preferred way to preserve debt sustainability.





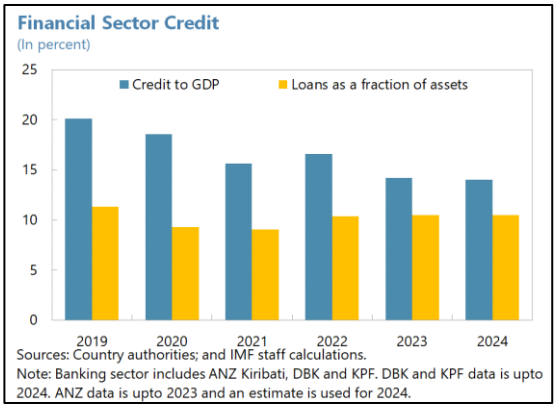
28. Kiribati should continue to build monetary and financial sector regulatory and supervisory institutions. The establishment of the KFSA was a critical first step. Next, the authorities should operationalize regulation and supervision functions, through prudential rules, reporting on capital adequacy, credit, market and liquidity risks, building robust governance, setting up a

[12] Collateralized borrowing refers to using government assets (e.g. a sovereign wealth fund or future commodity exports) as collateral to secure repayment to creditors in case of default. It often weakens debt sustainability as it can trigger negative pledge clauses, which require that existing creditors' loans also get secured. Over time, it can discourage unsecured lenders and reduce fiscal space as the stock of collateral gets progressively encumbered, limiting a country's access to its own assets. International evidence suggests that lack of transparency around collateralized borrowing tends to put borrowers at a disadvantage (IMF, 2023).

framework for risk-based AML/CFT supervision, as well as building the basic elements of a supervisory toolkit. The operationalization of the Kiribati Institutions Act (2021) and the Financial Supervisory Authority of Kiribati Act (2021) is expected by 2026-2027. The KFSA is expected to be fully operational by mid-2027.

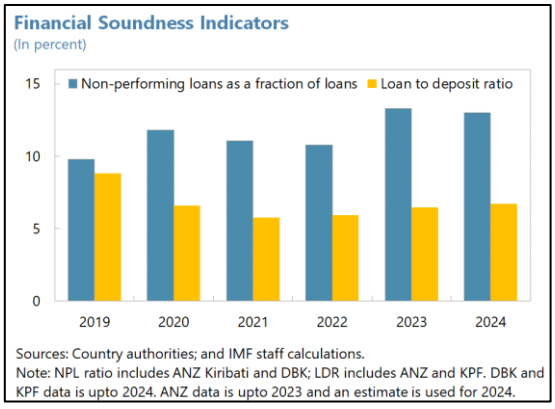
Kiribati: Financial Sector Statistics

Financial intermediation levels are low in Kiribati…



Sources: Country authorities; and IMF staff calculations.
Note: Banking sector includes ANZ Kiribati, DBK and KPF. DBK and KPF data is upto 2024. ANZ data is upto 2023 and an estimate is used for 2024.

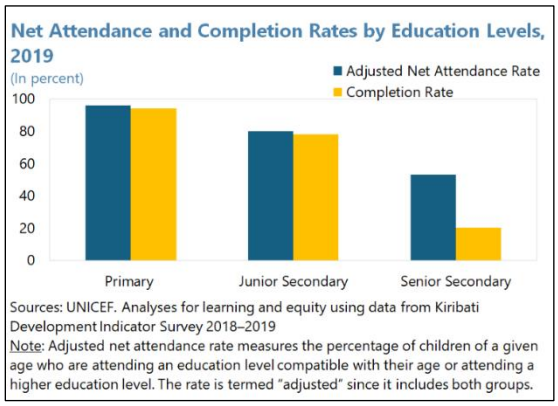
… resulting in manageable financial sector risks.



Sources: Country authorities; and IMF staff calculations.
Note: NPL ratio includes ANZ Kiribati and DBK; LDR includes ANZ and KPF. DBK and KPF data is upto 2024. ANZ data is upto 2023 and an estimate is used for 2024.

29. Commendable ongoing efforts to enhance financial inclusion should continue. To support financial inclusion and credit deepening, the authorities should continue with plans to establish a Financial Inclusion Unit and a credit union. Further engaging with ANZ to help deliver social protection payments, support bank account opening pilot projects in additional outer islands and increase the number of Electronic Funds Transfer at Point of Sale (EFTPOS) terminals to support electronic payments would also help.[13] Further improvements to mobile cellular subscriptions, combined with digital payment methods such as mobile wallets could enhance financial inclusion and service provision.

30. Raising human capital by improving the quality of education and health is critical for continued growth and institutional development. In line with the Kiribati 20-Year Vision (KV20), the authorities should continue to incentivize school enrollment and attainment, especially at the upper secondary level. Expanding Technical-Vocational



Sources: UNICEF. Analyses for learning and equity using data from Kiribati Development Indicator Survey 2018–2019
Note: Adjusted net attendance rate measures the percentage of children of a given age who are attending an education level compatible with their age or attending a higher education level. The rate is termed "adjusted" since it includes both groups.

[13] Bank account opening pilot project has been carried out for two outer islands. The authorities are also working with development partners to expand payment options via MPAiSA and other mobile wallets. Other options from the region are also being explored – such as the financial platform used in Fiji called 'Sole'. Plans are to pilot digital options in South Tarawa first.

Education and Training (TVET)[14] and raising the requirements for teacher certifications would increase the skill level and quality of education. In line with KV20 priorities, training of public health workers, increased education and awareness of proper sanitation, improved nutritional quality and diet, and better access to healthcare and telehealth should all be pursued to strengthen health outcomes.

31. Private sector development remains critical to support Kiribati's growth and employment (Figure 4 and Appendix I). In addition to increasing access to climate-resilient infrastructure and utilities (electricity, water, sanitation and internet), improving the business regulatory environment is also needed to support the private sector. This includes reducing business startup costs, improving trade facilitation, and policies to support greater female labor force participation, such as affordable childcare facilities and flexible work environment. Furthermore, policies that facilitate FDI inflows (such as land reforms to reduce barriers on foreign ownership and use) and improve access to credit (improved customer due diligence and quality of financial reports) would attract additional financial and human resources.

Authorities' Views

32. The authorities agreed with the recommendations to build institutional capacity and underscored their focus on the long-term growth strategy, as outlined in the KV20. The authorities are pursuing PFM reforms in consultation with development partners and are making progress with the phased implementation of the Integrated Financial Management Information System (IFMIS). The authorities continue to build capacity in revenue administration, focusing on tax compliance, and are upgrading the Revenue Management System (RMS) with support from development partners. They recognize the importance of building capacity to analyze and manage new debt and are considering options to strengthen the legal framework for debt management. The authorities are seeking to increase the efficiency of public investment and are piloting a tracking system for all projects in the Ministry of Infrastructure and Sustainable Energy. The authorities have also highlighted the need for continued international aid and challenges posed by various requirements from development partners.

33. The authorities remain committed to investing in human capital. The establishment of the KFSA is progressing well, focused on the necessary training of its technical staff, with the aim of having full operations by mid-2027. The authorities are developing programs aimed at youth and women empowerment, supporting micro businesses and entrepreneurs, and promoting financial inclusion. They acknowledged Fund-supported technical assistance in formulating measures to increase food security. The authorities noted constraints that hinder project development, including lack of technical expertise and labor shortages, and challenges in streamlining regulatory processes.

[14] TVET also provides training to workers for overseas employment which is pivotal for Kiribati given its limited domestic job creation capacity. See IMF Selected Issues Paper, 2023, "Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms", IMF Country Report No. 23/226.

D. Data Adequacy and Capacity Development Needs

34. The quality of national statistics has significantly improved over time but data provided to the Fund have some shortcomings that somewhat hamper surveillance (Appendix V). The authorities should prioritize improvements in real and external sector statistics and government finance statistics which are crucial for surveillance. New challenges related to the recording of Joint Venture activities, which can have implications for GDP, trade, capital flows and debt statistics, should be addressed through ongoing capacity development. Further technical assistance in public financial management, revenue administration, debt management, financial sector supervision are all critical for meeting the authorities' development agenda. Limited number of technical staff, reliance on expatriate advisors, and infrastructure limitations (poor or no internet connection, power outages) can hamper progress with capacity development, which needs to be tailored to Kiribati with these limitations in mind.

Authorities' Views

35. The authorities remain committed to addressing data gaps and improving data quality. They acknowledged the new Data Adequacy Assessment and highlighted their recent improvements, including the inclusion of financial accounts data and improvements to deflators in national accounts data, the establishment of a loan-by-loan database on government foreign loans, and the creation of a direct investment database. The authorities noted the need for better inter-agency coordination to improve the timeliness of the statistics. They reiterated the capacity constraints, particularly in staffing, and the need for technical assistance. The authorities continue to enhance national account statistics, with ongoing support from PFTAC. The authorities expressed willingness to explore options to incorporate more Joint Ventures' activities into the official statistics.

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36. The Kiribati economy has been resilient, despite repeated shocks. Kiribati is pursuing an ambitious long-term development agenda, focused on infrastructure, social benefits, financial inclusion, and small businesses, including copra famers. Global trade policy changes in 2025 are expected to have only a small impact on GDP growth in the baseline, given Kiribati's limited exports of goods and services. Significant increases in the electricity tariff and fuel price in 2025 were needed to align them with market prices and are projected to temporarily increase inflation. The fiscal deficit narrowed in 2025, but a trend decline in fishing revenues and higher government spending have weighed on fiscal and current account balances relative to pre-COVID. The external position in 2024 is assessed to be weaker than the level implied by fundamentals and desirable policies, with government spending contributing to high demand for imports.

37. Risks have increased and are tilted to the downside. On the domestic side, under the current return-based withdrawal rule, weak financial market returns in 2025 could jeopardize the sovereign wealth fund withdrawal budgeted for 2026. This could lead to an unplanned fiscal

consolidation, with a decline in public investment. External risks include commodity price volatility, intensification of conflicts that could raise shipping costs, and systemic financial instability, which could all increase risks to fiscal and external sustainability through their effects on the import bill, the sovereign wealth fund interest revenues, remittances, and growth. Kiribati remains highly vulnerable to the effects of climate change and natural disasters.

38. Countercyclical fiscal policy, integrated with a balance-based RERF withdrawal rule, could help to more consistently meet development needs and provide social benefits. Kiribati's revenues are highly volatile and fiscal policy has become procyclical in recent years, with potentially inefficient spending when revenues are above expectations and cuts when they are below expectations. To improve macroeconomic planning and management, RERF withdrawals and deposits could be integrated into a more developed medium-term fiscal framework, designed to offset revenue volatility and support macroeconomic stabilization. Adjusting the RERF withdrawal rule so that annual withdrawals are capped at 3 to 5 percent of the RERF balance would preserve RERF's long-term value and ensure that withdrawals are possible, if needed, even when RERF returns are low.

39. Over the medium term, a credible fiscal consolidation accompanied by improved public investment efficiency is needed to anchor debt and support higher investment in climate adaptation. Consolidation measures already implemented in 2025, including freezing nominal wages, reforming VAT, and streamlining subsidies, are welcome. Going forward, additional efforts are needed, including gradually reducing SOE and other tax exemptions, increasing the excise tax rate, enhancing fishing revenue, further rationalizing copra subsidies and streamlining SOE subsidies. To improve investment efficiency over the medium term, Kiribati could supplement the prioritized list of infrastructure projects with detailed costing, timeline and transparent criteria for project selection, and plan to integrate the recurrent budget with the development budget. Enhanced oversight and procurement procedures, as well as maintaining a fixed asset register, could help further improve quality and efficiency of public investment.

40. Establishing a debt management framework with strong governance, transparency and accountability is vital for continued long-term growth. In that regard, the priority is to strengthen the capacity to analyze and manage potential new debt and assess sources of risk. In addition, it would help to clarify the purposes of new borrowing or issuing guarantees, and ensure that new borrowing is consistent with debt sustainability and the government's development priorities, with a requirement of detailed annual reporting. Maintaining or expanding access to grants and highly concessional loans to finance infrastructure investment remains the preferred way to preserve debt sustainability.

41. Strengthening institutional capacity and raising human capital are crucial for sustaining development. Fiscal structural reforms that continue to focus on strengthening public financial management and revenue administration are welcome. Ongoing progress in building monetary and financial sector regulatory and supervisory institutions, and making the new Kiribati Financial Supervisory Authorities fully operational, is important. Continued efforts to improve the

quality of education and health are expected to strengthen the labor force and increase public health. Policies to enhance financial inclusion, the business regulatory environment and the quality of infrastructure will continue to promote private sector development.

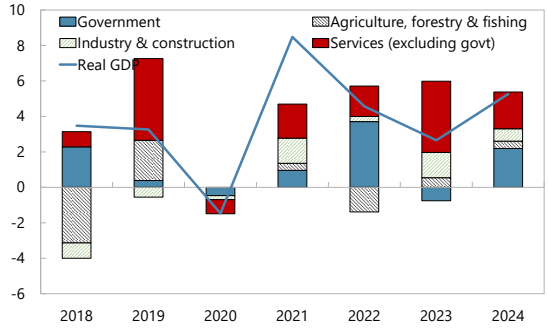
42. Continued capacity building to enhance the quality of national statistics is welcome. While the quality of statistics has significantly improved over time, shortcomings that continue to somewhat hamper surveillance should be addressed, particularly in real and external sector statistics and government finance statistics. New challenges related to the recording of Joint Venture activities could be gradually addressed through ongoing capacity development by the PFTAC and other development partners.

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

Figure 1. Kiribati: Real Sector Developments

Real GDP growth is volatile, and in recent years has been driven more by the public sector and other services….

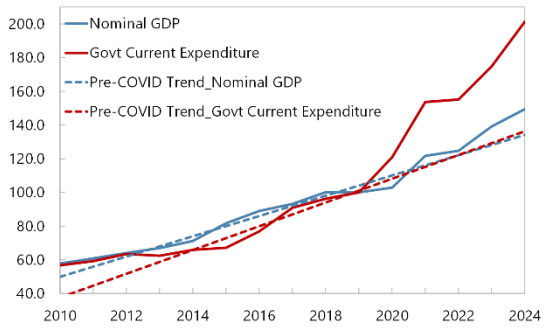
Contributions to Growth by Economic Activity
(In percent, year-on-year)



Sources: Kiribati authorities; and IMF staff estimates.

…which is also reflected in faster growth of current expenditures than nominal GDP.

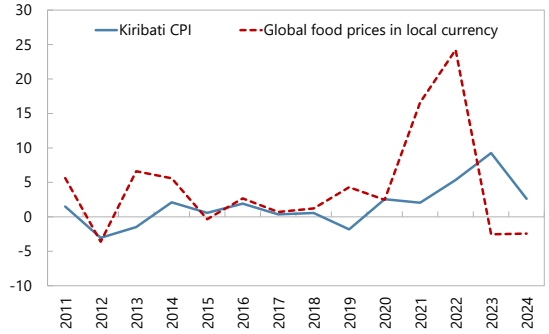
GDP vs Government Current Expenditure
(Index, 2019=100)



Sources: Kiribati authorities; and IMF staff estimates.

Inflation subsided after peaking in early 2023, consistent with the moderation in global food prices.

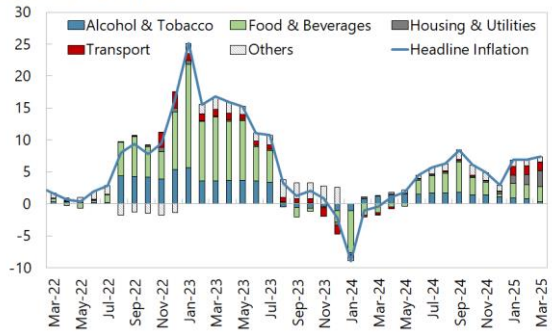
Inflation Rates
(In percent, period average)



Sources: Kiribati authorities; IMF, Global Economic Assumptions; and staff estimates.

Inflation is mostly driven by food prices, but electricity and fuel price increases will be prominent drivers in 2025.

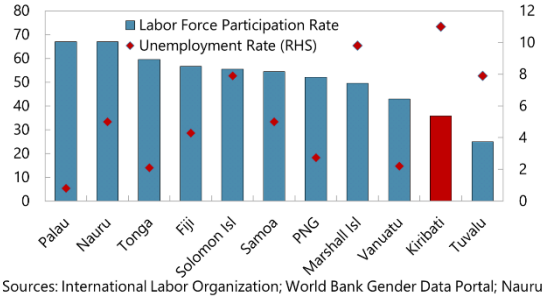
Contribution to Inflation
(In percent, year-on-year)



Sources: Kiribati authorities; and IMF staff estimates.

Labor force participation is low and unemployment high, despite anecdotal evidence of recent improvement…

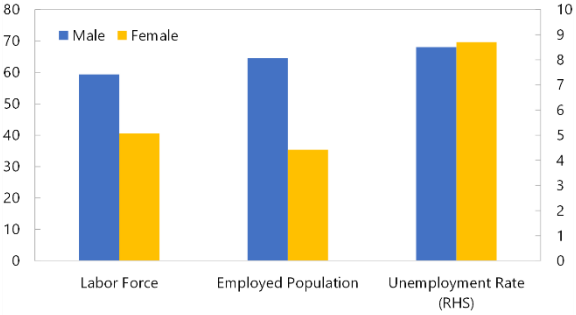
Labor Force Participation and Unemployment Rates
(In percent)



Sources: International Labor Organization; World Bank Gender Data Portal; Nauru Bureau of Statistics; and IMF staff estimates.
Note: Data refer to 2023, except for Solomon Islands (2019); Palau & Kiribati (2020); Nauru, Tonga & Marshall Islands (2021) and Samoa, Vanuatu & Tuvalu (2022).

… with significant scope to gain from greater female labor force participation.

Labor Force and Unemployment by Gender
(In percent)



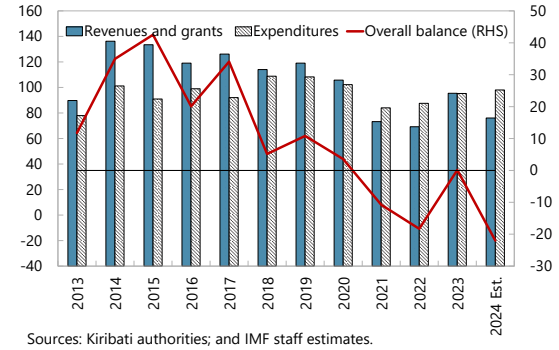
Sources: Kiribati Census Atlas 2022; Kiribati 2019/20 Household Income & Expenditure Survey (HIES); and Labor in Kiribati Based on 2019/20 HIES.

Figure 2. Kiribati: Fiscal Sector Developments

The fiscal deficit widened substantially in 2024, due to weak fishing revenues, and the increase in public wages.

Revenues, Expenditures, and Overall Balance

(In percent of GDP)

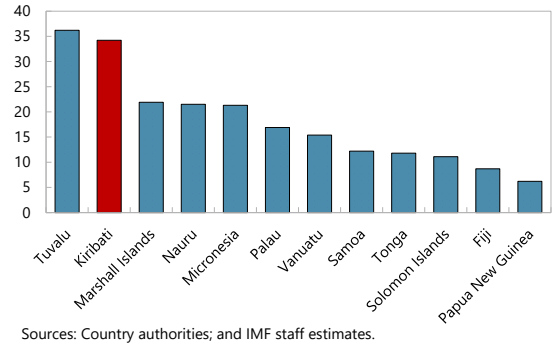


Sources: Kiribati authorities; and IMF staff estimates.

The wage bill is among the highest in the Pacific.

Civil Service Wage Bill, FY2024

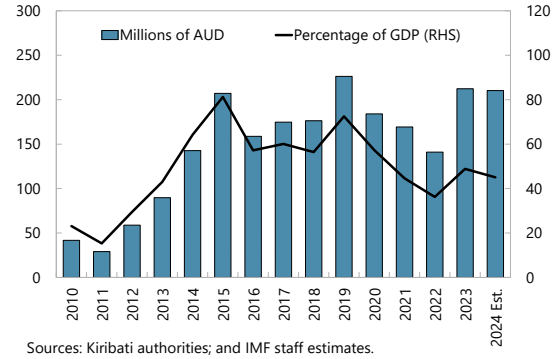
(In percent of GDP)



Sources: Country authorities; and IMF staff estimates.

The 2023 recovery in fishing revenue stalled in nominal terms in 2024, and it declined as a share of GDP.

Fishing Revenue

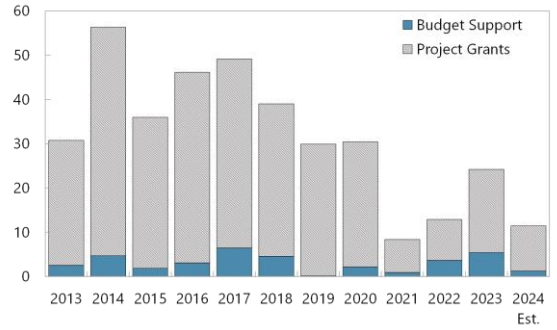


Sources: Kiribati authorities; and IMF staff estimates.

Budget support and project grants have also fallen short in 2024…

Budget Support and Project Grants

(In percent of GDP)

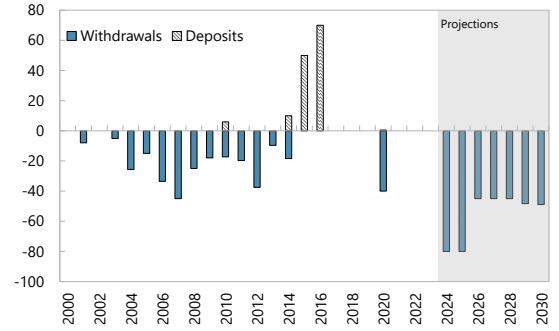


Sources: Kiribati authorities; and IMF staff estimates.

… and higher spending was financed by RERF withdrawals, which are projected to continue.

RERF Deposits and Withdrawals

(In AUD million)

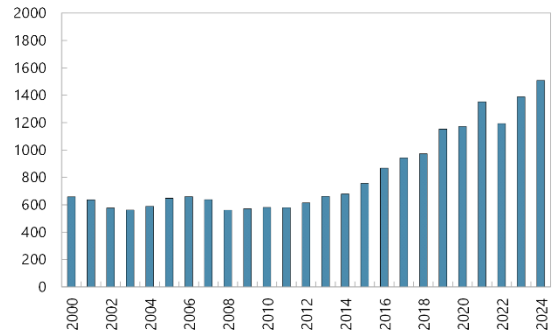


Sources: Kiribati authorities; and IMF staff estimates.

The value of the RERF has increased substantially in recent years.

RERF Balance

(In AUD million)



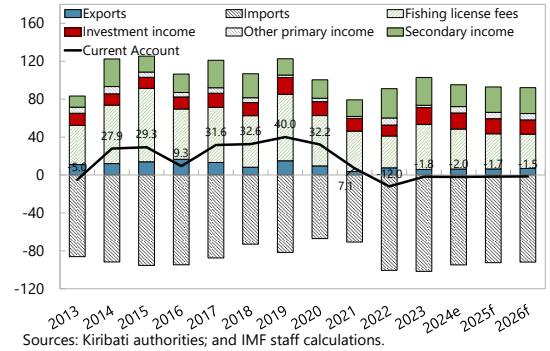
Sources: Kiribati authorities; and IMF staff estimates.

Figure 3. Kiribati: External Sector Developments

The current account balance has deteriorated and is now close to zero…

Current Account

(Percent of GDP)

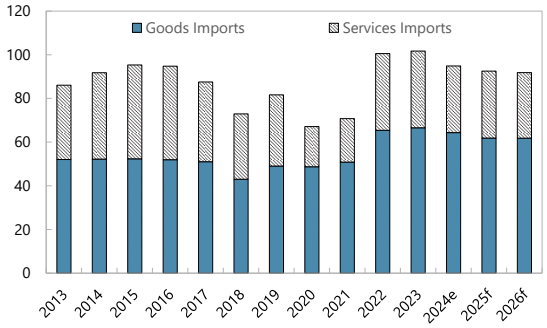


Sources: Kiribati authorities; and IMF staff calculations.

…due to persistently high imports since 2022, amid declining fishing revenues.

Imports

(Percent of GDP)

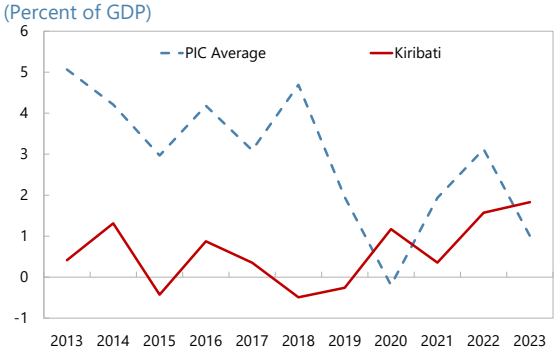


Sources: Kiribati authorities; and IMF staff calculations.

FDI inflow has picked up but remains weak.

FDI Net Inflow

(Percent of GDP)

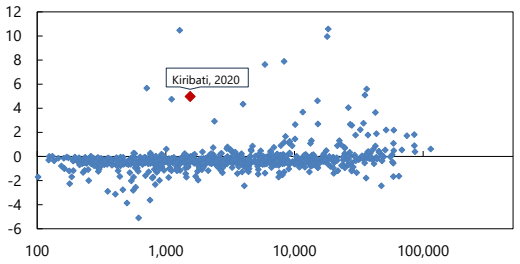


Sources: Kiribati authorities; and IMF staff calculations.

Kiribati's net foreign asset position is high because of the sizeable RERF.

Kiribati's Net Foreign Assets in Global Context

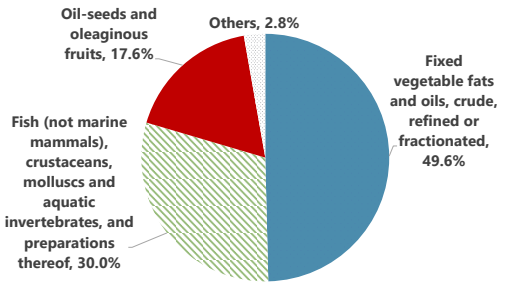
(NFA/GDP, USD GDP per capita /1)



Sources: Lane and Milesi-Ferretti (2022), World Bank, and IMF staff calculations
1/ Datapoint represents 10-year average Net Foreign Asset (NFA) position vs average GPD per capita in the same period. Data spans all IMF member countries

Exports are highly concentrated in primary products…

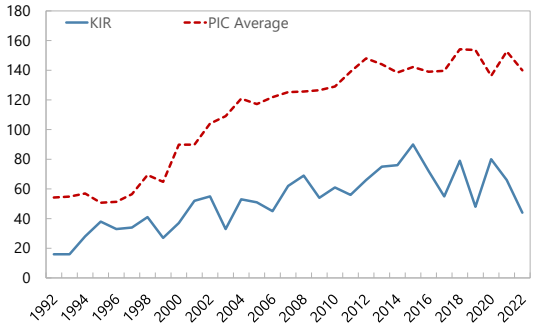
Export Share by Product, 2021



Sources: UN Comtrade; and IMF staff calculations.
Note: Products are at STIC level 2.

… and the number of trading partners is yet to increase.

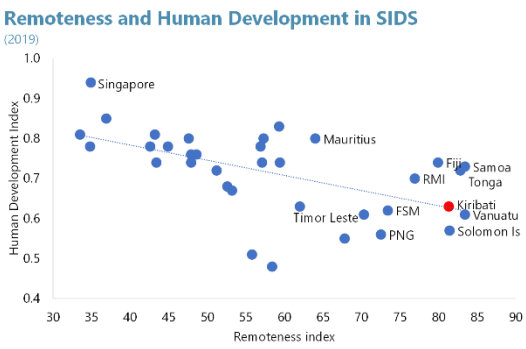
Number of Export Markets



Sources: Atlas of Economic Complexity and IMF staff calculations.

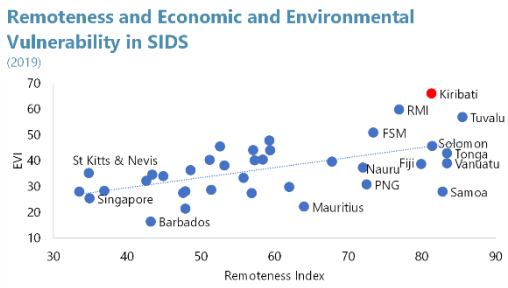
Figure 4. Kiribati: Constraints to Raising the Growth Potential

Remoteness presents a challenge to increasing human development across Small Island Developing States….



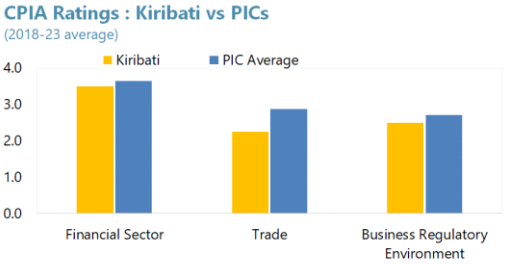
Sources: Remoteness – UNCTAD SDG Pulse 2024 and IMF staff calculations
Notes: Data available for 36 countries. Makes use of the overall remoteness index and Human Development Index (HDI)

… and is also associated with high environmental vulnerability.



Sources: Remoteness – UNCTAD SDG Pulse 2024; and IMF staff calculations.
Notes: Economic and Environmental Vulnerability Index (EVI) is a composite index of 2 sub-indices: economic vulnerability index (share of agriculture, forestry & fishing in GDP; remoteness and landlockedness; merchandize export concentration; and instability of exports of goods & services) and environmental vulnerability index (share of population in low elevated coastal zones; share of population living in drylands, instability of agricultural production; and victims of disasters.

Regulatory, trade and financial sector improvements would promote private sector development….

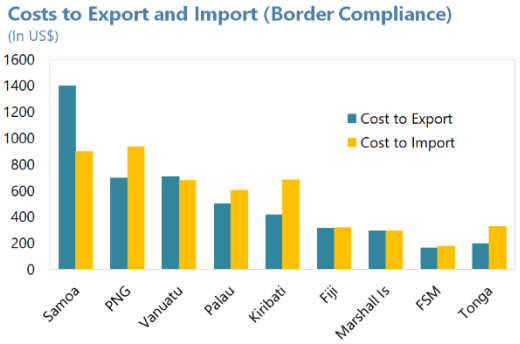


Sources: CPIA Database - World Bank and IMF staff calculations.
Notes: Ratings 1=low to 6=high. Business regulatory environment assesses the extent to which the legal, regulatory, and policy environments help or hinder private businesses in investing, job creation, and productivity. Financial sector assesses the structure of the financial sector and the policies and regulations affecting it. Trade assesses how the policy framework fosters trade in goods.

…and a greater focus on trade facilitation policies would help.

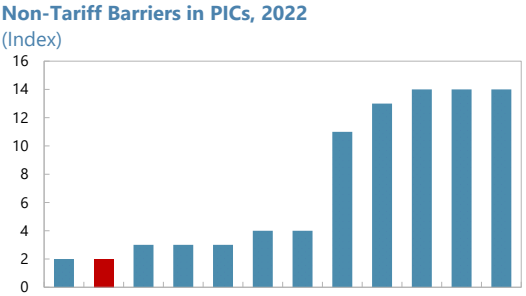
Source: OECD, *Trade Facilitation Indicators*, 2022.

Low cost of border compliance for imports and exports are welcome…



Source: World Development Indicators - World Bank.
Note: Data used is for 2019. Border compliance captures the time and cost associated with compliance with the economy's customs regulations and with regulations relating to other inspections that are mandatory.

… as are other low non-tariff barriers.



Source: Estefania-Flores and others (2022); and IMF staff calculations.
Note: The index, developed in *A Measure of Aggregate Trade Restrictions and their Economic Effects*, shows the non-tariff component of the MATR (Measure of Aggregate Trade Restrictions Index). The index goes from 0 to 20 with higher scores meaning higher restrictions.

Table 1. Kiribati: Selected Economic Indicators, 2021–30

Per capita GDP (2024e): US$2,419.
Demographic: Population (2024e): 127,317; Life expectancy at birth (2022): 67.7.
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: Crude coconut oil, frozen tuna, and copra.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Proj.			
Real GDP (percent change)	8.5	4.6	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1
Consumer prices (percent change, average)	2.1	5.3	9.3	2.5	7.8	3.5	3.0	2.5	2.0	2.0
Inflation (end of period)	2.5	16.2	-2.1	2.9	6.5	3.0	2.5	2.5	2.0	2.0
Central government finance (in percent of GDP)										
Revenue and grants	73	69	95	76	111	94	89	89	87	85
Total domestic revenue	65	56	71	65	60	60	59	59	58	58
Of which: fishing revenue	45	36	49	45	40	39	39	38	38	37
External grants	8	13	24	11	52	35	30	30	28	27
Expenditures	84	88	95	98	126	111	104	103	102	101
Current	68	67	68	73	68	69	68	67	67	67
Development	16	21	28	26	58	42	36	36	35	34
Domestic recurrent balance 1/	-48	-47	-45	-53	-49	-49	-48	-46	-46	-46
Recurrent fiscal balance (incl. budget support grants)	-2	-7	9	-7	-1	-6	-7	-6	-7	-7
Overall balance 2/	-11	-18	0	-22	-15	-17	-15	-13	-15	-15
Financing	11	18	0	22	15	17	15	13	15	15
Of which: Revenue Equalization Reserve Fund (RERF)	0	0	0	17	16	9	8	8	8	8
RERF										
Closing balance (in millions of A$)	1353	1194	1389	1509	1540	1600	1658	1725	1806	1892
Per capita value (in 2006 A$)	8020	6531	7080	7342	7193	7178	7144	7142	7180	7226
Balance (in percent of (GDP)	356	307	320	324	309	305	303	303	304	306
Cash reserve buffer 3/										
Closing balance (in millions of A$)	216	200	192	186	188	188	188	188	188	188
Closing balance (in percent of GDP)	57	51	44	40	38	36	34	33	32	31
In excess of 3-months of current spending and LCDF (in millions of A$)	144	124	109	83	87	84	85	84	78	73
Balance of payments										
Current account including official transfers (in millions of US$)	20	-33	-5	-6	-2	-3	-4	-5	-6	-6
(In percent of GDP)	7.1	-12.0	-1.8	-2.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.6
External debt (in millions of US$) 4/	47	43	33	29	27	53	76	95	120	148
(In percent of GDP)	17	16	11	10	9	16	22	27	33	39
External debt service (in millions of US$)	2.1	2.3	2.3	2.2	2.1	2.1	2.3	2.5	2.7	2.9
(In percent of exports of goods and services)	1.0	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Exchange rate (A$/US$ period average)	1.3	1.4	1.5	1.5	...	...	...	...	...	...
Real effective exchange rate (period average)	78	79	82	84	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (in millions of A$)	380	389	434	467	498	524	547	569	593	617
Nominal GDP (in millions of US$)	285	271	289	308	313	328	340	352	366	381

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.
1/ Domestic recurrent balance excludes fishing revenue, grants, and development 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, 2021–30

(In millions of Australian dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Proj.			
Total revenue and grants	278	270	415	355	554	495	486	508	513	527
Revenue	246	219	309	301	297	314	323	336	347	359
Tax revenue	66	63	70	81	88	97	101	104	110	115
Personal income tax	14	14	14	17	18	20	21	22	23	24
Company tax	13	13	13	16	17	20	21	21	22	23
VAT	29	28	32	35	39	41	43	45	47	49
Excise	11	9	12	13	14	15	16	16	17	18
Nontax revenue	180	156	239	220	210	217	222	231	237	244
Of which: fishing revenue	169	141	212	210	200	207	213	218	224	230
Project grants	28	36	82	48	223	163	156	165	159	161
Budget support grants	4	14	24	6	35	18	7	7	7	7
Total expenditure	319	341	414	458	629	582	568	585	603	621
Current expenditure	258	261	294	338	339	363	371	380	395	411
Wages and salaries	103	98	111	161	158	162	164	166	170	173
Subsidies and grants	120	120	138	144	138	143	143	144	150	156
Of which: copra subsidy	16	30	35	30	28	30	30	30	31	33
Of which: SOE subsidy	7	7	7	12	10	10	10	10	10	11
Of which: unemployment benefit	45	31	30	28	25	28	28	28	29	29
Of which: senior citizen benefit	20	22	22	23	23	23	23	23	24	25
Of which: leave grants for private sector	...	...	10	10	10	10	10	10	10	11
Other current expenditure	35	42	44	33	41	43	45	47	49	51
Interest payment	1	1	1	1	1	1	1	1	2	2
Contingency and maintenance rel. to climate change adaptation	...	...	...	...	0	14	18	21	25	29
Infrastructure maintenance	...	...	...	...	0	12	12	13	13	14
Other climate change adaptation costs	...	...	...	...	0	3	5	9	12	15
Development expenditure	61	80	120	119	290	219	197	205	208	210
Of which: local contribution to development fund (LCDF)	33	44	39	72	68	56	41	40	48	49
Domestic recurrent balance 1/	-181	-182	-197	-247	-242	-256	-261	-262	-272	-282
Recurrent fiscal balance (excl. grants)	-12	-41	16	-37	-42	-49	-48	-44	-48	-53
Recurrent fiscal balance (incl. budget support grants)	-8	-27	39	-31	-7	-31	-41	-37	-41	-45
Overall fiscal balance 2/	-41	-71	1	-103	-75	-87	-82	-76	-89	-94
Financing	41	71	-1	103	75	87	82	76	89	94
Domestic financing	43	74	2	105	77	45	45	45	48	49
Revenue Equalization Reserve Fund (RERF)	0	0	0	80	80	45	45	45	48	49
Cash reserve buffer	43	74	2	25	-3	0	0	0	0	0
External financing (net)	-2	-3	-3	-3	-3	42	37	31	41	45
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth including RERF (in millions of A$) 3/	1503	1330	1532	1649	1685	1703	1724	1760	1799	1840
Net financial worth incl. RERF	396	342	353	353	338	325	315	309	303	298
Net financial worth excluding RERF (in millions of A$)	151	137	143	140	145	103	66	35	-6	-52
Net financial worth excl. RERF	40	35	33	30	29	20	12	6	-1	-8
RERF balance	356	307	320	324	309	305	303	303	304	306
RERF real per capita value (in 2006 A$)	8020	6531	7080	7342	7193	7178	7144	7142	7180	7226
Cash reserve buffer 4/	57	51	44	40	38	36	34	33	32	31
Cash reserve buffer in excess of 3-months of current spending and LCDF	38	32	25	18	17	16	16	15	13	12
Overall fiscal balance (authorities' definition, in millions of A$) 5/	-41	-71	1	-23	5	-42	-37	-31	-41	-45
Public debt (in millions of A$)	66	64	50	46	43	85	122	154	195	240
Public debt 6/	17	16	11	10	9	16	22	27	33	39
Nominal GDP (in millions of A$)	380	389	434	467	498	524	547	569	593	617

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, 2021–30

(In percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Proj.			
Total revenue and grants	73	69	95	76	111	94	89	89	87	85
Revenue	65	56	71	65	60	60	59	59	58	58
Tax revenue	17	16	16	17	18	18	18	18	19	19
Personal income tax	4	4	3	4	4	4	4	4	4	4
Company tax	3	3	3	3	3	4	4	4	4	4
VAT	8	7	7	8	8	8	8	8	8	8
Excise	3	2	3	3	3	3	3	3	3	3
Nontax revenue	48	40	55	47	42	41	41	41	40	39
Of which: fishing revenue	45	36	49	45	40	39	39	38	38	37
Project grants	7	9	19	10	45	31	28	29	27	26
Budget support grants	1	4	5	1	7	3	1	1	1	1
Total expenditure	84	88	95	98	126	111	104	103	102	101
Current expenditure	68	67	68	73	68	69	68	67	67	67
Wages and salaries	27	25	26	34	32	31	30	29	29	28
Subsidies and grants	32	31	32	31	28	27	26	25	25	25
Of which: copra subsidy	4	8	8	7	6	6	5	5	5	5
Of which: SOE subsidy	2	2	2	3	2	2	2	2	2	2
Of which: unemployment benefit	12	8	7	6	5	5	5	5	5	5
Of which: senior citizen benefit	5	6	5	5	5	4	4	4	4	4
Of which: leave grants for private sector	0	0	2	2	2	2	2	2	2	2
Other current expenditure	9	11	10	7	8	8	8	8	8	8
Interest payment	0	0	0	0	0	0	0	0	0	0
Contingency and maintenance rel. to climate change adaptation	0	0	0	0	0	3	3	4	4	5
Infrastructure maintenance	0	0	0	0	0	2	2	2	2	2
Other climate change adaptation costs	0	0	0	0	0	1	1	2	2	3
Development expenditure	16	21	28	26	58	42	36	36	35	34
Of which: local contribution to development fund (LCDF)	9	11	9	15	14	11	8	7	8	8
Domestic recurrent balance 1/	-48	-47	-45	-53	-49	-49	-48	-46	-46	-46
Recurrent fiscal balance (excl. grants)	-3	-11	4	-8	-8	-9	-9	-8	-8	-9
Recurrent fiscal balance (incl. budget support grants)	-2	-7	9	-7	-1	-6	-7	-6	-7	-7
Overall fiscal balance 2/	-11	-18	0	-22	-15	-17	-15	-13	-15	-15
Financing	11	18	0	22	15	17	15	13	15	15
Domestic financing	11	19	0	23	16	9	8	8	8	8
Revenue Equalization Reserve Fund (RERF)	0	0	0	17	16	9	8	8	8	8
Cash reserve buffer	11	19	0	5	-1	0	0	0	0	0
External financing (net)	-1	-1	-1	-1	-1	8	7	6	7	7
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth including RERF (in millions of A$) 3/	1503	1330	1532	1649	1685	1703	1724	1760	1799	1840
Net financial worth incl. RERF	396	342	353	353	338	325	315	309	303	298
Net financial worth excluding RERF (in millions of A$)	151	137	143	140	145	103	66	35	-6	-52
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RERF real per capita value (in 2006 A$)	8020	6531	7080	7342	7193	7178	7144	7142	7180	7226
Cash reserve buffer 4/	57	51	44	40	38	36	34	33	32	31
Cash reserve buffer in excess of 3-months of current spending and LCDF	38	32	25	18	17	16	16	15	13	12
Overall fiscal balance (authorities' definition) 5/	-11	-18	0	-5	1	-8	-7	-6	-7	-7
Public debt 6/	17	16	11	10	9	16	22	27	33	39
Nominal GDP (in millions of A$)	380	389	434	467	498	524	547	569	593	617

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

1/ Domestic recurrent balance excludes fishing revenue, grants, and development 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, 2021–30

(In millions of Australian dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Proj.			
Current account	27	-47	-8	-9	-3	-5	-6	-8	-10	-10
Balance on goods	-180	-242	-277	-288	-289	-304	-317	-330	-343	-356
Goods, credit (exports)	13	12	12	12	13	14	15	15	16	17
Goods, debit (imports)	193	255	289	300	302	318	332	345	359	373
Balance on services	-74	-120	-139	-125	-134	-139	-141	-144	-147	-152
Services, credit (exports)	2	17	14	17	18	19	20	21	22	23
Services, debit (imports)	76	137	152	142	152	157	161	165	169	175
Balance on goods and services	-254	-362	-416	-413	-422	-442	-458	-474	-490	-508
Balance on primary income	215	194	281	297	286	295	299	303	320	333
Primary income, credit	220	204	294	308	297	304	309	313	330	343
of which: Fishing license fees	161	130	206	197	184	191	196	201	206	212
of which: Investment income	51	45	78	79	79	79	77	74	84	89
Income from RERF	43	33	59	52	52	52	50	49	50	52
of which: Remittances (COE)	8	29	10	31	33	35	37	38	40	43
Primary income, debit	6	10	13	11	10	10	10	10	10	10
Balance on secondary income	67	121	127	107	133	143	153	164	161	165
Secondary income, credit	70	122	129	109	135	145	154	165	163	167
General Government, credit	59	111	122	88	146	149	158	169	167	171
Secondary income, debit	3	2	2	2	2	2	2	2	2	2
Capital account	14	41	49	18	54	59	62	65	58	66
Capital transfers	14	41	49	18	54	59	62	65	58	66
General Government, Credit	15	42	51	19	55	60	63	67	60	68
General Government, Debit	1	2	2	1	1	1	2	2	2	2
Financial account	-40	20	-54	31	31	31	33	34	36	37
Direct investment, net	-1	-6	-8	-6	-7	-8	-7	-8	-8	-8
Direct investment, assets	0	0	0	0	0	0	0	0	0	0
Direct investment, liabilities	1	6	8	6	7	8	7	8	8	8
Portfolio investment, net	9	7	5	8	9	9	9	10	10	10
Portfolio Investment, assets	9	7	5	8	9	9	9	10	10	10
Portfolio Investment, liabilities	0	0	0	0	0	0	0	0	0	0
Other investment, net	-47	19	-51	29	28	30	31	32	34	35
Other investment, assets	-23	28	3	41	44	46	48	50	52	54
Other investment, liabilities	24	9	55	12	15	16	17	18	18	19
Loans, liabilities	-2	-3	-3	-3	-3	42	37	31	41	45
Net Errors and Omissions	-18	66	-32	0	0	0	0	0	0	0
Reserve Assets	63	40	62	-23	20	23	22	23	13	19
Net International Investment Position	1673	1475	1664	1818	...	...	...	...	...	...

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

Table 3b. Kiribati: Balance of Payments, 2021–30

(In percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.				Proj.		
Current account	7.1	-12.0	-1.8	-2.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.6
Balance on goods	-47.5	-62.2	-63.8	-61.7	-57.9	-58.0	-58.0	-58.0	-57.8	-57.6
Goods, credit (exports)	3.3	3.2	2.8	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Goods, debit (imports)	50.8	65.4	66.6	64.3	60.6	60.6	60.7	60.7	60.6	60.4
Balance on services	-19.5	-30.7	-32.0	-26.9	-26.9	-26.4	-25.8	-25.4	-24.8	-24.6
Services, credit (exports)	0.4	4.4	3.1	3.6	3.6	3.6	3.6	3.6	3.6	3.8
Services, debit (imports)	19.9	35.1	35.1	30.5	30.5	30.0	29.4	29.0	28.4	28.4
Balance on goods and services	-67.0	-92.9	-95.7	-88.6	-84.8	-84.4	-83.7	-83.4	-82.6	-82.2
Balance on primary income	56.5	49.9	64.7	63.6	57.5	56.3	54.7	53.2	53.9	53.9
Primary income, credit	58.0	52.5	67.6	66.0	59.6	58.1	56.5	55.0	55.6	55.6
of which: Fishing license fees	42.5	33.5	47.4	42.2	37.0	36.3	35.7	35.3	34.7	34.3
of which: Investment income	13.5	11.6	17.9	17.0	16.0	15.0	14.1	13.0	14.2	14.4
Income from RERF	11.3	8.6	13.5	11.2	10.5	9.8	9.2	8.6	8.4	8.5
of which: Remittances (COE)	2.0	7.4	2.4	6.7	6.7	6.7	6.7	6.7	6.7	6.9
Primary income, debit	1.5	2.6	3.0	2.4	2.1	1.8	1.8	1.8	1.7	1.6
Balance on secondary income	17.6	31.0	29.3	23.0	26.7	27.3	27.9	28.7	27.1	26.7
Secondary income, credit	18.3	31.4	29.7	23.4	27.1	27.6	28.2	29.1	27.4	27.0
General Government, credit	15.5	28.4	28.1	18.8	29.4	28.4	28.8	29.7	28.1	27.8
Secondary income, debit	0.7	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Capital account	3.7	10.4	11.2	3.9	10.8	11.3	11.3	11.5	9.8	10.7
Capital transfers	3.7	10.4	11.2	3.9	10.8	11.3	11.3	11.5	9.8	10.7
General Government, Credit	4.0	10.9	11.8	4.1	11.1	11.5	11.6	11.8	10.1	11.0
General Government, Debit	0.3	0.5	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial account	-10.5	5.2	-12.3	6.7	6.2	6.0	6.1	6.0	6.0	6.0
Direct investment, net	-0.3	-1.6	-1.8	-1.2	-1.3	-1.4	-1.3	-1.4	-1.4	-1.4
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	0.4	1.6	1.8	1.2	1.3	1.4	1.3	1.4	1.4	1.4
Portfolio investment, net	2.3	1.9	1.2	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Portfolio Investment, assets	2.3	1.9	1.2	1.7	1.8	1.7	1.7	1.7	1.7	1.7
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	-12.4	4.9	-11.8	6.2	5.7	5.7	5.7	5.7	5.7	5.7
Other investment, assets	-6.0	7.2	0.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Other investment, liabilities	6.4	2.3	12.6	2.6	3.1	3.1	3.1	3.1	3.1	3.1
Loans, liabilities	-0.6	-0.7	-0.6	-0.6	-0.5	8.0	6.7	5.5	6.9	7.3
Net Errors and Omissions	-4.8	17.0	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Assets	16.5	10.2	14.3	-4.8	4.1	4.4	4.0	4.0	2.2	3.1
Net International Investment Position	440.6	378.8	383.1	389.7	...	...	...	...	...	...

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
Poverty										
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	-	-	-
Hunger										
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	-	-	-	-
Good Health and Well-being										
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	-	-
Gender Equality										
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	-	-	-
Clean Water and Sanitation										
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
Affordable and Clean Energy										
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	-
Decent Work and Economic Growth										
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	-	-
Peace, Justice and Strong Institutions										
Corruption Perception Index (worst 0-100 best)	-	-	-	-	-	-	-	-	-	-
Global Partnerships for the Sustainable Development										
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.*

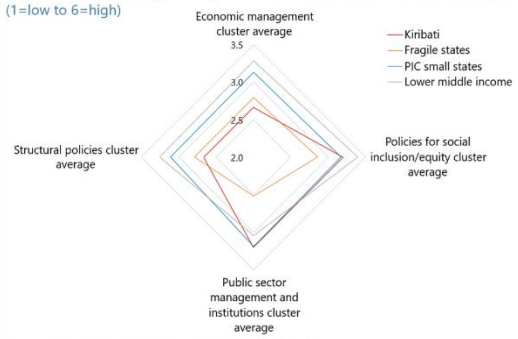
1/ Data is the national estimate.

Annex I. Country Engagement Strategy

1. Kiribati is characterized by the World Bank and IMF as a Fragile and Conflict-Affected State, largely stemming from intrinsic structural weaknesses, with no conflict-related issues.[1]

As a small island state, Kiribati is faced with numerous development challenges, compounded by its remoteness, island dispersion and exposure to climate-related natural disasters. These structural factors drive fragility and contribute to poor economic outcomes. Despite this, Kiribati has made progress in many areas, including growing a large sovereign wealth fund (over 320 percent of GDP) and investments in human capital and infrastructure (see Panel Figure 4 Kiribati: Constraints to Raising Growth Potential - for sources of fragility and economic outcomes).

Figure 1. Country Policy and Institutional Assessment, 2023
(1=low to 6=high)



Sources: World Bank, *CPIA*; and IMF staff calculations.

Sources of fragility:
- Remoteness
- Limited land, vast ocean
- Exposure to natural disasters
- Institutional fragility
- Poverty, poor education, health
- Geopolitical tensions

Economic outcomes:
- Undiversified economy
- Import dependence
- Underdeveloped private sector
- Low financial inclusion
- Reliance on international aid
- Limited jobs opportunities

A. Constraints to Reform and Policies to Address the Sources of Fragility

2. The sources of fragility coupled with weak institutional capacity and limited financial resources remain the major constraints to reforms. Addressing these constraints requires a holistic approach that includes investments in human capital, strengthening institutional capacity, addressing infrastructure gaps, and enhancing technical expertise. Key policies include:

- **Enhancing Fiscal Sustainability.** The authorities should focus on further developing a medium-term fiscal framework, developing capacity to analyze and manage potential new debt, rationalizing expenditures, mobilizing revenues and reviewing tax policies to incentivize private sector investment while managing potential risks.

[1] Average score below 3 out of a maximum of 6 on World Bank's Country Policy and Institutional Assessment (CPIA) was used to determine the fragility classification.

- **Strengthening fiscal governance and transparency.** Enhancing tax administration processes to strengthen tax compliance and executing effective controls over cash balances would enhance the quality and accountability of public expenditures.

- **Improving infrastructure.** Upgrading air transport, ports, shipping capacity, and power generation and improving the infrastructure for more reliable internet supply would facilitate market access and enhance the business climate. On funding, authorities could use bilateral arrangements or partnership with existing accredited organizations.

- **Diversification through structural reforms**. Comprehensive structural reforms, to improve land registration and dispute resolution mechanisms, would help raise productivity and long-term growth. Diversification options include expanding into new products like aquaculture and seaweed, upgrading quality within existing products (tuna and coconuts) and development of niche tourism markets (fishing expeditions and cruise ships; cultural and eco-tourism).

- **Financial sector development**. Full operationalization of the Financial Supervisory Authority of Kiribati and the associated laws should be prioritized. This, along with improved financial education, land access procedures and dispute resolution mechanisms would facilitate increased private sector access to credit.

- **Improving education, health and alleviating poverty.** Improving the quality of education, incentivizing high achievement at the upper secondary level, and strengthening vocational training, would raise human capital. Improving nutritional quality, access to and quality of health care, would help with address poverty and could raise productivity.

B. Fund Engagement and Capacity Development (CD) Priorities

3. To assist Kiribati in addressing the sources of fragility, the IMF collaborates closely with the authorities and development partners to ensure a coordinated effort. The Fund's engagement focuses on surveillance and CD to support the authorities' reform agenda and improve implementation capabilities. Fund Technical Assistance (TA) has been delivered mainly by Pacific Financial Technical Assistance Center (PFTAC), with support and focused missions from Fund headquarters. CD in Kiribati is best delivered in person, which enhances the quality of CD absorption and ownership of policies. Early engagement helps ensure that the authorities' CD priorities are best reflected in the process. Kiribati is currently the 7th largest recipient of Funds technical assistance amongst the PICs. Recent CD has focused on the following:

- **Macroeconomic Statistics.** The Fund continues to provide support to the National Statistics Office to improve and enhance economic statistics for surveillance including for national accounts, prices, government finance and external sector.

- **Public Financial Management (PFM).** PFTAC has been working with development partners on a joint roadmap on PFM reforms and on drafting of the revised PFM Act. PFTAC will assist in the implementation of the roadmap once endorsed.

- **Revenue Administration.** PFTAC has supported in drafting and implementation of laws on VAT, Excise tax, and the Revenue Administration Act. PFTAC also supported in reviewing the revenue administration organizational structure, standardizing work processes and strengthening audit.

- **Debt Management.** PFTAC has provided guidance setting up institutional arrangements for debt management, debt analysis and reporting.

- **Financial Sector Supervision.** The Fund has supported the authorities in developing and implementing a banking supervisory and regulatory framework since mid-2017, which resulted in the recent establishment of a Financial Supervisory Authority in Kiribati.

- **Macroeconomic Analysis/Modelling Program.** PFTAC has developed and provided hands-on training to staff on a Macro-Fiscal model, conducted a detailed assessment of the consumer price impacts of a VAT reform and analyzed copra subsidy reform options.

4. Future Fund engagement with Kiribati is expected to continue being centered around surveillance and capacity development, in coordination with development partners. The near-term CD priorities will remain focused on improving statistics for surveillance, PFM, fiscal governance and financial sector regulatory reforms. Given the large number of development partners in Kiribati, close coordination between the Fund and these partners is critical. Key partners are the World Bank, Asian Development Bank, United Nations, Australia, New Zealand, European Union, Japan, and China. The Fund works in close coordination with development partners.

5. There are number of risks that could affect engagement with Kiribati and hinder the traction of policy advice. Geopolitical tensions could increase the volatility and amount of international grants available to Kiribati. High staff turnover and weak institutional capacity can also be a drag on the pace of economic reforms.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Kiribati in 2024 was weaker than the level implied by fundamentals and desirable policies, largely due to lower external grants and strong demand for imports driven by the fiscal deficit. Official international reserves remained adequate in 2024. The assessment is subject to substantial uncertainty due to data limitations and the dependence of current account balance on volatile and exogenous factors, including fishing revenue and international aid.*

Potential Policy Responses: *Policies should focus on scaling back recurrent spending, reducing dependency on volatile revenue sources, and preserving the long-term sustainability of the RERF. 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.*

Foreign Assets and Liabilities: Position and Trajectory

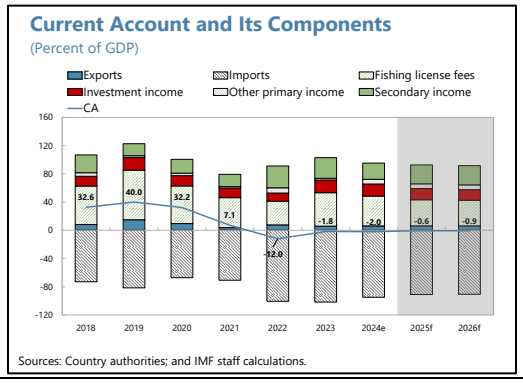
Background. NIIP is estimated to have increased to 391.3 percent of GDP at end-2024, up from 385.1 percent of GDP at end-2023, supported by valuation gains. The RERF, with a balance of 324 percent of GDP at end-2024, makes up the lion's share of the NIIP.

Assessment. Kiribati is a net creditor, and its NIIP is projected to remain above 300 percent of GDP over the medium term, as the current account (CA) deficit is expected to remain contained. Main risks to the NIIP include volatile global asset valuation and widening current account deficits due to a decline of fishing revenue and the deterioration of the fiscal balance.

2024 (Est.; % GDP)	NIIP: 391.3	Gross Assets: 444.1	Debt Assets: 24.8	Gross Liab.: 52.8	Debt Liab.: 33.5

Current Account

Background. While Kiribati is highly reliant on imports and has a limited export base, the country historically had seen substantial current account (CA) surpluses, supported by fishing license revenue, external grants, and investment income of foreign asset holdings. However, the surge of commodity prices and freight costs contributed to consecutive current account deficits in 2022 (12 percent of GDP) and 2023 (1.8 percent of GDP). In 2024, the CA balance is estimated to have recorded a deficit of 2 percent of GDP due to several factors: (i) a decrease in external grants; (ii) strong demand for imports following the civil service wage increase. Over the medium term, the



Sources: Country authorities; and IMF staff calculations.

CA deficit is projected to remain broadly stable in small deficits as demand pressure and commodity prices gradually ease while fishing revenue declines.

Assessment. Using the CA model and the REER model of the EBA-Lite 3.0 methodology, the external position in 2024 is assessed to be weaker than the level implied by fundamentals and desirable policies. The EBA-Lite CA model results indicate a negative gap of 2.6 percent of GDP in 2024, consistent with an estimated cyclically adjusted CA deficit of 1.3 percent of GDP and a model-based CA norm of 1.3 percent of GDP. The negative CA gap is explained by the policy gap, which is largely driven by the difference between the cyclically adjusted overall fiscal deficit (23.2 percent of GDP; not including RERF withdrawals) and its desirable level (a cyclically adjusted overall deficit of 9.4 percent of GDP). The EBA-Lite REER model results indicate a negative gap of 2.9 percent of GDP in 2024. Nonetheless, the idiosyncratic features of Kiribati, particularly, the volatile fishing license fees and data limitations, imply a substantial degree of uncertainty around this assessment. Risks to the external sector outlook include protracted declines in fishing license revenue, upswings in global commodity prices (especially for food and fuel), and uncertainty in global financial markets that affects the return of the RERF.

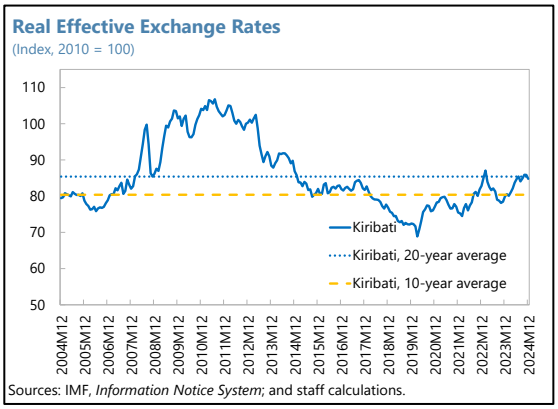
Kiribati: EBA-lite Model Results, 2024

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.0**	
Cyclical contributions (from model) (-)	-0.4	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	**-1.3**	
CA Norm (from model) 3/	**1.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**1.3**	
CA Gap	**-2.6**	**-2.9**
o/w Relative policy gap	-5.0	
Elasticity	-0.3	
REER Gap (in percent)	**10.1**	**11.5**

1/ Based on the EBA-lite 3.0 methodology.
2/ No additional adjustment is applied.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

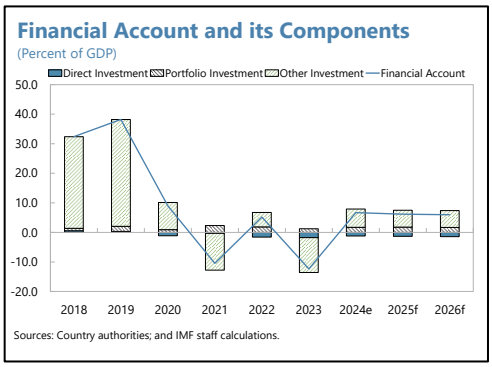
Background. The Australian dollar is the legal tender of Kiribati. The annual average REER, at 83.6, appreciated by 2.6 percent in 2024 and was 4 percent above its 10-year average and 2.1 percent below its 20-year average.



Assessment. Based on the EBA-Lite CA model, the estimated CA gap and the CA-REER elasticity (-0.3) imply that Kiribati's REER is overvalued by 10.1 percent. Based on the EBA-Lite REER model, the estimated REER gap suggests that the REER is overvalued by 11.5 percent. The contribution of policy gaps is small for REER. It should be noted, however, that the REER gap does not automatically indicate the need for an exchange rate adjustment. In addition, there is uncertainty surrounding this assessment given the idiosyncrasies of the economy and the data limitations.

Capital and Financial Accounts: Flows and Policy Measures

Background. Kiribati's capital and financial account flows are mainly driven by project-related capital grants and other investment transactions. The capital account is estimated at 3.9 percent of GDP in 2024, a decline from 11.2 percent of GDP in 2023, driven by lower capital transfers due to donors' financing cycles. The financial account is estimated to have turned into net capital outflows in 2024, with the balance at 6.7 percent of GDP. This was mostly driven by other investment transactions—largely related to currency, deposits, and government loans, which tend to be sizeable in Kiribati. Net foreign direct investment inflows is estimated to be positive in 2024 and is expected to remain modest in Kiribati due to its remoteness from the major markets.



Assessment. Capital inflows are highly dependent on donor support. To leverage donor support and safeguard long-term external sustainability, Kiribati should implement prudent fiscal policies, avoid external non-concessional borrowing, continue close engagement with development partners, and improve domestic capacity for project execution.

FX Intervention and Reserves Level
Background. Kiribati does not have a monetary authority and uses the Australian dollar as legal tender. Despite an estimated decumulation of 4.8 percent of GDP in 2024 due to the CA deficit and lower external grants, official international reserves are estimated to be 229 percent of GDP in 2024. This reserve level would provide around 29 months' import coverage and is around 389 times the stock of short-term debt by residual maturity in 2024. **Assessment.** Kiribati's international reserves are assessed to be adequate for precautionary purposes. However, its long-term sustainability depends on preserving the value of the RERF. In the face of volatile fishing revenue, vulnerabilities to natural hazards, and significant investment needs to develop the economy, Kiribati should implement prudent fiscal policies, diversify revenue sources, and foster private sector-driven growth.

Annex III. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
Domestic Risks			
Heavy Reliance on fishing revenue. Fishing license fees, the main source of government revenues, is volatile, vulnerable to fishing cycle and changing weather conditions.	**High**	**High**: 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.	Continue to strengthen revenues by phasing out tax exemptions, exploring additional avenues of tax collection, and improving tax administration. Scale back recurrent spending.
Volatile withdrawals from the sovereign wealth fund. Withdrawal rules that are based on a percentage of nominal returns can increase volatility of total revenue and spending and exposure to global financial volatility.	**High**	**High**: The withdrawal rule based on nominal returns could amplify growing procyclicality and complicate fiscal and economic management.	Revise the withdrawal rule of the sovereign wealth fund to support growth-friendly, countercyclical fiscal policy.
External Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**High**: Increase in imports prices and shipping costs caused by trade disruptions could push up inflation and affect fiscal and external sustainability. Financial market volatility due to trade policy uncertainty could negatively affect the returns and valuation of the RERF.	Maintain prudent fiscal policy through scaling back recurrent spending and mobilizing revenues and explore other sustainable revenue sources. Provide targeted support to vulnerable households.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**High:** Prolonged conflicts could increase global financial market volatility, negatively affecting the returns and valuation of the RERF. Disruptions to trade in energy and food, would worsen Kiribati terms of trade and could threaten fiscal and external sustainability.	Continue to strengthen public finance and safeguard sustainability of the RERF. In the long term, expand the export base and boost export competitiveness. Provide targeted support to vulnerable households negatively affected by higher or volatile commodity prices.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**High:** 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.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global	**Medium**	**Medium**: Asset price corrections and financial market movements could affect valuation and return of the RERF, resulting in volatility in fiscal space under the current withdrawal rule.	Reform and implement a withdrawal rule to safeguard the sustainability of the RERF. Rationalize fiscal expenditures and diversify revenue sources.

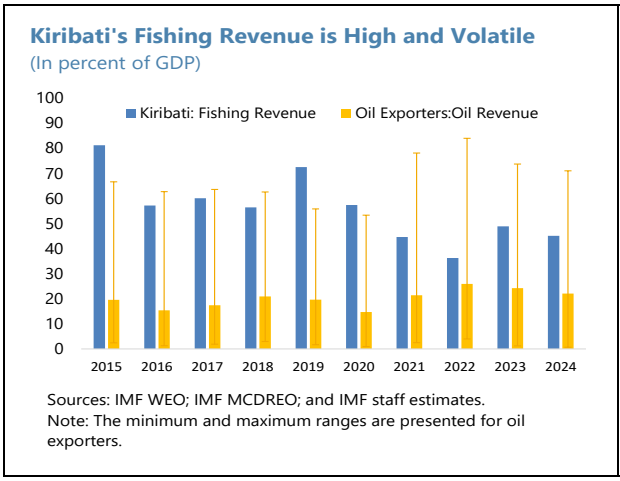
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). 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.

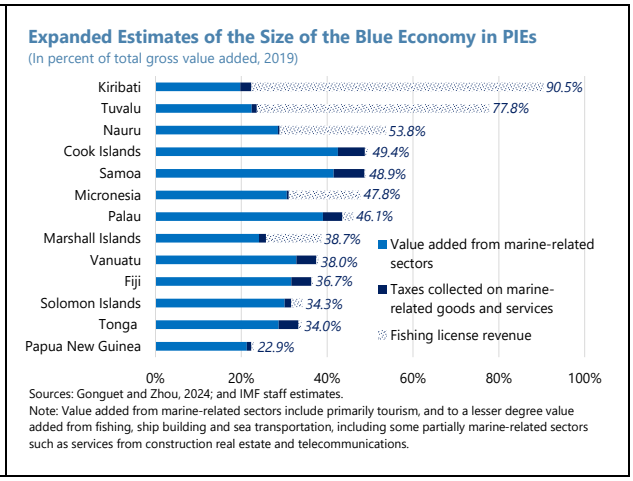
Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
imbalances, worsens debt affordability, and increases capital outflow from EMDEs.			
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	**High:** Regarded as one of the world's most remote and climate-vulnerable countries, Kiribati is regularly impacted by droughts, floods, and storm surges. The long run threat of rising sea levels is existential and will likely be felt through increased frequency and severity of storm surges and exceptional tides.	Maintain a strong cash reserve buffer. Build resilience and adaptation to the impacts of climate change. Leverage technologies and donor support for land protection. Diversify revenues beyond the fisheries sector.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low**	**Medium:** Higher growth and demand from Kiribati's trading partners, alongside easing supply chain constraints, could boost remittances, and strengthen support from development partners.	If global growth accelerates and the positive spillovers materialize, manage fiscal resources prudently to build up buffers, and pursue long-term development support from donors.

Annex IV. Fiscal Procyclicality, RERF Withdrawals, and Growth[1]

Kiribati relies on volatile fishing revenues and is increasingly pursuing procyclical fiscal policy, which can hinder long-term growth. Kiribati's Revenue Equalization and Reserve Fund (RERF) could be used more effectively to mitigate revenue volatility. Integrating RERF withdrawals into a medium-term fiscal framework is the best way to ensure macroeconomic stabilization needed for sustainable development and equitable growth. A maximum 5 percent balance-based withdrawal rule would allow withdrawals in every year, even when RERF returns are negative. It would also allow Kiribati to pursue countercyclical fiscal policy, with withdrawals (deposits) during times of weak (strong) fishing revenues, consistent with a more developed medium-term fiscal framework.

1. Kiribati relies on highly volatile revenues, akin to resource-rich economies. Kiribati's vast ocean stores abundant natural resources and is a source of opportunities. It also presents challenges common to resource-rich economies and requires fiscal discipline and planning to effectively use the renewable resource wealth for development. In oil-rich economies, which are known for revenue volatility, oil revenue to GDP averages around 20 percent of GDP and has reached up to 84 percent of GDP in recent years.[2] The share of fishing revenue to GDP in Kiribati averaged 56 percent from 2015 to 2024, with a peak of 81 percent and a trough of 36 percent. Compared to other Pacific Island countries, Kiribati's economy is the most dependent on the ocean (Gonguet and Zhou, 2024). This is both due to fish-related exports and taxes but particularly due to income from fishing license fees from foreign fishing vessels.





2. Revenue volatility often leads to procyclicality and GDP volatility in resource-rich economies. Procyclical fiscal policy means that countries spend whatever is available, resulting in high spending when revenues and GDP growth are high and low spending when revenues and

[1] Prepared by Xuehui Han, Natalija Novta, and Samuel Wills (World Bank).

[2] In this context, oil-rich economies are those Middle East and Central Asia economies for which fuel is the main source of export earnings, as classified in the Statistical Appendix of the World Economic Outlook.

growth are low. This amplifies the impact of external shocks to growth and makes it difficult to plan and invest. As a result, fiscally procyclical countries tend to have overall lower growth, higher volatility in GDP growth and higher inflation (McManus and Ozkan, 2013). Marioli and Vasishtha (2025) find that fiscal policy has been about 30 percent more procyclical and about 40 percent more volatile in commodity-exporting emerging markets and developing economies (EMDEs), which are more exposed to shocks, than in other EMDEs.

3. Procyclical fiscal policy affects GDP growth through the following channels:

- In good times, countries with procyclical fiscal policy tend to use revenue windfalls to increase government spending. Unexpected increases in transfers to households can lead to excessive increases in imports, especially in small island economies. However, they might not increase investment in human capital, which requires multi-year planning (Balassone and Kumar, 2007). Sudden increases in public infrastructure investment can lower the efficiency of public spending amid poor project planning and limited capacity to quickly ramp up project implementation (Collier and others, 2010). Increases in public investment can also crowd out private investment.

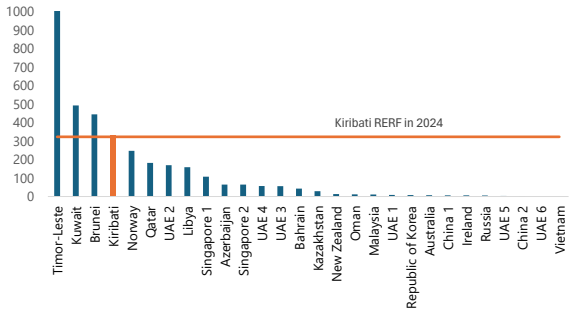
- In bad times, governments with procyclical fiscal policy are forced to cut government spending. This often involves cuts to essential public services or decreases in their quality. Spending cuts can weaken social safety nets, through lower unemployment or social security benefits, including spending on healthcare and education. Revenue shortfalls in countries with procyclical fiscal policy often lead to lower public investment in infrastructure, which reduces overall productivity growth.

4. Procyclical policies are also associated with more inequality and poverty in the long run. Davoodi and others (2021) find that the negative impact of procyclical policies on inclusive growth is particularly pronounced in low-income and emerging market economies.[3] Procyclical tax policy tends to increase the poverty rate, income inequality and the unemployment rate, based on a study of Latin American and European economies (Vegh and Vuletin, 2015). In an analysis of Sub-Saharan economies, procyclical public investment is associated with a higher level of inequality, due to cuts in public investment during recessions (Ouedraogo, 2015).

[3] Inclusive growth is characterized by less inequality in terms of income, consumption and wealth, and lower poverty and unemployment rates.

5. Kiribati's sovereign wealth fund is large and could be used for macroeconomic stabilization. Relative to GDP, Kiribati's Revenue Equalization and Reserve Fund (RERF) is among the largest sovereign wealth funds in the world. The primary goal of the RERF is intergenerational equity, that is sharing the natural resource wealth with both present and future generations. However, many sovereign wealth funds also pursue macroeconomic stabilization, mitigating shocks that resource-rich economies often face from commodity prices and changes in global demand (Delechat and Villafuerte, 2017, James and others, 2022). Different countries have set deposit and withdrawal rules to help achieve these objectives (see chart).

Size Comparison of Sovereign Wealth Funds in 2018
(In percent of GDP)



Sources: Balestra et al. (2024); and IMF Staff estimates.
Note: For a list of full names of sovereign wealth funds, see Text Table at the end of the Annex.

Objectives of Sovereign Wealth Funds:

- ✓ Intergenerational equity
  Examples: Norway, GCC, Ireland
- ✓ Fiscal and macroeconomic stabilization
  Examples: Algeria, Chile, Mexico, Mongolia, Norway
- ✓ Financing domestic development
  Examples: Singapore, Angola, Nigeria
- ✓ Higher financial returns on public assets
  Examples: China, Korea

Source: Delechat, Villafuerte and Yang (2017)

Deposit and Withdrawal Rules of SWFs for Macrostabilization and Development

Contingent rules:
Set a threshold price (e.g. $80/barrel), with excess (shortfall) above (below) the threshold being transferred to (from) the SWF.
Examples. Algeria, Mexico, Trinidad and Tobago

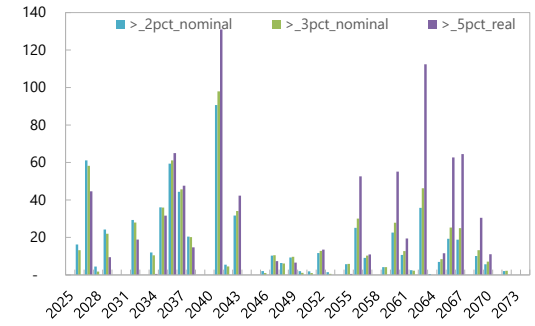
Financing funds:
SWF inflows and outflows are directly linked to the overall fiscal balance and are a mirror image of the fiscal position.
Examples. Chile, Norway, Timor-Leste

Source: Delechat, Villafuerte and Yang (2017)

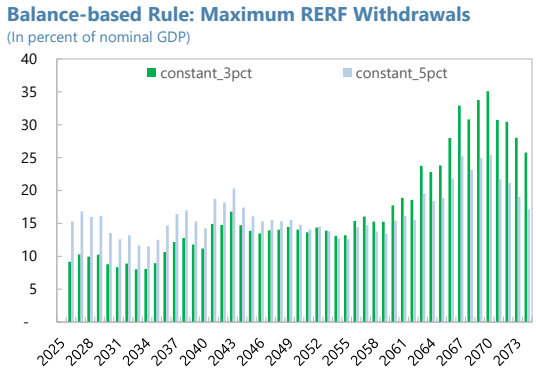
6. Under the current RERF withdrawal rule, maximum withdrawals would increase volatility. The current RERF withdrawal rule is based on annual returns of the RERF – if nominal returns are above 2 percent, all returns in excess of 2 percent can be withdrawn the following year. This is a version of contingent rules, based on the returns of the fund rather than the value of the commodity (i.e. fishing). There is no ability to withdraw during times of low (or negative) returns. With this rule, simulations[4] indicate that there would be no RERF withdrawals about a quarter of the time over the next 50 years. That would result in many years with weak fishing revenues or natural disasters when the RERF cannot be used for economic stabilization, leaving Kiribati to rely on the

[4] Simulations are based on a bootstrapping method, i.e. re-sampling historical RERF returns for the analysis of possible future outcomes. Specifically, 10,000 possible future scenarios are created based on random samples of historical returns, and then results are averaged across these scenarios.

help of development partners. Following years of high RERF returns, the rule would permit potentially excessive and inefficient spending. With maximum permitted withdrawals under the current return-based rule, simulations suggests that the Fund could lose half of its value by about 2050.

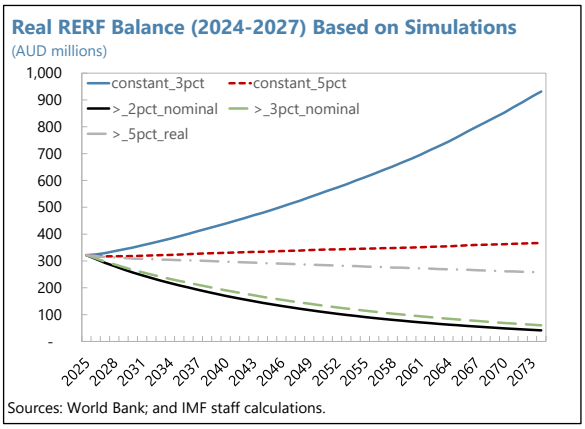


Sources: World Bank; and IMF staff calculations.



Sources: World Bank; and IMF staff calculations.

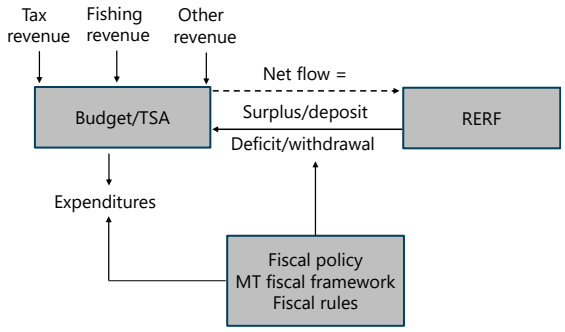
7. With a balance-based withdrawal rule, RERF could be used to offset revenue volatility. A balance-based rule allows withdrawals up to a certain percentage of the entire value (i.e. balance) of the RERF. With such a rule, withdrawals can be made every year, including years with negative returns. This provides substantial flexibility to use the RERF to offset revenue volatility from fishing licenses and pursue countercyclical fiscal policy. With a balance rule of 5 percent of RERF, the maximum withdrawals would likely be around 15 percent of GDP over the medium term, providing substantial fiscal buffer for potential revenue shortfalls. Finally, even with the maximum annual withdrawals under a 5 percent balance rule, the value of the RERF would be preserved over the long term.



Sources: World Bank; and IMF staff calculations.

8. Ideally, RERF withdrawals and deposits would be integrated into a medium-term fiscal framework (MTFF) (Delechat and Villafuerte, 2017)**.** This means that the accumulation and decumulation of RERF assets would mirror fiscal surpluses and deficits. If revenues are below (above) those forecast in a more developed MTFF, then withdrawals (deposits) would be made to meet the budget.[5] It is important to note that the withdrawal rule should not substitute for fiscal rules, which should drive fiscal policy management.[6] A 5 percent balance-based RERF withdrawal rule would simply put a limit on the maximum withdrawals and ensure availability of withdrawals each year, while actual withdrawals would be determined by fiscal policy in line with appropriate fiscal rules within the more developed MTFF. In contrast, contingent rules—such as the existing 2 percent return rule—tend to complicate fiscal policy management.

Full Integration of RERF with the Fiscal Policy Framework



Source: Delechat and Villafuerte (2017).

9. Kiribati has taken initial steps toward establishing a medium-term fiscal framework, but further development is needed. The 2025 recurrent budget includes a high-level medium-term fiscal strategy and a fiscal table for 2023–2028. To build a fully-fledged MTFF, additional steps should include (1) developing and using credible, internally consistent macroeconomic and fiscal projections (growth, inflation, debt, deficit, RERF balance, and how they relate to planned revenues, expenditures and public investment); (2) integrating the development budget with the recurrent budget; (3) enhancing transparency and accountability, and developing clear procedures to follow when fiscal targets are not met; (4) developing an assessment of risks. A comprehensive MTFF would provide a forward-looking approach to managing public finances and help meet policy priorities while maintaining debt sustainability and macroeconomic stability.

10. RERF also needs robust accountability and transparency procedures, with strong governance and oversight. Oversight by several agencies, including internal and reputable external auditors, as well as legislative oversight would help maintain accountability and transparency. RERF resources should also be integrated with the investment framework, as they are intended only for development spending, through the budget process. Development project evaluation and selection

[5] Another option could be to deposit all the fishing revenues directly into the RERF and withdraw up to 5 percent of the balance of the RERF.

[6] Chile's stabilization fund is a good example of a sovereign wealth fund that is well integrated with the country's fiscal framework. Current-year projections for the copper price and the next year's output gap are key inputs for the structural fiscal balance rule, which is key for determining the overall government budget envelope, as mandated by the Fiscal Responsibility Law. When copper prices were high during the "boom" years fiscal surpluses were deposited in the fund. The withdrawals from the fund were used to undertake countercyclical fiscal policy when the fiscal position shifted to deficits after the global financial crisis. For more details on Chile, see Schmidt-Hebble (2012).

should be done at a national and sectoral level, and development spending should be integrated into a single budget. The authorities should refrain from using the RERF as collateral for new external borrowing. Using RERF as collateral could weaken debt sustainability, both directly and indirectly, as such arrangements are generally less transparent and can weaken debt sustainability by triggering negative pledge clauses. If sustained, collateralized borrowing can discourage unsecured lenders, adversely affect fiscal discipline, and reduce fiscal space as the stock of collateral gets progressively encumbered (IMF, 2023).

11. To sum up, using the RERF for macroeconomic stabilization via countercyclical fiscal policy, integrated in a medium-term fiscal framework, is crucial for long-term growth and development. Saving surplus revenues during booms—particularly from volatile fishing revenue—would enable Kiribati to support spending during recessions and reduce GDP volatility. RERF withdrawals can and should be more effectively used to offset revenue volatility from fishing license fees and grants and thereby provide stable financing to meet Kiribati's large development needs. Investment in infrastructure should be done within a strengthened investment framework, with improved medium-term planning to improve efficiency of public investment.

Table 1. Kiribati: RERF and Sovereign Wealth Funds in other countries

Country	Sovereign Wealth Fund Name
Australia	Future Fund
Azerbaijan	State Oil Fund of Azerbaijan (SOFAZ)
Bahrain	Mumtalakat Holding Company
Brunei	Brunei Investment Agency (BIA)
China 1	China Investment Corporation (CIC)
China 2	National Social Security Fund (NSSF)
Ireland	National Pensions Reserve Fund (NPRF)
Kazakhstan	Kazakhstan National Fund
Kiribati	Revenue Equalization Reserve Fund
Kuwait	Kuwait Investment Authority
Libya	Libyan Investment Authority
Malaysia	Khazanah Nasional Bhd
New Zealand	New Zealand Superannuation Fund
Norway	Government Pension Fund - Global
Oman	State General Reserve Fund
Qatar	Qatar Investment Authority (QIA)
Republic of Korea	Korea Investment Corporation (KIC)
Russia	National Wealth Fund
Singapore 1	Government of Singapore Investment Corporation (GIC)
Singapore 2	Temasek Holdings
Timor-Leste	Petroleum Fund
UAE 1	Emirates Investment Authority
UAE 2	Abu Dhabi Investment Authority (ADIA)
UAE 3	Mubadala Development Company
UAE 4	Investment Corporation of Dubai (ICD)
UAE 5	Istithmar World
UAE 6	RAK Investment Authority
Vietnam	State Capital Investment Corporation

Sources: Balestra et al. (2024); and IMF Staff estimates.

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Annex V. Data Issues

Table 1. Kiribati: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/
C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	C	C	NA	C	C

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	C	B	D	B	NA	
Granularity 3/	B		B	B	NA	
			C		NA	
Consistency			D	C		C
Frequency and Timeliness	B	A	C	C	NA	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. National Accounts. National accounts data have improved in recent years, with production side and expenditure data published annually. A detailed sources & methods document was revised from its previous 2010 version. However, data revisions for GDP tend to be large, and there are no differentiated deflators for expenditure components. Planned work with the help of IMF TA would help further improve real sector data, and could help increase coverage of joint venture entities. **Prices.** The Statistics Office provides monthly CPI data with a lag of around 1-2 months. With PFTAC/STA TA support, the CPI was rebased to June 2023=100, with new expenditure weights developed using the 2019-20 Household Income and Expenditure Survey (HIES). Sample outlets were increased to 23 from the previous 3 outlets, however, geographical coverage could be further improved to include outer islands (planned for the next CPI rebase). There is no information on producer prices. **GFS.** There is potential to enhance the quality of fiscal data by: (i) improving coverage of debt reporting (public guarantees, joint venture entities, public-private partnerships); (ii) enhancing the coverage of net investment in non-financial assets in the GFS to encompass all investments, including those supported by development partners, ensuring consistency with development expenditure in the Development Budget, and (iii) reporting detailed capital expenditure implementation outturns in the Development Budget. Reconciling grants in the BoP with those in the Fiscal, through improved recording and inclusion of estimates for in-kind grants, is needed for enhancing inter-sectoral consistency. **External.** BOP and IIP statistics are available with broadly adequate coverage and granularity. However, external sector statistics are published with a year's lag, which, along with sizeable historical revisions and errors and omissions including incomplete coverage of joint venture activities, hampers assessment of the external balance and inter-sectoral consistency. **Monetary and Financial.** Adequacy of authorities' data provision for surveillance cannot be assessed, given that a central bank does not exist and the Kiribati Financial Supervisory Authority is not yet fully operational. Data from ANZ, Development Bank and the Provident Fund are used for estimates of financial sector credit and financial soundness.

Changes since the last Article IV consultation. Kiribati National Statistics Office (KNSO) has compiled Quarterly External Debt Statistics (QEDS) for 2023. Coordinated Direct Investment Survey (CDIS) data for 2023 has been compiled and submitted. BOP and international investment position (IIP) were compiled for 2023. The Direct Investment database has been created using financial statements and other administrative data from direct investment enterprises (DIEs) in Kiribati. KNSO established a loan-by-loan database on government foreign loans. Improvements were made on national accounts data with the 2023 provisional release, with inclusion of financial accounts data and deflator improvements.

Corrective actions and capacity development priorities. On national accounts, key recommended actions include collecting financial statements from all SOEs and large joint venture entities and incorporating them in GDP to improve coverage. On prices, over the medium term, it is recommended to develop and report a producer price index. On GFS, key recommended actions are to improve the coverage of debt reporting (include joint venture entities), and improve reporting of net investment in non-financial assets by including investment supported by development partners. On external, the key recommendation is to include activities of large joint venture entities in external sector statistics and ensure timely transmission of all data to KNSO. On intersectoral consistency, the key recommendation is to improve the recording of development grants and aid. Ongoing and future capacity development engagements with PFTAC and CDOT will support these further improvements.

Use of data and/or estimates different from official statistics in the Article IV consultation. Debt of joint venture (Direct Investment) entities with partial government ownership is estimated. Monetary and financial sector data is based on data provision by ANZ (the only commercial bank in Kiribati). The withdrawal of RERF has been treated as below-the-line financing, whereas the authorities have classified it as above-the-line. Trade data by commodity and by partner is sourced from Comtrade.

Other data gaps. Compilation and publication of regular labor market data, including seasonal workes, is needed for surveillance.

Table 2. Kiribati: Data Standards Initiatives

Kiribati participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in March 2004 but is yet to disseminate the data recommended under the e-GDDS.

Table 3. Kiribati: Table of Common Indicators Required for Surveillance

As of June 20, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Kiribati[8]	Expected Timeliness[6,7]	Kiribati[8]
Exchange Rates	19-Jun-25	20-Jun-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	...	...	...	...	M	...	1M	...
Reserve/Base Money	...	...	...	...	M	...	2M	...
Broad Money	...	...	...	...	M	...	1Q	...
Central Bank Balance Sheet	...	...	...	...	M	...	2M	...
Consolidated Balance Sheet of the Banking System	...	...	...	...	M	...	1Q	...
Interest Rates[2]	...	...	...	...	M	D	...	1D
Consumer Price Index	Feb-25	Apr-25	M	M	M	M	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024	Dec-24	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024	Dec-24	A	A	Q	A	1Q	8M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024	Dec-24	A	A	Q	...	2Q	...
External Current Account Balance	Q4/2023	Nov-24	Q	Q	Q	A,Q	1Q	12M
Exports and Imports of Goods and Services	Q4/2023	Nov-24	Q	Q	M	A	12W	8M
GDP/GNP	2023	Nov-24	A	A	Q	A	1Q	1Y
Gross External Debt	2023	Dec-24	A	A	Q	...	2Q	...
International Investment Position	Q4/2023	Nov-24	Q	Q	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VI. Implementation of Main Recommendations of the 2024 Article IV Consultation

2024 Article IV Consultation Recommendations	Actions Since the 2024 Article IV Consultation
Fiscal Policy	
Initiate an ambitious fiscal consolidation effort through scaling back recurrent spending and strengthening the fiscal policy framework.	Some measures have been taken to rationalize expenditures including keeping nominal public sector wages frozen until 2028. The Government is working with SOEs to reduce subsidies. In early 2025, fuel price and electricity tariffs were increased to make the pricing structures for the Public Utilities Board and Kiribati Oil Company more aligned to the market rates. While the authorities remain mindful of the social protection aspect of the copra subsidy, they are actively pursuing technical assistance and reform options.
Reform the withdrawal rule of the sovereign wealth fund to benefit both current and future generations while preserving the real value of the fund.	The authorities expressed their continued commitment to preserving the real value of the RERF by withdrawing less than the maximum permitted amount in years when RERF returns are high.
Mobilize revenue to generate more stable and sustainable fiscal resources, and improve processes for tax administration, registration, and compliance.	The VAT Amendment Act successfully passed its first reading in Parliament in April 2025. The second and final reading is planned for August 2025.
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.	Considerable progress has been made to strengthen the administration of social protection payments. With support provided by DFAT, the operational manual for senior citizens allowance and support fund for the unemployed (SFU) have been completed. The SFU Policy is currently being reviewed, with streamlining the list of beneficiaries listed as an ongoing priority. A pilot bank account opening project was completed in two outer islands intended for future use for social protection payments.
Strengthen the accountability of the state-owned enterprises, enhance their commercial mandate, and place their finances on a sustainable footing.	The new SOE Act and a set of amendments for sectoral laws have been drafted and had its first Parliament reading in April 2025. The second and final reading is planned for August 2025. SOEs comply with the submission of report requirements, with 2023 financial statements submitted to the SOE Monitoring and Advisory Unit (SOEMAU), although the quality of the financial reports could be improved. The electricity tariff rates, and the fuel prices were increased in the first quarter of 2025 – to align their price structures to the market rates.
Structural Reforms	
Expand access to finance and fully implement the financial sector legislations to enhance financial inclusion and boost growth.	ANZ has increased the number of EFTPOS machines from 20 to 270 and waived some of its fees to make it more affordable, which helps deliver social protection payments and expands access to finance. An estimated 6,000 new accounts were opened through the pilot bank account opening project. The number of individual account holders with ANZ has increased to 39,000, from 17,000 in 2021. A board of directors, CEO and Deputy CEO for the KFSA have been appointed. The KFSA is in the process of recruiting its administrative and technical staff and seeking training from within the region.
Implement structural reforms to raise private sector employment and investment, enhance export competitiveness, close infrastructure and human capital	Projects have been developed aimed at youth and women empowerment, supporting micro-businesses and promoting financial inclusion. The development partners are supporting the

2024 Article IV Consultation Recommendations	Actions Since the 2024 Article IV Consultation
gaps, better utilize natural resources, and strengthen institutions and governance.	authorities' plans to increase port capacity, improve connectivity, and infrastructure. To increase the efficiency of public investment, a project tracking system is being tested, and an Asset Management Policy is being drafted by the Ministry of Infrastructure and Sustainable Energy.
Invest in adaptation to climate change and leverage climate finance.	Regulations under the Environment Act are expected to be approved in 2025. The Kiribati Integrated Environment Policy is being reviewed with TA from the Nature Conservancy, with an aim to enhance the guidance on resilience. A revised National Building Code and building manual have been developed to guide the design and construction works to ensure greater attention to climate resilience and disaster management. The authorities are in the process of organizing a development partner roundtable in 2025 to strengthen engagement and coordination.
Capacity Development and Data Issues	
Continue capacity development to produce high-quality statistics in a timely manner to support data-driven policy formulation.	The authorities have received technical assistance from the IMF Statistics Department and PFTAC to improve institutional capacity and enhance the quality of data. The work on implementing Enhanced General Data Dissemination (e-GDDS) is ongoing. Authorities will continue to enhance data quality with IMF TA - especially for national accounts, GFS, external and financial sector data.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 18, 2025

Prepared By

Asia and Pacific Department
(in Consultation with other Departments)

CONTENTS

FUND RELATIONS

As of May 31, 2025

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

General Resources Account:

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

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	16.06	100.00
Holdings	14.71	91.60

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Overdue Obligations and Projected Payments to Fund[1]

(SDR Million; based on present holdings of SDRs)

	Forthcoming				
	2025	**2026**	**2027**	**2028**	**2029**
Principal					
Charges/Interest	0.02	0.04	0.04	0.04	0.04
Total	0.02	0.04	0.04	0.04	0.04

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 de jure and de facto exchange rate arrangements are classified as no separate legal tender. The Australian dollar circulates as legal tender. There is no central monetary institution, and the authorities do not buy or sell foreign exchange. Kiribati has accepted the obligations under Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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 May 10, 2024, reflecting discussions that took place during February 9–21, 2024.

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; developing and strengthening the supervision of the financial system; and assessing food and nutrition security strategies.

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.

Technical Assistance Activities

IMF Capacity Development		
Provided by:	**Topic:**	**Period:**
PFTAC	Legal/Tax Policy	January – March 2019
PFTAC	Revenue Administration	February-March 2019
CDOT	External Sector Statistics	March 2019
PFTAC	Financial Sector Supervision – First Follow-up Mission on Banking Sector Supervision and Legislation	April 2019
PFTAC	Public Financial Management – PFM Roadmap Development	June 2019
PFTAC	Real Sector Statistics	August 2019
PFTAC	Revenue Administration	September 2019
PFTAC	Revenue Administration	February 2020
PFTAC	Revenue Administration	October – November 2020
PFTAC/FAD	Tax Policy Review	November 2020
PFTAC	Financial Sector Supervision	April 2021
PFTAC	Government Finance Statistics	April – June 2021
PFTAC/FAD	Pacific Island Countries – Third Review of Tax Reforms	May 2021
PFTAC	Real Sector Statistics – Update and Rebase National Accounts	October 2021
PFTAC	Revenue Administration	November – December 2021
PFTAC	Public Financial Management – Update PFMA	May – October 2022
PFTAC	Financial Sector Supervision – Establishing Financial Supervisory Authority	May – July 2022
PFTAC	Revenue Administration	July – August 2022

PFTAC	Statistics – Consumer Price Index	October – November 2022
PFTAC	Revenue Administration – Strengthen Core Tax Functions	October – November 2022
PFTAC	Real Sector Statistics	October - December 2022
PFTAC	Macro-Fiscal Modelling for Budget Preparation	January 2023
PFTAC	Government Finance Statistics	January – February 2023
PFTAC	Revenue Administration	February – March 2023
PFTAC	Public Financial Management- Develop PFM Roadmap	March 2023
CDOT	External Sector Statistics	April 2023
PFTAC	Statistics – Consumer Price Index	May 2023
PFTAC	Macroeconomic Programming Analysis	May – June 2023
PFTAC	Revenue Administration	May – June 2023
PFTAC	Public Financial Management – Guidance on Reviewing and Finalizing PFMA	June 2023
PFTAC	Revenue Administration – Review Reform Progress	July 2023
PFTAC	Revenue Administration – Strengthening Tax Audit	September – October 2023
PFTAC	Real Sector Statistics – Updating National Accounts	November 2023
PFTAC	Revenue Administration – Tax Policy Reform Phase II	January – February 2024
PFTAC	Government Finance Statistics	January - February 2024
PFTAC	Public Financial Management – Strengthen Budget Execution reporting	March 2024
PFTAC	Debt Management	April 2024
PFTAC	FADEP- Expenditure Policy (Copra Subsidy)	April – May 2024
PFTAC	Macroeconomic Programming Analysis/Macro-Fiscal Modelling Training	May – June 2024
PFTAC	Revenue Administration	August 2024
CDOT	External Sector Statistics	August 2024
PFTAC	Macroeconomic Programming Analysis – VAT Modelling	August – September 2024
PFTAC	Public Financial Management – Improve Asset and Liability Management	August – September 2024
PFTAC	Real Sector Statistics- Update GDP 2023	September 2024
PFTAC	Government Finance Statistics – Developing Balance sheet Statistics	January 2025
PFTAC	Finalize PFM Act	February 2025
PFTAC	Debt Management – Improving Institutional Structure for Debt Management	February 2025
FAD	Beyond the Coconut Tree: Aligning Copra Subsidy Reforms with Food and Nutrition Security	April - May 2025
PFTAC	Revenue Administration – Supporting Taxpayer Compliance	May – June 2025

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank Group:
  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

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

June 18, 2025

Approved By
Corinne Deléchat, Niamh Sheridan (all IMF), Manuela Francisco, and Lalita Moorty (all IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

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.

Kiribati debt remains sustainable but at high risk of debt distress, unchanged from the 2024 Article IV Debt Sustainability Analysis. While the mechanical signal indicates moderate risk of debt distress, judgment was applied to extend the projection horizon to 20 years to adequately capture climate-related vulnerabilities.[2] Under the baseline scenario, the present value of external debt-to-GDP and total public debt-to-GDP ratios are expected to breach their respective indicative thresholds starting in 2036 and 2043, respectively. Stress tests confirm vulnerability to exports (including fishing license revenue) and growth shocks. Despite the high risk of debt distress, Kiribati's debt is assessed to be sustainable due to several mitigating factors: (1) grant-only status for financing from multilateral development banks; (2) availability of cash buffers that can finance deficits in the near term; and (3) in the baseline, the breaches occur only in the long term. Risks from lower fishing revenue, weather-related natural disasters, or a downturn in global financial markets which would reduce the value of Kiribati's sovereign wealth fund call for greater

[1] This DSA has been prepared jointly by the IMF and World Bank, in line with the *Guidance Note of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018*.

[2] The composite indicator based on the April 2025 World Economic Outlook (WEO) and 2023 World Bank Country Policy and Institutional Assessment (CPIA) data that was published in July 2024, is currently estimated at 2.75, corresponding to a moderate Debt Carrying Capacity.

use of countercyclical fiscal policy, gradual fiscal consolidation and adhering to a prudent withdrawal rule from the sovereign wealth fund. Further progress with structural fiscal reforms, including public financial management, financial discipline and reporting of state-owned and joint venture enterprises, would help safeguard medium- and long-term fiscal sustainability. Continued access to highly concessional financing to support the country's large development needs is needed to contain the risk of debt distress.

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 a residency basis. Debt coverage is broadly appropriate, although the timeliness of balance sheet information for state-owned enterprises (SOEs) and lack of data on joint venture companies, including with minority state ownership, are limiting factors. Recent and planned technical assistance supported by the World Bank's Sustainable Development Financing Policy (SDFP) aims to improve government financial statistics (GFS) data availability and coverage by implementing an integrated financial management information system (IFMIS) and improve fiscal and debt reporting, with the approval of the fiscal reporting policy. SOE reporting practices have continued to improve, with 2023 financial statements submitted to the SOE Monitoring and Advisory Unit (SOEMAU).

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	

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	10.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	12.0
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)			27.0

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%.

2. The combined contingent liability stress test accounts for implicit liabilities and a potential financial market shock (Text Table 2). The test incorporates contingent liabilities amounting to 27 percent of GDP, which comprises 12 percent of GDP covering all liabilities of all SOEs at end-2022,[3] 10 percent of

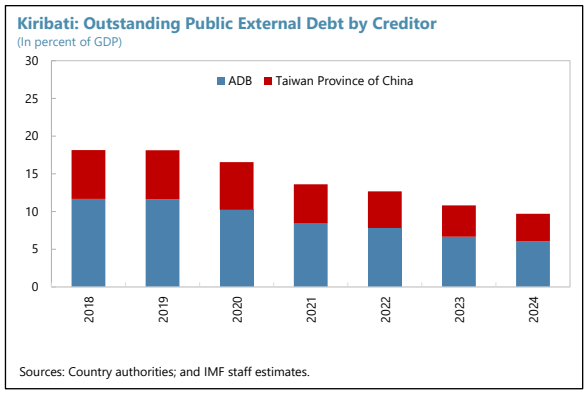
[3] There are 18 SOEs in Kiribati, operating across a wide range of industries such as utilities, transportation, housing, and financial services. The newest SOE, the Tourism Authority of Kiribati (established in 2018), has not produced financial statements yet. The liabilities of the 17 SOEs accounted for 12 percent of GDP in 2022, as reported in the 2025 Recurrent Budget. It is assumed that the contingent liability to the government related to the SOEs includes all the SOE non-guaranteed liabilities.

GDP of non-guaranteed debt of a joint venture company with minority government ownership,[4] and a standard 5 percent of GDP cost to the government of a financial crisis.

BACKGROUND ON DEBT

3. Kiribati is a country, of close to 130,000 people, spread over 33 remote islands and a vast section of the Pacific Ocean. 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 fishing license revenues and support from development partners for infrastructure investment. Kiribati has a sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), which was established in 1956 in order to allow both current and future generations to benefit from Kiribati's natural wealth. The RERF's balance was about AUD 1.5 billion (close to 324 percent of GDP) at end-2024.

4. Kiribati's public and publicly guaranteed (PPG) debt, at 9.9 percent of GDP at end-2024, is composed of external debt and government guarantees. The Government of Kiribati has only two external creditors: the Asian Development Bank (ADB), and Taiwan Province of China. The combined outstanding external debt has been declining steadily and stood at AUD 45.3 million (about 9.7 percent of GDP) at end-2024 (Text Table 3 and text chart). All existing external debt is on concessional terms, and no new external debt has been incurred since 2014. The Government of Kiribati (GoK) has committed to a policy of no new non-concessional borrowing under the World Bank's Sustainable Development Finance Policy (SDFP). In terms of domestic debt, the government has guaranteed the loans that the Kiribati Provident Fund (KPF) provided to Development Bank of Kiribati (DBK). Domestic debt is estimated to have declined to AUD 0.96 million (0.2 percent of GDP) at end-2024 and the related fiscal risk is limited. However, GoK needs to strengthen the debt management framework, including the issuance of government guarantees, to ensure fiscal risks remain limited.[5]



[4] Kiribati Tuna Fishing Co., Ltd. (KTFL), established in July 2019 as a joint venture between Zhejiang Ocean Family Co., Ltd. and the Government of Kiribati (49 percent equity stake), has taken a loan from China Eximbank estimated at US$114.5 million (37 percent of GDP). KTFL has built at least five fishing vessels that can serve as collateral. After taking into account the value of collateral and minority ownership, the government of Kiribati may face a contingent liability risk of about 10 percent of GDP related to this loan.

[5] To strengthen the debt management framework, the authorities should clarify the purposes of borrowing or issuing guarantees, align them with the medium-term fiscal strategy and strategic investment priorities, and require detailed annual reporting. The Debt Advisory Committee should require a comprehensive financial analysis of all new borrowing proposals. All borrowing or guarantee proposals are first submitted to the Debt Advisory Committee, who assess and submit a short report to the Minister of Finance, after which proposals go to the Cabinet and President for final approval.

Text Table 3. Kiribati: Public External Debt Balance as of End 2024	
Creditor	Balance
Asian Development Bank	AUD 28,145,699
International Cooperation and Development Fund, Taiwan Province of China	AUD 17,149,812
Source: Country authorities.	

BACKGROUND ON MACROECONOMIC FORECASTS

5. Economic activity is broadly back to the pre-COVID-19 trend. The economy expanded consistently since 2021, and growth was estimated at 5.3 percent in 2024, primarily driven by public spending. Average headline inflation declined from 9.3 percent in 2023 to 2.5 percent in 2024, in line with the moderation in global commodity prices and an improvement in supply-side conditions. Relative to the 2024 Article IV debt sustainability analysis (DSA), macro-fiscal developments have worsened, with an increase in recurrent expenditures due to a 45 percent public sector wage bill increase approved in 2024 amid a decline in fishing license revenues as a share of GDP.

6. The following medium-term macroeconomic assumptions are used for the baseline scenario (Text Table 4):

- **Real GDP** growth is projected at 2.7 percent on average in 2024–34, decelerating towards 2 percent in the long-term, in line with past analysis, and similar to the 2024 DSA.[6] The gradual deceleration of economic growth reflects population growth of about 1.6 percent (broadly in line with the United Nations' World Population Prospects), some improvement in total factor productivity (TFP) growth, and the potential impact of climate-related events.[7] Risks to the growth outlook are tilted to the downside. Deepening geoeconomic fragmentation and/or an abrupt global slowdown could reduce fishing license revenues, affect RERF returns due to increased global financial market volatility, or decrease international aid. Commodity price volatility could increase inflationary pressures and worsen the current account balance. Climate-related natural disasters remain a constant threat to the economy.

- **Inflation** is projected to average 2.8 percent in 2024–34. Average inflation is projected at 7.8 percent in 2025, mainly driven by a one-off increase in fuel and electricity tariffs. Inflation is

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

[7] Diversification efforts continue despite challenges. They include expanding port capacity for connectivity and export competitiveness, advancing internet connectivity with an ongoing initiative to connect 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.

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, as in the 2024 DSA.

Text Table 4. Kiribati: Baseline Macroeconomic Assumptions
(In percent of GDP, unless otherwise noted)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2013-23 Historical average	2024-34 Average	2035-44 Average
Current DSA												
Real GDP growth (in percent)	4.6	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1	4.7	2.7	2.1
Inflation, average (change in percent)	5.3	9.3	2.5	7.8	3.5	3.0	2.5	2.0	2.0	1.9	2.8	1.8
Current account balance	-12.0	-1.8	-2.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.6	17.4	-1.2	-0.7
Overall fiscal balance	-18.3	0.1	-22.0	-15.0	-16.6	-15.0	-13.4	-15.1	-15.2	12.2	-16.4	-15.5
Previous DSA												
Real GDP growth (in percent)	3.9	4.2	5.8	4.1	3.3	2.5	2.1	2.1	2.0			
Inflation, average (change in percent)	5.3	9.3	4.5	3.0	2.5	2.0	1.9	1.8	1.8			
Current account balance	-2.4	10.2	9.7	9.2	8.4	8.1	8.0	7.9	6.9			
Overall fiscal balance	-18.3	-1.3	-22.4	-14.8	-12.8	-13.8	-15.4	-16.0	-16.3			

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).

- **Total revenue and grants** are expected to increase in 2025 relative to 2024, due to a temporary spike in external grants, followed by a gradual decline over the medium term.
  - ***Fishing revenue*** is reported at AUD 210 million in 2024 (45 percent of GDP, a decrease of 4 percentage points from 2023, and a decrease of 1 percent in nominal terms), resuming the decline after an all-time high in 2019 (at 73 percent of GDP). Fishing revenue is projected to decrease again in 2025 and over the medium term, in line with the authorities' budget, and below the projection in the 2024 DSA. Changes in ocean temperature are expected to affect the size and distribution of global fish populations, with negative implications for fish supplies and fishing revenues in Kiribati. Staff project that fishing revenue as a ratio of GDP would decrease gradually to average about 38 percent of GDP in 2025–34. This assumption is subject to considerable uncertainty, given unpredictability in weather conditions and fish migratory patterns.
  - ***Tax revenue*** is generally low with a 2013-2023 average of about 15 percent of GDP. It increased to 17 percent of GDP in 2024, from 16 percent in 2023, and is projected to increase to 19 percent over the medium term thanks to new Income Tax Act, and the planned amendments to the Value-Added Tax Act.[8] The World Bank's Sustainable Development Finance Policy (SDFP) and technical assistance from the IMF's Pacific Financial Technical Assistance Center (PFTAC) have supported reforms of the VAT regime, which are expected to durably increase medium-term revenues.

[8] The new VAT Act amendments are expected to generate AUD 1 million in tax revenue (0.2 percent of GDP) starting in 2025.

- ***External grants***, including project-based grants and budget support,[9] are estimated to have decreased to 11 percent of GDP in 2024 from 24 percent of GDP in 2023. They are expected to increase to around 39 percent of GDP on average in 2025–27[10], mostly due to the financial cycle of development partners and implementation of delayed projects, and then to gradually decline in the long term to an annual average about 27 percent of GDP, with no major change relative to the 2024 DSA. External grants from 2027 onward would mainly consist of project grants, with budget support assumed at only 1 percent of GDP. The high reliance on grants for development financing highlights the need for the authorities to continue to seek grant support from bilateral development partners and international financial institutions.

- **Total fiscal expenditures** increased in 2024 and are projected to gradually decline over the medium term, though remaining elevated relative to historical averages, broadly in line with the 2024 DSA.

  - ***Recurrent spending*** has increased since 2020 due to a series of initiatives: introduction of the unemployment support scheme covering 70 percent of Kiribati's working age population in 2020, increases in the wage bill and senior citizens' benefits in 2021, doubling of the copra subsidy in 2022, introduction of leave grants for private sector employees in 2023,[11] and an increase in public sector wages in 2024. Climate change-related maintenance and contingency expenditures are assumed to reach around 6 percent of GDP in 2033 and to remain at that level thereafter.[12] The authorities also plan to gradually reduce subsidies. Overall, recurrent spending is projected to gradually decline from 73 percent of GDP in 2024 to 68 percent of GDP in 2025 thanks to a budgeted freeze on wages and salaries, along with modest streamlining of subsidies, including SOE subsidies and unemployment benefits. The planned reduction of recurrent spending is welcome amid steady growth. However, if economic growth falters, countercyclical fiscal policy consistent with the authorities' medium-term fiscal strategy should be used to support households (see Staff Report). Over

[9] Budget support is provided by development partners including the ADB, Australia, the European Union (EU), New Zealand, and the World Bank.

[10] The 52 percent of GDP grants in 2025 includes 7 percent of GDP in budget support and 45 percent of GDP in project grants. The budget support is firmly committed by development partners, while the project grants reflect the Development Budget 2025. While the budgeted increase in project grants is substantial, it is broadly in line with the pre-COVID average of 38 percent of GDP, with a standard deviation of 8.5 percent. Moreover, even if the project grants do not materialize, there will be no impact on the deficit, as the corresponding development expenditure will not be executed. The volatility of grants in general, and a decline in international aid potentially due to increased geopolitical tensions, is a risk.

[11] 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.

[12] In the baseline, the DSA assumes climate adaptation that only achieves low resilience to climate-related natural disasters, with up to 6 percent of GDP borne by the budget, while the rest would need to be financed by development partners. Climate Change and Disaster Management (World Bank, 2016) estimates that the cost of coastal protection and infrastructure adaptation due to rainfall and temperature increases for Kiribati could amount to additional 12 percent of GDP annually by 2040.

the medium term, recurrent spending is projected to stay broadly stable at around 67 percent of GDP, still elevated relative to a 2013-2023 average of about 56 percent of GDP.

- ***Development expenditure*** declined to 26 percent of GDP in 2024, from 28 percent in 2023. Development expenditure is expected to temporarily increase to 58 percent of GDP in 2025 as large infrastructure projects, including those delayed from previous years, are implemented. Over the medium term, development expenditure is expected to gradually decline in line with the projection of external project grants.[13]

- **The overall fiscal deficit widened in 2024 and is expected to remain in deficit over the medium term, about 1-2 percentage points more negative than in the 2024 DSA due to lower fishing revenues.** With the increase in recurrent spending, the overall fiscal balance (accounting for RERF withdrawals as a financing item) has turned to a deficit of 11, 18 and 22 percent of GDP in 2021, 2022, and 2024, respectively, with a surplus of 0.1 percent of GDP in 2023, thanks to a temporary increase in fishing revenue and grants. Over the medium term, a gradual decline in revenues along with slightly lower but still elevated recurrent spending is expected to lead to continued fiscal deficits around 16 percent of GDP. In the baseline, the authorities do not pursue significant consolidation over the medium term. Additional growth-friendly consolidation could include increasing excise taxes on tobacco products, alcoholic beverages, and sugary drinks, introducing excise taxes on kava, and further rationalizing the copra subsidy.

- **Financing of fiscal deficits is assumed to be covered by cash reserves, RERF withdrawals, and external loans, similar to the 2025 DSA** (Text Table 5).

  - ***Cash reserves*** are estimated to have decreased to 40 percent of GDP at end-2024 from 44 percent of GDP at end of 2023, partly to finance the fiscal deficit in 2024. In the baseline, staff assumes no use of cash reserves for deficit financing after 2026 to prevent them from being depleted in the long run, in line with the government's fiscal responsibility ratio.

[13] Major projects are expected to be completed over the medium term, including infrastructure projects such as the Outer Island Infrastructure Program, amounting to AUD 32 million (included in the 2024 budget but with limited implementation), and a new project of AUD 35 million aimed at equitable access to quality education, sponsored by ADB. Further details are available in the 2025 Development Budget.

Text Table 5. Kiribati: Baseline Assumptions on Financing
(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2024-34 Average	2035-44 Average
Overall Deficit	-18	0.1	-22	-15	-17	-15	-13	-15	-15	-16	-16
Financing Needs (net)	18	-0.1	22	15	17	15	13	15	15	16	16
of which: Cash reserves	19	0.5	5	-1	0	0	0	0	0	0	0
RERF withdrawals	0	0.0	17	16	9	8	8	8	8	10	9
External financing (net)	-1	-0.6	-1	-1	8	7	6	7	7	6	7
Balance											
Cash reserves	51	44	40	38	36	34	33	32	31	32	21
excess over the threshold 1/	*32*	*25*	*18*	*17*	*16*	*16*	*15*	*13*	*12*	*13*	*3*
RERF	307	320	324	309	305	303	303	304	306	309	327
Public external debt	16	11	10	9	16	22	27	33	39	34	89

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.

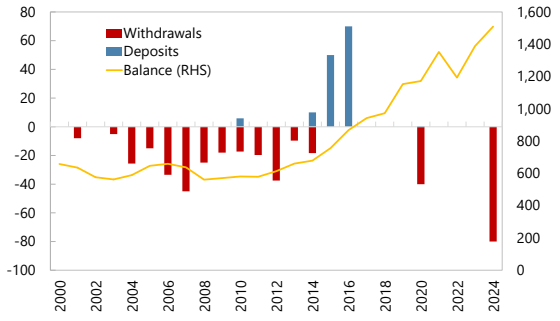
- ***Withdrawals from the RERF*** are projected to provide around 9 percent of GDP in financing over the medium term, in line with the budget, even though positive withdrawals may not be permissible in each year. Between 2020 and 2024, RERF withdrawals were permitted only when real returns were in excess of 5 percent and only to finance development projects.[14] In 2024 the RERF withdrawal threshold was lowered to 2 percent of nominal returns, which could enable extremely large withdrawals in some years with high RERF returns. AUD 80 million (17 percent of GDP) was withdrawn in 2024, with another AUD 80 million budgeted for 2025, and AUD 45 million budgeted annually for 2026-2028 (about 8-9 percent of GDP). Over the medium term, the assumed RERF withdrawals are at a level similar to 2026-28.[15]

[14] The authorities introduced the rule-based withdrawal policy in September 2020, with support from the World Bank. The real return is calculated based on the inflation rate in Australia.

[15] The revision of the RERF withdrawal rule raised serious concerns about future fiscal discipline and significantly elevated the risk of a gradual depletion of the RERF if maximum permitted withdrawals were made in each year. The adoption of the two-pronged alternative RERF withdrawal rule is strongly advised. First, use the withdrawals to finance high-quality development spending, complementing efforts by development partners. Second, set a cap of around 3 to 5 percent of the RERF balance on annual withdrawals, to keep the real per capita value of the RERF approximately constant. The balance-based rule would avoid the possibility of zero withdrawals in years when RERF returns are low, and it would protect RERF's long-term value. In particular, withdrawals of about 8-9 percent of GDP currently planned in the medium-term budget would be permissible under the recommended balance-based withdrawal rule. Staff analysis suggests that even annual withdrawals up to 15-16 percent of GDP (around 5 percent of RERF balance) could likely be sustained, if needed during periods of shortfall in other revenues, without jeopardizing long-term RERF sustainability, assuming RERF returns, which averaged about 8 percent during 2011-2024, follow historical patterns. The RERF benchmark portfolio consists of 50 percent Australian Government bonds and 50 percent in unhedged global equities, although the equity weight has increased recently given high equity returns. For more information see Appendix IV (and Annex V in IMF 2024). Risks to RERF sustainability increase if

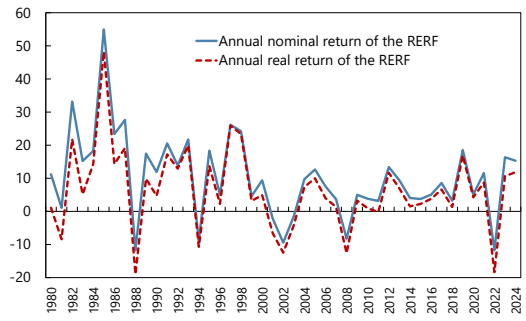
(continued)

- ***External loans*** will become a more important source of financing over the medium term. Given the need to preserve cash reserves, and to avoid a sharp decline in financial net worth, external financing will be critical. External financing under the baseline scenario is assumed at highly concessional terms, in line with the World Bank's Sustainable Development Finance Policy.



Kiribati: RERF Balance and Flows of Funding
(In AUD million)

Sources: Country authorities; and IMF staff estimates.



Kiribati: Returns of the RERF
(In percent)

Sources: Country authorities; and IMF staff calculations.

- **The current account is estimated to remain in deficit in 2024, and is projected to stay well below the historical average over the medium term.** After historically high current account surpluses, with a 2013-2023 average of 23.7 percent of GDP, the current account balance turned to deficits of 12 and 1.8 percent in 2022 and 2023, respectively. Revisions of historical data led to a weaker current account balance than anticipated in the 2023 and 2024 DSAs. In 2024, the current account deficit is estimated at 2.0 percent of GDP, due to relatively low budget grants and continued strong import demand. Over the medium term, the current account is expected to remain in small deficit, with key trends broadly unchanged.

- **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.

7. The baseline scenario explicitly reflects the long-term impact of climate change and natural disasters. This is in line with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF", given Kiribati's susceptibility to natural disasters. Compared with the non-disaster potential growth rate, Kiribati's long term GDP growth projections in the baseline are adjusted downward by 0.1 ppt. The current account is projected to decline by an additional 1 ppt of GDP on average in the long run due to natural disasters. The primary balance is projected to decline annually by 0.3 ppt of GDP on average in the long run due to lower fishing revenue driven by changes in seawater temperature.[16]

maximum withdrawals are made repeatedly under a return-based rule, with very large returns (e.g. more than 50 percent) of GDP happening in some years. In addition, the RERF withdrawal rule should be subject to more legislative scrutiny, such as parliamentary approval.

[16] Under the RCP 8.5 scenario, representing a high-emissions pathway, which projects a global average temperature increase of roughly 4.3°C by the year 2100, relative to pre-industrial levels, and a likely range of 0.84 meters (0.61–1.10 meters) of global sea level rise.

In addition, the baseline scenario includes 6 percent of GDP for climate adaptation spending over the medium term. No major disasters are assumed under the baseline scenario over the medium term.

8. The realism tools suggest that the projections are reasonable (Figures 3–4). The primary balance is expected to worsen in 2024 and is projected to remain in deficit with lower fishing revenue in 2025 and high current expenditures. The position of the left end of the 3-year adjustment in the primary balance reflects the volatile nature of fishing revenue. The outturn of growth in 2024 is consistent with the scenario under the fiscal multiplier of 0.2. The downward revision of the debt path compared to the 2018 DSA reflects the assumption of new borrowing starting in 2019 in 2018 DSA, whereas no new public borrowing has occurred since 2014. Both public and private investment rates remain consistent for the projection period when compared to the previous DSA conducted in 2024. 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 times of a fiscal surplus.[17]

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

9. The debt carrying capacity remains "medium" as in the last DSA (Text Table 6). Kiribati's current composite indicator (CI) score is 2.75, calculated based on the April 2025 WEO and the 2023 CPIA (published in July 2024). The current CI score implies medium debt-carrying capacity. Based on the CI score, the relevant indicative thresholds are 40 percent for the present value (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).

[17] 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 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 6. Kiribati: Composite Indicator Rating

Country	Kiribati
Country Code	**826**

Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.750	Medium 2.761	Medium 2.753

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.949	1.14	41%
Real growth rate (in percent)	2.719	3.344	0.09	3%
Import coverage of reserves (in percent)	4.052	57.963	2.35	85%
Import coverage of reserves^2 (in percent)	-3.990	33.597	-1.34	-49%
Remittances (in percent)	2.022	5.603	0.11	4%
World economic growth (in percent)	13.520	2.973	0.40	15%
CI Score			2.750	100%
CI rating			Medium	

Text Table 7. Kiribati: Debt Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

10. In addition to the six standardized stress tests, the analysis incorporates two tailored stress tests based on contingent liabilities and natural disasters shocks. Kiribati's low-lying atolls are vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion, as well as drought, loss of groundwater, and natural disasters. Economic activities related to agriculture and fishing can be

negatively affected by extreme weather. The natural disaster tailored stress test assumes that a one-off natural disaster in the second year of the projection period cuts real GDP growth and exports by 4.6 and 12 percentage points, respectively, which reflects Kiribati-specific impacts from extreme natural disasters.[18] This scenario aims to capture the possibility that climate change adaptation costs may exceed the needs already incorporated in staff's macroeconomic framework (paragraph 6). The combined contingent liabilities stress test is described in paragraph 2 above.

DEBT SUSTAINABILITY ANALYSIS

11. Risks to debt sustainability in Kiribati remain 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-related events, with breaches in years 11-20 used to arrive at the bottom-line risk assessment. Stress tests generally push both external and public debt above their relevant thresholds in the long run, with external public debt 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-related events, staff's judgement is that there is a high probability of large and protracted breaches in the long run.

A. External Debt Sustainability Analysis

12. Under the baseline scenario, Kiribati's external debt trajectory is projected to breach the indicative threshold in the long run.[19] 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), same as in the 2024 DSA. 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.

13. 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 same year as in the 2024 DSA. The ratio of the PV of the PPG external debt-to-exports is vulnerable to shocks emanating from exports, breaching its threshold starting from 2033, four years earlier than in the 2024 DSA.[20] The other stress test scenarios, including the natural disaster scenario and the contingent liabilities stress test, illustrate the vulnerability of debt trajectory to external and potential domestic shocks (Table 3).

[18] See the "The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness" by Lee and others (2018).

[19] The large residual in 2022 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.

[20] 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.

B. Public Debt Sustainability Analysis

14. Public debt follows the same dynamics as the external debt, given limited domestic debt. The volatility of fishing revenue and contingent liabilities emanating from the government-managed pension fund,[21] SOEs and joint venture companies pose risks. Under the baseline scenario, the PV of the total public debt-to-GDP ratio will breach the indicative benchmark (55 percent) starting from 2043 (Figure 2).

15. The extreme shock scenario indicates an earlier breach of the debt benchmark. The most extreme stress test scenario of one standard deviation shock[22] to growth predicts that the PV of the total public debt-to-GDP ratio is expected to breach the benchmark (55 percent) starting from 2032 (Figure 2). The tailored natural disaster shock and combined contingent liabilities could cause the PV of the total public debt-to-GDP ratio to breach the benchmark from 2035 and 2037, respectively, 3 years earlier than in the 2024 DSA (Table 4).

RISK RATING AND VULNERABILITIES

16. 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, same as in the 2024 DSA. The debt service-to-export ratio, however, will remain relatively contained. This ratio will increase gradually over the projection period as the bulk of the projected external borrowing is on concessional terms.

17. 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 and breach the indicative benchmark starting from 2043, two years earlier than in the 2024 DSA. 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. Debt is also vulnerable to growth, primary balance, natural disasters, and export shocks.

18. Despite the high risk of debt distress, Kiribati's debt is assessed to be sustainable thanks to several mitigating factors. The PV of the PPG external debt-to-GDP ratio will breach its indicative threshold/benchmark only in the long term. While its budget depends on volatile fishing revenue, the country currently benefits from grant-only status for multilateral development banks' (MDBs) financing and will likely maintain long-term access to highly concessional financing. 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.

[21] 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 pension Fund (Kiribati Provident Fund).

[22] 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.

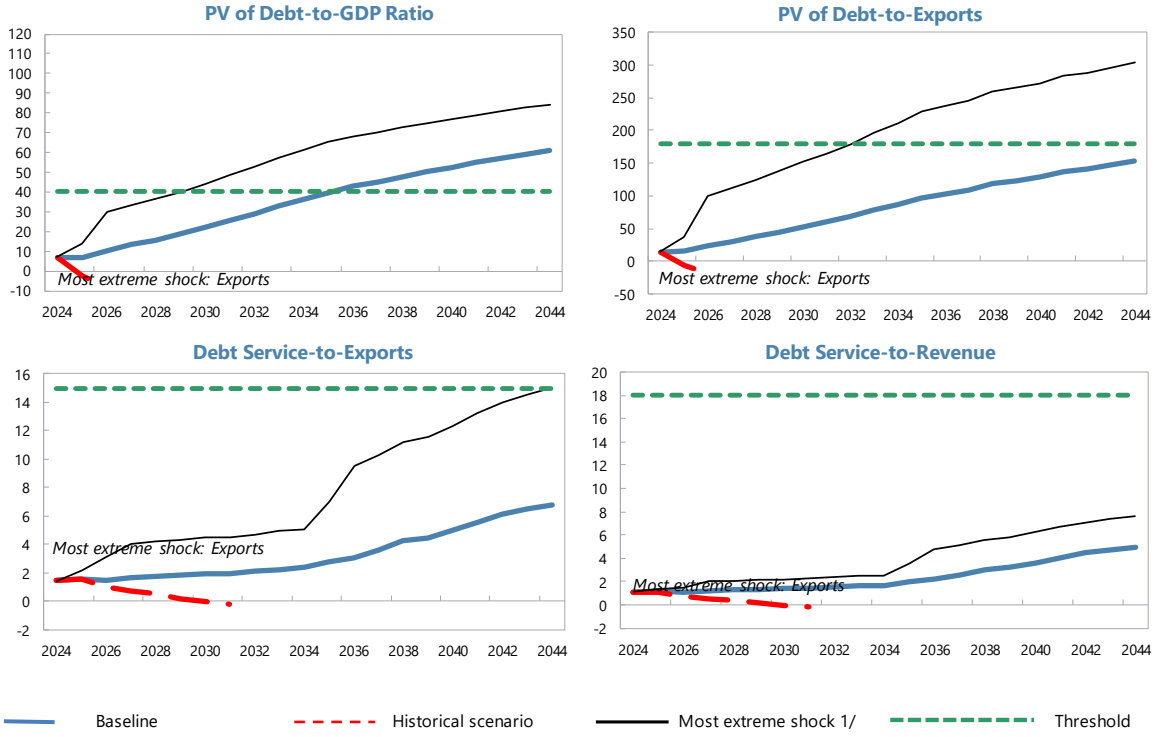
However, these liquidity buffers could be depleted at a more rapid pace in case of insufficient access to external loans amid continued fiscal deficits.

19. Given Kiribati's high risk of debt distress, it is critical to manage the fiscal framework prudently and continue to benefit from external grants. The introduction and increases of several social benefits since 2020 and the civil service wage increase in 2024 have worsened Kiribati's fiscal stance. Existing vulnerabilities could be further exacerbated by natural disasters and contingent liabilities. Initiating a gradual growth-friendly fiscal consolidation effort through streamlining recurrent spending and mobilizing tax revenue would help reduce fiscal risks. RERF withdrawals should not increase the risk of depletion of the sovereign wealth fund. Further progress in 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, putting RERF withdrawals under legislative scrutiny, and putting SOEs on a commercial and sustainable footing are all needed to 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

20. The authorities broadly agreed with the DSA assessment. They recognize the importance of preserving debt sustainability, maintaining a balanced budget (treating RERF withdrawals as revenue), streamlining subsidies and mobilizing revenues. They emphasized that the 2024 wage bill increase was necessary to maintain livings standards after years of high inflation, and they remain committed to freezing nominal wages as currently planned in the medium-term budget. They welcomed technical assistance to build capacity to analyze new borrowing and improve debt management. The authorities will continue to seek grants from bilateral development partners and international financial institutions to maintain debt at a prudent level. They also recognize the need to comply with non-concessional borrowing policies for continued grant support from the ADB and the World Bank.

Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–2044



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	Yes
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.

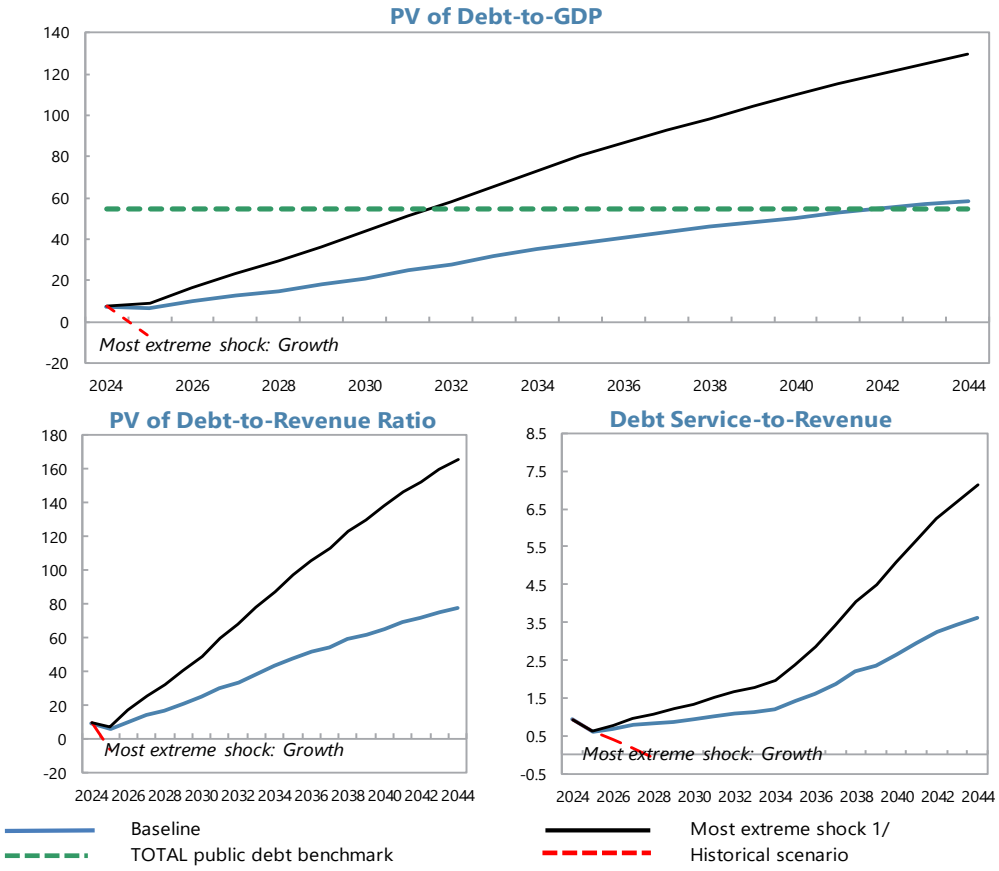
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace 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 2034. 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 exterme 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, 2024–2044



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

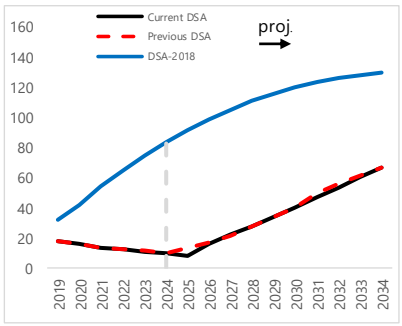
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

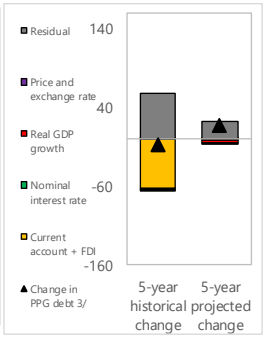
Figure 3. Kiribati: Drivers of Debt Dynamics—Baseline Scenario

External Debt

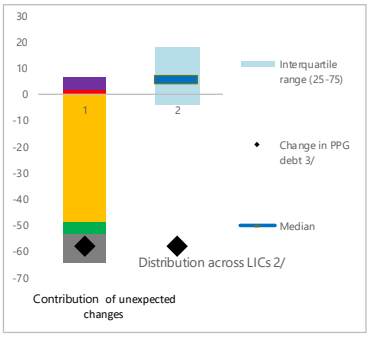
Gross Nominal PPG External Debt



Debt-Creating Flows (In percent of GDP)

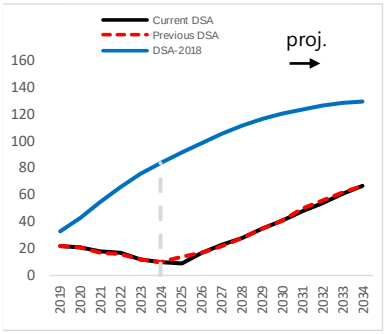


Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

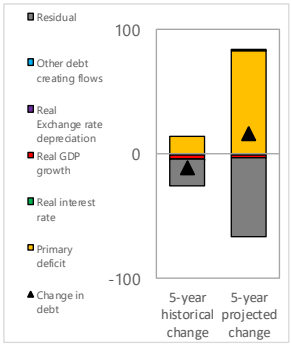


Public Debt

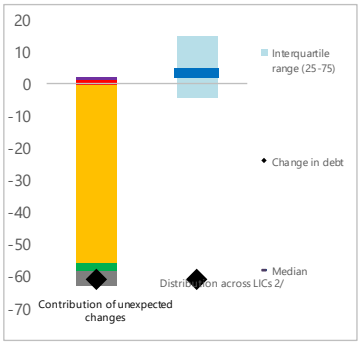
Gross Nominal Public Debt (In percent of GDP, DSA



Debt-Creating Flows (In percent of GDP)



Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



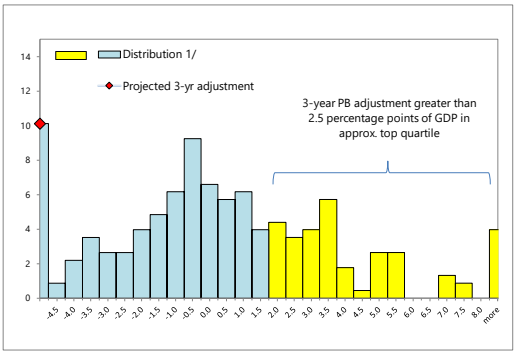
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

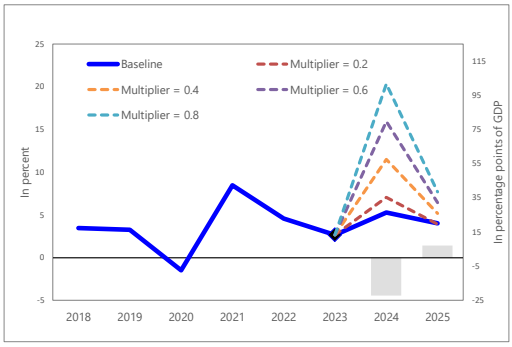
Figure 4. Kiribati: Realism Tools

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



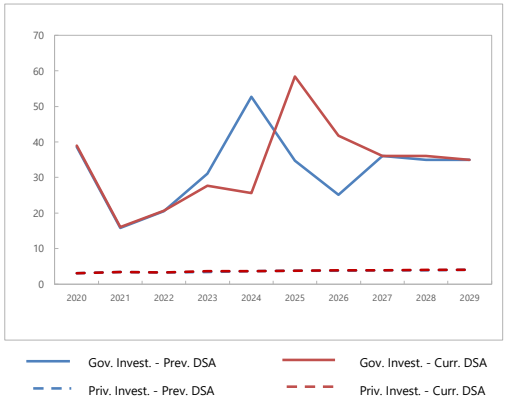
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)



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

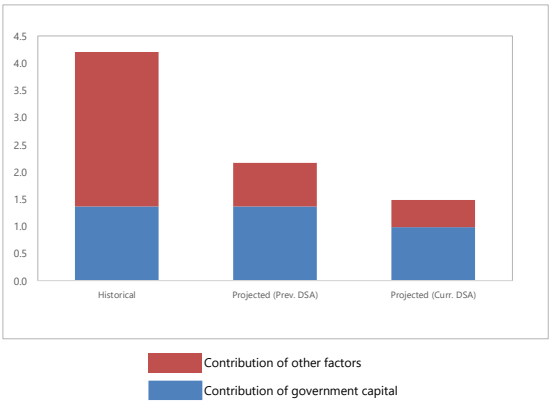
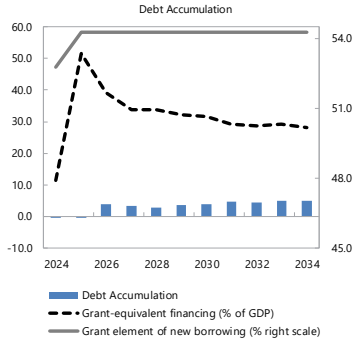


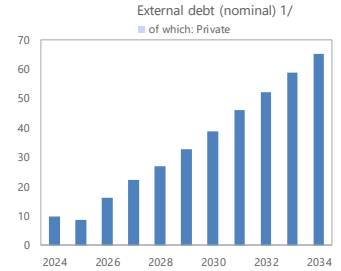
Table 1. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2021–2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
External debt (nominal) 1/	13.6	12.7	10.8	9.7	8.5	16.1	22.2	26.9	32.7	38.8	46.2	52.1	58.9	65.1	103.9	12.9	34.3
of which: public and publicly guaranteed (PPG)	13.6	12.7	10.8	9.7	8.5	16.1	22.2	26.9	32.7	38.8	46.2	52.1	58.9	65.1	103.9	12.9	34.3
Change in external debt	-2.9	-0.9	-1.9	-1.1	-1.2	7.6	6.1	4.7	5.9	6.0	7.4	6.0	6.8	6.2	2.8		
Identified net debt-creating flows	-10.5	14.3	2.7	2.7	1.5	2.0	2.1	2.3	2.4	2.3	2.0	1.7	1.3	0.7	0.1	-18.7	1.9
Non-interest current account deficit	-7.3	11.8	1.6	1.9	0.4	0.7	1.0	1.2	1.3	1.3	1.0	0.8	0.4	0.0	-0.2	-19.8	0.9
Deficit in balance of goods and services	24.5	59.4	48.4	46.4	47.9	48.1	48.0	48.1	47.9	48.0	47.2	47.2	48.1	48.1	50.2	20.9	47.7
Exports	46.3	41.1	53.3	48.5	43.2	42.6	42.0	41.6	41.1	40.8	41.6	41.7	40.8	40.9	38.9		
Imports	70.8	100.5	101.7	94.9	91.0	90.6	90.0	89.7	89.0	88.8	88.8	88.9	88.9	88.9	89.1		
Net current transfers (negative = inflow)	-17.6	-31.0	-29.3	-23.0	-26.7	-27.3	-27.9	-28.7	-27.1	-26.7	-26.0	-25.6	-26.7	-26.8	-28.3	-23.4	-26.6
of which: official	-8.4	-12.9	-24.2	-11.5	-51.6	-34.5	-29.8	-30.3	-28.1	-27.3	-24.2	-24.1	-24.0	-23.3	-20.8		
Other current account flows (negative = net inflow)	-14.2	-16.6	-17.5	-21.5	-20.7	-20.0	-19.1	-18.2	-19.4	-20.0	-20.2	-20.8	-21.0	-21.3	-22.1	-17.3	-20.2
Net FDI (Negative = Inflow)	0.3	1.6	1.8	1.2	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	0.6	1.3
Endogenous Debt Dynamics 2/	-3.5	0.9	-0.6	-0.4	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-1.0		
Contribution from nominal interest rate	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.6	1.0		
Contribution from real GDP growth	-1.1	-0.7	-0.3	-0.5	-0.4	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.1	-1.2	-2.0		
Contribution from price and exchange rate changes	-2.6	1.4	-0.5	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	7.5	-15.3	-4.6	-3.8	-2.7	5.6	4.0	2.4	3.4	3.7	5.4	4.3	5.5	5.4	2.6	17.3	3.0
of which: exceptional financing	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	0.0		
Sustainability Indicators																	
PV of PPG external debt-to-GDP ratio	...	...	7.9	7.1	6.6	10.0	12.8	15.1	18.0	21.0	24.8	28.0	31.7	35.1	59.4		
PV of PPG external debt-to-exports ratio	...	...	14.8	14.6	15.4	23.5	30.5	36.2	43.7	51.5	59.5	67.1	77.7	86.0	152.5		
PPG debt service-to-exports ratio	1.6	2.1	1.5	1.5	1.6	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.4	6.8		
PPG debt service-to-revenue ratio	1.1	1.5	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.7	4.8		
Gross external financing need (Million of U.S. dollars)	-17.7	38.6	12.0	11.8	7.7	9.2	10.2	11.5	12.6	13.1	12.7	12.4	11.5	10.2	24.5		
Key Macroeconomic Assumptions																	
Real GDP growth (in percent)	8.5	4.6	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.0	4.4	2.7
GDP deflator in US dollar terms (change in percent)	18.8	-9.4	4.0	1.3	-2.2	1.4	1.1	1.3	1.8	2.0	1.8	1.8	1.8	1.8	1.8	-0.3	1.2
Effective interest rate (percent) 4/	1.5	1.3	1.4	1.4	1.3	1.4	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	-5.0	-15.8	38.4	-2.9	-9.5	3.2	2.4	2.5	2.7	3.3	5.9	4.1	1.6	4.2	3.2	6.0	1.6
Growth of imports of G&S (US dollar terms, in percent)	35.8	34.7	7.9	-0.5	-2.5	4.2	3.0	3.1	3.1	3.8	3.9	4.0	3.9	3.9	3.9	6.5	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	52.8	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	...	54.1
Government revenues (excluding grants, in percent of GDP)	64.9	56.3	71.2	64.6	59.7	59.8	59.0	59.0	58.5	58.1	58.8	58.7	57.8	57.8	55.0	75.9	59.3
Aid flows (in Million of US dollars) 5/	23.9	34.9	70.0	35.3	161.7	141.4	126.4	128.3	130.5	134.1	133.1	132.9	142.7	142.8	189.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	11.5	51.6	39.2	33.8	33.7	32.2	31.6	29.3	28.6	29.1	28.1	25.4	...	31.7
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	100.0	100.0	90.8	90.9	92.3	90.3	89.6	87.1	88.2	87.1	87.3	86.8	...	91.2
Nominal GDP (Million of US dollars)	285	271	289	308	313	328	340	352	366	381	395	411	427	443	648		
Nominal dollar GDP growth	28.8	-5.2	6.7	6.6	1.7	4.7	3.7	3.5	4.0	4.1	3.9	3.9	3.9	3.9	3.8	4.1	4.0
Memorandum Items:																	
PV of external debt 7/	...	...	7.9	7.1	6.6	10.0	12.8	15.1	18.0	21.0	24.8	28.0	31.7	35.1	59.4		
In percent of exports	...	...	14.8	14.6	15.4	23.5	30.5	36.2	43.7	51.5	59.5	67.1	77.7	86.0	152.5		
Total external debt service-to-exports ratio	1.6	2.1	1.5	1.5	1.6	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.4	6.8		
PV of PPG external debt (in Million of US dollars)			22.8	21.8	20.8	32.7	43.5	53.0	65.7	79.9	97.9	114.8	135.1	155.8	385.1		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.4	-0.3	3.8	3.3	2.8	3.6	3.9	4.7	4.3	4.9	4.8	4.1		
Non-interest current account deficit that stabilizes debt ratio	-4.3	12.8	3.5	3.0	1.6	-6.8	-5.1	-3.5	-4.5	-4.8	-6.4	-5.2	-6.4	-6.2	-3.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, ε=nominal appreciation of the local currency, and α= 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.

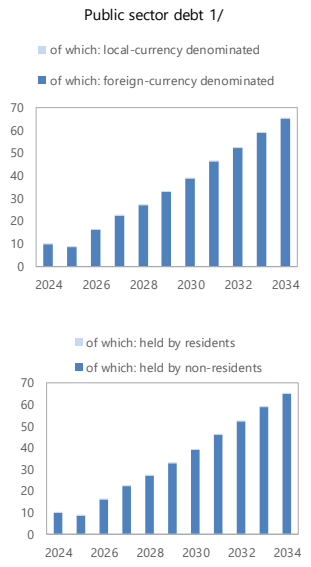
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Kiribati: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections							Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public Sector Debt 1/	**17.3**	**16.3**	**11.4**	**9.9**	**8.7**	**16.3**	**22.4**	**27.0**	**32.9**	**65.2**	**104.0**	**15.7**	**34.5**
Of Which: External Debt	**13.6**	**12.7**	**10.8**	**9.7**	**8.5**	**16.1**	**22.2**	**26.9**	**32.7**	**65.1**	**103.9**	**12.9**	**34.3**
Change in public sector debt	-2.9	-1.0	-4.9	-1.5	-1.2	7.6	6.1	4.7	5.9	6.2	2.8		
Identified Debt-Creating Flows	**8.6**	**18.9**	**-1.5**	**21.4**	**14.6**	**16.3**	**14.4**	**12.8**	**14.3**	**14.9**	**11.6**	**-4.4**	**15.5**
Primary Deficit	**10.8**	**18.3**	**-0.1**	**22.0**	**15.0**	**16.6**	**15.0**	**13.4**	**15.1**	**16.6**	**14.6**	**-12.2**	**16.4**
Revenue and grants	73.3	69.2	95.4	76.1	111.3	94.3	88.9	89.3	86.5	81.1	75.8	**109.2**	**87.3**
of which: grants	8.4	12.9	24.2	11.5	51.6	34.5	29.8	30.3	28.1	23.3	20.8		
Primary (noninterest) expenditure	84.0	87.5	95.3	98.1	126.3	110.9	103.8	102.7	101.6	97.7	90.4	**96.9**	**103.7**
Automatic Debt Dynamics	**-2.2**	**0.5**	**-1.4**	**-0.6**	**-0.4**	**-0.3**	**-0.5**	**-0.6**	**-0.8**	**-1.7**	**-2.9**		
Contribution from interest rate/growth differential	-1.8	-0.7	-0.7	-0.6	-0.4	-0.3	-0.5	-0.6	-0.8	-1.7	-2.9		
of which: contribution from average real interest rate	-0.2	0.1	-0.3	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.5	-0.9		
of which: contribution from real GDP growth	-1.6	-0.8	-0.4	-0.6	-0.4	-0.3	-0.4	-0.5	-0.6	-1.2	-2.0		
Contribution from real exchange rate depreciation	-0.4	1.2	-0.7	...	...	...	...	...	...	...	...		
Other Identified Debt-Creating Flows	**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		
Residual	**-11.5**	**-19.9**	**-3.4**	**-22.9**	**-15.8**	**-8.7**	**-8.4**	**-8.1**	**-8.4**	**-8.7**	**-8.9**	**2.5**	**-10.6**
Sustainability Indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**8.5**	**7.3**	**6.5**	**9.8**	**12.5**	**14.7**	**17.5**	**34.1**	**57.6**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**8.9**	**9.7**	**5.9**	**10.4**	**14.1**	**16.5**	**20.2**	**42.1**	**76.0**		
Debt service-to-revenue and grants ratio 3/	**1.0**	**1.2**	**0.8**	**0.9**	**0.6**	**0.7**	**0.8**	**0.8**	**0.9**	**1.2**	**3.5**		
Gross financing need 4/	11.5	19.2	0.7	22.7	15.7	17.2	15.6	14.2	15.8	17.5	17.2		
Key Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	8.5	4.6	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1	2.0	**4.4**	**2.7**
Average nominal interest rate on external debt (in percent)	1.4	1.3	1.4	1.4	1.4	1.4	1.2	1.1	1.1	1.0	1.0	**1.2**	**1.1**
Average real interest rate on domestic debt (in percent)	4.9	...	...	...	...	...	...	...	...	...	...	**...**	**...**
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.7	9.4	-5.8	...	...	...	...	...	...	...	...	**0.5**	**...**
Inflation rate (GDP deflator, in percent)	9.1	-2.0	8.7	2.0	2.7	2.0	1.8	1.8	2.1	1.8	1.8	**3.2**	**1.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.8	8.9	11.8	8.3	33.8	-9.3	-4.1	1.1	1.1	0.6	1.6	**7.2**	**3.4**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	13.7	19.3	4.8	23.5	16.2	9.0	8.9	8.8	9.2	10.4	11.8	**12.6**	**11.5**
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		

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



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 ((-): a primary surplus), which would stabilizes 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.

Table 3. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2044

(In percent)

	Projections 1/																				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
PV of debt-to GDP ratio																					
Baseline	7	7	10	13	15	18	21	25	28	32	35	38	**41**	**44**	**46**	**49**	**51**	**53**	**56**	**58**	**59**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	7	-4	-10	-18	-26	-34	-41	-48	-55	-61	-67	-73	-79	-85	-91	-96	-100	-104	-108	-112	-115
B. Bound Tests																					
B1. Real GDP growth	7	7	11	14	17	20	24	28	31	36	39	**43**	**46**	**49**	**52**	**55**	**57**	**60**	**62**	**65**	**67**
B2. Primary balance	7	16	29	32	35	38	**41**	**44**	**48**	**51**	**55**	**58**	**60**	**62**	**64**	**66**	**68**	**70**	**72**	**74**	**75**
B3. Exports	7	14	29	33	35	39	**43**	**47**	**51**	**56**	**60**	**63**	**66**	**68**	**71**	**73**	**75**	**77**	**79**	**80**	**82**
B4. Other flows 3/	7	11	20	23	25	28	31	35	38	**42**	**45**	**48**	**51**	**53**	**55**	**57**	**58**	**60**	**62**	**64**	**65**
B5. Depreciation	7	8	5	9	12	15	19	24	28	33	37	**41**	**45**	**49**	**52**	**56**	**59**	**62**	**65**	**68**	**71**
B6. Combination of B1-B5	7	15	20	24	26	30	33	38	**41**	**46**	**50**	**53**	**56**	**58**	**61**	**63**	**65**	**68**	**70**	**72**	**74**
C. Tailored Tests																					
C1. Combined contingent liabilities	7	20	23	26	28	31	34	38	**41**	**45**	**48**	**52**	**54**	**57**	**60**	**62**	**64**	**67**	**69**	**71**	**73**
C2. Natural disaster	7	13	18	22	26	30	35	40	**45**	**50**	**55**	**59**	**64**	**68**	**72**	**75**	**79**	**83**	**87**	**90**	**93**
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.
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio																					
Baseline	15	15	23	30	36	44	51	60	67	78	86	96	103	108	118	123	128	136	141	147	153
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	15	-8	-25	-43	-63	-82	-101	-115	-131	-150	-165	-183	-198	-211	-230	-242	-252	-266	-274	-285	-296
B. Bound Tests																					
B1. Real GDP growth	15	15	23	30	36	44	51	60	67	78	86	96	103	108	118	123	128	136	141	147	153
B2. Primary balance	15	38	69	77	83	91	99	107	114	126	134	145	150	154	164	168	172	179	**183**	**188**	**193**
B3. Exports	15	38	99	112	123	137	151	164	177	**197**	**211**	**229**	**237**	**244**	**259**	**265**	**271**	**283**	**288**	**297**	**304**
B4. Other flows 3/	15	26	47	54	60	68	76	83	91	102	110	120	126	130	139	143	147	154	158	163	168
B5. Depreciation	15	15	9	16	22	29	37	45	53	63	71	81	88	95	105	111	117	125	130	137	143
B6. Combination of B1-B5	15	36	41	63	71	81	91	101	111	125	136	148	156	162	174	179	**185**	**194**	**199**	**206**	**212**
C. Tailored Tests																					
C1. Combined contingent liabilities	15	45	54	61	67	75	83	91	98	110	118	129	135	141	151	157	162	170	175	**181**	**187**
C2. Natural disaster	15	33	46	58	69	81	94	106	118	134	147	164	175	**185**	**201**	**210**	**219**	**233**	**242**	**253**	**264**
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.
Threshold	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio																					
Baseline	1	2	1	2	2	2	2	2	2	2	2	3	3	4	4	4	5	6	6	6	7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	1	2	1	1	0	0	-1	-1	-1	-1	-2	-3	-4	-5	-7	-8	-9	-10	-10	-11	-12
B. Bound Tests																					
B1. Real GDP growth	1	2	1	2	2	2	2	2	2	2	2	3	3	4	4	4	5	6	6	6	7
B2. Primary balance	1	2	2	3	3	3	3	3	3	3	3	5	6	7	7	7	8	8	9	9	9
B3. Exports	1	2	3	4	4	4	4	4	5	5	5	7	10	10	11	12	12	13	14	15	**15**
B4. Other flows 3/	1	2	2	2	2	2	2	2	2	3	3	4	5	5	6	6	6	7	7	8	8
B5. Depreciation	1	2	1	1	1	2	2	2	2	2	2	3	2	3	3	4	4	5	5	6	6
B6. Combination of B1-B5	1	2	2	3	3	3	3	3	3	3	3	5	6	6	7	7	8	9	9	10	10
C. Tailored Tests																					
C1. Combined contingent liabilities	1	2	2	2	2	2	2	2	3	3	3	3	4	4	5	5	5	6	6	7	7
C2. Natural disaster	1	2	2	2	2	3	3	3	3	3	3	4	4	5	6	6	7	7	8	9	9
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.
Threshold	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio																					
Baseline	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	4	4	4	5	5
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	1	1	1	0	0	0	0	-1	-1	-1	-1	-2	-3	-4	-5	-6	-6	-7	-7	-8	-9
B. Bound Tests																					
B1. Real GDP growth	1	1	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5	5	5
B2. Primary balance	1	1	1	2	2	2	2	2	2	2	2	3	4	5	5	5	6	6	6	7	7
B3. Exports	1	1	2	2	2	2	2	2	2	2	2	3	5	5	5	6	6	6	7	7	7
B4. Other flows 3/	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5	5	5	5	6
B5. Depreciation	1	1	1	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	5	5	5
B6. Combination of B1-B5	1	1	1	2	2	2	2	2	2	2	2	3	4	4	4	5	5	5	6	6	6
C. Tailored Tests																					
C1. Combined contingent liabilities	1	1	1	2	2	2	2	2	2	2	2	2	3	3	3	3	4	4	5	5	5
C2. Natural disaster	1	1	1	1	2	2	2	2	2	2	2	2	3	3	4	4	4	5	5	5	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.
Threshold	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, 2024–2044

(In percent)

	Projections 1/																			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
PV of Debt-to-GDP Ratio																					
Baseline	7	7	10	13	15	17	20	24	27	31	34	37	40	42	45	47	49	52	54	**56**	**58**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	7	-7	-18	-28	-37	-46	-54	-63	-70	-78	-85	-91	-97	-102	-107	-112	-116	-119	-123	-126	-128
B. Bound Tests																					
B1. Real GDP growth	7	9	17	23	29	36	43	50	**57**	**65**	**72**	**79**	**86**	**91**	**97**	**103**	**108**	**114**	**119**	**124**	**128**
B2. Primary balance	7	17	30	33	35	38	41	44	47	51	54	**57**	**59**	**61**	**63**	**65**	**67**	**69**	**71**	**72**	**74**
B3. Exports	7	12	23	26	28	31	34	38	41	45	48	51	53	55	**57**	**58**	**60**	**62**	**63**	**64**	**66**
B4. Other flows 3/	7	11	19	22	24	27	30	34	37	40	44	47	49	51	53	55	**57**	**59**	**60**	**62**	**63**
B5. Depreciation	7	7	7	7	6	5	5	5	5	5	5	6	6	6	6	6	6	6	5	5	5
B6. Combination of B1-B5	7	17	20	13	15	18	21	24	27	31	34	37	40	42	45	47	49	51	53	**55**	**57**
C. Tailored Tests																					
C1. Combined contingent liabilities	7	20	23	26	28	31	34	38	41	44	48	51	54	**56**	**59**	**61**	**63**	**65**	**68**	**69**	**71**
C2. Natural disaster	7	13	18	22	26	30	35	40	44	49	54	**59**	**63**	**67**	**71**	**74**	**78**	**82**	**85**	**89**	**92**
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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio																					
Baseline	10	6	10	14	16	20	24	29	33	38	42	47	50	53	58	61	64	68	71	73	76
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	10	(6)	(19)	(32)	(43)	(55)	(67)	(80)	(91)	(102)	(113)	(124)	(134)	(143)	(154)	(162)	(169)	(178)	(183)	(190)	(195)
B. Bound Tests																					
B1. Real GDP growth	10	8	17	25	31	40	48	59	67	77	86	95	104	111	121	128	136	144	151	157	164
B2. Primary balance	10	15	32	37	39	44	48	53	57	62	67	71	75	77	82	84	87	90	93	95	97
B3. Exports	10	10	25	29	32	36	40	46	49	54	59	64	67	69	73	75	78	81	83	85	87
B4. Other flows 3/	10	10	21	25	27	31	35	41	44	49	54	58	62	64	68	71	74	77	79	81	83
B5. Depreciation	10	7	8	8	7	6	6	6	6	7	7	7	7	7	7	7	7	7	7	7	7
B6. Combination of B1-B5	10	15	22	14	17	20	24	29	33	38	42	46	50	53	58	60	64	68	70	73	75
C. Tailored Tests																					
C1. Combined contingent liabilities	10	18	25	29	32	36	40	45	49	54	59	63	67	70	75	78	82	86	89	91	94
C2. Natural disaster	10	12	19	25	29	34	40	47	53	60	66	72	78	83	90	95	100	106	110	115	120
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.
Debt Service-to-Revenue Ratio																					
Baseline	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	1	1	0	0	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(2)	(3)	(3)	(4)	(5)	(5)	(6)	(6)	(6)	(7)
B. Bound Tests																					
B1. Real GDP growth	1	1	1	1	1	1	1	1	2	2	2	2	3	3	4	4	5	6	6	7	7
B2. Primary balance	1	1	1	1	1	1	1	1	1	2	2	2	3	3	4	4	4	4	5	5	5
B3. Exports	1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	4	4	4	4	4
B4. Other flows 3/	1	1	1	1	1	1	1	1	1	1	1	2	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	2	2	2	2	3	3	3	3	3
C. Tailored Tests																					
C1. Combined contingent liabilities	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3	4	4
C2. Natural disaster	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3	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.

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.