INTERNATIONAL MONETARY FUND

Kiribati

Staff Report for the 2013 Article IV Consultation

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KIRIBATI

2013 ARTICLE IV CONSULTATION

June 2013

Kiribati: 2013 Article IV Consultation—Staff Report; Informational Annex, Debt Sustainability Analysis, Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Kiribati.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Kiribati, the following documents have been released and are included in this package:

- The staff report, Informational Annex, and Debt Sustainability Analysis for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 8, 2013, 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 May 14, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 29, 2013 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Kiribati.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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KIRIBATI

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

May 14, 2013

KEY ISSUES

Context. Donor projects, higher than average fishing license fees and remittances lifted growth in 2012. However, the structural fiscal imbalance remains excessively large. Lack of private sector development and underperforming state-owned enterprises (SOEs) have exacerbated structural problems. Since 2012, the government has been pursuing a broad range of reforms supported by the donor community to address Kiribati's fiscal and structural challenges.

Policy Issues. Kiribati faces a number of key challenges: a) structural fiscal imbalances are large stemming mostly from insufficient revenue growth as well as expenditure pressures from significant infrastructure needs and non-performing public enterprises. Weaknesses in public financial management exacerbate the fiscal risks; b) Kiribati's public finances and overall economy are vulnerable to external shocks from volatile fishing license revenues and financial exposure of its sovereign wealth and pension funds; c) Private sector involvement in the economy is small due to remoteness and weak business climate. This constrains growth and puts strain on public finances.

Key Policy Recommendations:

- Adhere to a fiscal policy framework that achieves a sustainable drawdown of the sovereign wealth fund in the long run. To implement such a policy framework, it is essential to: a) follow up with tax reform and strengthen tax compliance; b) strengthen public financial management, including by increasing the accuracy of short and medium-term fiscal projections and improving mechanisms for approval of government debt and guarantees.

- Continue reform of SOEs with the goal of improving their management and promoting commercialization of viable enterprises.

- Private sector development is a key element to both improving growth opportunities and reducing structural fiscal imbalances. Full utilization of Kiribati's marine potential in particular is essential and involves developing a viable fishing industry beyond collecting license fees. Tourism and opportunities to work abroad also hold large promise. Removing impediments to doing business is also essential.

Approved By
Hoe Ee Khor and Peter Allum

Discussions were held in Kiribati. The mission met with President Anote Tong, Minister of Finance Murdoch, Secretary of Finance Beiatau, other senior government officials, and representatives from public enterprises and the private sector. The team comprised Mr. Dodzin (head), Ms. Rauqeuqe, Mr. Wu (all APD), and Ms. Shinagawa (STA). Mr. Fookes (ED office), Mr. Lototele (AsDB), Mr. Haque (World Bank), and Mr. Roger (PFTAC) also joined discussions.

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BACKGROUND

1. **Kiribati is one of the poorest and most remote microstates in the Pacific. It is highly dependent on volatile fishing license fees, remittances and donor assistance**. Fishing license fees accounted, on average, for 29 percent of GDP and 50 percent of fiscal revenue in 2007–12. Kiribati relies on its sovereign wealth fund—Revenue Equalization Reserve Fund (RERF)—for financing of the fiscal deficit. RERF assets stood at about 3½ times of GDP in 2012.[1]

2. **Fiscal risks and sustainability have worsened in recent years.** Since the mid–2000s, revenues have not kept pace with expenditures, leading to increased demands on RERF financing. Tax revenue has declined as a share of GDP largely due to poor compliance and problematic SOEs, while non-tax revenue stagnated. At the same time, expenditures were not contained in line with revenue trends, leading to large and excessive current fiscal deficits and high financing demands on the RERF. Obligations related to underperforming SOEs have exacerbated the problem. As a result, the RERF drawdowns to finance the budget have become unsustainable, putting the RERF on a declining path as a share of GDP and in per capita terms. Besides RERF financing, until recently the government had resorted to expensive commercial borrowing, which had in turn worsened fiscal dynamics further.

3. **The Government of Kiribati realized the magnitude of the problems and with the help of donor community has embarked on a broad range of reforms to address its fiscal and structural challenges.** In 2012, the government cleared most of the overdraft facilities following the IMF advice and technical assistance (TA), thereby reducing its interest cost**.** Ongoing reforms cover various areas: public financial management, tax system, SOEs, and the private sector. Successful implementation of these reforms increases the likelihood of higher donor financing, including budget support in the form of grants. Discussions on such financing are ongoing. These reforms are also consistent with the IMF advice provided during the 2011 Article IV consultation and subsequent staff visits.[2]

4. **The IMF has been actively involved in all relevant aspects of the government-led reform program in coordination with the World Bank, AsDB, AusAid and other development partners**. The Fund has provided macroeconomic, fiscal, and debt sustainability assessments and projections. IMF experts from headquarters and PFTAC have provided TA in the area of public financial

[1] The Revenue Equalization Reserve Fund (RERF) is a sovereign wealth fund established in 1956 and capitalized using phosphate mining proceeds before phosphate deposits were exhausted in 1979. It is one of the main sources of fiscal income and budget financing for Kiribati.

[2] After the 2011 Article IV consultation, there were two staff visits in January and June 2012. The main recommendations of the consultation and the staff visits included: the call for fiscal consolidation to ensure fiscal sustainability and to preserve the value of the RERF; acceleration of the structural reform agenda, including reform of the SOEs; and implementing measures to promote private sector development through simplification of business procedures and improving access to land. The staff visits focused in particular on addressing growing fiscal imbalances following adverse fiscal outturns. To address such imbalances, the staff called for strengthening tax administration, expanding the tax base by introducing broad base value added tax (VAT), restraining current expenditure, and eliminating the need for non-concessional borrowing. The June 2012 staff visit proposed clearing government outstanding commercial debt and embarking on a strong reform program supported by development partners, which would help attract donor budget support.

management, management of the RERF and the pension fund (KPF), national accounts, government finance, and external statistics.

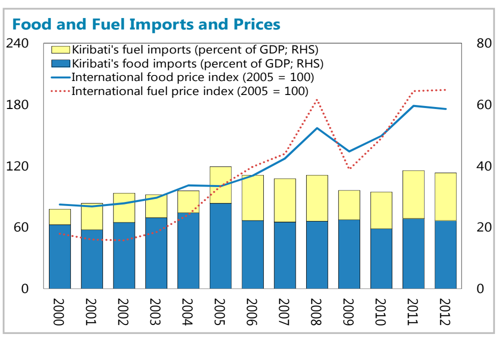
OUTLOOK

5. **Growth increased to 2.8 percent in 2012, reflecting implementation of donor projects, higher than average fishing license fees and remittances**. Airport and sea-port construction projects in particular boosted construction activities. Nevertheless, inflation remained negative on account of lower prices of rice and some other staples. The revenue from fishing licenses was much higher than average, but is expected to decline in the period ahead**.**

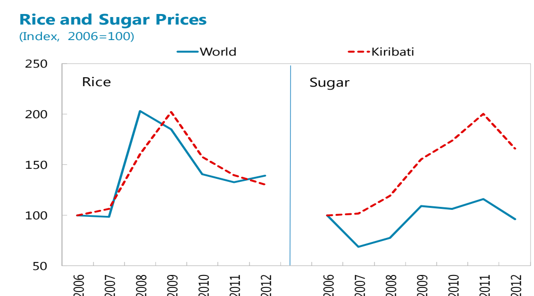
6. **The current account deficit widened slightly in 2012 mostly because of an increase in imports, which was partially offset by high fishing license fees.** The high level of imports was mostly due to the surge in imports of machinery and equipment associated with donor projects. At the same time, the value of the food imports declined slightly reflecting moderating prices on some main staples in line with world trends. Remittances, which are dominated by transfers from seamen, also dropped, due to the slowdown in the world shipping activity. Income on the RERF was stable, reflecting in particular favorable relative yields on Australian assets.

International Environment and Kiribati

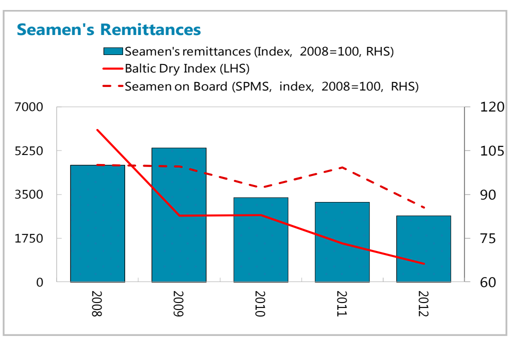
Food and Fuel imports tend to move in line with the international prices....



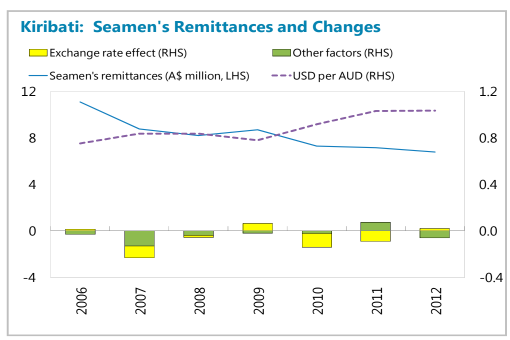
… and local prices of some main imported food items follow international prices as well.



Seamen employment and remittances depend on the world shipping activity...



…and appreciation of Australian dollar tends to reduce their values, but other factors are also important.



Sources: Kiribati authorities; and IMF staff estimates.

7. The economy will continue to expand at rates close to 3 percent in the next two years, supported by donor projects and construction activities. The road project, renovation of the airport, expansion of oil storage terminals, and continuing port renovation will expand local employment and income. Inflation is projected at 2–2.5 percent.

8. The risks in the external environment may affect the outlook (see risk assessment matrix). They include a slowdown in some of the main world economies that could lead to a decline in RERF assets and remittances, and price shocks that would increase value of imports. The main risks in the medium term relate to the adverse growth and fiscal implications in case domestic reforms lack progress.

POLICIES TO ACHIEVE FISCAL SUSTAINABILITY AND PROMOTE LONG-TERM GROWTH

Key policy challenges are in reducing structural fiscal imbalances and increasing growth opportunities, in particular for private sector growth. These challenges are interconnected because private sector growth is vital for reducing the fiscal burden.

A. Fiscal Policy

Background

9. Since the mid-2000s, the fiscal position has worsened as revenues stagnated and expenditures were not adjusted to reflect lower revenues. Tax revenues declined because of poor compliance and non-performing SOEs. Non-tax revenue stagnated mainly because fishing license fees and other fees did not keep up with GDP growth and have been on a declining trend in real terms.[3] The wage bill constituted about one half of the current expenditure. Subsidies were dominated by those for copra and SOEs. Underperforming SOEs put additional fiscal pressure through their debt which was guaranteed by the government.

10. The worsening fiscal position led to high current deficits financed by unsustainable RERF drawdowns and non-concessional borrowing.[4] By 2011–12, the RERF balance, in constant per capita terms, was almost half of its amount in 2000. The government accumulated significant non-concessional debt from its overdraft facility with the commercial bank (ANZ) and from taking on debt guarantees of the SOEs. By mid-2012, the government overdraft with the commercial bank stood at A$22½ million (13½ percent of GDP) and the SOEs' overdraft (mostly guaranteed by the government) at A$11¾ million (7 percent of GDP).

11. Consistent with the advice of the IMF staff, which was supported by the donor community, the government cleared its overdraft and other non-concessional debt in 2012

[3] While fishing license fees were significantly higher in 2012 due to one off factors, such an outcome cannot be sustained in the long run.

[4] For the purpose of this report, the current fiscal deficit is defined as the deficit that excludes development expenditures financed by donors and corresponding development grants on the revenue side. It is a better indicator of the fiscal position and financing demands on Kiribati government than the overall deficit. The current deficit in this definition also corresponds to the concept that the government uses for its budget.

using the RERF. The government's repayment of its overdraft debt of about A$26 million has reduced interest costs by about A$2⅓ million per year.

12. The 2013 budget implies a current fiscal deficit of about 18⅓ percent of GDP, assuming conservative projections for fishing license revenue. The budget factors in an increase of about 6 percent in the wage bill including other employee allowances and a similar level of subsidies compared to the 2012 budget. Assuming about A$5 million of budget support from donors and no commercial borrowing, the financing requirement implies a RERF drawdown of about A$27 million or 15.4 percent of GDP leading to a further decline in the RERF per capita balance.

13. The government has been undertaking a broad range of reforms to reduce fiscal imbalances and improve fiscal planning and execution with the assistance of development partners, including:

- The government plans to introduce value added and excise taxes in the first half of 2014 and has been preparing the framework and draft legislation for these taxes with the assistance of PFTAC.
- A revision of the public finance regulation act has been prepared and is ready for official approval. Revised regulations would strengthen procedures for budget execution, reporting and auditing.
- The parliament passed an SOE bill establishing a strengthened legal framework for governance, financial reporting, and management of SOEs.
- The government with the help of the AsDB and PFTAC has been upgrading its fiscal information systems to improve accountability and functionality.
- Work is underway to improve Kiribati's fisheries policy (with the assistance of Australian TA).
- The government plans to introduce improvements in RERF management and asset allocations, with the support of technical assistance.

Based on the reform program, the government has been discussing with the World Bank, AusAid, AsDB, and the European Union budget grant support for 2013 and 2014.

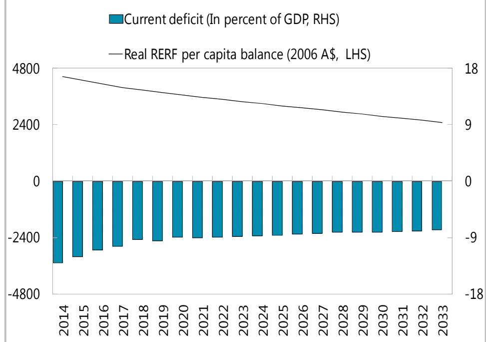
Staff Views

14. Restoring fiscal sustainability by stabilizing RERF real value in per capita terms in the longer term would require a challenging fiscal effort (Box 1, Table 5).

Box 1. Kiribati: Restoring Fiscal Sustainability

- **The baseline scenario** incorporates the authorities' current commitments to reform, assumes the introduction of value added and excise taxes (with implementation adjustment), and assumes that current expenditures will grow more slowly than nominal GDP in the medium and longer term. The baseline scenario also incorporates donor budget support in the amount of A$5 million under the reform program in 2013–14. Under this scenario, the current fiscal deficit will be reduced from 18.2 percent of GDP in 2013 to 9⅓ percent of GDP in 2018 and to about 8⅓ percent in the longer run. The RERF drawdown would be reduced from 15.4 percent of GDP to 8⅓ percent of GDP correspondingly. Despite significant narrowing of the current fiscal deficit by about 10 percent of GDP under this scenario, the RERF per capita value does not stabilize and declines by more than 40 percent by 2030 compared to the 2011 level. The debt sustainability analysis points to a high risk of debt distress under this scenario.

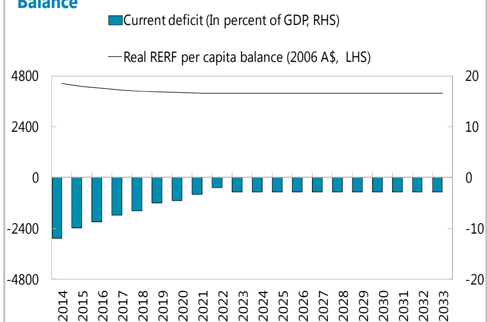
Baseline Scenario: Current Deficit and RERF Balance



Source: IMF staff estimate.

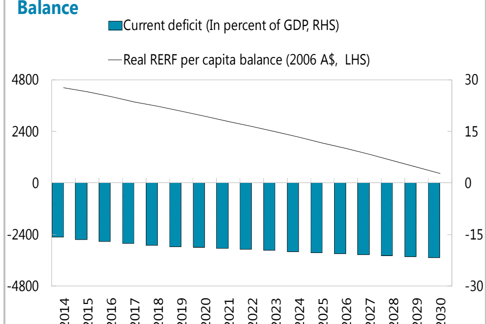
- **The stronger reform scenario** incorporates additional fiscal measures to stabilize RERF per capita values by 2021–22 at slightly below A$4,000 in constant terms. Such stabilization will be difficult to achieve, requiring a narrowing of current fiscal deficit of more than 15 percent of GDP, distributed broadly between taxes, wages, and other expenditure measures. The scenario also assumes some improvement in fishing license fees revenues through better pricing. The adjustment period is appropriate given the magnitude of fiscal adjustment, capacity constraints and the time needed to implement fiscal and structural reforms. The current fiscal deficit under this scenario will be limited to 2⅔ percent of GDP on average in 2022–30. Stronger reforms would allow Kiribati to finance a greater proportion of development financing needs through grants and reduce the risk of debt distress according to the debt sustainability analysis.

Stronger Reform Scenario: Current Deficit and RERF Balance



Source: IMF staff estimate.

Policy Stagnation Scenario: Current Defict and RERF Balance



Source: IMF staff estimate.

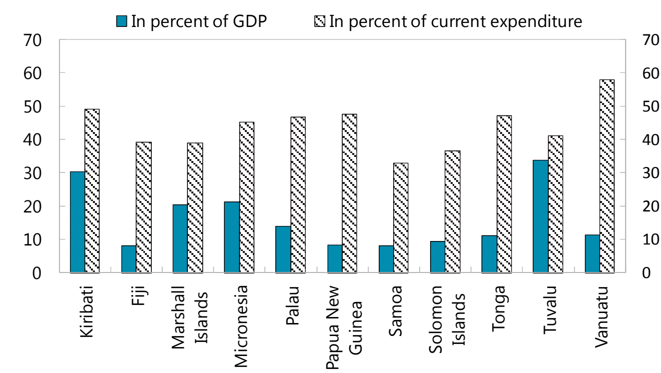
- **The downside policy stagnation scenario**, which assumes that the current fiscal deficits will remain at the 2013 level in relation to GDP, leads to a much worse outcome. Under this scenario, not only will the per capita RERF balance fail to stabilize, but RERF assets will eventually be depleted.

15. Staff welcomed the authorities' commitment to tax reform. Implementation challenges are significant and need to be addressed promptly. The challenges include finalizing modalities of VAT application, and provision of necessary equipment and software.

16. Maintaining sufficient growth of fishing license revenues while abiding by international commitments and managing their volatility is very important. An increase in the minimum price of fishing licenses from US$5,000 to US$6,000 per day for 2014 should strengthen the near-term fishing license revenue outlook. Nevertheless, as the regional Nauru Agreement sets only minimum prices, it may be helpful to consider ways to improve current negotiating processes with the fishing companies by using international expert advice. In the longer run, developing a viable local commercial fishing industry and going beyond fishing license fees is vital for both lifting growth and living standards and reducing fiscal imbalances.

17. Measures on the expenditure side are necessary, but need to be implemented in a way that supports priority spending on health, education, and infrastructure. Recurrent expenditures on health, education, and infrastructure would need to be maintained. The yearly increase in the public wage bill would need to be contained below nominal GDP growth, in particular taking into account the fact that the public wage bill is relatively high in Kiribati. Copra subsidies currently serve mainly as a livelihood subsidy to support outer islands inhabitants. Without increasing employment opportunities on the islands, it is unlikely that improving the efficiency of this subsidy or replacing it with an alternative scheme would significantly reduce the cost in the near and medium term. SOE subsidies are currently dominated by those for the Public Utilities Board (PUB) and airfares. Given that the PUB has been underperforming and running arrears, a reduction in the PUB subsidy can only be implemented after restoring the PUB performance. The reduction in airfare subsidies is complicated by the need to maintain links with remote islands and limited airline competition. Climate change impact and infrastructure pressures can result in additional costs.

Wage Expenditure



Sources: Country authorities; and IMF staff calculations.
[1] Data are as of 2011.

18. The policy of avoiding non-concessional financing of the recurrent deficit should continue. The clearance of overdraft facilities substantially reduced the borrowing costs by more than A$2 million per year. As borrowing costs on commercial debt are substantially higher than the return on RERF investments, borrowing on commercial terms should be avoided under the government's debt and asset management strategy.

19. Implementation of a sound public financial management framework is critical to restoring fiscal sustainability. Such a framework would ensure the formulation and execution of sustainable budgets over the medium and long term and corresponding RERF drawdowns over the long run. In this context, it is also important to adopt a prudent policy on contracting and guaranteeing debt and to strengthen revenue and expenditure projections. Staff welcomed the authorities' decision to seek technical assistance in these areas.

Authorities' Views

20. **The authorities were in broad agreement with the mission's recommendations.** They agreed that maintaining fiscal sustainability and preserving the value of the RERF is a priority. They intend to introduce necessary revenue measures and to limit current expenditure, including the wage bill. The authorities also pointed out that they continue to avoid overdraft borrowing for the budgetary needs and have reduced the amount of guarantees to SOEs. At the same time, the authorities noted the potential spending needed to replace vessels, improve infrastructure on the outer islands, and address the negative impact of climate change.

21. **The authorities intend to introduce a VAT in the first half 2014.** The VAT would initially be levied on the largest businesses with high turnover, which would ease somewhat the implementation process. The authorities hoped that development partners would speed up the delivery of needed equipment and requested technical assistance to study the welfare impact of introducing the VAT**.**

22. **The authorities acknowledged that the high fishing license revenue in 2012 is not sustainable.** They recognized the importance of such revenues for the budget and noted that fishing companies are aware of the government's reliance on fishing license revenues and have use that to bid for the lowest fees. The authorities also contended that since the regional Nauru Agreement sets the minimum price for licenses, most companies bid around this minimum price. They agreed that the development of the local fishing industry beyond license fees is very important for increasing economic growth and improving fiscal outcomes. With regard to the smoothing mechanism for fishing licenses, the authorities noted their preference for conservative projections for fishing license fees in the budget in order to avoid possible shortfalls.

B. State-owned Enterprises Reforms

Background

23. **The government has been implementing SOE reforms with the assistance of the AsDB.** After a stock-taking in 2012, it has proposed action plans for non-performing SOEs. Private-public partnership (PPP) agreements have been designed to support the continued operation of some SOEs, while others have been identified as candidates for either sale, liquidation or future joint-ventures. These action plans have been implemented for a number of companies.[5] The SOE bill that provides an improved governance framework for SOEs was passed at the April 2013 session of parliament. The cabinet has also submitted to parliament legislation to liberalize and increase competition in the telecommunication sector.

24. **Some important SOEs continue to underperform.** In particular, the PUB has been operating at a loss, consistently accumulating arrears. The company's largest arrears are owed to the Kiribati Oil Company (KOIL), totaling in excess of A$5 million. The government's current strategy aims at improving collection and compliance via the installation of new meters and use of prepaid schemes, without raising tariffs.

[5] The Kiribati Supply Company Limited was successfully sold at the end of 2011, while the wholesale and retail company Bobotin Kiribati Limited was approved for sale late last year. A privatization tender has been issued for the Otintaai hotel. Betio Shipyards Limited is a likely candidate for PPP or joint ventures.

Staff Views

25. **Staff welcomed the SOE reforms undertaken by the government with the assistance of the AsDB.** The stocktaking of the SOE performance and restructuring should improve efficiency and reduce costs. The SOE bill will help improve the governance. Measures towards commercialization of SOEs also hold potential. Efforts to expand renewable energy sources are commendable.

26. **While the government has made impressive progress in reforming SOEs, a number of important issues still need to be tackled.** Staff recommended evaluating the effectiveness and magnitude of increased revenue collections by the PUB, with due consideration for additional revenue measures if needed. Improving the framework for the government's debt and guarantee policy would help keep guarantees within acceptable limits and reduce the fiscal risks to the government.

Authorities' Views

27. **The authorities stressed that they will continue with the process of reforming SOEs.** They pointed out that the PUB finances can be substantially improved with higher revenue collection, without raising tariffs. They also intend to introduce an improved debt and guarantee framework.

28. **The government recognizes that certain SOE services may not be taken up by private sector players, given economy of scale considerations.** The authorities opted to continue to manage the Kiribati Shipping Services Limited (KSSL), instead of completely contracting services out to the private sector. Larger boats are needed for shipping to the outer islands, costs for which only the public sector is able to bear at this stage.

C. Increasing Private Sector Growth Opportunities

Background

29. **Kiribati's private sector is small, in part due to the country's limited production base, remoteness, and high transport costs.** Major private sector activities include fisheries, tourism, retail trade and copra, with the exports base largely limited to fisheries and copra. Tourism activity is dominated by game fishing at Kiritimati Island. The agricultural sector mainly consists of subsidized copra production and subsistence agriculture. In addition, to improve food security, the government has encouraged the growing of longer-term crops including breadfruit and big taro.

30. **The current domestic fishing industry is small and fishing license fees account for most of the revenues from fishing resources.** The recently opened joint venture processing plant employs modern technology and has created employment and income opportunities. However, local fishermen still remain ill-equipped to meet a steadily rising demand for fish. In addition, the limited numbers of international flights to Kiribati have resulted in high charges for higher-priced fresh fish exports.

31. **A significant part of Kiribati's national income is in the form of worker remittances from abroad.** The country's Marine Training Center (MTC) prepares seamen mostly for work on foreign freight lines while the Fisheries Training Center (FTC) focuses on training for work on fishing vessels. Seamen remittances were on average 5 percent of GDP in 2005–12, while the number of seamen on board averaged over 8,000 from 2005–11.

Staff Views

32. **Given the limited potential for agricultural and manufacturing development, the improved management and development of Kiribati's marine resource—particularly fisheries—provide the greatest potential for increased growth in the island economy.** Currently

Kiribati receives only a small share of the value of fish caught in its waters. The authorities should aim to increase the value added from fishing resources by expanding the local fishing industry in addition to relying on fishing license fees (Box 2).

Box 2. Kiribati: Utilizing Fishing Resources

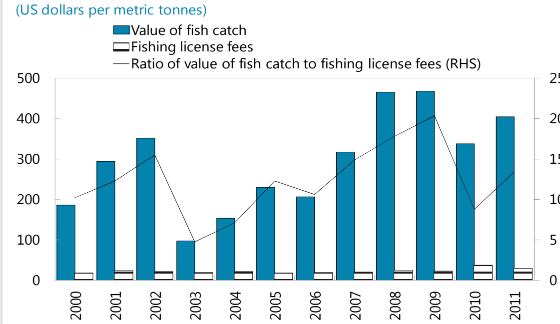
Kiribati has some of the most productive tuna fishing grounds in the region. It accounts for, on average, over 20 percent of the value of total catch in national waters in the Pacific island countries during 2000–11.

Fishing license revenues are a key income source for Kiribati. Over the last decade, fishing license revenues average 45 percent of current fiscal revenues, the highest among regional peers. Fishing license revenues have been volatile, varying from 18 percent to 34½ percent of GDP during the past 10 years. Volatility reflected the El Nino cycle, which affects fish movement, and to some extent changes in the exchange rate of the Australian dollar, the official currency, against U.S. dollar which is the invoice currency of the vast majority of the license fees.

While fiscally important, fishing license revenues account for less than 10 percent of the value of fish catch in Kiribati waters, indicating the untapped potential of Kiribati's fishing resources (Figure). In fact the value of fish catch in Kiribati waters exceeds the total Kiribati GDP more than twice, and exceeds value added in the domestic fishing industry plus fishing license fees by more than nine times (Figure).

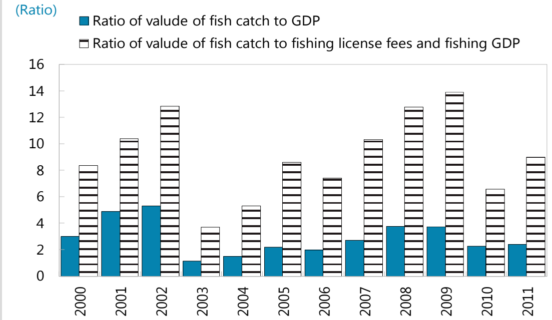
To utilize this untapped potential, Kiribati could promote investment, job creation and export generation in its fishing industry beyond securing license revenues. Consider Iceland, another country with abundant marine resource, as a comparison. Iceland has a much developed fishing industry that brings higher return per value of the catch. Simple calculation shows that the value of by-product from fishing processing in Iceland is on average six times higher than the fishing license fees Kiribati receives from each metric ton of fish catch (Figure). To increase proceeds from fishing resources, Kiribati should encourage private sector investment in onshore marine processing. Some progress has been made in recent years. Kiribati Fish Ltd., a joint venture for marine processing with Chinese and Fijian fishing companies, has become operational at end-2012. It processes sashimi for the Japanese and US markets, and creates job opportunities for locals. To ensure a viable domestic fishing industry, improving infrastructure and business climate, and removing obstacles for doing business are essential.

Kiribati: Fishing License Revenues and Value of Fish Catch
(US dollars per metric tonnes)



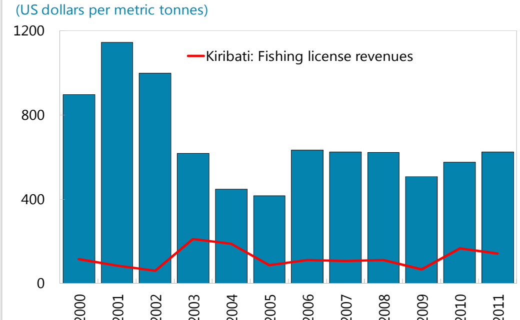
Sources: Pacific Islands Forum Fisheries Agency; and IMF staff estimates.

Kiribati: Value of Fish Catch and GDP
(Ratio)



Sources: Pacific Islands Forum Fisheries Agency; and IMF staff estimates.

Iceland: Value of By-products from Fishing Processing
(US dollars per metric tonnes)



Sources: Pacific Islands Forum Fisheries Agency; and IMF staff estimates.

33. Current and planned improvements to infrastructure should strengthen general economic activity and opportunities for tourism. There is a potential for tourism outside of Tarawa, particularly in Kiritimati Island, and the Phoenix and Line islands.

34. Removing obstacles for doing business and improving the business climate is essential for private business growth (Box 3). Kiribati ranks low compared to its Pacific islands peers in a number of doing business indicators - including time to get electricity and construction permits, and access to land and credit. Nevertheless, there is scope for the government to shorten and standardize the business applications process, and reduce red tape.

Authorities' Views

35. The authorities agreed that increasing private sector participation in the economy and promoting its robust growth is critical for improving Kiribati's long-term growth prospects. In particular, they indicated that the development of a robust the local fishing industry is key to fully utilizing Kiribati's abundant marine resources.

36. Working and studying abroad is essential given limited local employment opportunities. High airfare costs associated with a single major airline carrier has put Kiribati's workers, in particular seamen and seasonal workers, and students abroad, at a disadvantage. The authorities also hoped that the foreign quotas for Kiribati's students and workers will be increased in the near term.

Box 3. Kiribati: Supporting Private Sector Growth

Streamlining business and investment approval processes and reducing business costs are important for attracting and securing both foreign and domestic investment. Cumbersome procedures and high establishment costs, amongst other factors, place Kiribati in low ranking among regional neighbors for starting a business. The government is currently finalizing its National Private Sector Development Strategy that would facilitate the introduction of a 'one-stop shop' concept for investment approvals.

Accessing land, together with obtaining licenses, is one of the biggest impediments to starting a business in the business survey. Enforcing contracts appears to be quite a lengthy process in Kiribati and improvements to enforcement of property rights and speedier settlement of court settlement procedures, in particular for those relating to land, should help strengthen the business legal environment in Kiribati and promote increased private sector activity.

Private sector access to credit remains limited and is complicated by unclear land titles and cumbersome access procedures that restrict the use of land as collateral. This is evident in Kiribati's poor access to credit ranking. New entrants to the business sector, usually lacking proper business records are disadvantaged in accessing credit. Increasing credit access for viable business would require addressing these concerns.

Table: Doing Business Rankings 1/

	FJI	KIR	RMI	FSM	PNG	SAM	TON
Doing business ranking 2/	60	117	101	150	104	57	62
Ease of Doing Business Indicators							
Getting electricity ranking	79	159	73	53	23	33	30
Dealing with construction permits (days)	148	170	87	114	219	57	69
Business Legal Environment Indicators							
Enforcing contracts ranking	67	73	66	149	166	81	54
Cost (percent of claim)	39	26	27	66	110	20	31
Time (days)	397	660	476	885	591	455	350
Financing Indicators							
Getting credit ranking	70	159	83	129	83	129	83

Source: World Bank, *Doing Business 2013*.

1/ FJI=Fiji, FSM=Federated States of Micronesia, KIR=Kiribati, RMI=Republic of Marshall Islands, PNG=Papua New Guinea, SAM=Samoa, TON=Tonga.

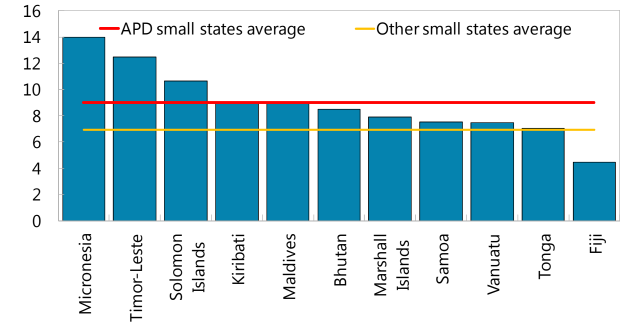
2/ Economies are ranked from 1-185, with a high ranking (lesser number) reflective of a more conducive environment.

D. Financial Sector

Background

37. Formal financial intermediation and access to credit for the private sector is limited. Unclear land titles and cumbersome access procedures restrict the use of land as collateral, underpinning weak collateral recovery and the underdeveloped nature of secured lending. Unsecured consumer and house lending by the single commercial bank (ANZ) is very limited and constrained by problems with obtaining collateral and recovery in case of default. That said, there has been a rise in household credit (from very low levels) since 2011. For the Development Bank of Kiribati (DBK), the majority of its loans are collateralized by salary deductions and pension contributions. Nevertheless, the DBK has accumulated a significant amount of non-performing loans in excess of 22 percent. There is also a sizeable informal sector whose access to formal credit remains restricted. The lack of competition in Kiribati's financial sector contributes to relatively expensive cost of finance.

Interest Rate Spread of Commercial Banks[1/]
(In percent)



Sources: Country authorities; IMF, *International Financial Statistics*; and IMF staff estimates.
1/ 2011 or lastest available.

Kiribati: Outstanding Banking Loans, 2007-12

	2007	2008	2009	2010	2011	2012
	(In millions of Australian dollars)					
DBK	8.9	9.1	9.4	9.1	9.0	8.7
ANZ	32.9	49.9	48.9	36.3	40.0	31.4
Government, SOE and other	20.1	34.0	36.9	31.7	25.3	17.9
Private sector	11.9	14.8	11.3	4.0	11.4	9.9
Households	0.9	1.1	0.7	0.6	3.2	3.6
Total Loans	41.8	59.0	58.3	45.4	49.0	40.2
	(In percent of GDP)					
DBK	6.0	5.7	5.8	5.5	5.4	5.2
ANZ	22.4	31.1	30.1	22.1	23.9	18.6
Government, SOE and other	13.7	21.2	22.7	19.3	15.1	10.6
Private sector	8.1	9.2	7.0	2.5	6.8	5.9
Households	0.6	0.7	0.4	0.4	1.9	2.1
Total Loans	28.4	36.8	35.8	27.7	29.3	23.8

Source: Data provided by the Kiribati authorities.

38. The KPF runs a small loans scheme (SLS) collateralized by member's pension balance. The expanded scheme currently stands at A$10 million and charges 8.5 percent annual interest rate, which is determined by the KPF board.[6] Early indications are that the KPF SLS has contributed to private sector lending. Regarding the balance sheet, the KPF has accumulated the deficit of more than A$ 20 million as members' balances exceed the value of the KPF investments, in part because of high rates paid to the KPF members.

Staff's Views

39. Strengthening institutional arrangements with regard to access to land would help boost financial intermediation. The authorities are encouraged to enact the relevant laws and procedures that will facilitate collateral recovery, improve and enhance secured borrowing. Increasing access to credit for viable private sector projects is important. Introducing microfinance

[6] A member may borrow up to 35 percent of accrued balances for a maximum two years.

schemes and improving financial literacy may be promising as some start-up business lack proper financial records that disqualify them for formal bank loans.

40. At the same time, lending standards and risk management need to be maintained and strengthened in those institutions with high share of non-performing loans. Such frameworks need to be implemented in the absence of a separate financial supervisory authority.

41. Restoring an operating surplus at the KPF will be important to ensure the sustainability of the pension fund's operations. While rebuilding the financial position of the pension fund may take some time, in the immediate future**,** the KPF is advised to avoid setting rates of return on members' balances in excess of returns on its investments.

Authorities' Views

42. There was general agreement about the impediments to increased financial intermediation, particularly for the private sector. While increased competition may be harder to introduce in the short term given high establishment costs, the authorities recognize that better management of current lending practices are important for ensuring the stability of the financial sector. In that vein, officials were interested in technical assistance in risk management and improved asset allocation.

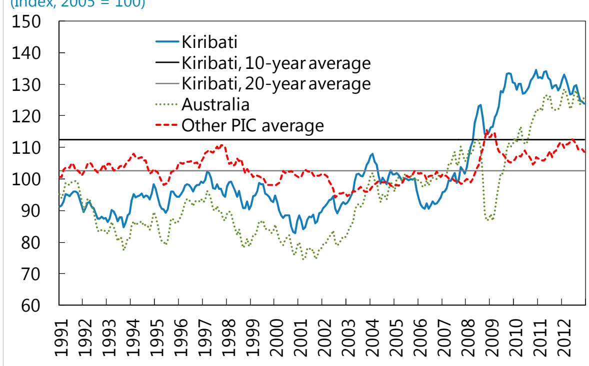
E. External Competiveness and Exchange Rate Assessment

43. The Australian dollar circulates as legal tender. Kiribati has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

44. Reflecting the strength of Australian dollar, the real effective exchange rate (REER) is well above its long run average despite depreciating by 8 percent over the last two years. CGER-like analysis of exchange rate valuation is currently neither feasible nor meaningful for Kiribati given the data limitations. That said, the strength of the REER in recent years points to exchange rate overvaluation, given that, unlike Australia, Kiribati is not a commodity exporter.

Kiribati: Real Effective Exchange Rate

(Index, 2005 = 100)



Sources: INS and IMF staff calculations.

45. The use of the Australian dollar as the official currency remains appropriate. It has provided a strong nominal anchor, given Kiribati's close linkages with Australia and in light of its limited capacity to conduct its own monetary policy. The reforms aimed at boosting private sector growth discussed above will be crucial to improving and maintaining competitiveness following the strengthening of the REER. The current account deficit in relation to GDP is largely driven over the medium term by fiscal policy. Consistent with this, the projected fiscal consolidation in the coming years will also be important to help narrow the trade deficit.

STAFF APPRAISAL

46. Kiribati's challenge is to implement fiscal and structural reforms to help ensure fiscal sustainability, promote private sector development, and increase its resilience to external shocks. These reforms, in combination with the large developments projects financed by foreign partners, will help support favorable medium-term growth prospects. Steady implementation will be the key**.**

47. Restoring fiscal sustainability and stabilizing per capita RERF balances will require significant fiscal effort in the medium and longer term. Strong revenue measures are necessary while adjustments on the expenditure side would need to accommodate the need to maintain adequate health and education systems, communication lines, and adapt to climate change. The authorities are urged to press ahead with plans to adopt a VAT, which is urgently needed to increase revenues. Sound public financial management is essential. Steps are needed to improve fiscal projections. Consistent with adoption of a prudent borrowing and debt guarantee policy, Kiribati should avoid commercial borrowing to finance its budget.

48. Making subsidies more efficient would help reduce risks to the budget and align incentives. Over the medium term, subsidies should be streamlined and subject to better targeting. These reforms will need to recognize the impact that subsidies are having in the short term to support infrastructures and communications, as well as the importance of copra subsidy in supporting the livelihood of outer islands inhabitants.

49. SOE reforms have helped resolve a number of problem enterprises and reduced fiscal exposure. These reforms should continue. However, underperformance of some important SOEs remains a significant concern. In particular, the Public Utility Company needs to increase revenues and clear arrears. The current strategy of raising payment compliance to achieve this goal needs to be reviewed periodically.

50. Maintaining sufficient growth of fishing license revenues while abiding by international commitments and managing their volatility is very important. Many factors outside of Kiribati's control combine to influence the volatility of fishing license revenues. Nevertheless it would be beneficial to explore the possibilities of improving license pricing mechanisms using international best practices and experience.

51. Fully utilizing marine potential beyond fishing license fees will be important to improve fiscal revenues and growth opportunities. Kiribati's small share of the value of the fish catch in its waters points to the potential to further develop this sector to expand the tax base, widen local employment opportunities, and enhance overall growth potential.

52. More generally private sector development is critical for both lifting growth and reducing fiscal pressures. Improving the management and development of Kiribati's marine resources, developing the tourism industry, and expanding opportunities for studying and working abroad provide the greatest economic potential. Removing obstacles for doing business is of utmost importance.

53. It is proposed that Kiribati be moved to the 12 month Article IV cycle in light of continuing fiscal and structural challenges and vulnerabilities.

APPENDIX I: Risk Assessment Matrix 1/

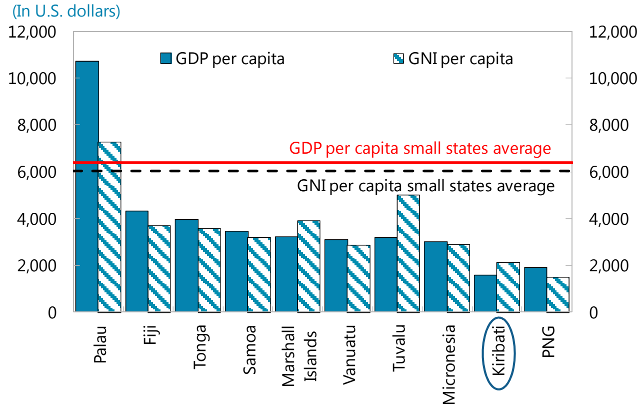
Sources of Risks	Likelihood	Potential Impact
Fiscal sustainability risks	**Medium** Declining reform momentum and political will would lead to delay in delivering the necessary fiscal and structural reforms and impede fiscal adjustment.	**High** Lack of progress in tax and expenditure reforms would lead to continuous unsustainable deficits and eventual depletion of the RERF in the longer run.
Stalled or incomplete delivery of Euro area policy commitments	**Medium** As a result of stalled or incomplete delivery of policy commitments at the national or Euro area level, or adverse developments in some peripheral countries, financial stress could re-emerge and bank-sovereign-real economy links re-intensify. The consequences could include further fragmentation and significant shocks to growth.	**Medium** The decline in global returns and valuations would have a negative impact on RERF assets. The adverse impact would be somewhat mitigated by its limited direct exposure to the Euro area. and proximity to the growing Asia and Pacific economies.
Deeper than expected slowdown in EMs	**Medium** Disappointing activity in emerging markets would bring about a reassessment that the growth prospects will be lower than previously thought.	**Medium** Declining growth prospects could impinge on global asset valuations and negatively affect the value of the RERF assets. Also, fishing license fees and seamen's remittances could be negatively affected if global demand for fish and shipping grows at a slower pace.
Global oil price shock	**Low** Geopolitical risks in the Middle East could precipitate a sharp fall in oil supply, leading to a price of $140 per barrel.	**Medium** Although the weight of fuel in the CPI basket (8 percent) is relatively low, higher fuel prices would hold back the economic growth and worsen the current account balance.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (that is, which is 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 this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of preparation of this document.

Figure 1. Kiribati: The Setting in a Cross-Country Context

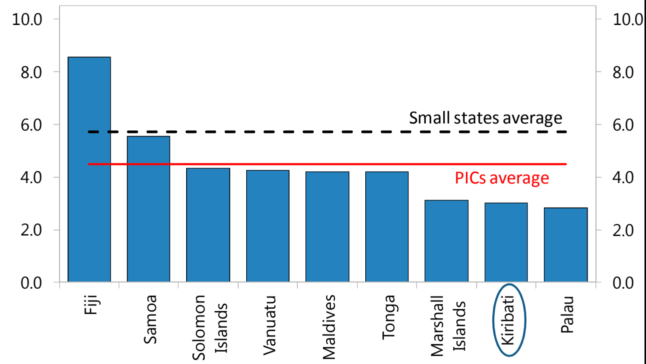
Kiribati is one of the poorest…

Per Capita Income, 2011
(In U.S. dollars)



… and the most remote islands among small states.

Liner Shipping Connectivity Index

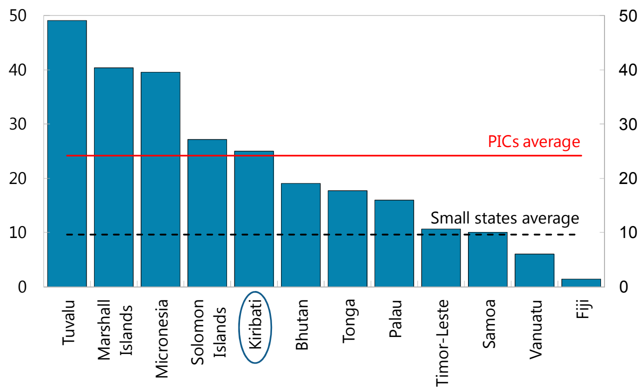


Note: A smaller number indicates lower connectivity/high transportation costs. Countries with maximum connectivity=100. Non-small states mean= 24.3.

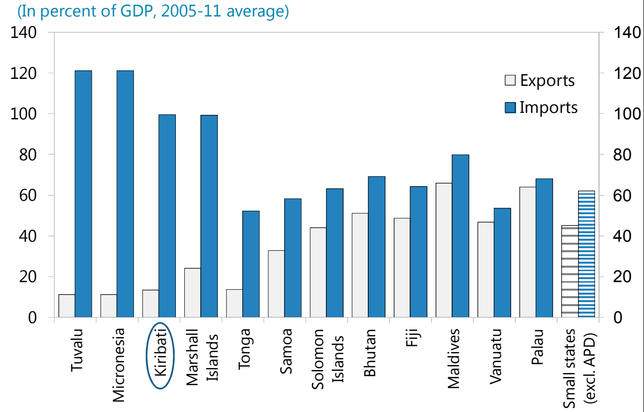
The country relies heavily on foreign aid…

…to finance its large development needs, which are contributing to import demand.

External Grants, 2011
(In percent of GDP)



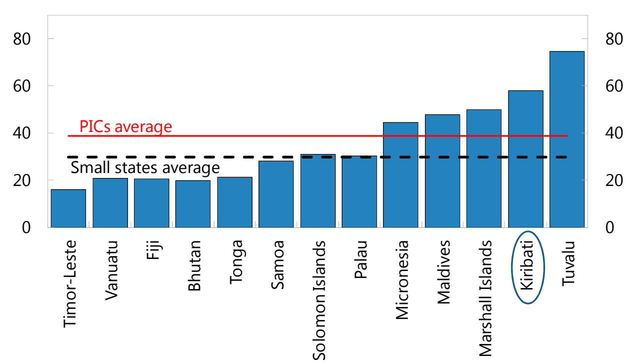
Trade Balance of Goods and Services
(In percent of GDP, 2005-11 average)



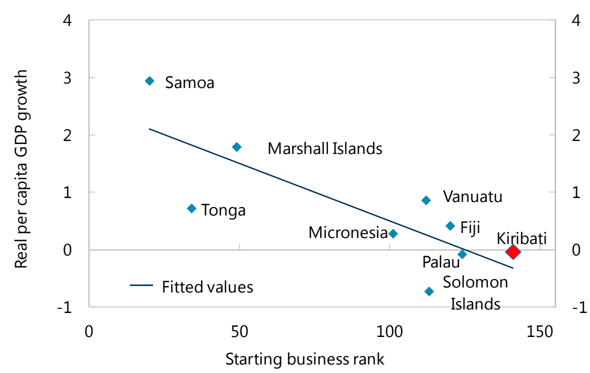
Public sector is dominant due to economy's narrow production base…

…and constraints to private sector development.

Current Government Expenditure, 2011
(In percent of GDP)



Real per Capita GDP Growth and Business Climate, 2000-10



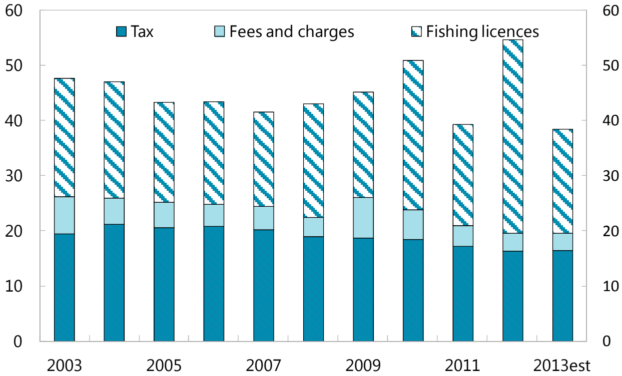
Note: A lower number indicates a more friendly business climate.

Sources: Kiribati authorities; World Bank, World Development Indicators; and IMF staff estimates.

Figure 2. Kiribati: Fiscal Dynamics

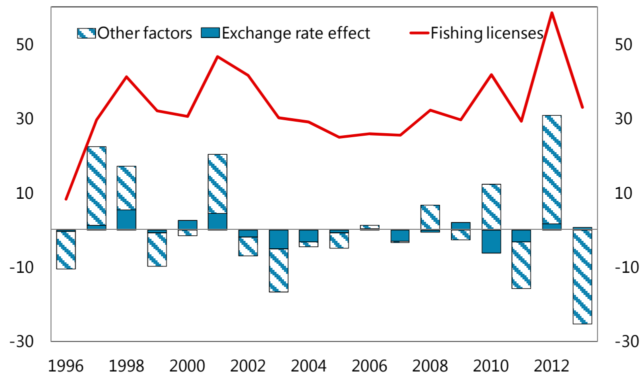
Fishing license revenues amount to about half of the total revenue…

Revenue
(In percent of GDP)



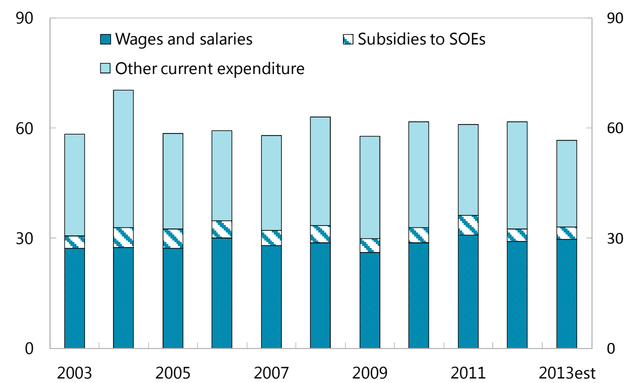
...and are very volatile.

Fishing License Fees and Their Changes
(In millions of Australian dollars)



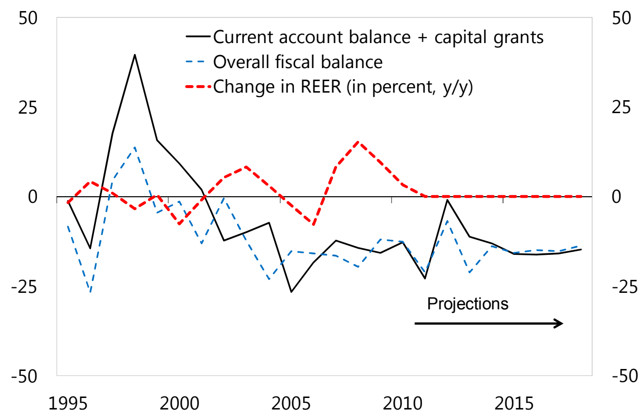
Current expenditures are high as a share of GDP…

Current Expenditure
(In percent of GDP)



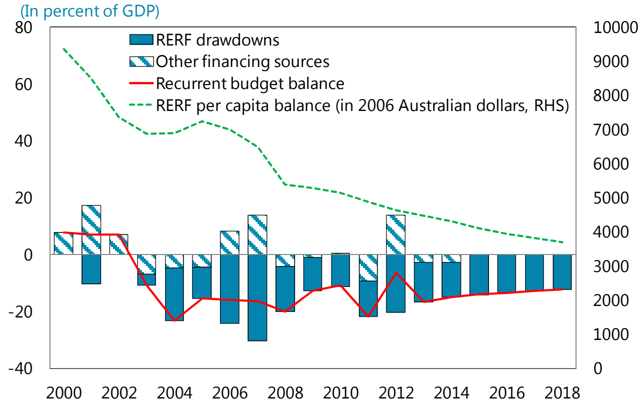
…and fiscal balance tends to drive the current account.

Drivers of the Current Account Balance



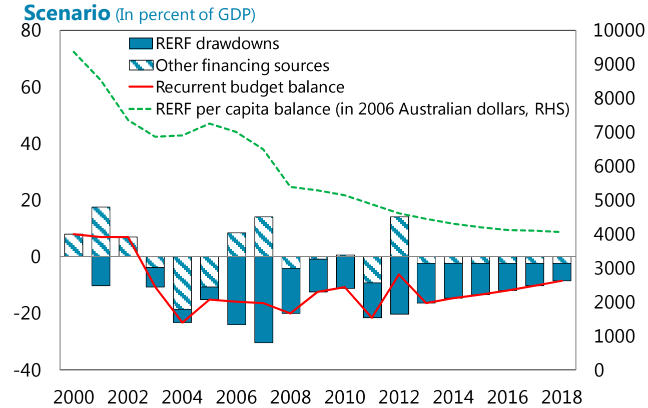
RERF drawdowns finance most of the current fiscal deficit…

Fiscal Deficit and Financing: Baseline Scenario
(In percent of GDP)



… and stronger reform effort will improve the RERF dynamics..

Fiscal Deficit and Financing: Stronger Reform Scenario
(In percent of GDP)



Sources: Kiribati authorities; and IMF staff estimates.

Table 1. Kiribati: Selected Economic Indicators, 2009–14

Nominal GDP (2011): US$172.7 million
Nominal GNI (2011): US$236.1 million
Main export products: fish and copra

GDP per capita (2011): US$1,670
Population (2011): 103,365
Quota: SDR 5.6 million

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.
Real GDP (percent change)	-0.7	-0.5	2.7	2.8	2.9	2.7
Real GNI (percent change)	-3.8	-1.3	-0.2	11.0	-7.2	4.5
Consumer prices (percent change, average)	8.4	-2.8	1.2	-1.8	2.5	2.5
Consumer prices (percent change, end of period)	0.1	-1.4	0.2	-2.9	2.5	2.5
Central government finance (percent of GDP)						
Revenue and grants	70.9	72.5	62.0	102.2	88.3	81.7
Total domestic revenue	42.7	47.8	37.0	53.8	37.9	41.4
Grants	28.1	24.7	25.0	48.4	50.5	40.3
Expenditure and net lending	82.8	85.2	83.2	109.0	109.4	95.6
Current	54.7	58.0	58.0	60.7	56.1	54.4
Of which: wages and salaries	24.7	27.0	27.4	28.3	29.2	28.4
Development	28.1	27.1	25.2	48.3	53.3	41.2
Current balance 1/	-12.0	-10.2	-21.0	-6.9	-18.2	-13.0
Overall balance	-12.0	-12.7	-21.2	-6.8	-21.1	-13.9
Financing	12.0	12.7	21.2	6.8	21.1	13.9
Revenue Equalization and Reserve Fund (RERF)	11.1	10.5	11.8	22.2	15.4	10.3
Other	0.9	2.1	9.5	-15.4	5.7	3.5
RERF						
Closing balance (in millions of U.S. dollars)	512	579	588	597	587	578
Closing balance (in millions of A$)	571	583	581	571	570	576
Per capita value (in 2006 A$)	5279	5146	4866	4604	4436	4286
Balance of payments (in millions of U.S. dollars)						
Current account including official transfers	-29.6	-25.4	-50.4	-55.0	-79.8	-68.9
(In percent of GDP)	-23.3	-16.9	-29.2	-31.4	-43.0	-36.1
External debt (in millions of U.S. dollars)	14.3	18.4	14.2	14.0	19.1	20.6
(In percent of GDP)	9.8	11.3	8.4	7.9	10.4	10.9
External debt service (in millions of U.S. dollars)	1.0	0.6	0.6	0.5	0.5	0.6
(In percent of exports of goods and services)	4.8	3.2	2.8	2.7	2.6	2.6
Exchange rate (A$/US$ period average) 2/	1.3	1.1	1.0	1.0	…	…
Real effective exchange rate (period average) 3/	126.0	130.2	131.1	128.6	…	…
Memorandum item:						
Nominal GDP (in millions of Australian dollars)	162.8	164.1	167.3	169.0	178.2	187.6
Nominal GDP (In millions of US dollars)	127.1	150.9	172.7	175.1	185.7	190.7

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.
1/ Current balance excludes grants and development expenditure.
2/ The Australian dollar circulates as legal tender.
3/ Index, 2005=100.

Table 2. Kiribati: Summary of Central Government Operations, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Est.			Proj.			
				(In millions of Australian dollars)						
Total revenue and grants	115.4	119.0	103.7	172.8	157.5	153.3	143.2	149.9	155.3	164.4
Revenue	69.6	78.4	61.9	90.9	67.5	77.6	81.0	84.9	87.9	92.4
Tax revenue	28.7	28.3	27.3	27.1	28.6	31.9	34.4	37.5	39.6	43.2
Of which: Personal income tax	6.2	6.1	6.1	7.2	6.5	6.8	7.1	7.5	7.8	8.1
Company tax	7.0	7.3	5.7	4.7	6.2	6.8	7.4	8.0	8.7	10.1
Import duties	15.5	14.8	15.4	15.2	15.8	...	...	...	...	...
VAT 1/	...	...	...	...	...	18.2	19.8	21.9	23.1	25.0
Other taxes (hotel)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Nontax revenue	40.8	50.1	34.6	63.8	38.9	45.7	46.6	47.4	48.3	49.2
Of which: Fishing license fees	29.5	41.7	29.1	58.4	33.0	40.0	40.6	41.2	41.8	42.5
Other	11.3	8.4	5.6	5.4	5.9	5.7	6.0	6.2	6.5	6.7
External grants	45.8	40.6	41.9	81.9	89.9	75.6	62.2	64.9	67.4	72.0
Total expenditure	134.9	139.7	139.3	184.2	195.1	179.3	174.0	180.4	187.8	195.2
Current expenditure	89.1	95.2	97.0	102.6	100.0	102.1	104.7	107.5	110.3	113.2
Of which: Wages and salaries	40.2	44.4	45.8	47.9	52.0	53.3	54.7	56.0	57.4	58.9
Subsidies to public enterprises 2/	5.8	6.3	8.5	6.6	6.5	6.3	6.1	5.9	5.7	5.6
Other current expenditure	43.1	44.6	42.7	48.1	41.5	42.4	43.9	45.5	47.1	48.8
Development expenditure 3/	45.8	44.5	42.2	81.6	95.1	77.2	69.3	73.0	77.5	81.9
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current fiscal balance 4/	-19.5	-16.8	-35.1	-11.7	-32.5	-24.4	-23.7	-22.5	-22.4	-20.8
Overall balance 5/	-19.5	-20.8	-35.5	-11.4	-37.6	-26.0	-30.7	-30.6	-32.6	-30.8
Financing	19.5	20.8	35.5	11.4	37.6	26.0	30.7	30.6	32.6	30.8
Revenue Equalization and Reserve Fund (RERF)	18.0	17.3	19.7	37.5	27.5	19.4	20.7	22.5	22.4	20.8
Consolidated Fund	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Fund	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans (net)	-0.9	4.0	0.4	-0.3	5.1	1.6	7.0	8.0	10.2	10.0
Commercial borrowing	-2.1	-0.5	15.4	-25.8	0.0	0.0	0.0	0.0	0.0	0.0
Budget support	...	...	...	...	5.0	5.0	3.0	...	...	...
					(In percent of GDP)					
Total revenue and grants	70.9	72.5	62.0	102.2	88.3	81.7	73.0	73.1	72.5	73.4
Revenue	42.7	47.8	37.0	53.8	37.9	41.4	41.3	41.4	41.0	41.3
Tax revenue	17.7	17.2	16.3	16.1	16.1	17.0	17.6	18.3	18.5	19.3
Of which: Personal income tax	3.8	3.7	3.6	4.2	3.6	3.6	3.6	3.6	3.6	3.6
Company tax	4.3	4.5	3.4	2.8	3.5	3.6	3.8	3.9	4.1	4.5
Import duties	9.5	9.0	9.2	9.0	8.9	...	...	...	...	...
VAT 1/	...	...	...	...	...	9.7	10.1	10.7	10.8	11.2
Other taxes (hotel)	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Nontax revenue	25.1	30.5	20.7	37.8	21.8	24.4	23.8	23.1	22.5	22.0
Of which: Fishing license fees	18.1	25.4	17.4	34.5	18.5	21.3	20.7	20.1	19.5	19.0
Of which: other	7.0	5.1	3.3	3.2	3.3	3.1	3.0	3.0	3.0	3.0
External grants	28.1	24.7	25.0	48.4	50.5	40.3	31.7	31.7	31.5	32.2
Total expenditure	82.8	85.2	83.2	109.0	109.4	95.6	88.7	88.0	87.7	87.2
Current expenditure	54.7	58.0	58.0	60.7	56.1	54.4	53.4	52.4	51.5	50.6
Of which: Wages and salaries	24.7	27.0	27.4	28.3	29.2	28.4	27.9	27.3	26.8	26.3
Subsidies to public enterprises 2/	3.6	3.8	5.1	3.9	3.6	3.4	3.1	2.9	2.7	2.5
Other current expenditure	26.5	27.2	25.6	28.5	23.3	22.6	22.4	22.2	22.0	21.8
Development expenditure 3/	28.1	27.1	25.2	48.3	53.3	41.2	35.3	35.6	36.2	36.6
Current fiscal balance 4/	-12.0	-10.2	-21.0	-6.9	-18.2	-13.0	-12.1	-11.0	-10.5	-9.3
Overall balance 5/	-12.0	-12.7	-21.2	-6.8	-21.1	-13.9	-15.7	-14.9	-15.2	-13.8
Financing	12.0	12.7	21.2	6.8	21.1	13.9	15.7	14.9	15.2	13.8
RERF	11.1	10.5	11.8	22.2	15.4	10.3	10.6	11.0	10.5	9.3
Consolidated Fund	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Fund	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans (net)	-0.6	2.4	0.2	-0.1	2.9	0.9	3.6	3.9	4.7	4.5
Commercial borrowing	-1.3	-0.3	9.2	-15.3	0.0	0.0	0.0	0.0	0.0	0.0
Budget support	...	...	...	...	2.8	2.7	...	...	...	...
Memorandum items:										
RERF balance (in millions of Australian dollars)	571	583	581	571	570	576	580	585	592	600
RERF balance (in percent of GDP)	351	356	347	338	320	307	296	285	276	268
Real per capita value (in 2006 A$)	5279	5146	4866	4604	4436	4286	4130	3979	3861	3759
Nominal GDP	163	164	167	169	178	188	196	205	214	224
Real GDP (percentage change)	-0.7	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.

1/ Includes excises.

2/ Includes subsidies to copra production.

3/ Development expenditure equals grants plus loans for development projects.

4/ Current balance excludes grants and development expenditure (see footnote 3 above)

5/ Overall balance in the table is different from official budget because loans are classified as financing.

Table 3. Kiribati: Medium-Term Projections, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.			Proj.			
				Baseline Senario					
Real sector									
Real GDP (percentage change)	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0
Inflation (period average)	-2.8	1.2	-1.8	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices (in millions of A$)	164.1	167.3	169.0	178.2	187.6	196.1	204.9	214.2	223.8
Government finance				(In percent of GDP)					
Total revenue and grants	72.5	62.0	102.2	88.3	81.7	73.0	73.1	72.5	73.4
Revenue	47.8	37.0	53.8	37.9	41.4	41.3	41.4	41.0	41.3
External grants	24.7	25.0	48.4	50.5	40.3	31.7	31.7	31.5	32.2
Total expenditure and net lending	85.2	83.2	109.0	109.4	95.6	88.7	88.0	87.7	87.2
Current expenditure	58.0	58.0	60.7	56.1	54.4	53.4	52.4	51.5	50.6
Of which: Wages and salaries	27.0	27.4	28.3	29.2	28.4	27.9	27.3	26.8	26.3
Development expenditure 1/	27.1	25.2	48.3	53.3	41.2	35.3	35.6	36.2	36.6
Current Fiscal Balance 2/	-10.2	-21.0	-6.9	-18.2	-13.0	-12.1	-11.0	-10.5	-9.3
Overall balance 3/	-12.7	-21.2	-6.8	-21.1	-13.9	-15.7	-14.9	-15.2	-13.8
RERF balance (end of period; in millions of A$)	583	581	571	570	576	580	585	592	600
Real per capita value (in 2006 A$)	5146	4866	4604	4436	4286	4130	3979	3861	3759
Balance of payments				(In percent of GDP)					
Current account balance	-16.9	-29.2	-31.4	-43.0	-36.1	-31.3	-32.3	-32.3	-32.5
Trade balance	-46.0	-48.2	-58.7	-56.6	-51.0	-44.3	-43.7	-42.5	-41.5
Balance on services	-30.3	-34.6	-36.1	-35.8	-35.6	-35.3	-34.9	-34.6	-34.3
Balance on factor income	40.8	36.8	47.6	33.2	35.5	34.3	33.2	32.3	31.3
Balance on current transfers	18.7	16.8	15.7	16.3	14.9	14.0	13.2	12.5	12.0
External debt (in millions of US$; end of period)									
External debt	18.4	14.2	14.0	19.1	20.6	27.6	35.4	45.0	54.2
(In percent of GDP)	11.3	8.4	7.9	10.4	10.9	14.3	18.0	22.4	26.4
External debt service	0.6	0.6	0.5	0.5	0.6	0.6	0.7	0.7	0.8
				Stronger Reform Senario					
Real sector									
Real GDP (percentage change)	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0
Inflation (period average)	-2.8	1.2	-1.8	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP at market prices (in millions of A$)	164.1	167.3	169.0	178.2	187.6	196.2	205.1	214.4	224.2
Government finance				(In percent of GDP)					
Total revenue and grants	72.5	62.0	102.2	88.3	81.9	73.3	76.1	78.9	79.8
Revenue	47.8	37.0	53.8	37.9	41.6	41.6	42.5	43.0	42.9
External grants	24.7	25.0	48.4	50.5	40.3	31.7	33.6	35.9	36.9
Total expenditure and net lending	85.2	83.2	109.0	109.5	94.7	86.8	87.9	89.3	88.2
Current expenditure	58.0	58.0	60.7	56.1	53.6	51.5	51.2	50.3	49.5
Of which: Wages and salaries	27.0	27.4	28.3	29.2	28.4	27.9	27.3	26.8	26.3
Development expenditure 1/	27.1	25.2	48.3	53.3	41.2	35.3	36.7	38.9	38.7
Current Fiscal Balance 2/	-10.2	-21.0	-6.9	-18.2	-12.0	-10.0	-8.7	-7.4	-6.6
Overall balance 3/	-12.7	-21.2	-6.8	-21.1	-12.8	-13.5	-11.8	-10.4	-8.4
RERF balance (end of period; in millions of A$)	583	581	571	570	579	592	606	626	647
Real per capita value (in 2006 A$)	5,146	4,866	4604	4436	4,303	4,210	4,129	4,085	4,050
Balance of payments				(In percent of GDP)					
Current account balance	-16.9	-29.2	-31.4	-42.0	-35.1	-30.3	-31.3	-31.5	-32.0
Trade balance	-46.0	-48.2	-58.7	-56.6	-51.0	-44.3	-43.7	-43.0	-42.5
Balance on services	-30.3	-34.6	-36.1	-35.8	-35.6	-35.3	-34.9	-34.6	-34.3
Balance on factor income	40.8	36.8	47.6	34.2	36.5	35.3	34.2	33.7	32.8
Balance on current transfers	18.7	16.8	15.7	16.3	14.9	14.0	13.1	12.5	12.0
External debt (in millions of US$; end of period)									
External debt	18.4	27.6	33.5	31.6	33.1	40.0	43.8	47.5	48.7
(In percent of GDP)	11.3	16.3	18.9	17.2	17.6	20.8	22.3	23.6	23.7
External debt service	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8
(In percent of exports of goods and services)	3.2	2.8	3.4	3.4	3.2	3.1	3.3	3.2	3.3

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.
1/ Development expenditure equals grants plus loans for development projects.
2/ Current balance excludes grants and development expenditure (see footnote 2 above)
3/ Overall balance in the table is different from official budget because loans are classified as financing.

Table 4. Kiribati: Balance of Payments, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Est.	Proj.					
(In millions of Australian dollars)										
Current account balance	-37.9	-27.6	-48.8	-53.1	-76.6	-67.8	-61.4	-66.2	-69.2	-72.7
Trade balance	-80.9	-75.4	-80.6	-99.2	-100.9	-95.7	-87.0	-89.5	-91.1	-92.9
Exports, f.o.b.	8.0	4.2	8.3	5.6	6.1	6.6	7.2	7.9	8.5	9.0
Imports, f.o.b.	88.9	79.7	88.9	104.8	107.0	102.3	94.2	97.4	99.7	101.9
Balance on services	-55.3	-49.7	-57.9	-60.9	-63.9	-66.8	-69.2	-71.6	-74.1	-76.7
Credit	15.3	13.6	12.3	13.4	14.2	15.0	16.0	16.9	18.0	19.1
Debit	70.6	63.3	70.2	74.4	78.1	81.8	85.1	88.5	92.1	95.8
Balance on factor income 1/	68.2	66.9	61.5	80.5	59.1	66.7	67.2	68.0	69.2	70.0
Credit	72.2	80.8	68.0	87.8	66.9	75.0	76.1	77.6	79.4	81.0
Fishing license fees	29.5	41.7	29.1	58.4	33.0	40.0	40.6	41.2	41.8	42.5
Investment income	21.6	23.2	28.9	19.7	23.2	22.8	22.8	23.0	22.6	22.9
Remittances	11.2	10.1	10.1	9.7	10.7	12.2	12.7	13.3	15.0	15.7
Debit	4.0	13.9	6.5	7.3	7.8	8.4	8.9	9.6	10.2	11.0
Balance on current transfers	30.0	30.6	28.2	26.5	29.0	28.0	27.5	27.0	26.8	26.8
Credit	34.5	34.9	32.6	31.6	34.4	33.6	33.4	33.1	33.2	33.5
Debit	3.5	4.0	4.6	5.2	5.6	5.7	5.8	5.9	6.1	6.2
Financial and capital account balance	10.7	10.7	11.1	34.9	71.4	70.2	62.5	65.7	68.5	73.8
Government	11.5	10.9	10.8	51.2	61.9	44.8	37.0	41.0	45.5	49.6
Capital transfers	12.4	6.8	10.5	51.5	56.8	43.2	30.0	33.0	35.3	39.6
Loans (net)	-0.9	4.1	0.4	-0.3	5.1	1.6	7.0	8.0	10.2	10.0
Direct investment	0.4	-0.2	0.3	1.3	9.0	1.3	1.3	1.3	1.3	1.3
Financial institutions 2/	-1.2	0.0	0.0	-17.6	0.5	24.1	24.2	23.4	21.7	22.9
Errors and omissions	25.1	22.4	24.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.2	5.4	3.0	-18.2	-5.2	2.5	1.1	-0.5	-0.8	1.0
Change in external assets (increase -) 3/	2.2	-5.4	-3.0	18.2	5.2	-2.5	-1.1	0.5	0.8	-1.0
Revenue Equalization Reserve Fund	-2.3	-4.7	-2.2	18.2	5.2	-2.5	-1.1	0.5	0.8	-1.0
Government funds 4/	4.5	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)										
Current account balance	-23.3	-16.9	-29.2	-31.4	-43.0	-36.1	-31.3	-32.3	-32.3	-32.5
Trade balance	-49.7	-46.0	-48.2	-58.7	-56.6	-51.0	-44.3	-43.7	-42.5	-41.5
Exports, f.o.b.	4.9	2.6	5.0	3.3	3.4	3.5	3.7	3.8	4.0	4.0
Imports, f.o.b.	54.6	48.6	53.1	62.0	60.0	54.5	48.0	47.5	46.5	45.5
Balance on services	-34.0	-30.3	-34.6	-36.1	-35.8	-35.6	-35.3	-34.9	-34.6	-34.3
Credit	9.4	8.3	7.4	7.9	8.0	8.0	8.1	8.3	8.4	8.5
Debit	43.4	38.6	42.0	44.0	43.8	43.6	43.4	43.2	43.0	42.8
Balance on factor income 1/	41.9	40.8	36.8	47.6	33.2	35.5	34.3	33.2	32.3	31.3
Credit	44.4	49.2	40.7	52.0	37.6	40.0	38.8	37.8	37.1	36.2
Fishing license fees	18.1	25.4	17.4	34.5	18.5	21.3	20.7	20.1	19.5	19.0
Investment income	13.3	14.1	17.3	11.7	13.0	12.2	11.6	11.2	10.6	10.2
Remittances	6.9	6.2	6.0	5.8	6.0	6.5	6.5	6.5	7.0	7.0
Debit	2.4	8.5	3.9	4.3	4.4	4.5	4.6	4.7	4.8	4.9
Balance on current transfers	18.5	18.7	16.8	15.7	16.3	14.9	14.0	13.2	12.5	12.0
Credit	21.2	21.3	19.5	18.7	19.3	17.9	17.0	16.2	15.5	15.0
Debit	2.2	2.4	2.7	3.1	3.1	3.0	3.0	2.9	2.8	2.8
Financial and capital account balance	6.6	6.5	6.7	20.7	40.1	37.4	31.9	32.1	32.0	33.0
Government	7.1	6.7	6.5	30.3	34.7	23.9	18.9	20.0	21.2	22.2
Capital transfers	7.6	4.1	6.3	30.5	31.8	23.0	15.3	16.1	16.5	17.7
Loans (net)	-0.6	2.5	0.2	-0.1	2.9	0.9	3.6	3.9	4.7	4.5
Direct investment	0.2	-0.1	0.2	0.8	5.0	0.7	0.7	0.6	0.6	0.6
Financial institutions 2/	-0.7	0.0	0.0	-10.4	0.3	12.9	12.3	11.4	10.1	10.2
Errors and omissions	15.4	13.6	14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.3	3.3	1.8	-10.8	-2.9	1.3	0.6	-0.2	-0.4	0.5
Change in external assets (increase -) 3/	1.3	-3.3	-1.8	10.8	2.9	-1.3	-0.6	0.2	0.4	-0.5
Revenue Equalization Reserve Fund	-1.4	-2.8	-1.3	10.8	2.9	-1.3	-0.6	0.2	0.4	-0.5
Government funds 4/	2.8	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.

1/ Includes fishing license fees, which would be shown as current transfers under conventional international guidelines.

2/ Including errors and omisions for projections.

3/ Excludes valuation changes.

4/ Comprises the Consolidated Fund, Development Fund, and STABEX Fund.

Table 5. Kiribati: Summary of Central Government Under Different Scenarios, 2010–30

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.									Proj.									
Baseline Scenario																					
(In percent of GDP)																					
Total revenue and grants	72.5	62.0	102.2	88.3	81.7	73.0	73.1	72.5	73.4	73.0	72.7	71.0	70.5	70.0	69.5	69.0	67.7	67.3	66.9	66.6	66.2
Revenue	47.8	37.0	53.8	37.9	41.4	41.3	41.4	41.0	41.3	40.9	40.7	40.3	39.9	39.5	39.1	38.8	38.5	38.2	37.9	37.6	37.4
Tax revenue	17.2	16.3	16.1	16.1	17.0	17.6	18.3	18.5	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Nontax revenue	30.5	20.7	37.8	21.8	24.4	23.8	23.1	22.5	22.0	21.6	21.4	21.0	20.6	20.2	19.8	19.5	19.2	18.9	18.6	18.3	18.1
Of which : Fishing license fees	25.4	17.4	34.5	18.5	21.3	20.7	20.1	19.5	19.0	18.6	18.2	17.8	17.4	17.0	16.6	16.3	16.0	15.7	15.4	15.1	14.9
External grants	24.7	25.0	48.4	50.5	40.3	31.7	31.7	31.5	32.2	32.0	31.9	30.7	30.6	30.5	30.4	30.3	29.2	29.1	29.0	28.9	28.8
Total expenditure	85.2	83.2	109.0	109.4	95.6	88.7	88.0	87.7	87.2	86.8	85.8	84.0	83.2	82.4	81.5	80.7	79.0	78.3	77.7	77.1	76.5
Current expenditure	58.0	58.0	60.7	56.1	54.4	53.4	52.4	51.5	50.6	50.5	49.7	49.4	48.9	48.4	47.9	47.4	46.9	46.5	46.1	45.8	45.5
Of which: Wages and salaries	27.0	27.4	28.3	29.2	28.4	27.9	27.3	26.8	26.3	26.5	26.0	26.0	25.8	25.6	25.4	25.2	25.0	24.8	24.6	24.4	24.2
Subsidies to public enterprises 1/	3.8	5.1	3.9	3.6	3.4	3.1	2.9	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other current expenditure	27.2	25.6	28.5	23.3	22.6	22.4	22.2	22.0	21.8	21.5	21.2	20.9	20.6	20.3	20.0	19.7	19.4	19.2	19.0	18.9	18.8
Development expenditure 2/	27.1	25.2	48.3	53.3	41.2	35.3	35.6	36.2	36.6	36.3	36.1	34.7	34.3	34.0	33.7	33.4	32.1	31.8	31.5	31.3	31.0
Current balance 3/	-10.2	-21.0	-6.9	-18.2	-13.0	-12.1	-11.0	-10.5	-9.3	-9.5	-9.0	-9.1	-9.0	-8.9	-8.8	-8.6	-8.4	-8.3	-8.2	-8.2	-8.2
Overall balance	-12.7	-21.2	-6.8	-21.1	-13.9	-15.7	-14.9	-15.2	-13.8	-13.8	-13.1	-13.1	-12.7	-12.4	-12.0	-11.7	-11.3	-11.1	-10.7	-10.5	-10.3
Financing	12.7	21.2	6.8	21.1	13.9	15.7	14.9	15.2	13.8	13.8	13.1	13.1	12.7	12.4	12.0	11.7	11.3	11.1	10.7	10.5	10.3
RERF	10.5	11.8	22.2	15.4	10.3	10.6	11.0	10.5	9.3	9.5	9.0	9.1	9.0	8.9	8.8	8.6	8.4	8.3	8.2	8.2	8.2
External loans (net)	2.4	0.2	-0.1	2.9	0.9	3.6	3.9	4.7	4.5	4.2	4.2	4.0	3.7	3.6	3.3	3.1	2.9	2.7	2.5	2.3	2.1
Other sources	-0.3	9.2	-15.3	2.8	2.7	1.5	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
Of which: budget support grants	0.0	0.0	0.0	2.8	2.7	1.5	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
Memorandum items																					
RERF balance (in millions of Australian dollars; end of period	583	581	571	570	576	580	585	592	600	610	620	629	639	648	656	665	674	682	690	697	703
RERF balance (in percent of GDP)	356	347	338	320	307	296	285	276	268	261	254	247	241	234	227	221	214	208	201	195	189
Real per capita value (in 2006 A$)	5,146	4,866	4,604	4,436	4,286	4,130	3,979	3,861	3,759	3,661	3,571	3,479	3,386	3,295	3,203	3,113	3,025	2,937	2,850	2,762	2,674
Real per capita value (in A$)	5,756	5,621	5,413	5,296	5,247	5,187	5,124	5,082	5,056	5,053	5,057	5,054	5,048	5,039	5,027	5,012	4,996	4,978	4,956	4,928	4,894
Real GDP Growth	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Stronger Reform Scenario																					
(In percent of GDP)																					
Total revenue and grants	72.5	62.0	102.2	88.3	81.9	73.3	76.1	78.9	79.8	79.4	79.0	79.0	79.0	78.6	78.3	77.7	77.3	76.8	76.4	75.9	75.4
Revenue	47.8	37.0	53.8	37.9	41.6	41.6	42.5	43.0	42.9	42.7	42.5	42.6	42.8	42.6	42.6	42.2	42.0	41.8	41.7	41.4	41.2
Tax revenue	17.2	16.3	16.0	16.1	17.0	17.5	19.0	19.9	20.3	20.3	20.3	20.3	20.5	20.7	21.0	21.0	21.0	21.0	21.0	21.0	21.0
Nontax revenue	30.5	20.7	37.8	21.8	24.5	24.0	23.5	23.1	22.6	22.4	22.2	22.3	22.3	21.9	21.6	21.2	21.0	20.8	20.7	20.4	20.2
Of which : Fishing license fees	25.4	17.4	34.5	18.5	21.3	20.7	20.1	19.5	18.9	18.6	18.2	17.8	17.5	17.1	16.8	16.4	16.2	16.0	15.9	15.6	15.4
External grants	24.7	25.0	48.4	50.5	40.3	31.7	33.6	35.9	36.9	36.7	36.5	36.4	36.2	35.9	35.7	35.5	35.2	35.0	34.7	34.4	34.2
Total expenditure and net lending	85.2	83.2	109.0	109.5	94.7	86.8	87.9	89.3	88.2	85.6	84.4	83.2	81.6	81.9	81.5	80.9	80.4	79.9	79.4	78.9	78.4
Current expenditure	58.0	58.0	60.7	56.1	53.6	51.5	51.2	50.3	49.5	47.6	47.0	46.0	44.8	45.4	45.3	45.0	44.8	44.6	44.4	44.2	44.0
Of which: Wages and salaries	27.0	27.4	28.3	29.2	28.4	27.9	27.3	26.8	26.3	25.1	25.1	25.1	24.3	24.3	24.3	24.1	24.1	23.9	23.7	23.5	23.4
Subsidies to public enterprises 1/	3.8	5.1	3.9	3.6	2.7	2.4	2.2	2.1	2.0	1.8	1.8	1.8	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other current expenditure 2/	27.2	25.6	28.4	23.3	22.4	21.3	21.7	21.5	21.3	20.7	20.1	19.1	18.9	19.6	19.5	19.4	19.2	19.2	19.2	19.1	19.1
Development expenditure	27.1	25.2	48.3	53.3	41.2	35.3	36.7	38.9	38.7	38.0	37.4	37.2	36.8	36.5	36.2	35.9	35.6	35.3	35.0	34.7	34.4
Current balance 3/	-10.2	-21.0	-6.9	-18.2	-12.0	-10.0	-8.7	-7.4	-6.6	-4.9	-4.5	-3.4	-2.0	-2.8	-2.8	-2.8	-2.7	-2.7	-2.7	-2.7	-2.7
Overall balance	-12.7	-21.2	-6.8	-21.1	-12.8	-13.5	-11.8	-10.4	-8.4	-6.2	-5.3	-4.2	-2.7	-3.4	-3.2	-3.2	-3.1	-3.0	-3.0	-3.0	-3.0
Financing	12.7	21.2	6.8	21.1	12.8	13.5	11.8	10.4	8.4	6.2	5.3	4.2	2.7	3.4	3.2	3.2	3.1	3.0	3.0	3.0	3.0
RERF	10.5	11.8	22.2	14.9	8.8	6.5	6.2	5.0	4.4	4.9	4.5	3.4	2.0	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7
External loans (net)	2.4	0.2	-0.1	2.9	0.9	3.6	3.2	3.0	1.8	1.2	0.8	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.2
Other sources	0.0	0.0	0.0	3.4	3.2	4.1	2.4	2.3	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: budget support grants	0.0	0.0	0.0	3.4	3.2	4.1	2.4	2.3	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items																					
RERF balance (in millions of Australian dollars; end of period	583	581	571	570	579	592	606	626	647	669	694	722	754	786	820	854	891	929	968	1,009	1,052
RERF balance (in percent of GDP)	356	347	338	320	308	302	295	292	289	286	283	282	282	280	279	278	277	276	274	273	271
Real per capita value (in 2006 A$)	5,146	4,866	4,604	4,436	4,303	4,210	4,129	4,085	4,050	4,020	3,996	3,988	3,999	3,999	3,999	3,999	3,999	3,999	3,999	3,999	3,999
Real per capita value (in A$)	5,756	5,621	5,413	5,296	5,277	5,297	5,328	5,401	5,485	5,587	5,698	5,834	6,002	6,158	6,318	6,483	6,652	6,825	7,002	7,185	7,372
Real GDP Growth	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3

Table 5. Kiribati: Summary of Central Government Under Different Scenarios, 2010–30 (cont'd)

	Policy Stagnation Scenario (In percent of GDP)																				
Total revenue and grants	72.5	62.0	102.2	88.3	80.6	71.4	70.8	69.6	68.6	68.2	67.9	66.3	65.9	65.5	65.1	64.7	63.4	63.0	62.6	62.2	61.9
Revenue	47.8	37.0	53.8	37.9	40.3	39.7	39.1	38.5	37.9	37.6	37.4	37.1	36.8	36.5	36.2	35.9	35.6	35.3	35.0	34.7	34.4
Tax revenue	17.2	16.3	16.1	16.1	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9
Nontax revenue	30.5	20.7	37.8	21.8	24.4	23.8	23.1	22.5	22.0	21.6	21.5	21.2	20.9	20.5	20.2	19.9	19.6	19.4	19.1	18.8	18.5
Of which: Fishing license fees	25.4	17.4	34.5	18.5	21.3	20.7	20.1	19.5	19.0	18.6	18.3	18.0	17.7	17.3	17.0	16.7	16.4	16.2	15.9	15.6	15.3
External grants	24.7	25.0	48.4	50.5	40.3	31.7	31.7	31.1	30.7	30.6	30.5	29.2	29.1	29.0	28.9	28.8	27.8	27.7	27.6	27.5	27.4
Total expenditure	85.2	83.2	109.0	109.5	97.3	91.4	89.7	89.0	87.4	91.4	90.8	89.3	89.1	88.0	87.7	87.4	86.2	86.0	85.1	84.9	84.6
Current expenditure	58.0	58.0	60.7	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1	56.1
Of which: Wages and salaries	27.0	27.4	28.3	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Subsidies to public enterprises 1/	3.8	5.1	3.9	3.6	3.4	3.1	2.9	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other current expenditure	27.2	25.6	28.5	23.3	23.5	23.8	24.0	24.2	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Development expenditure 2/	27.1	25.2	48.3	53.3	41.2	35.3	33.6	32.9	31.3	35.3	34.7	33.2	33.0	31.9	31.6	31.3	30.1	29.9	29.0	28.8	28.5
Current balance 3/	-10.2	-21.0	-6.9	-18.2	-15.8	-16.4	-17.0	-17.6	-18.2	-18.5	-18.7	-19.0	-19.3	-19.6	-19.9	-20.2	-20.5	-20.8	-21.1	-21.4	-21.7
Overall balance	-12.7	-21.2	-6.8	-21.1	-16.6	-20.0	-18.9	-19.4	-18.8	-23.3	-22.9	-23.0	-23.2	-22.5	-22.6	-22.7	-22.9	-23.0	-22.5	-22.7	-22.8
Financing	12.7	21.2	6.8	21.1	16.6	20.0	18.9	19.4	18.8	23.3	22.9	23.0	23.2	22.5	22.6	22.7	22.9	23.0	22.5	22.7	22.8
RERF	10.5	11.8	22.2	15.4	13.1	16.4	17.0	17.6	18.2	18.5	18.7	19.0	19.3	19.6	19.9	20.2	20.5	20.8	21.1	21.4	21.7
External loans (net)	2.4	0.2	-0.1	2.9	0.9	3.6	1.9	1.8	0.6	4.7	4.2	4.0	3.9	2.8	2.7	2.5	2.3	2.2	1.4	1.3	1.1
Other sources	-0.3	9.2	-15.3	2.8	2.7	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	0.0
Of which: budget support grants	0.0	0.0	0.0	2.8	2.7	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	0.0
Memorandum items																					
RERF balance (in millions of Australian dollars; end of period	583	581	571	570	570	563	555	545	531	516	497	475	449	418	382	341	294	241	181	114	39
RERF balance (in percent of GDP)	356	347	338	320	304	287	271	254	237	221	204	187	169	151	132	113	94	74	53	32	11
Real per capita value (in 2006 A$)	5,146	4,866	4,604	4,436	4,243	4,008	3,776	3,556	3,327	3,099	2,866	2,627	2,380	2,126	1,866	1,597	1,322	1,040	750	454	150
Real per capita value (in A$)	5,756	5,621	5,413	5,296	5,193	5,032	4,860	4,679	4,473	4,274	4,057	3,815	3,546	3,251	2,926	2,571	2,183	1,762	1,304	809	275
Real GDP Growth	-0.5	2.7	2.8	2.9	2.7	2.0	2.0	2.0	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.

1/ Includes subsidies to copra production.

2/ Development expenditure equals grants plus loans for development projects.

3/ Current balance excludes grants and development expenditure (see footnote 2 above).

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 14, 2013

Prepared By | The Asia and Pacific Department (In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2013)

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

General Resources Account:	SDR Million	Percent Quota
Quota	5.60	100.00
Fund holdings of currency	5.60	100.02
Reserve position in Fund	0.00	0.08

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	5.32	100.00
Holdings	5.35	100.52

Outstanding Purchases and Loans: None.

Financial Arrangements: None.

Projected Obligations to Fund: None.

Implementation of HIPC Initiative: Not Applicable.

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

Exchange Rate Arrangement: The Australian dollar circulates as legal tender.

Article IV Consultation:
The 2011 Article IV consultation discussions with Kiribati were held in Tarawa during February 15–23, 2011.)

Technical Assistance (TA), 1995–2011:
STA, LEG, MCM, FAD, and PFTAC have provided TA on statistics, tax administration and policy, budget management, Revenue Equalization Reserve Fund (RERF) and Pension Fund (KPF) management, financial sector reform and supervision, and combating financial crime and financial system abuse.

Resident Representative: The resident representative office in the Pacific Islands was opened in September 2010 in Suva, Fiji. Mr. Yongzheng Yang is the Resident Representative.

RELATIONS WITH THE PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)[1]

(As of April, 2013)

During the current funding cycle (May 2011 to May 2014), PFTAC assistance to Kiribati has included advisory missions. Kiribati also sent 11 officials to regional seminars and workshops.

Tax Administration and Policy

In 2003, PFTAC recommended several reforms. These included: a value-added tax (VAT); a presumptive tax; and a single ad valorem tax on imports from non Pacific countries; simplified personal income tax (PIT); single rate of corporate income tax (CIT). A steering committee was established to manage the introduction of the reforms. In 2009, a subsequent review mission was provided to update tax recommendations.

In February 2009, the cabinet approved the introduction of legislation to treat income tax deductions from salary and wages (PAYE) as a final tax. This change has now been implemented, but further TA may be necessary to ensure that the change operates effectively.

Cabinet has also given approval "in principle" to implementation new regimes for VAT and excise tax and revenue administration. PFTAC has provided TA to prepare the draft legislation and will provide TA to assist in implementation. Cabinet has reviewed the legislation and the first reading of the Bill is anticipated in late April 2013. Cabinet had indicated that the VAT would commence in January 2014, but this dependant on safe passage of the bill through Parliament no later than August 2013.

PFTAC stands ready to continue to assist the authorities with VAT implementation; reviewing existing income tax business process; and implementing new automated business processing (Revenue Management System v7).

Public Financial Management (PFM)

An August 2011 mission to Kiribati assisted the Ministry of Finance in prioritizing its PFM reform activities, and provided a framework for the current joint AusAid/AsDB long-term TA. Prior to the inception of that TA, two PFTAC/IMF missions worked with the Ministry of Finance officials to modify their chart-of-accounts to capture more information on donor-funded projects, to improve the integration of planning and budgeting, and to provide options for better cash and debt management. In addition, PFTAC's PFM Advisors participated in the August 2012 AsDB/AusAid Technical Assistance inception mission, and a concurrent donor forum.

[1] PFTAC in Suva, Fiji is a multi-donor TA institution, financed by IMF, AsDB, AusAID, and NZAID, with the IMF AS Executing Agency. The Centre's aim is to build skills and institutional capacity for effective economic and financial management that can be sustained at the national level. Member countries are: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.

PFTAC is ready to provide additional technical support on budget preparation, cash/debt management, and other aspects of budget execution. Officials from Kiribati have regularly participated in PFTAC's regional PFM events, including the November 2011 MTB workshop, the July 2012 PEFA Workshop, the Strategic Development Program Workshops (with Australia DOFD), and the PIFMA Heads meetings.

Financial Sector Regulation and Supervision

In August 2003, the PFTAC advisor and an IMF legal expert visited Kiribati to conduct consultations with industry and government officials on a Financial Institutions Bill that had been drafted in July 2002. Responses to comments raised by the authorities, together with appropriately amended draft legislation, were forwarded to the authorities in December 2003 for action.

To date there has been no further progress on the draft Financial Institutions Bill or the previously drafted Anti-money Laundering Legislation. The PFTAC advisor makes periodic contact with the Ministry of Finance regarding the status of the draft legislation.

Economic and Financial Statistics

GDDS metadata was first published on the IMF website in April 2004 and subsequently updated in March 2013, following assistance by PFTAC. A brief mission was undertaken in August 2006 to assess TA needs. The BOP compiler benefited from training provided in regional courses in 2005 and 2010. PFTAC provided TA on balance of payments in 2008, 2010 and 2012, improving compilation methods and use of source data, as well as providing training, and helping with the transition to BPM6.

PFTAC provided TA on national accounts (NA) in 2008, 2009, 2010, and 2013, assisting the authorities in making significant improvements in methodology and use of source data. Beginning in 2012, PFTAC is assisting with the development of an expenditure measure of GDP. The NA compiler benefited from regional courses in 2009 and 2012. PFTAC also sponsored a one-month attachment for the BOP compiler with Statistics New Zealand in May 2009.

Macroeconomic Analysis

Two missions in 2011 provided assistance in building capacity related to basic forecasting techniques, using the medium-term fiscal framework developed as part of ADB assistance, and assessing sustainable levels of drawdowns from Kiribati's Reserve Equalization Reserve Fund. A regional financial programming workshop held jointly in 2012 by PFTAC and the Singapore Regional Training Institute provided training in financial programming techniques to two economists of the Ministry of Finance and Economic Development.

BANK-FUND COLLABORATION

A. World Bank-IMF Collaboration

(As of April 30, 2013)

The Fund and the Bank teams maintain close cooperation in various areas and consult frequently. During the current cycle, the Bank staff has joined the IMF missions, including IMF staff visits and the 2013 Article IV mission. The IMF staff and the World Bank staff maintained continuing closed dialogue on the economic developments and aspects and components of the government reform program.

During the current cycle, the teams have produced a Joint DSA. The IMF team provided analysis and advice on the overall macroeconomic and fiscal framework, including fiscal and RERF sustainability. The IMF and World Bank have also provided technical assistance on the government borrowing and overdraft. Using this advice, the government has cleared expensive non-concessional debt in the end of 2012 and reduced borrowing costs. The Fund also provided technical assistance on statistical issues, including Government Finance Statistics and Balance of Payments. The Bank has been engaged in various infrastructure projects, including road rehabilitation, airport improvement, solar energy, and adaptation to climate change. Bank staff provided technical assistance on government expenditures, reforms of copra subsidy and import levy fund, liberalization of telecommunication sector, management of RERF assets, and social protection issues. The Bank has worked closely with the government to identify comprehensive program of priority economic reforms, and supported coordination of donor TA around the reform agenda. Reforms identified through this process are now being supported under joint donor budget support, coordinated by the World Bank.

The IMF and World Bank teams will continue close cooperation going forward, in particular in the context of the government reform program. As agreed earlier, the Fund will continue to lead on macro issues, in particular overall macroeconomic framework, including in the medium-and-longer term, and the Bank on macro-critical structural reform issues.[1] The Fund and the Bank staff will also cooperate with regard to follow up TA on the RERF management.

[1] See 2011 Article IV report, Annex III on Bank-Fund collaboration.

B. Relations with the World Bank Group[2]

Kiribati became a member of the World Bank Group in 1986.

On March 1, 2011, the World Bank's Board of Executive Directors discussed the first Country Assistance Strategy (CAS) for Kiribati, which had previously been covered by a Pacific Islands Regional Engagement Framework. The CAS is structured around the themes of: (i) addressing the existential threat posed by climate change; and, (ii) mitigating the effects of geographic isolation.

The CAS anticipates a significantly expanded program of advisory and financial support for Kiribati. Consistent with Kiribati's limited repayment capacity highlighted in the DSA, it is anticipated that IDA financing will be provided on 100-percent grant terms. IDA grants and trust fund investments of as much as US$50 million are anticipated over the four year CAS period from FY2011 to FY2014. Such a program of investments is intended to build a foundation for the World Bank to play a more substantive role, in close collaboration with the IMF and other donor partners, in a coordinated economic policy dialogue with the Government of Kiribati.

Key components of proposed World Bank Group engagement include:

- Climate change adaptation and building resilience against shocks is at the core of Bank engagement in Kiribati. The Bank, with trust fund financing, has been supporting climate change mitigation since 2003 through the Kiribati Adaptation Program (KAP). Trust fund financing of US$7–10 million has been agreed in principle for KAP 3 from GEF, GFDRR, Australia, and, potentially, New Zealand. This will involve a significant scale up compared to previous phases. Activities will focus on seawalls, mangrove planting, and water conservation and supply. In addition to KAP, the Bank is proposing to work with the government and other donors to consider options for an integrated program in the water sector, which is the key issue where the climate change and development agendas intersect in Kiribati. Kiribati's already limited supply of fresh water adversely affects development outcomes, and population growth and the impact of climate change is likely to put further pressure on this critical resource. Beyond climate change adaptation, the Bank is committed to accelerating efforts to address wider issues of vulnerability in Kiribati, including accessing trust fund resources to improve renewable energy generation to reduce reliance on volatile imported diesel, and to support the transport of food to remote outer islands.

- Mitigating the effects of geographic isolation. Given Kiribati's remoteness, the Bank anticipates scaling up support for climate friendly infrastructure investments. A South Tarawa road improvement investment of US$24m in IDA and TF financing— undertaken jointly with the AsDB— was approved by the Board on March 1, 2011, with the Kiribati CAS. The Bank has also mobilized significant grant resources with New Zealand and other partners, to help bring Kiribati airports–a vital link with the outside world–up to international safety standards.

- Supporting economic reform and regional integration. An expanded program of investments has provided a foundation for a more substantive engagement by the Bank Group in a coordinated

[2] Prepared by the World Bank staff.

economic policy dialogue in Kiribati. The World Bank is now preparing a budget support operation to support key public finance and structural reforms identified through the economic dialogue process. The Bank Group is supporting government efforts to open the telecoms market to new private investments. As well as the direct benefits, telecoms reform has elsewhere in the Pacific proven to be especially successful in building public support and momentum for reform more broadly. The Bank and IFC will cooperate closely in supporting other potential SOE transactions, including the introduction of private participation in the management of the Otintaai hotel. As well as domestic reform, the Bank Group continues to support efforts by Kiribati and other Pacific Island countries to gain benefits from greater regional integration, including participation in temporary labor migration schemes established by New Zealand and Australia and anticipated analytical and investment support to help countries improve management and returns from pelagic and deep-sea fishery resources.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK [1]

The Asian Development Bank has approved eight project loans to Kiribati amounting to US$34.7 million, all from Asian Development Fund (ADF) resources since Kiribati joined the AsDB in 1974. In addition, TA amounting to US$18.95 million has been provided for 38 projects. The latest AsDB loan to Kiribati, for South Tarawa Sanitation Improvement Sector project, was approved in October 2011. The AsDB most recently approved an US$0.8 million TA grant for a strengthening Public Financial Management in December 2011. AusAID provided $1 million cofinancing.

The strategy of the AsDB in Kiribati directly supports the government's Kiribati Development Plan (KDP). Further, AsDB's approach is anchored in the mid-term review of the Pacific Strategy, which put a stronger emphasis on issues of supporting a conducive environment for private sector development, good governance, and capacity development. Rapid population growth and urban migration has left Kiribati with overcrowded urban areas, and its most pressing development challenges are social and environmental concerns, including the impacts of climate change, access to clean water and sanitation, and the spread of HIV/AIDS. The AsDB supports the government's efforts to balance growth more evenly throughout the country through TA for the Integrated Land and Population Development Program on Kiritimati Island. The AsDB supports also efforts to improve the government's financial management through TA for Economic Management and Public Sector Reform recognizing the sizeable constraint the poor performance of public enterprises is placing on government ability to fund needed goods and services.

Kiribati: Loan, Grant and Technical Assistance Approvals (2007–12)

	2007	2008	2009	2010	2012	2012
Loan approvals						
Number	0	0	0	1	1	0
Amount (US$m)	0	0	0	12	7.56	0
Grant Approvals						
Number	0	0	0	0	0	0
Amount (US$m)	0	0	0	0	0	0
TA Approvals						
Number	0	1	2	2	1	0
Amount (US$m)	0	0.8	0.85	0.2	0.8	0

1/ Prepared by the Asian Development Bank Staff.

[1] Prepared by the Asian Development Bank staff.

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance	
(As of May 1, 2013)	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Balance of Payments data are the most affected area.	
National Accounts: With PTFAC assistance GDP estimates have improved. Three TA missions took place in 2012 to improve national account data and produce revised estimates through 2011. However, further capacity building would be needed to continue to improve the quality of GDP estimates. So far, estimates are limited to Gross Domestic Product (GDP) at current and constant 06 prices, using the production approach. Work is ongoing on the expenditure-based GDP estimates.	
Price statistics: The monthly retail price index (1996=100) is produced with a short lag (about a month), based on a survey in South Tarawa (a national index is not available). There are no producer, wholesale, or trade price indices.	
Government finance statistics: A Government Finance Statistics mission took place in January 2013 to compile draft public sector delineation by completing work on the institutional unit classification. While a complete review of government units, statutory extra budgetary units, and state-owned enterprises (SOE) was completed, a gap still remains regarding donor-financed project funds.	
Monetary statistics: The balance sheets of all the financial institutions (Bank of Kiribati, Development Bank of Kiribati, Kiribati Provident Fund, and Kiribati Insurance Corporation) are available with lags, but the consolidated balance sheet of the financial sector is not available. Data on interest rates are reported with a long lag.	
Balance of payments: The quality of the data has improved with the PFTAC assistance. A PFTAC mission took place in August 2012. The mission revised the BOP estimates up to2011, and updating estimates to end 2009. As in the case of GDP data. PFTAC has suggested the need for further statistical capacity building. There still remain some shortcomings in non-trade external statistics, which are reported with a long delay (about a year or more).	
DATA STANDARDS AND QUALITY	
Kiribati has been a participant in the General Data Dissemination System (GDDS) since 2004.	No data ROSC are available.
REPORTING TO STA (OPTIONAL)	
No data are currently reported to STA for publication in the *Government Finance Statistics Yearbook*, the Balance of Payments Statistics Yearbook or in the IFS.	

Kiribati: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data	Frequency of Reporting7	Frequency of publication7
Exchange Rates	5/1/13	5/1/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities /1	1/31/13	3/15/13	M	A	NA
Reserve/Base Money	NA	NA	NA	NA	NA
Broad Money	NA	NA	NA	NA	NA
Central Bank Balance Sheet	NA	NA	NA	NA	NA
Consolidated Balance Sheet of the Banking System	NA	NA	NA	NA	NA
Interest Rates /2	3/31/13	4/3/13	A	A	1
Consumer Price Index	3/13	4/15/13	M	Q	Q
Revenue, Expenditure, Balance and Composition of Financing/3 - General Government /4	12/31/12	2/19/13	A	A	1
Stocks of Central Government and Central Government-Guaranteed Debt /5	12/31/12	2/19/13	A	A	1
External Current Account Balance	12/31/11	2/18/13	A	A	1
Exports and Imports of Goods and Services	12/31/12	3/31/13	A	A	1
GDP/GNP	12/31/11	2/18/13	A	A	1
Gross External Debt	12/31/12	4/18/13	A	A	1
International Investment Position /6	12/31/11	2/18/13	A	A	1

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

2/ Both market-based and officially-determined, including discounts 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/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

KIRIBATI

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

May 14, 2013

Approved By
Hoe Ee Khor and Peter Allum (IMF); Jeffrey Lewis and Sudhir Shetty (World Bank)

Prepared by the Staff of the International Monetary Fund and the World Bank

Kiribati continues to be at high risk of debt distress according to this update of the debt sustainability analysis (DSA). Containing the risk of debt distress will require prudent financing by continuing to secure grants to support the country's large development needs, and implementing fiscal and structural reform agenda that would ensure fiscal sustainability and raise long-term growth.

Background

Kiribati is a remote Pacific microstate. The export and production bases are narrow and limited to copra, seaweed and fishing. The revenue base is very volatile, with fishing license fees making up about 50 percent of government revenues. Kiribati's sovereign wealth fund—Revenue Equalization Reserve Fund (RERF) is a major source of financing and a cushion against risks. Climate change and pressures on infrastructure raise additional challenges. The country relies heavily on foreign aid to finance large development.

The fiscal position has deteriorated in recent years and the per capita value of Kiribati's wealth fund has declined substantially. Large overall fiscal deficits over the last decade (about 16 percent of GDP on average) have resulted in substantial drawdowns of the RERF—the main source of deficit financing.[2] The RERF assets dropped to A$570 million or 340 percent of GDP in 2012 from A$658 million or 565 percent of GDP in 2000.

[1] The DSA has been produced in consultation with the Asian Development Bank (AsDB). This DSA is based on the common standard LIC DSA framework. Under the Country Policy and Institutional Assessment (CPIA), Kiribati is rated as a weak performer, and the DSA uses the indicative threshold indicators on the external public debt for countries in this category: 30 percent for the present value (PV) of debt-to-GDP ratio; 100 percent for the PV of debt-to exports ratio; 200 percent for the PV of debt-to-revenue ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio.

[2] The RERF is a wealth fund established in 1956 and was capitalized using phosphate mining proceeds before phosphate deposits were exhausted in 1979.

As of end-2012, domestic debt accounted for 3⅔ percent of GDP, while gross external debt is estimated at about 8 percent of GDP. Domestic debt includes the publicly guaranteed debt of the state-owned enterprises (SOEs). As of end-2012, all external public debt consisted of concessional loans.

The medium-term macroeconomic outlook points to moderate growth. The economy is estimated to have grown by about 2.8 percent in 2012. Going forward, donor-financed road and airport projects are expected to boost construction and support growth over the medium term. Based on the government intentions under donor-supported reform program, fiscal deficit is expected to narrow. Kiribati continues to be vulnerable to external shocks from volatile fishing license revenues, and from financial exposure of its sovereign wealth fund and pension fund.

The Baseline Scenario

Under the baseline scenario, fiscal deficit is projected to improve in the medium and longer term. (The macroeconomic assumptions underlying the baseline scenario are presented in Box 1.) The overall fiscal deficit is projected to be about 10⅓ percent of GDP by 2030, down from around 21 percent in 2013. It is assumed that the deficit is partly financed by the assumed about US$7–$10 million of external loans each year in the medium term, and about US$10 million each year in the longer term to finance large infrastructure and other development needs, as well as to address adverse impact of climate change. The remaining financing gap is met through drawdowns of the RERF, without additional domestic borrowing. Annual drawdown from the RERF is projected to be 10⅓ of GDP on average in the medium term and 8⅔ percent of GDP on average during 2019–33. As a result, the RERF real per capita balance continues to decline.

External Debt Sustainability Analysis

The external DSA indicates Kiribati is at high risk of debt distress, in line with the conclusion of the previous DSA from the 2011 Article IV consultation. The PV of external debt will witness a large increase due to loan disbursements. There is a sizable and protracted breach of the PV of debt-to-exports ratio threshold and of the PV of the debt to GDP ratio around 2025. The PV of external debt will increase from 8½ percent of GDP in 2013 to 30 percent of GDP in 2025, and reach over 100 percent of exports starting from 2025.

Stress tests indicate that the country's debt path is vulnerable to shocks to financing terms and to exports. The present value (PV) of debt to export ratio and the PV of debt to GDP ratio thresholds are breached under the extreme stress test scenario, including a scenario which assumes the interest rate on new borrowing is 200 basis points higher than in the baseline.[3]

[3] As a measure of sustainability, fishing license fees are included in export ratio.

Box 1: Macroeconomic Assumptions Under the Baseline Scenario

- GDP growth and population. The economy is expected to grow at 2.8 percent in 2012 and about 2 percent in the medium term, driven by donor-financed projects, fishing license revenues and remittances. Over the long term, growth will moderate to 1.8 percent. Population is projected to grow at 1.7 percent per year.

- Aid flows in form of grants are expected to be around 33½ percent of GDP over the medium term and to decline to about 29 percent in the longer term, assuming that the government's implementation of reforms encourages continuing support from the main donors (AusAID, New Zealand AID, Japan, and Taiwan Province of China). Access to the IDA-type grant, financing is assumed to be US$10 million per year during 2013–15 to finance large infrastructure projects, including road rehabilitation, airport improvement, and others.

- New external loan disbursements are assumed to average about 3½ percent of GDP over the medium and long term. Government is expected to access IDA-type financing of US$8 million in 2016, increasing to US$10 million annually from 2017. These loans and other investments will be needed to support large development needs in infrastructure, health and education, as well as to adapt to adverse impact in private change.

- FDI flows experience a substantial increase in 2013 because of expected additional investments in fishing joint venture. Thereafter they continue at positive level of about ½ percent of GDP per year reflecting additional investment in fishing and marine sectors as a result of the reforms.

- The overall fiscal deficit will be reduced gradually to around 14 percent of GDP by 2018, under the government commitment to reforms. The RERF drawdowns would be reduced correspondingly. Nevertheless, the RERF per capita value in real terms would not stabilize and will decline substantially by 2033 compared to the level of 2011. (The nominal rate of annual return on RERF is assumed at 5⅓ percent in the long term.)

- The current account deficit will narrow in the medium term, reflecting decrease in the fiscal deficit. The trade deficit follows similar trend.

Public Debt Sustainability Analysis

Public debt analysis paints a similar picture. Under the baseline scenario, the PV of total public debt is projected to increase to above 30 percent of GDP by 2023, driven mainly by external borrowings. Public debt sustainability is vulnerable to shocks as well. Under the most extreme stress test scenario—real GDP growth being one standard deviation, temporarily lower in the next two years—the PV of debt reaches about 33 percent of GDP by 2023 and 58 percent of GDP by 2033.

The Stronger Reform Scenario

The stronger reform scenario envisages additional fiscal consolidation and improvements in business prospects that would lead to eventual stabilization of the RERF and reduction of the debt vulnerabilities. The RERF under this scenario stabilizes at a level of slightly below A$4000 and the debt distress level could be reduced to low as a result of the improved macro-fiscal situation and more favorable composition of financing.

This scenario illustrates that such an outcome would not be easy to achieve as the underlying assumptions demonstrate. The population growth and the nominal rate of annual return on RERF are as under the baseline scenario. Reflecting the outcomes of reforms, the GDP growth is assumed to be about 2.1–2.3 percent in the long term, compared to 1.8 percent under the baseline scenario. The population growth and the nominal rate of annual return on RERF are as under the baseline scenario. Fishing license revenues are also assumed to improve somewhat through better pricing mechanisms.

This scenario shows that stabilizing RERF and achieving higher growth is a difficult task. Tax revenue would be higher—21 percent on average in the long term due to improvement in tax administration, compared to around 19 percent under the baseline. Fishing license revenues are also assumed to improve somewhat through better pricing mechanisms. Current expenditure would also need to be reduced from about 50 percent of GDP in 2018 to about 44 percent of GDP in 2030 through a combination of adjustment in wages and salaries, subsidies, and other current expenditures. Stronger reforms and improving business prospects would be needed to ensure higher grants, higher FDI, higher remittances due to expanded opportunities to work. In total, these flows are more than 8 percent of GDP higher compared with the baseline scenario, offsetting the impact of fiscal consolidation..

A greater proportion of Kiribati's development financing needs is projected to be met by grants rather than loans. Over the long term, external grants are assumed to be about 35 percent of GDP each year compared to 30 percent in the baseline scenario. The external loan financing is envisaged to be about US$2½ million each year compared to US$10 million in the baseline scenario. There would be no new domestic borrowing after 2013.

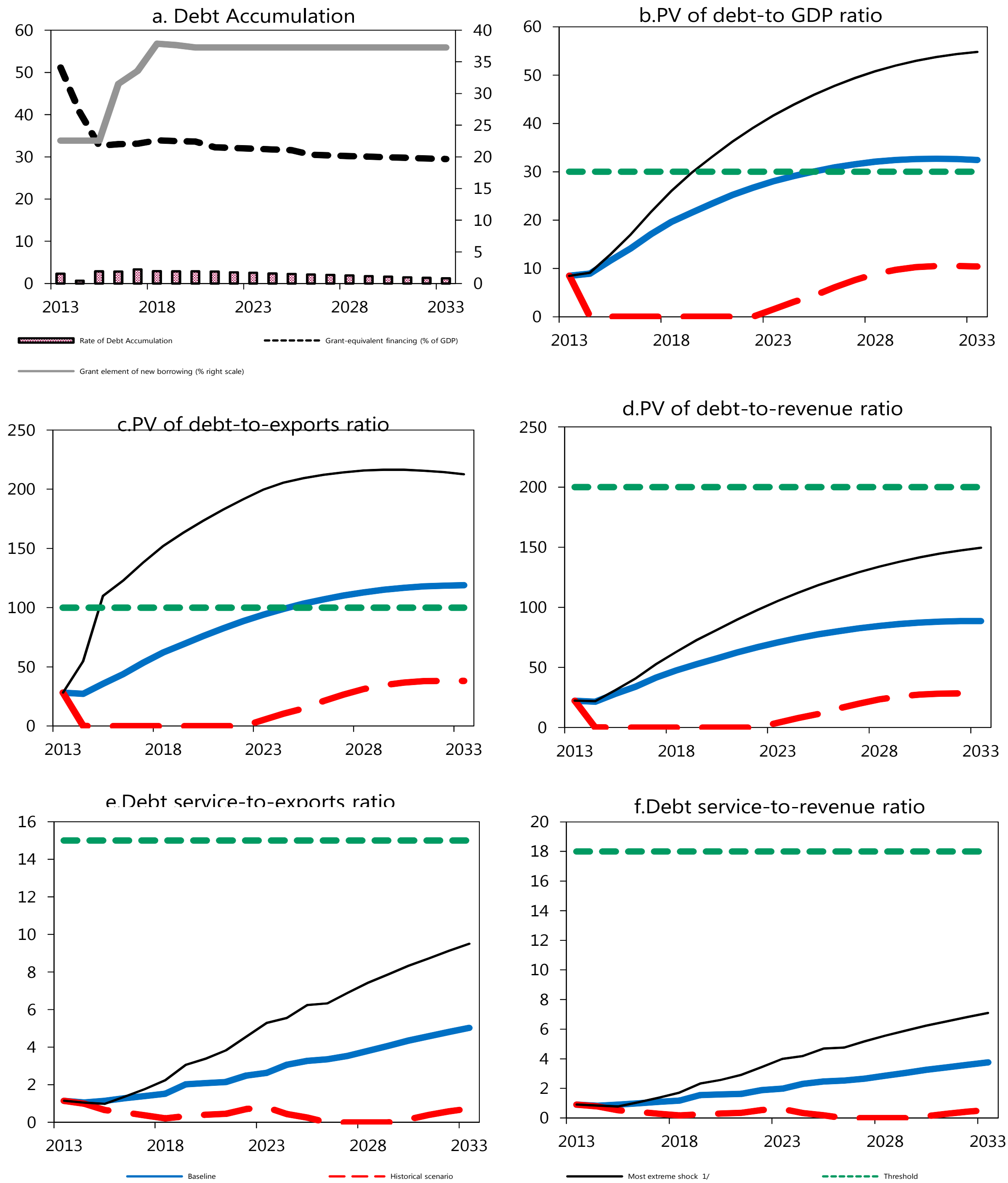
Under the stronger scenario, the PV of total public debt is projected to increase to around 11 percent of GDP over the long term, much lower than 34 percent of GDP in the baseline scenario. The PV of both external debt-to-GDP and external debt-to-export will stay far below the threshold. The PV of external debt-to-GDP ratio will eventually decline after reaching its peak at 16⅔ percent in 2019, while the PV of external debt-to-export will start declining after reaching to 53⅔ percent in 2019. Even with most extreme shocks, the PV of external debt-to-GDP will not cross the threshold, while the PV of external debt-to-export will cross the threshold for a period starting 2015, but eventually decline below the threshold in the longer term.

Conclusions

Kiribati continues to be at high risk of debt distress. To narrow fiscal imbalances and stabilize the real per capita RERF value in the longer term, it is imperative for the authorities to pursue fiscal consolidation through both revenue and expenditure measures. Structural reforms to improve business climate and promoting private sector growth are also critical to reduce fiscal burden.

The authorities broadly agreed with this assessment. They indicated the commitment to preserving value of the RERF through fiscal and structural reform program supported by donor community. The government plans to introduce value added and excise taxes and is keen to improve tax administration. They are also committed to controlling expenditure by reforming SOEs and rationalizing the administrative costs and public wages.

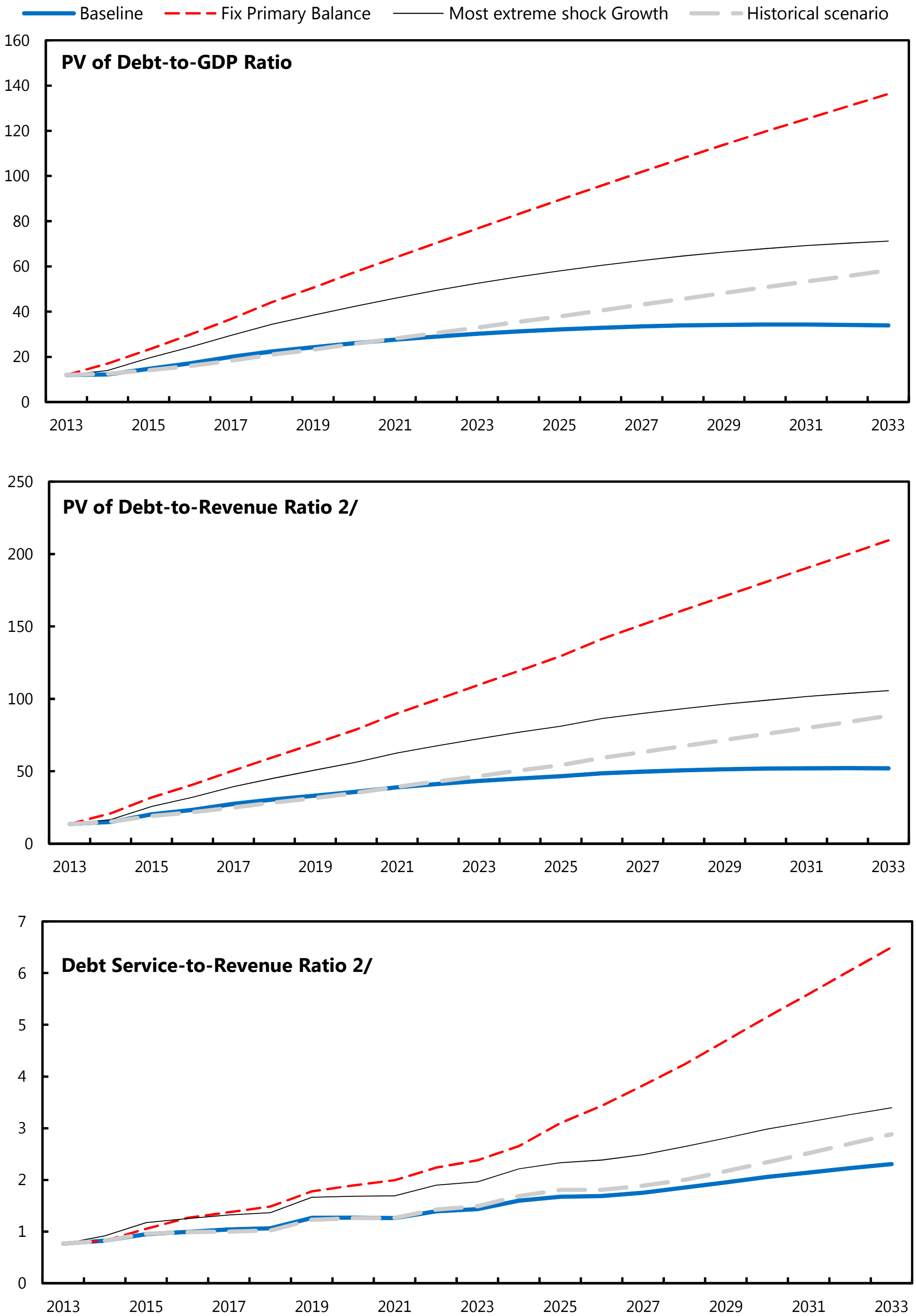
Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2013–33 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Terms shock and in figure f. to a Terms shock

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2013–33 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 1. Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	32.1	29.2	11.6			13.9	14.2	17.5	21.0	25.3	29.2		41.7	47.1	
of which: foreign-currency denominated	11.3	8.4	7.9			10.4	10.9	14.3	18.0	22.4	26.4		39.4	45.6	
Change in public sector debt	1.4	-2.9	-17.6			2.3	0.4	3.3	3.5	4.3	3.9		1.9	-0.3	
Identified debt-creating flows	11.5	20.4	6.2			20.6	13.4	15.3	14.5	14.7	13.2		10.8	6.7	
Primary deficit	10.3	19.1	6.3	13.8	4.9	20.6	13.4	15.2	14.4	14.6	13.2	15.2	11.8	8.8	10.9
Revenue and grants	72.5	62.0	102.2			88.3	81.7	73.0	73.1	72.5	73.4		70.0	65.1	
of which: grants	24.7	25.0	48.4			50.5	40.3	31.7	31.7	31.5	32.2		30.5	28.5	
Primary (noninterest) expenditure	82.8	81.1	108.6			109.0	95.1	88.2	87.5	87.1	86.6		81.8	73.9	
Automatic debt dynamics	1.2	1.3	-0.1			0.0	0.0	0.1	0.1	0.1	0.0		-1.0	-1.4	
Contribution from interest rate/growth differential	2.2	1.3	-0.1			-0.1	-0.1	0.0	-0.1	-0.2	-0.4		-0.8	-1.2	
of which: contribution from average real interest rate	2.0	2.1	0.7			0.3	0.2	0.2	0.2	0.2	0.1		-0.1	-0.3	
of which: contribution from real GDP growth	0.2	-0.9	-0.8			-0.3	-0.4	-0.3	-0.3	-0.4	-0.5		-0.7	-0.8	
Contribution from real exchange rate depreciation	-1.0	0.0	0.0			0.0	0.2	0.2	0.2	0.3	0.4		...	...	
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	-0.7	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.7	
Recognition of implicit or contingent liabilities	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 (specify, 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	
Residual, including asset changes	-10.1	-23.3	-23.8			-18.3	-13.1	-12.1	-10.9	-10.4	-9.3		-8.9	-7.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	10.2			11.9	12.2	14.7	17.1	20.0	22.4		30.3	33.9	
of which: foreign-currency denominated	...	...	6.5			8.5	8.9	11.6	14.1	17.1	19.6		28.0	32.4	
of which: external	...	...	6.5			8.5	8.9	11.6	14.1	17.1	19.6		28.0	32.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	12.9	21.5	7.0			21.3	14.1	15.9	15.1	15.4	13.9		12.8	10.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	10.0			13.5	14.9	20.2	23.4	27.5	30.5		43.2	52.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	18.9			31.5	29.5	35.7	41.3	48.6	54.2		76.6	92.6	
of which: external 3/	...	...	12.1			22.3	21.5	28.0	34.0	41.6	47.5		70.9	88.6	
Debt service-to-revenue and grants ratio (in percent) 4/	3.6	3.8	0.6			0.8	0.8	0.9	1.0	1.0	1.1		1.4	2.3	
Debt service-to-revenue ratio (in percent) 4/	5.5	6.4	1.2			1.8	1.6	1.7	1.8	1.8	1.9		2.5	4.1	
Primary deficit that stabilizes the debt-to-GDP ratio	8.9	22.0	23.9			18.4	13.0	11.9	10.9	10.4	9.3		9.9	9.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.5	2.7	2.8	1.7	3.3	2.9	2.7	2.0	2.0	2.0	2.0	2.2	1.8	1.8	1.8
Average nominal interest rate on forex debt (in percent)	1.0	1.0	1.0	1.0	0.1	1.6	1.4	1.6	1.6	1.5	1.4	1.5	1.1	1.0	1.1
Average real interest rate on domestic debt (in percent)	9.5	10.7	3.5	8.9	3.7	6.9	7.2	7.4	7.6	7.9	8.1	7.5	7.1	6.1	6.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.9	0.0	-0.2	-3.8	14.0	0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.3	-0.8	-1.7	0.8	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.0	0.4	0.0	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.6	22.6	22.6	31.5	33.6	37.9	28.4	37.3	37.3	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Sensitivity Analysis for Key Indicators of Public Debt 2013–33

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	12	12	15	17	20	22	30	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	13	14	16	18	21	33	58
A2. Primary balance is unchanged from 2013	12	17	23	30	37	44	77	136
A3. Permanently lower GDP growth 1/	12	12	16	19	23	26	43	76
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	12	14	19	24	30	34	53	71
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	12	16	21	23	26	28	36	38
B3. Combination of B1-B2 using one half standard deviation shocks	12	14	17	21	25	29	43	55
B4. One-time 30 percent real depreciation in 2014	12	16	18	20	22	24	29	31
B5. 10 percent of GDP increase in other debt-creating flows in 2014	12	19	21	24	27	29	36	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	14	15	20	23	28	30	43	52
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	15	19	22	25	28	47	88
A2. Primary balance is unchanged from 2013	14	21	32	41	51	60	110	209
A3. Permanently lower GDP growth 1/	14	15	21	25	31	35	60	110
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	14	17	26	32	39	45	73	106
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	14	19	28	32	36	39	51	58
B3. Combination of B1-B2 using one half standard deviation shocks	14	17	23	28	34	39	60	83
B4. One-time 30 percent real depreciation in 2014	14	19	25	27	31	33	42	48
B5. 10 percent of GDP increase in other debt-creating flows in 2014	14	23	29	33	37	40	52	59
Debt Service-to-Revenue Ratio 2/								
Baseline	0.8	0.8	0.9	1.0	1.0	1.1	1.4	2.3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	0.8	0.8	1.0	1.0	1.0	1.0	1.5	2.9
A2. Primary balance is unchanged from 2013	0.8	0.8	1.1	1.3	1.4	1.5	2.4	6.5
A3. Permanently lower GDP growth 1/	0.8	0.8	1.0	1.0	1.1	1.1	1.7	3.7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	0.8	0.8	1.0	1.1	1.2	1.3	1.9	4.0
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	0.8	0.8	1.0	1.2	1.2	1.2	1.5	2.6
B3. Combination of B1-B2 using one half standard deviation shocks	0.8	0.8	1.0	1.1	1.1	1.2	1.7	3.3
B4. One-time 30 percent real depreciation in 2014	0.8	0.9	1.2	1.3	1.3	1.4	2.0	3.4
B5. 10 percent of GDP increase in other debt-creating flows in 2014	0.8	0.8	1.1	1.3	1.2	1.2	1.6	2.7

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a. External Debt Sustainability Framework, Baseline Scenario, 2010–33 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2013-2018			2019-2033
	2010	2011	2012			2013	2014	2015	2016	2017	2018	Average	2023	2033	Average
External debt (nominal) 1/	**11.3**	**8.4**	**7.9**			**10.4**	**10.9**	**14.3**	**18.0**	**22.4**	**26.4**		**39.4**	**45.6**	
of which: public and publicly guaranteed (PPG)	11.3	8.4	7.9			10.4	10.9	14.3	18.0	22.4	26.4		39.4	45.6	
Change in external debt	1.5	-2.9	-0.5			2.5	0.5	3.4	3.7	4.4	4.0		2.0	-0.3	
Identified net debt-creating flows	15.4	27.6	30.6			37.7	35.2	30.4	31.4	31.4	31.5		22.9	23.0	
Non-interest current account deficit	**16.8**	**29.1**	**31.4**	**23.5**	**7.1**	**42.9**	**36.0**	**31.1**	**32.1**	**32.1**	**32.2**		**23.9**	**24.6**	24.0
Deficit in balance of goods and services	50.9	65.4	60.2			73.9	65.3	58.9	58.5	57.6	56.8		55.9	51.2	
Exports	36.3	29.7	45.8			29.9	32.9	32.5	32.2	31.9	31.5		29.8	27.3	
Imports	87.1	95.1	106.0			103.8	98.1	91.4	90.7	89.5	88.3		85.7	78.5	
Net current transfers (negative = inflow)	-18.7	-16.8	-15.7	-20.2	4.7	-16.3	-14.9	-14.0	-13.2	-12.5	-12.0		-14.0	-14.0	-14.0
of which: official	-20.6	-18.8	-18.0			-18.6	-17.3	-16.4	-15.6	-15.0	-14.5		-16.4	-16.4	
Other current account flows (negative = net inflow)	-15.5	-19.5	-13.2			-14.8	-14.4	-13.7	-13.3	-13.0	-12.6		-17.9	-12.6	
Net FDI (negative = inflow)	**0.1**	**-0.2**	**-0.8**	**-0.4**	**0.3**	**-5.0**	**-0.7**	**-0.7**	**-0.6**	**-0.6**	**-0.6**		**-0.8**	**-1.3**	-0.9
Endogenous debt dynamics 2/	**-1.5**	**-1.3**	**0.0**			**-0.1**	**-0.1**	**0.0**	**-0.1**	**-0.1**	**-0.1**		**-0.2**	**-0.4**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.1	0.2	0.2	0.3	0.3		0.4	0.4	
Contribution from real GDP growth	0.0	-0.3	-0.2			-0.2	-0.3	-0.2	-0.3	-0.3	-0.4		-0.6	-0.8	
Contribution from price and exchange rate changes	-1.6	-1.2	0.1			...	...	...	...	...	...		....	...	
Residual (3-4) 3/	**-13.9**	**-30.5**	**-31.0**			**-35.2**	**-34.6**	**-27.0**	**-27.7**	**-27.0**	**-27.5**		**-20.9**	**-23.3**	
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	
PV of external debt 4/	...	...	6.5			8.5	8.9	11.6	14.1	17.1	19.6		28.0	32.4	
In percent of exports	...	...	14.2			28.3	27.1	35.6	43.8	53.5	62.2		94.1	118.9	
PV of PPG external debt	**...**	**...**	**6.5**			**8.5**	**8.9**	**11.6**	**14.1**	**17.1**	**19.6**		**28.0**	**32.4**	
In percent of exports	**...**	**...**	**14.2**			**28.3**	**27.1**	**35.6**	**43.8**	**53.5**	**62.2**		**94.1**	**118.9**	
In percent of government revenues	**...**	**...**	**12.1**			**22.3**	**21.5**	**28.0**	**34.0**	**41.6**	**47.5**		**70.9**	**88.6**	
Debt service-to-exports ratio (in percent)	**1.0**	**1.1**	**0.7**			**1.1**	**1.1**	**1.1**	**1.3**	**1.4**	**1.5**		**2.6**	**5.0**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**1.1**	**0.7**			**1.1**	**1.1**	**1.1**	**1.3**	**1.4**	**1.5**		**2.6**	**5.0**	
PPG debt service-to-revenue ratio (in percent)	**0.7**	**0.9**	**0.6**			**0.9**	**0.8**	**0.9**	**1.0**	**1.1**	**1.2**		**2.0**	**3.8**	
Total gross financing need (Billions of U.S. dollars)	26.0	50.5	54.1			70.8	67.9	60.0	63.3	64.8	66.6		60.8	96.1	
Non-interest current account deficit that stabilizes debt ratio	15.2	32.0	31.8			40.4	35.5	27.7	28.4	27.7	28.2		21.9	24.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.5	2.7	2.8	1.7	3.3	2.9	2.7	2.0	2.0	2.0	2.0	2.2	1.8	1.8	1.8
GDP deflator in US dollar terms (change in percent)	19.3	11.4	-1.4	7.7	8.0	3.1	0.0	0.0	0.2	0.2	0.2	0.6	2.5	2.5	2.4
Effective interest rate (percent) 5/	1.0	1.0	1.0	1.0	0.1	1.6	1.4	1.6	1.6	1.5	1.4	1.5	1.1	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	32.5	-6.2	56.1	10.3	23.1	-30.7	12.9	0.9	1.2	1.3	0.9	-2.3	3.1	3.6	3.3
Growth of imports of G&S (US dollar terms, in percent)	5.5	25.0	13.0	9.6	15.9	3.9	-2.9	-5.0	1.4	0.8	0.8	-0.2	3.5	3.4	3.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.6	22.6	22.6	31.5	33.6	37.9	28.4	37.3	37.3	37.3
Government revenues (excluding grants, in percent of GDP)	47.8	37.0	53.8			37.9	41.4	41.3	41.4	41.0	41.3		39.5	36.6	38.6
Aid flows (in Billions of US dollars) 7/	37.3	43.2	84.8			93.7	76.9	61.7	66.9	69.9	74.7		85.4	118.9	
of which: Grants	37.3	43.2	84.8			93.7	76.9	61.7	62.9	63.9	66.7		77.4	110.9	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	4.0	6.0	8.0		8.0	8.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			51.1	40.5	32.6	33.0	33.1	33.9		31.9	29.5	31.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			95.7	98.1	91.8	92.1	91.0	92.2		92.8	94.8	93.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	150.9	172.7	175.1			185.7	190.7	194.4	198.7	203.0	207.5		254.0	388.7	
Nominal dollar GDP growth	18.7	14.5	1.4			6.1	2.7	2.0	2.2	2.2	2.2	2.9	4.3	4.3	4.3
PV of PPG external debt (in Billions of US dollars)			11.5			15.5	16.8	22.3	27.7	34.3	40.3		71.2	126.1	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	0.7	2.9	2.8	3.3	3.0	2.5	2.6	1.2	2.1
Gross workers' remittances (Billions of US dollars)	9.3	10.4	10.1			11.1	12.4	12.6	12.9	14.2	14.5		17.3	26.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	6.2			8.0	8.4	10.9	13.2	15.9	18.3		26.2	30.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	12.6			23.5	22.6	29.7	36.4	43.9	50.9		76.6	95.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.6			1.0	0.9	1.0	1.1	1.1	1.3		2.1	4.0	

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)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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. It reflects RERF drawdowns and capital transfers.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 3b. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	8	9	12	14	17	20	**28**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	8	0	0	0	0	0	2	12
A2. New public sector loans on less favorable terms in 2013-2033 2	8	9	13	17	22	26	**42**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	8	9	12	15	18	21	**30**	35
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	8	14	24	26	29	32	**40**	39
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	8	9	12	14	17	20	**28**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	8	9	11	13	16	19	**27**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	8	10	13	15	18	20	**29**	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	8	13	16	20	24	28	**40**	46
PV of debt-to-exports ratio								
Baseline	28	27	36	44	53	62	**94**	119
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	28	0	0	0	0	0	7	45
A2. New public sector loans on less favorable terms in 2013-2033 2	28	28	40	53	68	83	**140**	201
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	28	27	35	43	53	62	**94**	119
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	28	55	110	123	138	152	**200**	213
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	28	27	35	43	53	62	**94**	119
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	28	27	33	41	51	59	**92**	118
B5. Combination of B1-B4 using one-half standard deviation shocks	28	34	47	56	67	78	**115**	142
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	28	27	35	43	53	62	**94**	119
PV of debt-to-revenue ratio								
Baseline	22	22	28	34	42	48	**71**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	22	0	0	0	0	0	6	33
A2. New public sector loans on less favorable terms in 2013-2033 2	22	22	31	41	53	63	**105**	150
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	22	22	30	36	44	51	**77**	96
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	22	34	58	64	72	77	**100**	106
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	22	21	28	34	41	47	**71**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	22	21	26	32	40	45	**69**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	22	23	30	36	44	49	**72**	88
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	22	30	40	48	59	67	**101**	127

Table 3b. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (Cont'd)

(In percent)

Debt service-to-exports ratio								
Baseline	1	1	1	1	1	2	**3**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	1	1	1	0	0	1	1
A2. New public sector loans on less favorable terms in 2013-2033 2	1	1	1	1	2	2	**5**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	2	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	1	2	3	3	3	**5**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	2	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	1	1	1	1	1	**3**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	2	2	2	**3**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	1	1	1	1	2	**3**	5
Debt service-to-revenue ratio								
Baseline	1	1	1	1	1	1	**2**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	1	1	1	0	0	0	1	1
A2. New public sector loans on less favorable terms in 2013-2033 2	1	1	1	1	1	2	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	1	**2**	4
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	1	1	1	1	2	2	**2**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	1	1	1	1	1	1	**2**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	1	1	1	1	1	1	**2**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	1	1	1	**2**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	1	1	1	2	2	**3**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	32	32	32	32	32	**32**	32

Sources: Country authorities; and staff estimates and projections.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

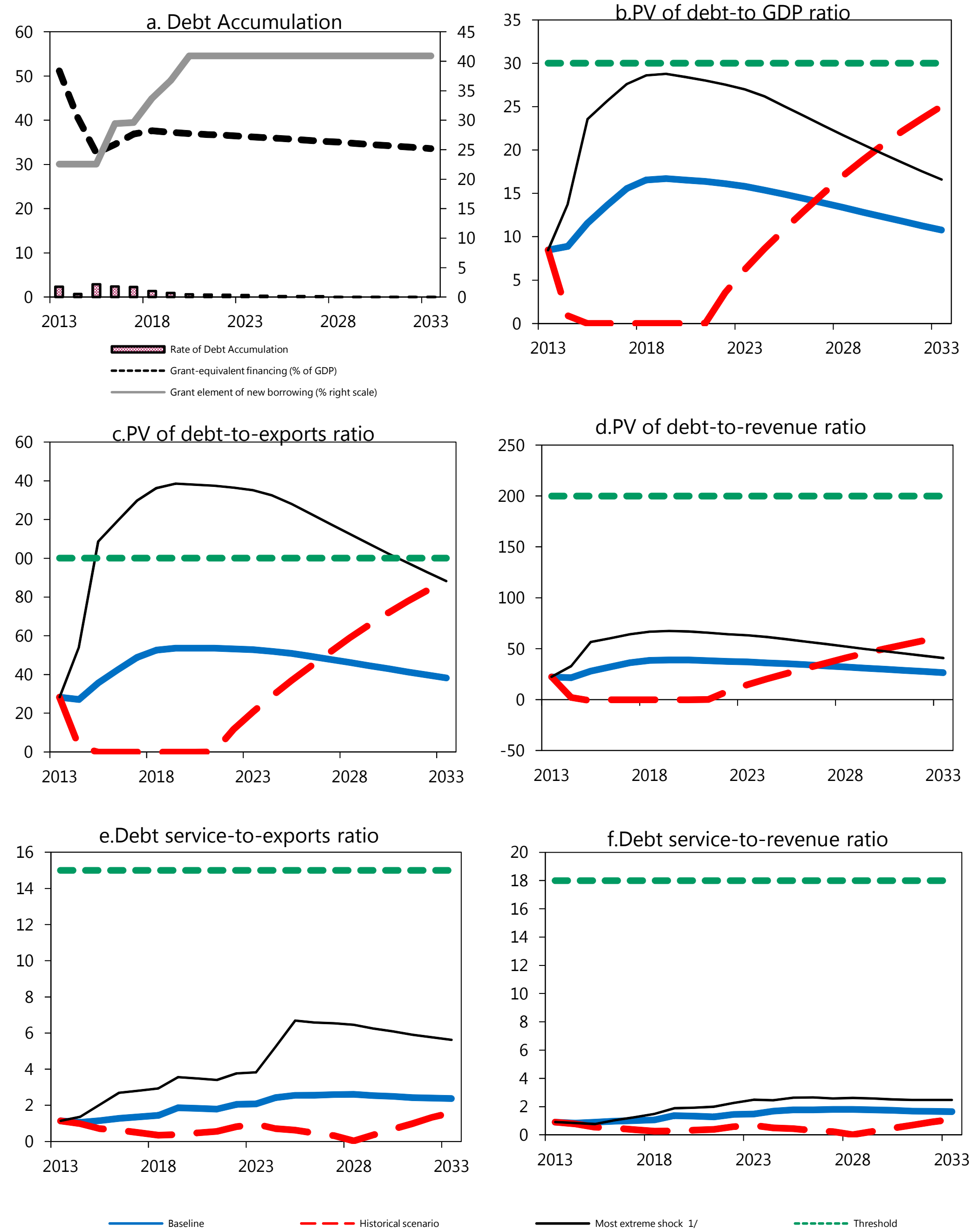
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

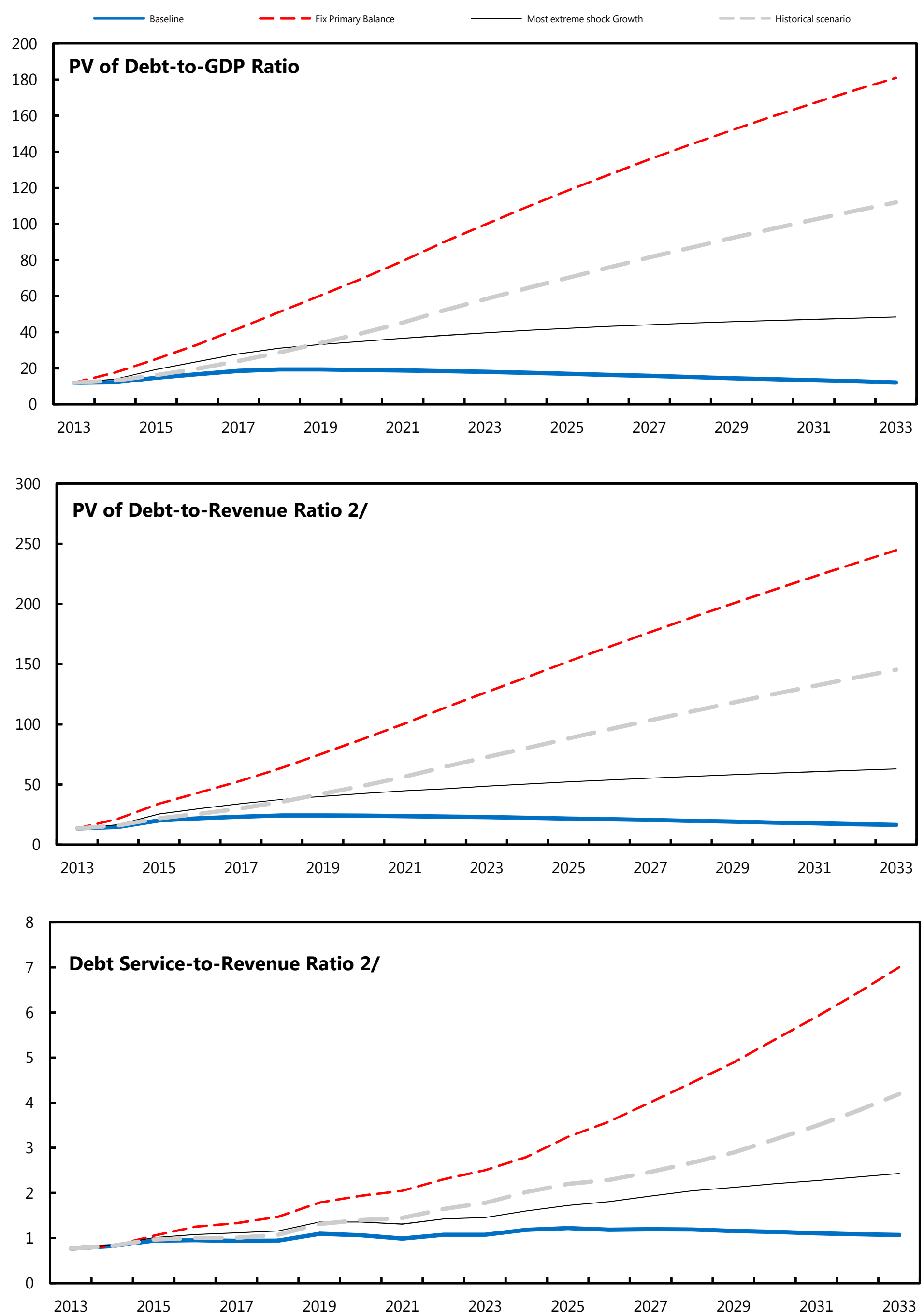
Reform Scenario: Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013–33 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Terms shock

Reform Scenario: Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2013–33 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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IMF Executive Board Concludes 2013 Article IV Consultation with Kiribati

On May 29, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kiribati.[1]

Background

Kiribati's key policy challenges include reducing structural fiscal imbalances and increasing medium-term growth potential. Growth in 2012 reached 2.8 percent, reflecting implementation of donor projects, higher than average fishing license fees, and remittances. Airport and seaport projects in particular boosted construction activities. Nevertheless, inflation remained negative on account of lower prices of rice and some other staples. The revenue from fishing licenses was much higher than average in 2012, and is expected to decline in the period ahead.

The current account deficit widened slightly in 2012 to 31 percent of GDP mostly because of an increase in imports of equipment associated with infrastructure projects, which was partially offset by high fishing license fees. Remittances, which are dominated by transfers from seamen, declined somewhat, due to the slowdown in the global shipping activity.

Fiscal imbalances remain large. The 2013 budget implies a current fiscal deficit at about 18 percent of GDP, assuming conservative projections for fishing license revenue.[2] High fiscal

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

[2] The current fiscal deficit excludes development expenditures financed by donors and corresponding development grants on the revenue side. It is a better indicator of the fiscal stance and financing demands on Kiribati government than the overall deficit.

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deficits resulted in large financing demands on its sovereign wealth fund (Revenue Equalization Reserve Fund, or RERF). In 2012, the RERF balance stood at 3½ times GDP, down from 5¾ times GDP in 2000. In constant per capita terms, the RERF assets were almost half of its amount in 2000.

The government has embarked on a broad range of reforms supported by development partners to address its fiscal and structural challenges. In 2012, the government cleared most of the overdraft facilities following the IMF advice and technical assistance, thereby reducing its interest cost. Ongoing reforms cover various areas: public financial management, tax system, State-Owned Enterprises (SOEs), and the private sector. Recently, the parliament passed an SOE bill establishing a strengthened legal framework for governance, financial reporting, and management of SOEs.

Although formal financial intermediation and access to credit for the private sector remains limited, there was an increase in credit to households from banking institutions in 2011–12. In addition, a small lending scheme introduced by the Kiribati Provident Fund contributed to private sector lending. Although the loans are mostly collateralized, the non-performing loan ratios at the Development Bank of Kiribati remained high.

Executive Board Assessment

Executive Directors viewed Kiribati's key policy challenges as reducing structural fiscal imbalances and increasing medium-term growth potential. Directors concluded that the successful implementation of reforms will improve Kiribati's growth prospects, promote private sector development, enhance fiscal sustainability, and strengthen resilience to external shocks.

Directors underscored that a key policy objective is to reduce structural fiscal imbalances and ensure the long term sustainability of the Revenue Equalization Reserve Fund (RERF). They agreed that restoring fiscal sustainability by stabilizing the value of the RERF in real per capita terms is a challenging task that requires significant fiscal effort across a broad front. Directors stressed in particular the need for comprehensive tax reforms, improved tax compliance, and decisive steps to strengthen public financial management. In this context, they welcomed the authorities' intention to adopt the value added tax, and stressed that achieving sufficient growth of fishing license fees is important for revenue prospects. On the expenditure side, Directors suggested that curbing the growth of current expenditure, including the public wage bill, will be important to accommodate the need for social spending and infrastructure development, as well as to address challenges from climate change. Directors also noted that improving the efficiency of subsidies will enhance incentives and reduce risks to the budget.

Directors noted that sound public financial management is essential to ensure a sustainable fiscal framework. They commended the authorities for ongoing efforts to strengthen revenue and expenditure projections, and encouraged them to adopt a prudent debt management policy. Directors welcomed the close collaboration with the donor community and encouraged the authorities to avoid nonconcessional borrowing.

Directors welcomed the government's progress in state-owned enterprise (SOE) reform, noting that these reforms have already resulted in a decrease in budget costs, and encouraged the authorities to continue addressing performance issues in the Public Utilities Board and other SOEs.

Expanding the role of the private sector in the economy is critical for increasing growth and employment, and reducing fiscal imbalances. Directors saw the local marine sector as having great potential to broaden employment opportunities, create value added, and increase tax revenue. In this context, Directors encouraged the authorities to adopt the National Fisheries Policy that is currently being developed. Other sectors also hold promise, in particular increasing tourism and overseas employment. Improving the business climate is also necessary to help the private sector grow.

While noting the importance of access to financing for private projects, Directors emphasized the need to maintain high prudential standards in financial institutions. In this context, they underscored the importance of reducing the high non-performing loan ratios in the Development Bank of Kiribati and strengthening the financial position of the Kiribati Provident Fund (KPF). Directors also encouraged the authorities to continue improving the quality of economic and financial statistics.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2013 Article IV Consultation with Kiribati is also available.

Kiribati: Selected Economic Indicators, 2009–14

Nominal GDP (2011): US$172.7 million | GDP per capita (2011): US$1,670
Nominal GNI (2011): US$236.1 million | Population (2011): 103,365
Main export products: fish and copra | Quota: SDR 5.6 million

	2009	2010	2011	2012	2013	2014
				Projections		
Real GDP (percent change)	-0.7	-0.5	2.7	2.8	2.9	2.7
Real GNI (percent change)	-3.8	-1.3	-0.2	11.0	-7.2	4.5
Consumer prices (percent change, average)	8.4	-2.8	1.2	-1.8	2.5	2.5
Consumer prices (percent change, end of period)	0.1	-1.4	0.2	-2.9	2.5	2.5
Central government finance (percent of GDP)						
Revenue and grants	70.9	72.5	62.0	102.2	88.3	81.7
Total domestic revenue	42.7	47.8	37.0	53.8	37.9	41.4
Grants	28.1	24.7	25.0	48.4	50.5	40.3
Expenditure and net lending	82.8	85.2	83.2	109.0	109.4	95.6
Current	54.7	58.0	58.0	60.7	56.1	54.4
Of which: wages and salaries	24.7	27.0	27.4	28.3	29.2	28.4
Development	28.1	27.1	29.5	48.3	53.3	41.2
Current balance 1/	-12.0	-10.2	-21.0	-6.9	-18.2	-13.0
Overall balance	-12.0	-12.7	-21.2	-6.8	-21.1	-13.9
Financing	12.0	12.7	21.2	6.8	21.1	13.9
Revenue Equalization and Reserve Fund (RERF)	11.1	10.5	11.8	22.2	15.4	10.3
Other	0.9	2.1	9.5	-15.4	5.7	3.5
RERF						
Closing balance (in millions of U.S. dollars)	512	579	588	597	587	578
Closing balance (in millions of $A)	571	583	581	571	570	576
Per capita value (in 2006 $A)	5279	5146	4866	4604	4436	4286
Balance of payments (in millions of U.S. dollars)						
Current account including official transfers	-29.6	-25.4	-50.4	-55.0	-79.8	-68.9
(In percent of GDP)	-23.3	-16.9	-29.2	-31.4	-43.0	-36.1
External debt (in millions of U.S. dollars)	14.3	18.4	14.2	14.0	19.1	20.6
(In percent of GDP)	9.8	11.3	8.4	7.9	10.4	10.9
External debt service (in millions of U.S. dollars)	1.0	0.6	0.6	0.5	0.5	0.6
(In percent of exports of goods and services)	4.8	3.2	2.8	2.7	2.6	2.6
Exchange rate (A/US period average) 2/	1.3	1.1	1.0	1.0	…	…
Real effective exchange rate (period average) 2/	126.0	130.2	131.1	128.6	…	…
Memorandum item:						
Nominal GDP (in millions of Australian dollars)	162.8	164.1	167.3	169.0	178.2	187.6
Nominal GDP (in millions of US dollars)	127.1	150.9	172.7	175.1	185.7	190.7

Sources: Data provided by the Kiribati authorities; and IMF staff estimates and projections.

1/ Current balance excludes grants and development expenditure.

2/ The Australian dollar circulated as legal tender.

3/ Index, 2005=100.

Statement by Jong-Won Yoon, Executive Director for Kiribati, and Graig Fookes, Advisor to the Executive Director of Kiribati
May 29, 2013

We thank staff for their report and close engagement with the authorities. The IMF has placed the country under intensive surveillance and has worked closely, alongside other donor partners, to provide considerable international support. We thank the IMF for the policy advice and technical assistance provided by the many teams that have visited over the last 24 months.

Economic Context

The islands of Kiribati illustrate the challenges of governance in a remote highly open country dispersed over a large geographic area. Kiribati is a large ocean state consisting of 33 small islands spread over roughly 3.5 million square kilometers of ocean. 70 percent of the 103,000 residents are located on the island of South Tarawa following a gradual migration towards formal employment opportunities. The remaining members of population are spread across the nineteen other inhabitable islands. These islands can be upwards of several thousand kilometers apart. The tension between growing population pressures on South Tarawa verses the economic benefits of agglomeration define Kiribati's internal economic policy. Development opportunities on many of the outer islands remain limited, but the island of South Tarawa may be approaching its carrying capacity without significant investment in infrastructure.

Most of South Tarawa is less than three meters above sea level, which suggests the country remains exposed to increased weather volatility from climate change or tsunamis. An increase in sea levels may present a potential existential threat over the next hundred years, although recent research highlights that reef islands, such as Kiribati, may undergo a dynamic response as a result of the constant erosion and accumulation of sand (accretion).

Economic Outlook

Economic growth will strengthen as several major donor funded projects get underway over the next few years. The airport will be resurfaced, the seaport enlarged, and South Tarawa's only road will be resealed. The actual lasting impact on the domestic economy may remain modest as all materials, specialist machinery, and most of the construction staff will need to be sourced from abroad. GDP growth will strengthen to around 2.8 percent and inflation will become positive rising to 2.5 percent in 2012. Fishing revenues strengthened over 2012, but are expected to remain volatile as the number of day licenses sold depends on migratory tuna stocks, which remain sensitive to climatic conditions and changes in water temperature.

Fiscal Policy

General spending pressures and the decline in fishing revenue through 2011 widened the structural government budget deficit. Tax revenues have fallen alongside an increase in non-compliance. The authorities agree that action will be required to stabilize the budget given the current fiscal balance is forecast to reach 18.2 percent of GDP in the 2013.

Kiribati has significant financial assets amounting to around 340 percent of GDP held in a sovereign wealth fund called the Revenue Equalization Reserve Fund (RERF). These funds were accumulated from phosphate mining at the time of independence in 1971. Current projections suggest the RERF will undergo a gradual depletion without policy change over the next couple of decades. The authorities aim to retain the financial flexibility to handle the uncertainty around the effects of climate change. Thus, Kiribati's overriding fiscal goal remains to protect the value of the RERF. The staff projections suggest an adjustment in the current deficit of 15 percent will be required to stabilize the RERF over a period of 8-9 years. Our authorities remain committed to prudent macroeconomic policies, but achieving this target could remain difficult. There are limited policy tools to stabilize the economy as government budget contracts and the country continues to face significant infrastructure needs. Our authorities are working on a new macro framework with IMF assistance.

The World Bank and Aus Aid have offered to provide budget support to ease adjustment. Ongoing support remains contingent on future policy action. Donor partners, including the IMF, have agreed a policy reform matrix that identifies key reforms. These reforms have been carefully prioritized to reflect the capacity constraints on the Kiribati Government and will be supported through the provision of extensive technical assistance from a range of sources. Tax reform that includes steps to improve compliance has been highlighted as immediate priorities for reform over the coming two years. Financial reforms, SOE reform, and improved guidance around management of the RERF will also occur. Subsidy reforms are under consideration as the copra purchasing scheme, which provides an important safety net for subsistence populations on the outer islands remains expensive. Our authorities emphasized the vulnerability of populations living on the outer islands and the importance of providing opportunities to slow the flow of migration towards South Tarawa, where the population pressures are most acute. The World Bank has agreed that some sort of transfer system will ultimately be required and are investigating whether subsidies could be provided through a better targeted scheme to lower the cost of the current social safety net. To prevent a further buildup of loans, technical assistance has been requested to provide advice on centralized debt management guidelines to establish policy criteria around any additional borrowing. Departments and SOEs will face new limitations on their ability to independently incur debt or invoke government guarantees through a requirement for formal Cabinet approval.

State Owned Enterprise Reform

Kiribati's SOEs were originally set up to provide basic services, but as the private sector develops, there may be options to reexamine the line between public and private provision. Several SOEs have been privatized, although a range of structural factors complicate increased private sector engagement. The import trading company was sold and tenders are open for the sale of the state owned hotel. The Government is examining other asset sales and has submitted a Bill opening the telecommunications industry to competition. The incumbent SOE in the sector is being commercialized. Other SOEs with a social mandate will be more difficult to privatize. These entities provide essential services and are often unlikely to prove commercially viable. For example, internal shipping services remain essential to provide food and basic supplies to the population on the outer islands. It remains questionable as to whether the private sector could operate a commercially viable shipping service to the outer islands that have populations of less than a thousand people and can be up to several thousand kilometers away.

Financial surprises and a lack of profitability can be traced back to three main factors involving: mixed social and commercial objectives; an inability to gain economies of scale; and a lack of management expertise. Our authorities are working with the ADB on a comprehensive review of the

SOEs aimed at improving financial transparency through improved management or sale. An SOE Bill has been passed this April establishing a strengthened legal framework covering independence, governance, financial reporting, and the management of SOEs. Arrears on inter-SOE debt and loans to the commercial bank are being catalogued and are expected to be cleared, including those between the Public Utilities Board and Kiribati Oil. The Ministry of Finance is also increasing its supervision and oversight to gain an early warning of potential financial distress.

Private Sector Growth

Growth in the private sector will be important to reduce the social cost of fiscal adjustment given high unemployment and relatively low annual income. The rapid population growth in South Tarawa has created a growing private sector, although most businesses remain small, informal, and largely family run. Improved urban planning given rising population density and clarity around lack of formal land title could encourage investment. Our Kiribati authorities are finalizing a National Private Sector Development Strategy to examine ways to address these issues.

The authorities have worked for many years to encourage local participation in the fishing industry – the nation's primary economic resource. A range of joint ventures, employment agreements have been trialed in an attempt to overcome a chronic lack of capital. The Government hopes to complete a National Fishing Strategy in 2014 to encourage development through, among other things, improvements to the process of approval and management of joint ventures. Kiribati has received international direct investment in a new fish processing plant, which offers a promising opportunity for Kiribati to earn more from its fishery resource. The factory will provide employment and exposure to international management practice. The authorities are in negotiations with Fiji to open the air route to competition. In the mean time, fish can be shipped frozen once a month by boat, although frozen fish sell for less global markets.

Labor mobility and foreign policy

Given high underemployment or unemployment, Kiribati sees global integration as its primary avenue towards economic development and the Government has placed a large emphasis on providing the population with the education and skills necessary to capitalize on employment opportunities abroad. Kiribati has sent seafarers abroad for nearly fifty years and will be encouraging international contractors to take on and train local workers. The local technical institute has supported this trend through work to align training schemes with Australian educational standards. This should allow local tradesmen to migrate to meet skill shortages in Australia. New Zealand and Australia also attract seasonal workers from around the Pacific, which will add to remittance flows.

Shocks to growth increasingly come from abroad and many of Kiribati's key challenges, including those associated with fisheries or climate change, increasingly rely on international cooperation. President Tong has become a global advocate for action against climate change and Kiribati remains a party to the Nauru fishing agreement. The experience in the fishing industry is illustrative of the need small nations have for more regional and international cooperation. The Nauru Agreement's floor on the sale of day fishing licenses remains an important regional initiative as small Pacific states have historically struggled to negotiate on an individual basis. The floor has remained fairly binding as vessel owners arbitrage given they can easily choose to fish in neighboring waters. The minimum price set by the Parities to the Nauru Agreement will increase by 20 percent in 2014.