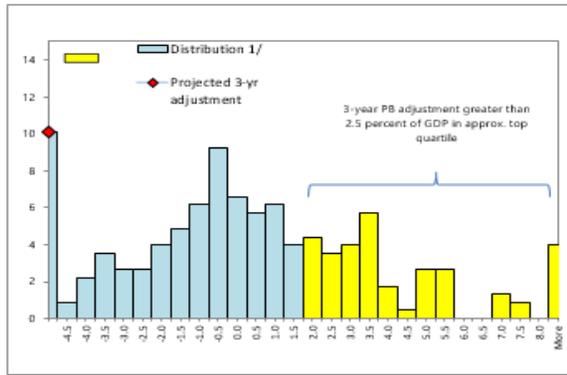


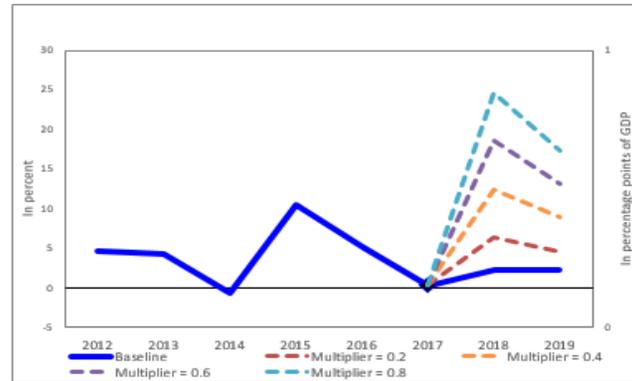
Figure 4. Kiribati: Realism Tools

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



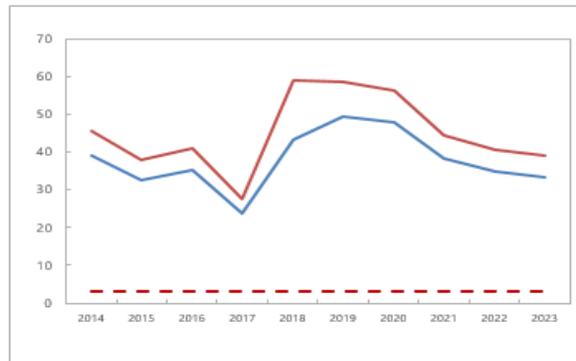
* Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 2000. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



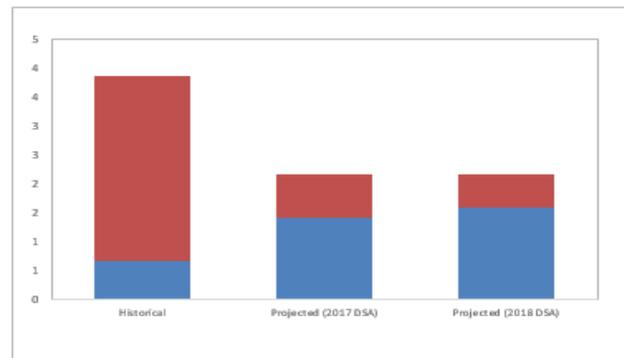
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates (% of GDP)



— Gov. Invest. - DSA 2016 — Gov. Invest. - Current DSA
 - - - Priv. Invest. - DSA 2016 - - - Priv. Invest. - Current DSA

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



■ Contribution of other factors
 ■ Contribution of government capital

**Statement by Mr. Nigel Ray, Executive Director of Kiribati, and Ms. Anna Park,
Advisor to the Executive Director of Kiribati
January 11, 2019**

Mr. Ray and Ms. Park submitted the following statement:

Kiribati consists of 33 small islands spread over an area of the Pacific Ocean roughly the size of India, and is the only country situated in all four hemispheres. Geographic dispersion and remoteness contribute to the high cost of infrastructure and public service delivery. As with many Pacific countries, the production and export base is narrow. The main sources of income are fishing licenses, remittances from seafarers and copra. Reliance on imported fuel and food is high, increasing vulnerability to exchange rate and commodity price movements. Kiribati will be one of the first countries affected by rising sea levels and the tuna fishery – its key economic resource – could be affected by higher ocean surface temperatures.

Despite these challenges, considerable progress has been made in recent years. Kiribati's economy has performed strongly owing to higher public spending supported by record fishing revenue and donor-financed infrastructure investment. The fiscal position has improved and the current account has shifted into surplus. The Government has supported the outer islands by doubling the copra subsidy, extended fee-free education, reduced the cost of access to electricity in South Tarawa, improved pay and working conditions for public servants and invested in better transport and telecommunications links – all within its current revenue envelope. Kiribati has a good record of stable democracy, orderly government transitions, social cohesion, and prudent economic management. The Kiribati Vision 20 (KV20) sets out a blueprint for sustainable and inclusive development, focusing on fisheries and tourism, as well as developing human capital, investing in infrastructure, and promoting good governance.

The authorities largely agree with the staff's analysis and outlook, and with the broad thrust of the advice. They thank staff for their thoughtful analysis and the open and collaborative approach taken by the team. The mission included a technical assistance component and ran alongside a World Bank mission, which allowed all involved to draw on each other's expertise and make best use of the authorities' time.

Prudent and sustainable fiscal management

Public spending needs are high. Kiribati has the lowest per capita income in the region and a fifth of the population lives below the poverty line. Infrastructure needs

are high – less than half the population has access to improved sanitation or electricity, or mobile phone and internet access.

The authorities are committed to prudent and sustainable fiscal management, alongside necessary investments in development and social programs. Kiribati has maintained fiscal surpluses over recent years, enabling contributions to the Revenue Equalization and Reserve Fund (RERF). For 2019, the Government has committed to running at least a balanced budget. This calls for using conservative estimates of fishing revenue and making no further step-change in public service salaries or copra subsidies. The government sees the copra subsidy as playing an important role in redistributing income and meeting basic needs for households in the outer islands. The authorities will carefully consider staff advice to focus on the controllable portion of the budget and limit use of supplementary budgets. But some flexibility in the framework is appropriate to respond to large and unpredictable variations in fishing license revenues. These fluctuations – either negative or positive – can have a significant impact on economic and fiscal outcomes.

The RERF is one of Kiribati's most important assets and it is critical that it is managed effectively to provide benefits to both present and future generations. As well as making an A\$70 million transfer to the RERF in 2016, the Government has implemented management reforms, including appointment of new asset managers and a new custodian through a competitive selection process. Cabinet recently approved the adoption of a clear set of objectives for the management of the RERF. These are designed to reach the KV20 target of an asset value of A\$1 billion by 2020, and – going forward – to maintain the real value of the fund while using a portion of RERF returns to finance development projects. High fisheries revenue in recent years has allowed Kiribati to accumulate significant cash reserves, which can now replace the traditional revenue stabilization role of the RERF. Cabinet recently adopted a cash management policy to ensure that these cash reserves are managed as efficiently as possible while still meeting the liquidity needs of the government and the banking system.

The authorities are aware of potential climate change mitigation and adaptation costs and are working to recognize these costs in the Budget. The new Climate Finance Division in the Ministry of Finance is developing a strategic framework and country program and is looking at enhancing reporting of spending on climate adaptation and mitigation.

Enhancing governance

The authorities are committed to improving public financial management. A new Central Procurement Unit in the Ministry of Finance and Economic Development was established in 2018, and the authorities look forward to working closely with