INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/329

KIRIBATI

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

September 2023

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 2023 Article IV consultation with Kiribati, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on February 8, 2023, 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 March 31, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Kiribati

FOR IMMEDIATE RELEASE

Washington, DC – **September 15, 2023**: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Kiribati and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

The economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022. Due to supportive fiscal policies, the economy recovered strongly in 2021, with real GDP growing 7.9 percent from a contraction of 1.4 percent in 2020. However, a domestic outbreak of COVID-19 and the subsequent restrictions imposed during the first half of 2022 limited mobility and further delayed large infrastructure projects. The removal of these restrictions and subsequent border reopening in August 2022 have boosted growth. However, a severe drought affected the agricultural sector, and real GDP growth in 2022 is estimated to have slowed to 1.2 percent. Inflation has increased since the reopening and averaged 5.3 percent in 2022, mainly due to a recovery in domestic demand, supply shortages, and elevated commodity prices and freight costs. The current account is expected to swing from a surplus to a deficit of 4 percent of GDP in 2022 on the back of higher import prices and lower fishing revenues.

The recovery is expected to gain momentum in 2023. Real GDP growth is projected at 2.5 percent in 2023, as economic activities return to a more normal state with the resumption of large infrastructure projects and improved weather conditions. In the medium term, real GDP growth is projected to converge to its historical average of 2 percent. Meanwhile, headline inflation is projected to increase to 8.6 percent in 2023, due to the low base in the first half of 2022, and the delayed pass-through of normalizing global commodity prices and freight costs. While the current account is expected to return to a surplus of 8 percent of GDP in 2023, the surplus will remain below the historical average, reflecting a projected increase in imports required for the resumption of infrastructure projects.

Executive Board Assessment[2]

In concluding the 2023 Article IV consultation discussions with Kiribati, Executive Directors endorsed the staff's appraisal, as follows:

Kiribati's economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022. After registering a strong rebound in 2021, real GDP growth is estimated to have decelerated to 1.2 percent in 2022 mainly due to a domestic outbreak of COVID-19 and the subsequent lockdown restrictions. Growth is projected to increase to 2.5 percent this year on the back of a resumption of large infrastructure projects and improved weather conditions.

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[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Inflation has recently picked up due to a recovery in domestic demand, supply shortages, and elevated commodity prices and freight costs. Kiribati's external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies. Risks to the outlook are mainly on the downside.

Fiscal consolidation would be necessary to reduce fiscal risks. Kiribati's volatile fishing revenues and dependence on donor grants underscore the importance of maintaining fiscal discipline. In this regard, the authorities should consider consolidating recurrent spending and improving the targeting and efficiency of the social safety net. Fiscal sustainability could be further reinforced by greater revenue mobilization, development of a sustainable medium-term fiscal framework that integrates rules-based withdrawals from the Revenue Equalization Reserve Fund (RERF), and provisioning for climate change adaptation costs in the budget.

The authorities' ongoing efforts to improve public financial management are commendable and should continue. The timely implementation of the Integrated Financial and Management Information System (IFMIS) for budget execution and strengthening cash flow management is crucial. The authorities should make continued efforts to finalize the draft of an updated Public Financial Management Act, strengthen budget planning, publish fiscal reports on a more regular basis, execute effective controls over cash balances, and improve procurement controls.

It is essential to place state-owned enterprises (SOEs) on a commercial and sustainable footing to further reduce fiscal pressures. The elevated global commodity prices have exacerbated financial difficulties faced by some SOEs, reinforcing the importance of recalibrating SOE tariffs to improve SOEs' financial viability while protecting the most vulnerable. The SOE monitoring unit is making progress in strengthening SOE oversight and should continue to build its capacity in analyzing and monitoring the activities, risks, and performance of SOEs. Progress is needed to ensure that SOEs improve their financial management and publish their audited financial statements in a timely manner. Despite challenges, efforts to divest and outsource SOE activities should continue to be explored. Phasing out SOE tax exemptions will help level the playing field with the private sector.

The authorities' strategy to boost export competitiveness and promote private sector development is encouraging and needs to be further augmented with robust structural reforms. Recent efforts to upgrade quality within the existing export sectors are commendable. However, a holistic approach to structural reform is needed to improve the overall business environment. These reforms include reforming the copra subsidy program, improving connectivity through better air transport, ports, and shipping services, boosting the telecommunications network, building a skilled workforce, and enhancing access to finance.

The authorities should continue efforts to better utilize natural resources. Building on the recent approvals of the Environment Act and Fisheries Act, the authorities should forge ahead with developing regulations and monitoring capacity to ensure that the legislations are properly enforced. The plan to reopen the Phoenix Islands Protected Area (PIPA) to commercial fishing should be carefully designed with a fully developed marine spatial plan to ensure the sustainability of fishing and preserve marine biodiversity.

Continued efforts to build statistical capacity will facilitate data-based policy making. The authorities need to strengthen institutional capacity to produce high-quality national accounts, government finance statistics, and financial sector data in a timely manner to support sound economic management. It is encouraging that the authorities plan to implement the IMF's Enhanced General Data Dissemination System (e-GDDS) by publishing economic data on a National Summary Data Page, which will help improve the availability of timely statistics.

Table 1. Kiribati: Selected Economic Indicators, 2020–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Est.			Proj.			
Real GDP (percent change)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1
Consumer prices (percent change, average)	-1.8	2.6	2.1	5.3	8.6	4.5	2.1	1.9	1.8	1.8
Inflation (end of period)	-0.9	2.8	2.5	16.2	-2.2	5.0	1.9	2.1	1.8	1.8
Central government finance (percent of GDP)										
Revenue and grants	147	132	100	91	102	105	104	102	98	97
Total domestic revenue	110	94	81	67	70	71	72	74	73	73
Of which: fishing revenue	90	71	56	44	45	47	47	49	48	48
External grants	37	38	19	25	33	34	33	29	25	24
Expenditures	134	127	112	111	114	117	116	113	113	112
Current	67	79	85	83	79	79	78	77	77	77
Development	67	48	26	28	35	38	38	36	36	35
Domestic recurrent balance 1/	-46	-56	-60	-61	-55	-55	-53	-52	-52	-52
Recurrent fiscal balance (incl. budget support grants)	44	18	0	-9	-1	-2	-2	2	-2	-3
Overall balance 2/	13	4	-11	-20	-12	-12	-11	-10	-15	-15
Financing	-13	-4	11	20	12	12	11	10	15	15
Of which: Revenue Equalization Reserve Fund (RERF)	0	15	0	0	6	0	0	0	0	2
RERF										
Closing balance (millions of A$)	1,153	1,172	1,353	1,194	1,115	1,200	1,291	1,390	1,512	1,640
Per capita value (2006 A$)	7,322	7,262	8,032	6,547	5,713	5,871	6,053	6,262	6,550	6,829
Balance (in percent of (GDP)	457	454	447	370	311	313	323	334	350	365
Cash reserve buffer 3/										
Closing balance (millions of A$)	180	278	216	198	175	172	168	163	159	155
Closing balance (in percent of GDP)	71	108	71	61	49	45	42	39	37	34
In excess of 3-months of current spending and LCDF (millions of A$)	118	219	144	122	95	86	80	70	62	54
Balance of payments										
Current account including official transfers (In millions of US$)	87	71	20	-9	21	27	32	35	18	20
(In percent of GDP)	49	40	9	-4	8	10	12	12	6	6
External debt (millions of US$) 4/	39	40	37	33	32	61	90	117	157	195
(In percent of GDP)	22	21	17	15	13	23	33	41	53	63
External debt service (millions of US$)	1.5	1.9	2.1	2.3	2.3	2.3	2.5	2.8	3.0	3.5
(In percent of exports of goods and services)	0.8	1.3	1.0	1.1	1.0	1.0	1.0	1.1	1.2	1.3
Exchange rate (A$/US$ period average)	1.4	1.4	1.3	1.4	…	…	…	…	…	…
Real effective exchange rate (period average)	74	74	79	…	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (millions of A$)	252	258	303	322	358	383	400	416	432	449
Nominal GDP (millions of US$)	175	178	228	224	248	263	273	284	295	306

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

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.
2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.
3/ Cash reserve buffer includes the government's operational account and cash reserve account.
4/ The coverage is public external debt only.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

March 31, 2023

KEY ISSUES

Context: Due to supportive fiscal policies, the economy recovered strongly in 2021, with real GDP growing 7.9 percent. However, a domestic outbreak of COVID-19 and the subsequent lockdown restrictions imposed in the first half of 2022 along with a severe drought dampened economic activities. With the reopening of borders in August 2022, GDP growth is expected to increase from an estimated 1.2 percent in 2022 to 2.5 percent in 2023. Inflation has picked up recently due to the recovery in domestic demand, supply shortages, and elevated commodity prices and freight costs. Risks to the outlook are mainly on the downside.

Main Policy Recommendations

- Implement fiscal consolidation to reduce fiscal risks by scaling back recurrent spending, while ensuring that the social safety net is well-targeted and efficient.
- Enhance revenue mobilization to finance Kiribati's development goals.
- Promote fiscal discipline by formulating a sustainable medium-term fiscal framework and adhering to rules-based withdrawals from the sovereign wealth fund.
- Improve public financial management by strengthening budget planning, timely accounting and reporting of fiscal operations, and establishing central controls over cash balances.
- Operationalize the recently approved legislations in the financial sector to enhance credit access and promote financial deepening.
- Raise Kiribati's standard of living by implementing reforms to boost export competitiveness, support private sector development, and better utilize natural resources.
- Continue capacity development and strengthen the institutional capacity to produce high-quality statistics in a timely manner to support data-driven policy formulation.

Approved By
Cheng Hoon Lim (APD) and Anna Ilyina (SPR)

Discussions took place in Tarawa, Kiribati during January 27–February 8, 2023. The mission comprised Yinqiu Lu (Head), Muhammad Shamil Akbar, Faizaan Kisat, Anh Thi Ngoc Nguyen (all APD). Michele Fornino (STA) and Nico Valckx (AFR) presented their Selected Issues Papers virtually. Lily Homasi (ADB), and Daniel Street and Samuel Wills (both WB) joined some of the technical meetings. Igam Moaniba (OED) attended the mission, and Robert Nicholl (OED) joined some of the meetings. Annia Bowen, Enakshi Das, and Patricia Tanseco (all APD) contributed to the preparation of this report.

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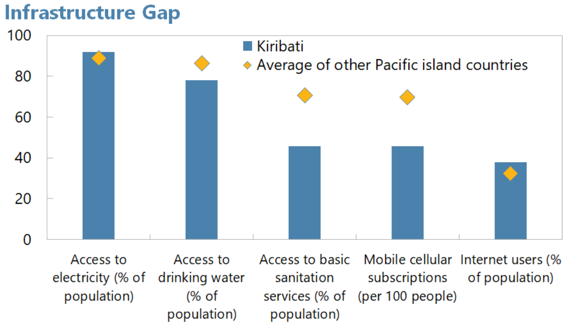
ANNEXES

CONTEXT

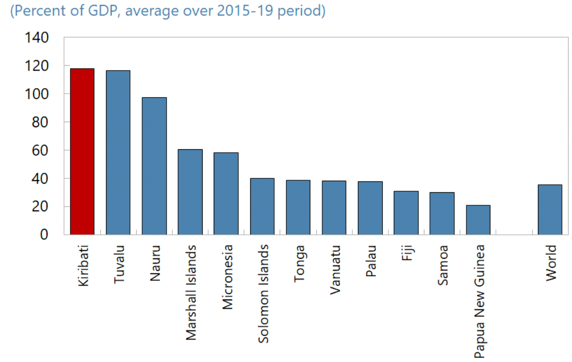
1. **Kiribati's remote location, infrastructure gap, and susceptibility to climate change pose challenges for economic growth and development**. The country's low-lying atolls are vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion. Higher ocean surface temperatures may disrupt tuna fisheries—the country's largest economic resource—with a direct impact on fiscal revenues, the current account, and growth. Infrastructure deficits in utilities, transport, and communications compound already challenging constraints imposed by distance and dispersion, limiting the development of the private sector, and raising the country's reliance on imports, especially for food and fuel. There is only one commercial bank, ANZ Kiribati, and the Australian dollar is used as legal tender. Kiribati ranked 136 out of 191 countries in the 2021 Human Development Index, suggesting significant development gaps.

Infrastructure Gap



Sources: Country authorities; and World Development Indicators.
Notes: 2020 data except for internet users of the average of other PICs (2017). Kiribati's access to electricity is based on the authorities data in South Tarawa. Outer islands will have lower access.

Government Expenditure
(Percent of GDP, average over 2015-19 period)



Source: World Economic Outlook.

2. **The public sector plays a dominant role in Kiribati**. It operates through state-owned enterprises (SOEs) across a wide range of industries such as utilities, transportation, housing, and financial services. The government directly supports the agriculture sector through heavily subsidized copra production. Kiribati's government expenditure to GDP ratio has been among the highest in the world, significantly higher than most Pacific Island countries (PICs) and the global average. The high public spending has been mainly financed by fishing revenues, tax revenues, grants from development partners, and investment income from the Revenue Equalization Reserve Fund (RERF). The authorities plan to reopen one of the world's largest marine protected areas—the Phoenix Islands Protected Area (PIPA)—to commercial fishing, with an expectation that it will increase fishing revenues without hampering conservation efforts.

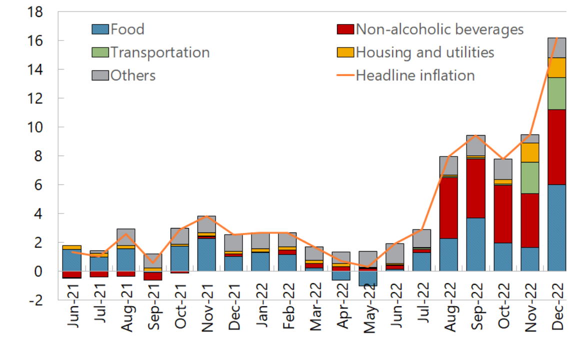
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **The economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022**. Due to supportive fiscal policies, the economy recovered strongly in 2021, with real GDP growing 7.9 percent from a contraction of 1.4 percent in 2020. However, a domestic outbreak of COVID-19 and the subsequent restrictions imposed during the first half of 2022 limited mobility and further delayed large infrastructure projects. The removal of these

restrictions and subsequent border reopening in August 2022 have boosted growth, supported by a pickup of private consumption. However, a severe drought affected the agricultural sector, and real GDP growth in 2022 is estimated to have slowed to 1.2 percent.

4. Inflation has picked up since the border reopening. Inflationary pressures that arose in 2020H2–2021 due to supply disruptions peaked in late 2021 but have significantly intensified since August 2022. Headline inflation jumped to 16.2 percent (y-o-y) in December 2022 from 2.5 percent in December 2021 (averaging 5.3 percent in 2022), mainly due to a recovery in domestic demand, supply shortages, and elevated commodity prices and freight costs. An acceleration in the prices of food and non-alcoholic beverages (mainly sugar) accounted for close to 70 percent of the rise in inflation. The authorities increased the controlled prices of kerosene and gasoline in October 2022, but the hike was reversed in January 2023 to ease the burden on households.

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



Sources: Country authorities; and IMF staff calculations.

5. The balance of payments is expected to weaken in 2022. The current account surplus narrowed from 40 percent of GDP in 2020 to 9 percent of GDP in 2021, in part due to a decline in fishing revenues as well as an increase in transportation costs. The surplus is expected to turn to a deficit of 4 percent of GDP in 2022, as commodity prices remained high and fishing revenues continued to decline. The balance of the RERF declined by about 12 percent in 2022, reflecting the decline in global equity and bond valuations. Adjusting for temporary factors related to COVID-19, high commodity prices, and volatile fishery income, and given Kiribati's strong international investment position, staff assess that Kiribati's external balance in 2022 is broadly in line with fundamentals and desirable policy settings (Annex I). However, the assessment is subject to significant uncertainty.

6. The recovery is expected to gain momentum in 2023. Real GDP growth is projected at 2.5 percent in 2023, as economic activities return to a more normal state with the resumption of large infrastructure projects and improved weather conditions. In the medium term, real GDP growth is projected to converge to its historical average of 2 percent. Meanwhile, headline inflation is projected to increase to 8.6 percent in 2023, due to the low base in the first half of 2022, and the delayed pass-through of normalizing global commodity prices and freight costs. While the current account is expected to return to a surplus of 8 percent of GDP in 2023, the surplus will remain below the historical average, reflecting a projected increase in imports required for the resumption of infrastructure projects.

7. Risks to the outlook are mainly on the downside (Annex II). External risks include an intensification of the war in Ukraine, commodity price volatility, and an abrupt global slowdown—all of which could have spillover effects on Kiribati. Deepening geo-economic fragmentation could adversely impact inflation through supply disruptions. Prolonged global financial market volatility could affect the expected returns on the RERF and the Kiribati Provident Fund (KPF), putting pressure on public finances. Climate change remains a constant risk that could further threaten fishing revenues and adversely impact economic growth, with the frequency and severity of climate events aggravated by time. On the upside, the reopening of the PIPA, if managed sustainably, could boost fishing revenues in the medium term.

Authorities' Views

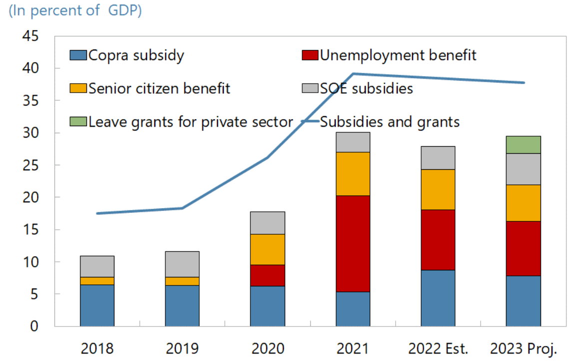
8. The authorities broadly agree with staff's assessment of Kiribati's economic outlook and risks. They expect a resumption of donor funded large infrastructure projects and a recovery of copra production thanks to improved weather conditions. They consider high inflation to have been mainly "imported" and are concerned about the impact of food security issues, uncertainty of shipping schedules, and the substantial increase of freight costs on the livelihood of people in a net importing country like Kiribati. In their view, the reversal of the price hike of kerosene and gasoline is necessary to shield households and fishermen from high fuel prices.

POST-PANDEMIC POLICIES FOR GROWTH AND RESILIENCE

A. Scaling Back Recurrent Spending

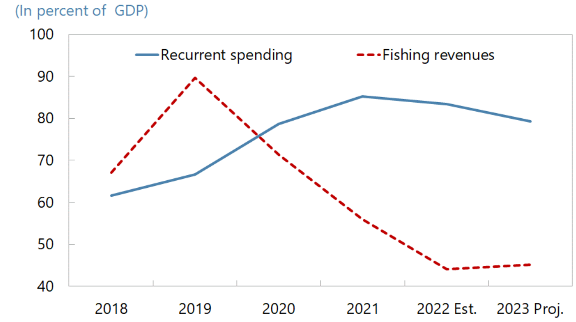
9. Although Kiribati withdrew part of its COVID-19 related spending, a large fiscal deficit is expected for 2021. An economic relief package of AUD30 million, about 11.5 percent of 2020 GDP (including a new unemployment support scheme, and stimulus for both private firms and SOEs), was introduced in 2020, of which 5 percent of GDP was withdrawn in 2021. Despite a concurrent reduction in spending, the fiscal balance turned from a surplus of 4 percent of GDP in 2020 to a deficit of 11 percent of GDP in 2021, largely due to the increases in the compensation of employees, senior citizen's benefits, unemployment benefits (covering about 70 percent of Kiribati's working age population), and reduced fishing revenues.

Public Spending on Subsidies and Grants
(In percent of GDP)



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

Recurrent Spending Versus Fishing Revenues
(In percent of GDP)



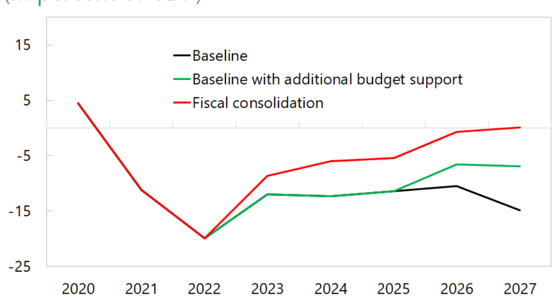
Sources: Country authorities; and IMF staff estimates and projections.
Note: Copra subsidy, unemployment benefits, and leave grants for the private sector are covered under the recurrent spending.

10. The fiscal deficit is expected to widen further in 2022 before narrowing in 2023. In 2022, the authorities doubled the copra subsidy (against previous IMF advice) to promote copra production and transfer cash to the outer islands. To cope with rising global fuel prices, and given price controls on kerosene and gasoline, the authorities compensated the Kiribati Oil Company Ltd (an SOE) for part of the difference between global and domestic fuel prices. These measures, combined with a drop in fishing revenues by about 12 percentage points of GDP, are estimated to have increased the fiscal deficit to 20 percent of GDP for 2022. The 2023 budget maintains existing social protection spending while introducing new leave grants for private sector. Under the staff's baseline scenario which assumes a gradual recovery in fishing revenues in 2023, the fiscal deficit for 2023 is projected to be about 12 percent of GDP.

11. Fiscal consolidation through scaling back recurrent spending is needed to reduce fiscal risks. Kiribati's recurrent spending is mainly financed by volatile fishing revenues and budget grants, with project grants used for development financing. There is no regular access to debt financing. Volatile revenues, dependence on donor grants, and high risk of debt distress under the current Debt Sustainability Analysis (DSA) underscore the importance of maintaining fiscal discipline. For 2023, it will be prudent to undertake fiscal consolidation that reduces the recurrent spending to about 76 percent of GDP instead of 79 percent under the baseline. This can be achieved by rationalizing the copra subsidy and unwinding some other social protection spending. During 2024-2027, reducing the domestic recurrent spending by about 1.5 percentage points of GDP each year on average would lead to a balanced budget in the medium term, assuming new grant commitments are in line with the historical trends. Continued donor support and the government's strategy to avoid any new non-concessional borrowing from external creditors are aligned with this adjustment path.

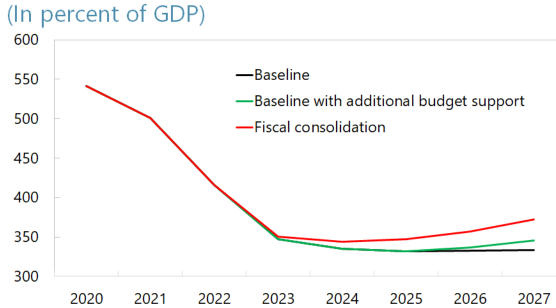
Fiscal Consolidation Scenario

Overall Balance
(In percent of GDP)



Source: IMF staff calculations.

Net Financial Worth
(In percent of GDP)



Source: IMF staff calculations.
Note: Net financial worth is defined as the balances of RERF and cash reserve buffer minus public debt.

12. Pursuing fiscal consolidation while protecting the vulnerable requires spending to be more targeted and efficient. It is crucial to improve the unemployment support scheme by properly identifying those eligible for unemployment benefits, and enhance the efficiency of the social protection delivery systems to ensure eligible beneficiaries receive the payments on time. With help from development partners, the authorities have set up a Social Protection Unit (SPU) to strengthen the administration of social protection payments. The next step would be to clearly define the government's objectives for the social protection system and design key performance indicators to track targeting and efficiency.

Authorities' Views

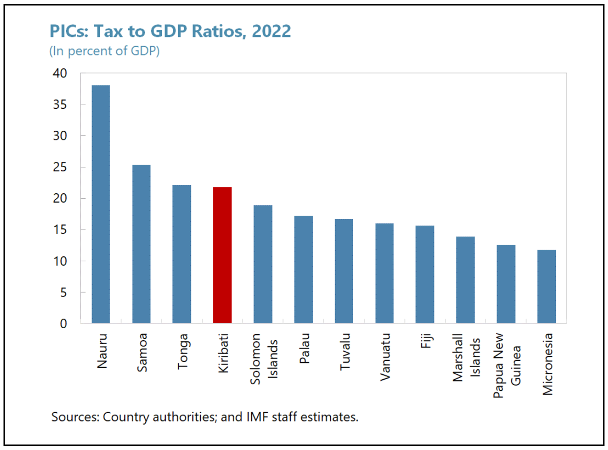
13. While confirming the importance of limiting recurrent spending within their means, the authorities do not plan to roll back recurrent spending for the time being. They view the copra subsidy program and unemployment benefit scheme as crucial to supporting livelihoods, including for the population in the outer islands, thus motivating them to stay in these islands to alleviate the pressure of overcrowding in the main island. They expect the unemployment benefits to be wound down as more people get employed. They agree on the need for better design, calibration, and delivery of the social safety net and note that the SPU is in the process of improving its data system. The authorities are keen on reviewing studies on the sustainability as well as the economic impact of the copra subsidy program, which would facilitate future policy design. The authorities expect the newly introduced leave grants to private sector employees will encourage employment in the formal sector and help employees maintain their connections to their families in the outer islands by providing them with the means to visit them. They expect the end of La Niña and the beginning of El Niño, and the new initiatives on coastal fisheries to boost fishing revenues.

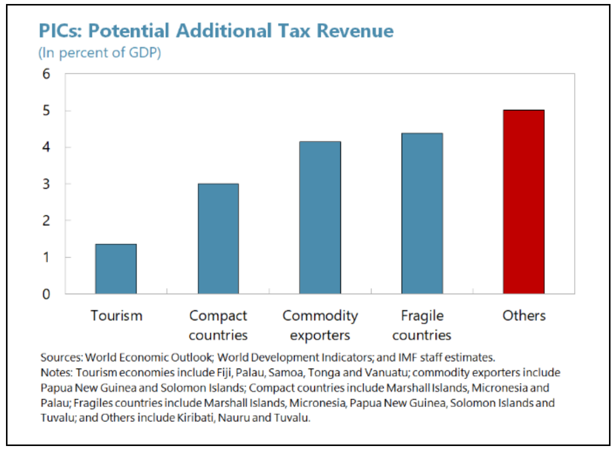
B. Addressing Fiscal Challenges: Uncertain Revenues

14. Increasing revenue mobilization will raise much needed resources to help finance Kiribati's development goals. The last major tax reform in 2014 introduced a value added tax (VAT) and excise tax, eliminated import duties, and modified personal income tax laws. As a result, the tax-to-GDP ratio improved from 15.4 percent in 2015 to 21.8 percent in 2021.[1] However, it still remains lower than some regional comparators and has the potential to increase by between 3 and 5 percentage points of GDP.[2] The authorities' recent effort to draft a new Income Tax Bill to replace the 1990 Income Tax Act is a commendable step towards simplifying tax administration and compliance (including a simplified tax regime for small businesses), clarifying that tax exemptions could only be granted under the Bill, and expanding the tax base (for example, by introducing a new taxation framework for seabed mining operations in Kiribati's exclusive economic zones). The Bill has been approved by the Cabinet and is scheduled to be sent to Parliament for approval in April 2023. Once it is enacted, regulations will be drafted in line with the new Bill. However, more could be done to mobilize the resources, including:

[1] Kiribati's lower reliance on tourism than other PICs has moderated the effects of the pandemic on tax revenues. The increased subsidies and transfers from the government in 2021 have supported the increases in all the categories of taxes, leading to an increase in tax collection of 1.8 percentage points of GDP in 2021 compared to 2020.

[2] See the IMF Departmental Paper, 2022, "Funding the Future: Tax Revenue Mobilization in the Pacific Island Countries."





- Phasing out the VAT and excise exemptions provided to SOEs to protect the tax base and create a level playing field with the private sector;

- Increasing the excise taxes on tobacco products, alcoholic beverages, kava, and sugary drinks, and regularly reviewing other excise rates to ensure that they are effective in achieving their revenue and/or health objectives, as the excise rates have not changed since 2014;

- Consolidating the corporate income tax rates from three progressive CIT rates into one to streamline the CIT, as few companies pay at the lower rate.

15. Formulation of a sustainable medium-term fiscal framework (MTFF) will promote fiscal discipline. Such a framework would help better manage volatile, exogenous components of the budget (fishing revenues and grants) and promote recurrent expenditure stability by preventing temporary surges in fishing revenues from feeding into unsustainable increases in spending, or temporary declines in fishing revenues from forcing unnecessary and harmful spending cuts. In the framework, the adjustment to revenue surprises should be biased towards saving revenue overperformance on the upside while adjusting expenditure gradually on a rolling basis on the downside with a view to achieving fiscal balance by the end of the medium term. On development expenditure, the MTFF should ensure that (i) RERF withdrawals only finance development expenditure; and (ii) development expenditure itself is determined in the context of multi-year plans with clearly identified goals and financing.

16. To address climate change risks, Kiribati needs to invest in adaptation. The authorities have been working actively on climate adaptation since the early 1990s, but challenges remain (Annex III).[3] The MTFF should include an explicit provision to cover the costs of climate change adaptation: initially up to 2 percent of GDP annually and increasing to the target of 6 percent of GDP by 2030, in line with the increasing capacity to raise additional revenues, with any remaining annual costs financed by development partners.[4] Ideally, the MTFF could incorporate a separate buffer for

[3] See the Selected Issues Paper on "Climate Change in Kiribati: The Way Forward."

[4] See IMF Country Report No. 19/26 for more detailed analysis.

more infrequent climate-related expenditure (e.g., natural disasters). As the process of meeting the eligibility criteria for green financing is challenging, the authorities should continue to partner with accredited global and regional partners to gain access to climate funds, including the Green Climate Fund (GCF).

17. The value of the RERF should be preserved for future generations. The newly established withdrawal rule[5] will help preserve the value of the RERF under current inflation and population projections. The authorities plan to withdraw AUD23 million in 2023 from the 2021 returns of the RERF to fund development projects. They should finalize the drafting of the Sovereign Wealth Fund Act to strengthen the governance and accountability of the RERF.

Authorities' Views

18. The authorities are committed to achieving a balanced budget in the medium term. They consider revenue mobilization and diversification as key measures to achieve this target. Due to limited capacity, priority will be given to the new Income Tax Bill. Later the focus will shift to amending the VAT Act, including looking into SOE tax exemptions, reducing the VAT threshold, and adjusting the VAT base from "free on board" to "cost, insurance, and freight." They acknowledge the importance of increasing excise taxes on tobacco products and other unhealthy consumption goods and note that work on this front has been initiated by the Ministry of Health with assistance from the World Health Organization.

19. The authorities reaffirm their adherence to the RERF withdrawal rules. They are committed to preserving the value of the RERF, limiting the withdrawal from 2021 returns to AUD23 million. They underscore their commitment to earmark withdrawals for development projects that benefit both current and future generations.

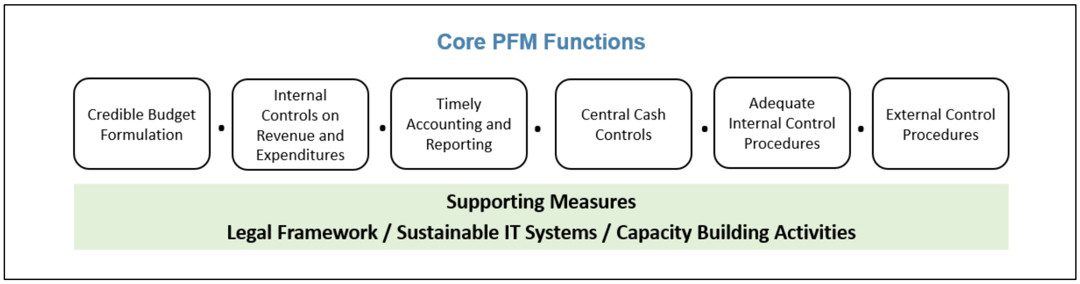
20. The authorities are eager to access green financing. Given the challenges to meet the eligibility criteria, the authorities are partnering with the Asian Development Bank (ADB) and World Bank to get access to the GCF to fund the South Tarawa Water Supply Project and are currently working with the Pacific Regional Environment Program to secure access to the GCF for another project. The authorities note the need for an explicit spending allocation in the budget for climate-related adaptation costs.

C. Further Improving Public Financial Management and Governance

21. Sound public financial management (PFM) practices are critical for good governance and achieving Kiribati's growth and development objectives. Addressing governance deficiencies in budget outcomes and institutions would help improve efficiency, reduce vulnerabilities to corruption, and catalyze donor support. The authorities are in the process of implementing the Integrated Financial and Management Information System (IFMIS). Similarly, the

[5] In September 2020, with support from the World Bank, the authorities introduced a rule-based withdrawal policy, which permits drawdown of excess real return exceeding 5 percent, with withdrawals to be used for development purposes.

publication of the Fiscal Reporting Policy, which sets out new standards for regular public reporting on main fiscal items, is a welcome step, but more needs to be done. In line with past IMF advice and areas of focus of development partners, staff recommend prioritizing the following reforms:



- **Finalizing the drafting of an updated PFM Act** to support good practice and the implementation of planned PFM reforms.

- **Strengthening budget planning** by improving fishing revenue projections; ensuring that both recurrent and development expenditure ceilings are binding; avoiding supplementary budgets for more spending; and better integrating recurrent and development budgets.

- **Publishing fiscal reports on a more regular basis** by strengthening both intra-year and annual financial reporting through the timely implementation of the IFMIS. Transparency could be further improved by the timely publication of the fisheries report that provides critical information on the allocation of fishing days.

- **Executing effective controls over cash balances** by consolidating government bank accounts[6] into a Treasury Single Account (TSA) structure; and establishing a cash planning management committee to provide the Treasury with a regular update on expected cash flows. All fishing revenues should be deposited into the TSA.

- **Improving procurement control** by strengthening the institutions around procurement and timely publishing contract award notices including the pandemic-related spending contracts.

22. To further reduce fiscal pressures, it is essential to place SOEs on a commercial and sustainable footing. The SOE Monitoring and Advisory Unit (SOEMAU) is making progress in strengthening SOE oversight. The Procurement Amendment Act, passed in 2021, requires SOEs to comply with the government's procurement legal framework. While most SOEs operated profitably in 2020 (the most recent available data), some are facing financial difficulties, as the gap between the prices they charge to consumers and their operational costs has widened due to the high commodity prices. Based on the recommendations from the IMF and other development partners, the following steps should be taken to enhance the commercial mandate and governance frameworks of SOEs:

[6] Kiribati's cash reserve buffer (including the operational account and cash reserve account) was about AUD197 million (61 percent of GDP) at end-2022 and split across overseas and domestic accounts.

- Phasing out SOE tax exemptions to help level the playing field with the private sector (see Paragraph 14);
- Recalibrating SOE tariffs to improve SOEs' financial viability while protecting the most vulnerable;
- Continuing to build capacity in the SOEMAU to better analyze and monitor SOE activities, risks, and performance, and produce sector-wide summary reports on SOE performance and profitability;
- Improving SOE financial management and publishing SOE audited financial statements in a timely manner, upon which a reform of the SOE subsidy system in the medium term could be built;
- Finalizing a formal dividend policy to ensure that SOEs comply with their dividend payment obligations to the government;
- Continuing divestment and outsourcing of SOE activities to help improve efficiency and strengthen public finances.

Authorities' Views

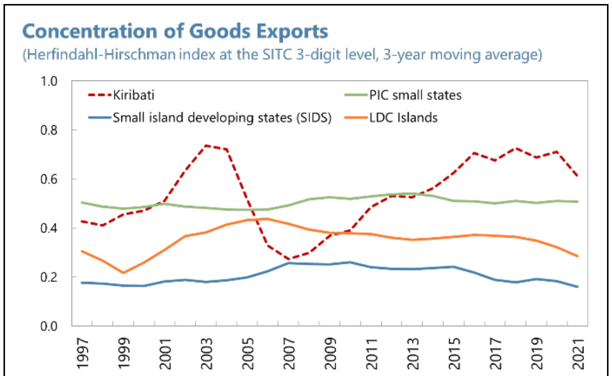
23. The authorities expect the implementation of the IFMIS would significantly improve PFM. The IFMIS will allow fiscal spending to be traced electronically, including social protection spending. It will also facilitate the implementation of the TSA structure. The authorities expect the IFMIS to be in place in 2023 and have the payroll system integrated in 2024. They hope the ongoing improvement in internet connectivity will help ensure timely account integration among the ministries, especially those located on different islands.

24. Priorities for SOEs include improving the transparency of SOE disclosures and the quality of financial management. The authorities emphasize that SOEs need to improve the quality and timeliness of their financial reporting. The SOEMAU has issued new templates of the Statement of Intent and Performance Report to SOEs and accelerated the pace of audits. The unit is also attempting to implement more effective procedures for providing government support to SOEs, which include analytics on price differentials between market-based and administered prices to better quantify the required level of government support. While acknowledging that SOEs should pay dividends, the authorities do not view enforcing dividend payments as the current priority of the SOE reform agenda. They have no immediate plans to divest or outsource any SOE.

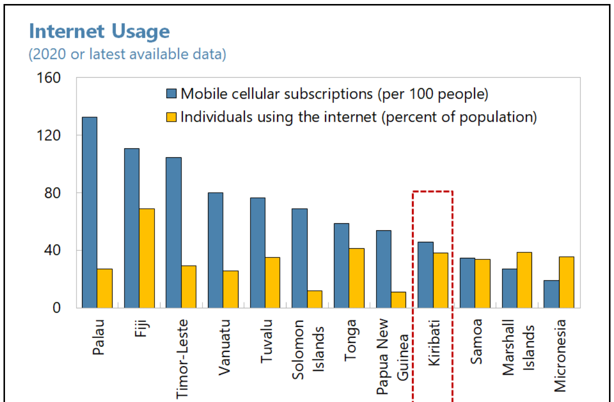
D. Boosting Long-Term Growth Through Structural Reforms

25. Structural reforms focused on boosting export competitiveness, private sector development, and inclusive growth are key to raising Kiribati's standard of living. Staff analysis shows that structural reforms that raise human capital, labor market participation, and investment can improve potential growth from 2 percent to 4 percent and significantly reduce poverty (Annex IV).[7] Reforms to revitalize the private sector, which only accounts for around 30 percent of total employment, are crucial to ensure sustainable long-run growth. The government has launched successive development plans based on the Kiribati 20-year vision (KV20) to restructure the economy with the latest one being the 2020–2023 Kiribati Development Plan.

26. Boosting export competitiveness would require improvements in the business environment and infrastructure. Kiribati's current export structure is highly concentrated, with fisheries and copra accounting for more than 90 percent of total exports in 2021. Efforts to upgrade export quality could include expanding tuna processing, establishing "tuna hubs", and packaging and upgrading copra production to produce virgin coconut oil. Furthermore, rationalizing the copra subsidy program or reforming the support scheme in the outer islands could provide incentives to foster economic diversification to other products such as seaweed and aquaculture. Improvements in air transport, ports, and shipping services could promote business by enabling access to a wider market. In addition, investments in infrastructure as well as in information and communication technology (ICT) will enhance internet connectivity and boost tourism as well as improve the delivery of government services.



Sources: UNCTAD; and IMF staff calculations.
Note: Higher index indicates greater concentration.



Source: World Development Indicators.

27. Opportunities for better utilizing natural resources should be actively pursued. The Environment Act was passed in 2021 to reduce pollution, maintain biodiversity, and better adapt to climate change. The Fisheries Act was passed in 2021 to support sustainable fishing. It would be important to develop regulations and monitoring capacity to ensure that the legislations are properly enforced. Industries such as deep-sea mining may have promise but require extensive cost-benefit analyses that weigh potential economic benefits against environmental risks from pollution and damage to marine habitats. The plan to reopen the PIPA to commercial fishing should be carefully designed with a fully developed marine spatial plan to ensure the sustainability of fishing and preserve marine biodiversity.[8]

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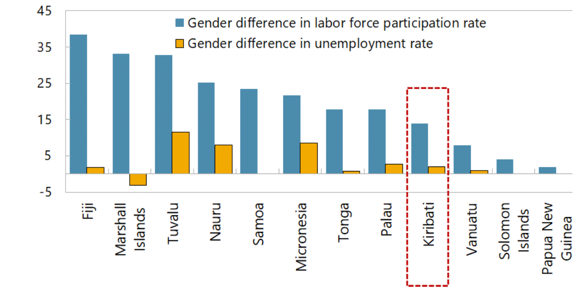
[7] See the Selected Issues Paper on "Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms."

[8] See the Selected Issues Paper on "Fisheries Developments in Kiribati: Sustainability and Growth."

28. Improving human capital is essential for long-term growth. Despite the substantial progress in the primary and early childhood education, only 20 percent of young population have completed upper secondary education. Given this low completion ratio, expanding technical vocational education and training is a key measure to provide workers with skills and training for future employment and overseas employment. Recently, Kiribati has introduced substantial legal reforms to improve women's economic participation, but additional reforms such as granting women the same rights to immovable property as men could further promote legal equity and gender equality (Annex V).[9]

Gender Difference in Labor Outcomes
(In percentage points, 2020 or latest available data)



Sources: World Development Indicators; 2020 Kiribati Census; and IMF staff calculation.
Note: Gender difference in unemployment rate measured as difference between the female and male unemployment rates.

29. Financial intermediation is low in Kiribati, with limited systemic financial risk and potential scope to enhance access to finance. About 15 percent of the population own a bank account,[10] and only one bank takes deposits. Credit, mainly provided by ANZ Kiribati, the Development Bank of Kiribati, and the KPF (loans to members against their contributions), was about 20 percent of GDP in 2022, a low ratio reflecting limited competition, high collateral-based lending, a lengthy recovery process in cases of default, and geographical challenges. The banks are liquid and well-capitalized, and their non-performing loan ratio declined from about 12 percent in 2020 to about 11 percent in 2022; while the KPF has started to accumulate a surplus since March 2021. ANZ Kiribati plans to increase the number of bank accounts significantly in the next 3 to 5 years with a greater focus on population in the outer islands. In addition, the Chamber of Commerce is exploring options to establish a credit union and create a digital infrastructure to increase access to finance and facilitate payments to the outer islands.

30. Operationalization of the recently approved legislations in the financial sector is a critical step to strengthen financial regulation and supervision and promote financial deepening. Kiribati currently does not have a designated supervisory authority for financial institutions and the responsibilities for supervising Kiribati's financial sector are fragmented.[11] The approvals of the Financial Supervisory Authority of Kiribati Act (2021) and Kiribati Financial Institutions Act (2021) are an important milestone to develop the financial sector. The next steps will be establishing an independent supervisor of financial institutions—Kiribati Financial Supervisory Authority (KFSA)—and developing a framework and ensuring adequate resourcing for regulation

[9] See the Selected Issues Paper on "Gender Equality in Kiribati: Achievements and Prospects."

[10] In 2020, the authorities required that all public servants open bank accounts to receive payroll.

[11] ANZ Kiribati is subject to prudential regulation and supervision of the Australian Prudential Regulation Authority as part of the ANZ Banking Group. The DBK, KIC, and KPF have been set up under separate acts with oversight from their Boards and advice from the Ministry of Finance and Economic Development (MFED). Ministry of Tourism, Commerce, Industry, and Cooperatives registers and regulates credit unions and money lenders.

and supervision of financial institutions, including for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) risk-based supervision.

31. There is scope to enhance the impact of the anti-corruption agencies. In 2018, the government established a Leadership Commission to investigate complaints against senior government officials and receive officials' asset declarations. It has also set up an anti-corruption unit within the Public Service Office. Progress has been made in investigating abuse of power; however, more capacity and enforcement powers are needed to enhance the role of these agencies. For example, the compliance rate for asset declarations from public officials declined from 33 percent in 2019 to 15 percent in 2021. While the authorities have recently initiated the process to recruit a new Chief Justice with the Attorney General acting as Chief Justice in the interim, the suspension of the former Chief Justice in June 2022 and all three court of appeals judges in September 2022 left Kiribati without high-level court judges for several months and increased the case backlogs.

Authorities' Views

32. The authorities acknowledge the importance of structural reforms in raising standards of living and the associated challenges:

- On the export front, the authorities reiterate that Kiribati has the potential to export virgin coconut oil but highlight the prohibitively high marketing and freight costs. The authorities also acknowledge the distortionary effects of the copra subsidy but emphasize that it is an important part of the social safety net.
- The current business registration process is cumbersome. With the help of development partners, the authorities plan to launch an online registration in 2024.

CAPACITY DEVELOPMENT AND DATA ISSUES

33. Capacity Development. Delivery of technical assistance (TA), including through the Pacific Financial Technical Assistance Centre (PFTAC), is picking up as international borders reopen. Virtual delivery of TA has helped maintain engagement, including by strengthening PFM and revenue mobilization, improving statistics, enhancing macroeconomic analysis, and operationalizing the approved legislations in the financial sector. With multiple donors providing TA, efforts have been made to strengthen CD coordination to ensure a holistic approach to TA delivery, minimizing duplication, and ensuring consistency with surveillance priorities (Annex VI).

34. Statistics. Data shortcomings are prevalent especially in national accounts statistics, government finance statistics, and financial sector data, with the agencies responsible for compiling data often understaffed and requiring IMF TA to play a supplementary role. The authorities need to undertake further investments in human capital and technology, promote comprehensive inter-agency collaboration, and enhance information sharing to produce timely and high-quality statistics. It is encouraging that the authorities plan to implement the IMF's Enhanced General Data

Dissemination System (e-GDDS) by publishing economic data on a National Summary Data Page (NSDP), which will help improve the availability of timely statistics. These efforts will help ensure economic policies are well formulated and the development strategy is adjusted to reflect up-to-date changes in the economy.

Authorities' Views

35. The authorities appreciate the IMF's capacity building activities and request continued IMF engagement. The authorities agree that high-quality and timely data are needed in supporting sound policy making. In addition to developing statistical capacity in the areas of national accounts, price index, and government financial statistics, the authorities also highlight the need to enhance capacity in tax administration, revenue forecasting (including fishing revenues), PFM, and macroeconomic forecasting. They plan to implement the e-GDDS with IMF assistance.

STAFF APPRAISAL

36. Kiribati's economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022. After registering a strong rebound in 2021, real GDP growth is estimated to have decelerated to 1.2 percent in 2022 mainly due to a domestic outbreak of COVID-19 and the subsequent lockdown restrictions. Growth is projected to increase to 2.5 percent this year on the back of a resumption of large infrastructure projects and improved weather conditions. Inflation has recently picked up due to a recovery in domestic demand, supply shortages, and elevated commodity prices and freight costs. Kiribati's external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies. Risks to the outlook are mainly on the downside.

37. Fiscal consolidation would be necessary to reduce fiscal risks. Kiribati's volatile fishing revenues and dependence on donor grants underscore the importance of maintaining fiscal discipline. In this regard, the authorities should consider consolidating recurrent spending and improving the targeting and efficiency of the social safety net. Fiscal sustainability could be further reinforced by greater revenue mobilization, development of a sustainable medium-term fiscal framework that integrates rules-based RERF withdrawals, and provisioning for climate change adaptation costs in the budget.

38. The authorities' ongoing efforts to improve public financial management are commendable and should continue. The timely implementation of the IFMIS for budget execution and strengthening cash flow management is crucial. The authorities should make continued efforts to finalize the draft of an updated Public Financial Management Act, strengthen budget planning, publish fiscal reports on a more regular basis, execute effective controls over cash balances, and improve procurement controls.

39. It is essential to place SOEs on a commercial and sustainable footing to further reduce fiscal pressures. The elevated global commodity prices have exacerbated financial difficulties faced by some SOEs, reinforcing the importance of recalibrating SOE tariffs to improve SOEs' financial viability while protecting the most vulnerable. The SOE monitoring unit is making progress in strengthening SOE oversight and should continue to build its capacity in analyzing and monitoring the activities, risks, and performance of SOEs. Progress is needed to ensure that SOEs improve their financial management and publish their audited financial statements in a timely manner. Despite challenges, efforts to divest and outsource SOE activities should continue to be explored. Phasing out SOE tax exemptions will help level the playing field with the private sector.

40. The authorities' strategy to boost export competitiveness and promote private sector development is encouraging and needs to be further augmented with robust structural reforms. Recent efforts to upgrade quality within the existing export sectors are commendable. However, a holistic approach to structural reform is needed to improve the overall business environment. These reforms include reforming the copra subsidy program, improving connectivity through better air transport, ports, and shipping services, boosting the telecommunications network, building a skilled workforce, and enhancing access to finance.

41. The authorities should continue efforts to better utilize natural resources. Building on the recent approvals of the Environment Act and Fisheries Act, the authorities should forge ahead with developing regulations and monitoring capacity to ensure that the legislations are properly enforced. The plan to reopen the PIPA to commercial fishing should be carefully designed with a fully developed marine spatial plan to ensure the sustainability of fishing and preserve marine biodiversity.

42. Continued efforts to build statistical capacity will facilitate data-based policy making. The authorities need to strengthen institutional capacity to produce high-quality national accounts, government finance statistics, and financial sector data in a timely manner to support sound economic management. It is encouraging that the authorities plan to implement the IMF's e-GDDS by publishing economic data on a National Summary Data Page, which will help improve the availability of timely statistics.

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

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

The Executive Board endorses the thrust of the staff appraisal in the report for the 2023 Article IV consultation discussions with Kiribati (SM/23/83).

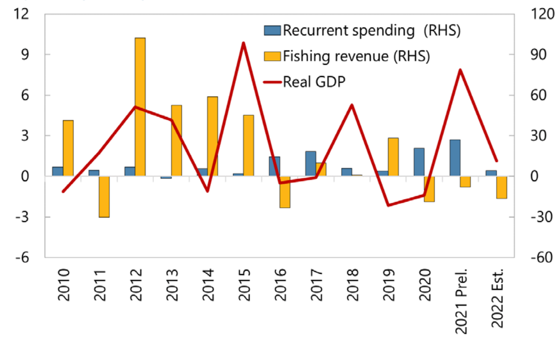
It is expected that the next Article IV consultation discussions with Kiribati will take place on the 12-month cycle.

Figure 1. Kiribati: Recent Developments

After a strong recovery in 2021, the economy continued to expand at a decelerated rate in 2022...

Growth Rates

(In percent, year-on-year)

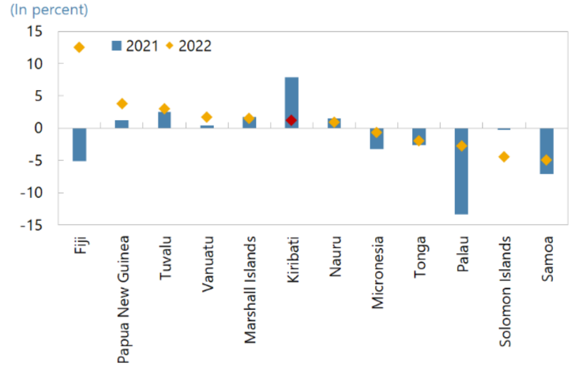


Sources: Country authorities; and IMF staff estimates.

...and Kiribati is estimated to perform better than some PICs.

Real GDP Growth, 2021 and 2022

(In percent)

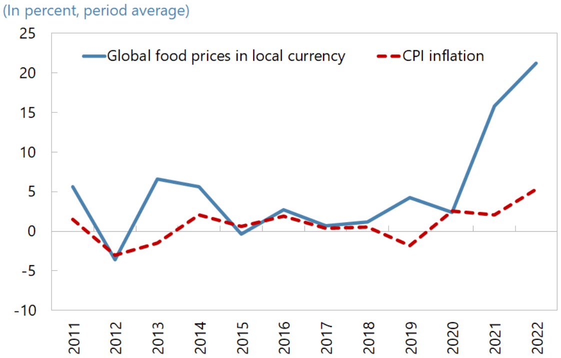


Source: World Economic Outlook.

Inflation has recently picked up largely due to higher global food prices.

Inflation Rates

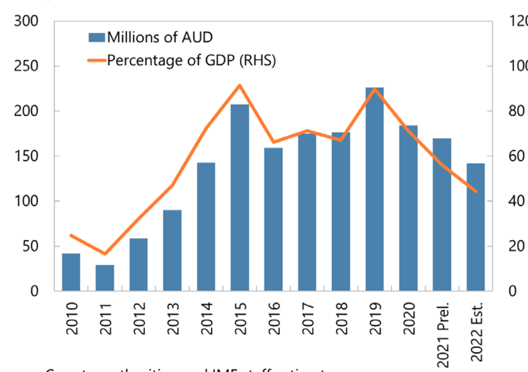
(In percent, period average)



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

Fishing revenues declined in 2022.

Fishing Revenue

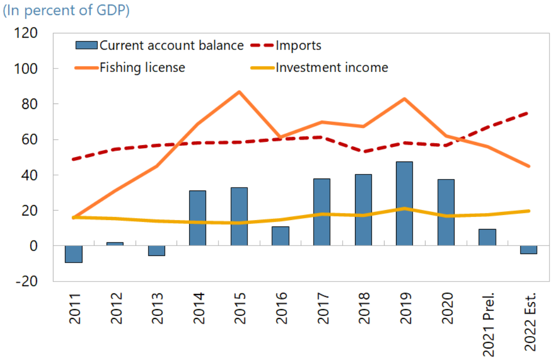


Sources: Country authorities; and IMF staff estimates.

The current account balance is estimated to turn to a deficit in 2022 due to higher imports and lower fishing revenues...

Current Account Balance

(In percent of GDP)

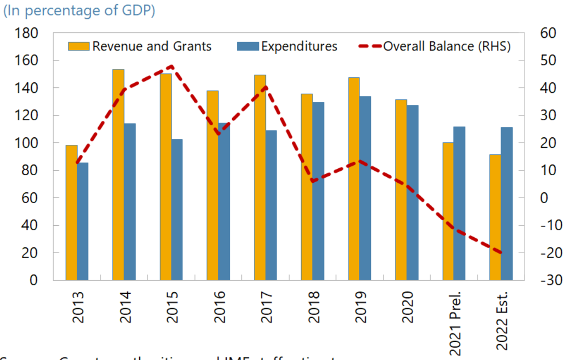


Sources: Country authorities; and IMF staff estimates.

...and the fiscal deficit is estimated to widen in 2022 partly due to lower revenues.

Revenue, Expenditures and Overall Balance

(In percentage of GDP)

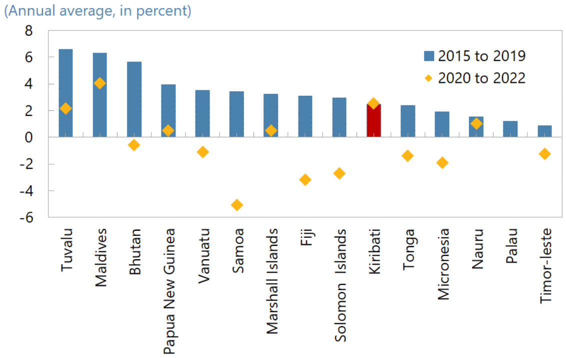


Sources: Country authorities, and IMF staff estimates.

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

Kiribati posted relatively strong real GDP growth pre-COVID…

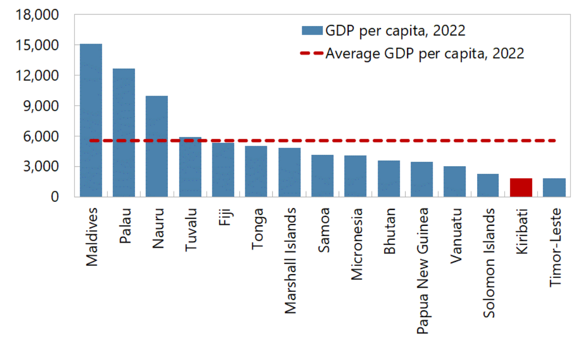
Real GDP Growth
(Annual average, in percent)



Source: World Economic Outlook.

…but GDP per capita remains one of the lowest in the Asian small developing states.

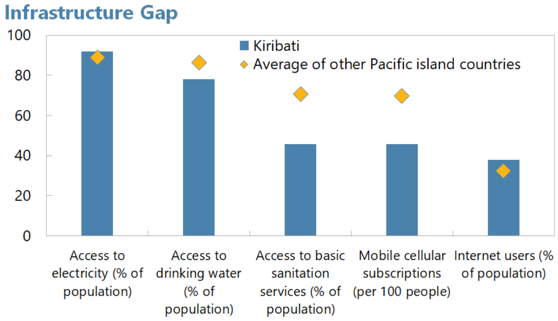
Per Capita Income, 2022
(In current U.S. dollars)



Source: World Economic Outlook.

Kiribati is challenged by a significant infrastructure gap…

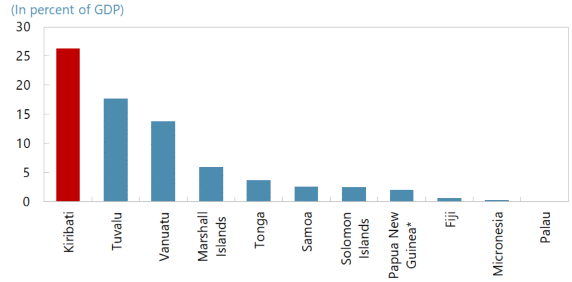
Infrastructure Gap



Sources: Country authorities; and World Development Indicators.
Notes: 2020 data except for internet users of the average of other PICs (2017). Kiribati's access to electricity is based on the authorities data in South Tarawa. Outer islands will have lower access.

…and daunting climate adaptation costs.

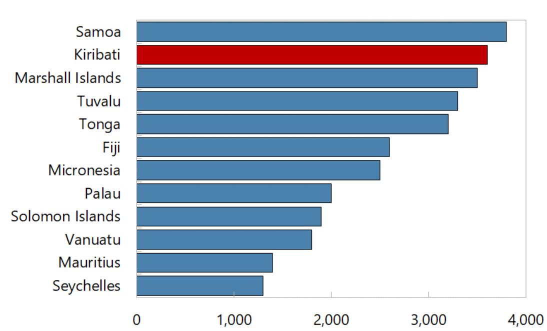
Estimated Annual Climate Adaptation Costs
(In percent of GDP)



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

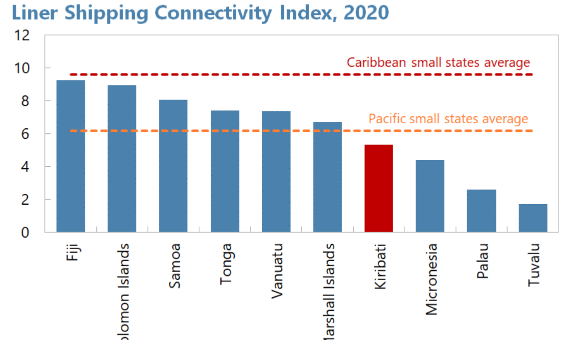
Kiribati's remoteness hinders attracting foreign investors and exports growth.

Distance to the Nearest Continent
(In kilometers)



Sources: Google Earth; and IMF staff estimates.

Liner Shipping Connectivity Index, 2020

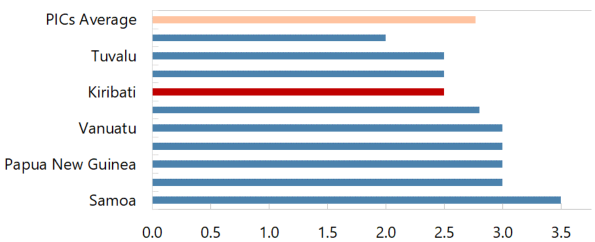


Source: World Development Indicators.
Note: A smaller number indicates lower connectivity and higer transportation costs. 100 is the maximum index value.

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

Domestic business environment hampers private sector development…

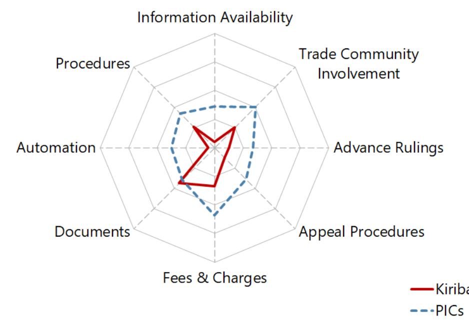
Kiribati: CPIA Business Regulatory Environment Rating
(2017-21 average)



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

…and a lack of information availability and automation hinders trade facilitation.

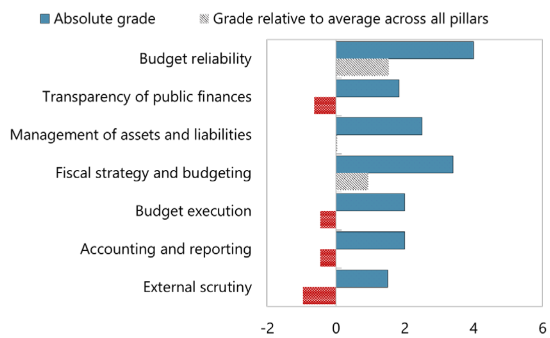
Trade Facilitation Indicators, 2019
(Farthest from center = best performance that can be achieved)



Source: OECD, *Trade Faciliation Indicators, 2019*.

Addressing governance deficiencies in budget outcomes and institutions would help improve efficiency…

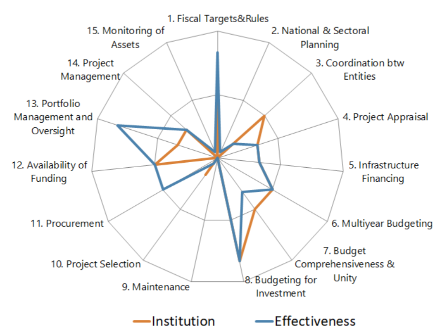
Public Expenditure and Financial Accountability
(Grade, 11 highest and 0 lowest)



Source: IMF Country Report No.19/26.

…as would improving project selection and management.

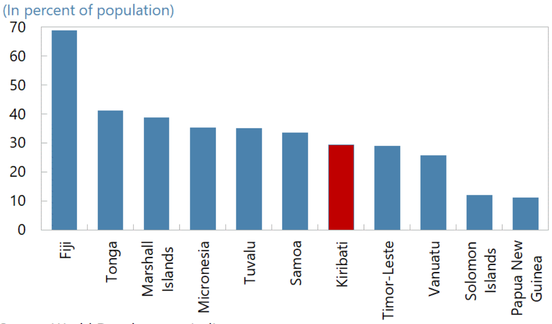
Public Investment Management Assessment



Source: IMF Staff Report No. 19/26.
Note: Lower/worse scores are closer to the center.

Kiribati's remoteness can be somewhat mitigated by increasing its usage of the internet…

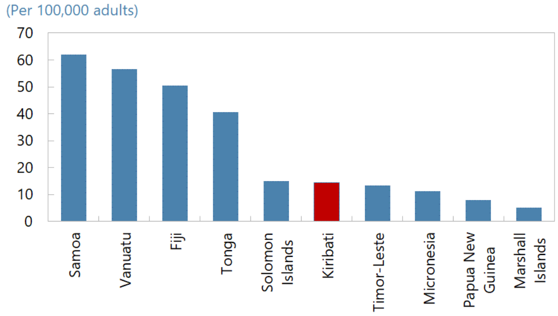
Internet Usage
(In percent of population)



Source: World Development Indicators.
Notes: 2017 data for all countries, except for Fiji (2018), Kiribati (2020) and Timor-Leste (2020).

…and improving connectivity could increase financial inclusion.

ATM Access
(Per 100,000 adults)



Source: IMF, Financial Access Survey.
Notes: 2013 data for Kiribati; 2018 for Tonga; 2020 for Solomon Islands; 2021 for remaining countries.

Table 1. Kiribati: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Est.			Proj.			
Real GDP (percent change)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1
Consumer prices (percent change, average)	-1.8	2.6	2.1	5.3	8.6	4.5	2.1	1.9	1.8	1.8
Inflation (end of period)	-0.9	2.8	2.5	16.2	-2.2	5.0	1.9	2.1	1.8	1.8
Central government finance (percent of GDP)										
Revenue and grants	147	132	100	91	102	105	104	102	98	97
Total domestic revenue	110	94	81	67	70	71	72	74	73	73
Of which: fishing revenue	90	71	56	44	45	47	47	49	48	48
External grants	37	38	19	25	33	34	33	29	25	24
Expenditures	134	127	112	111	114	117	116	113	113	112
Current	67	79	85	83	79	79	78	77	77	77
Development	67	48	26	28	35	38	38	36	36	35
Domestic recurrent balance 1/	-46	-56	-60	-61	-55	-55	-53	-52	-52	-52
Recurrent fiscal balance (incl. budget support grants)	44	18	0	-9	-1	-2	-2	2	-2	-3
Overall balance 2/	13	4	-11	-20	-12	-12	-11	-10	-15	-15
Financing	-13	-4	11	20	12	12	11	10	15	15
Of which: Revenue Equalization Reserve Fund (RERF)	0	15	0	0	6	0	0	0	0	2
RERF										
Closing balance (millions of A$)	1153	1172	1353	1194	1115	1200	1291	1390	1512	1640
Per capita value (2006 A$)	7322	7262	8032	6547	5713	5871	6053	6262	6550	6829
Balance (in percent of (GDP)	457	454	447	370	311	313	323	334	350	365
Cash reserve buffer 3/										
Closing balance (millions of A$)	180	278	216	198	175	172	168	163	159	155
Closing balance (in percent of GDP)	71	108	71	61	49	45	42	39	37	34
In excess of 3-months of current spending and LCDF (millions of A$)	118	219	144	122	95	86	80	70	62	54
Balance of payments										
Current account including official transfers (millions of US$)	87	71	20	-9	21	27	32	35	18	20
(In percent of GDP)	49	40	9	-4	8	10	12	12	6	6
External debt (millions of US$) 4/	39	40	37	33	32	61	90	117	157	195
(In percent of GDP)	22	21	17	15	13	23	33	41	53	63
External debt service (millions of US$)	1.5	1.9	2.1	2.3	2.3	2.3	2.5	2.8	3.0	3.5
(In percent of exports of goods and services)	0.8	1.3	1.0	1.1	1.0	1.0	1.0	1.1	1.2	1.3
Exchange rate (A$/US$ period average)	1.4	1.4	1.3	1.4	…	…	…	…	…	…
Real effective exchange rate (period average)	74	74	79	…	…	…	…	…	…	…
Memorandum items:										
Nominal GDP (millions of A$)	252	258	303	322	358	383	400	416	432	449
Nominal GDP (millions of US$)	175	178	228	224	248	263	273	284	295	306

Sources: Kiribati authorities; and IMF staff estimates and projections.
1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.
2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.
3/ Cash reserve buffer includes the government's operational account and cash reserve account.
4/ The coverage is public external debt only.

Table 2a. Kiribati: Summary of Central Government Operations, 2019–28

(In millions of Australian dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Est.			Proj.			
Total revenue and grants	372	340	304	295	367	403	417	426	424	434
Revenue	278	242	246	215	250	273	286	306	315	326
Tax revenue	49	52	66	63	73	82	84	90	94	98
Nontax revenue	229	190	180	152	177	192	202	216	222	228
Of which: fishing revenue	226	184	169	142	162	179	188	202	208	214
Project grants	93	91	47	54	87	107	114	97	101	101
Budget support grants	0.5	7	10	26	30	22	18	22	7	7
Total expenditure	338	328	338	359	409	450	463	469	488	503
Current expenditure	168	203	258	269	284	304	311	320	332	345
Wages and salaries	80	85	103	107	109	111	113	118	120	122
Subsidies and grants	46	67	119	124	135	149	149	149	155	161
Of which: copra subsidy	16	16	16	28	28	40	40	40	42	43
Of which: SOE subsidy	10	9	9	11	18	15	15	15	16	16
Of which: unemployment benefit	0	9	45	30	30	30	30	30	30	30
Of which: senior citizen benefit	3	12	20	20	20	20	20	20	21	22
Of which: leave grants for private sector	…	…	…	…	10	13	13	13	13	13
Other current expenditure	41	50	36	38	29	31	33	34	36	37
Interest payment	1	1	1	1	1	1	1	1	2	2
Contingency and maintenance rel. to climate change adaptation	0	…	…	…	10	12	15	17	20	23
Infrastructure maintenance	…	…	…	…	8	8	9	9	10	10
Other climate change adaptation costs	…	…	…	…	2	4	6	8	11	13
Development expenditure	170	125	80	90	125	146	152	150	155	157
Of which: local contribution to development fund (LCDF)	77	34	33	35	39	38	38	52	54	56
Domestic recurrent balance 1/	-116	-145	-181	-196	-195	-210	-213	-216	-226	-234
Recurrent fiscal balance (excl. grants)	110	39	-12	-54	-34	-31	-25	-14	-17	-20
Recurrent fiscal balance (incl. budget support grants)	111	46	-1	-29	-4	-9	-7	9	-10	-13
Overall balance 2/	34	11	-34	-64	-43	-47	-46	-44	-64	-69
Financing	-34	-11	34	64	43	47	46	44	64	69
Domestic financing	-32	-10	36	67	45	4	4	4	5	13
Revenue Equalization Reserve Fund (RERF)	0	40	0	0	23	0	0	0	1	9
Cash reserve buffer	-32	-50	36	67	22	4	4	4	4	4
External financing (net)	-1	-2	-2	-3	-3	43	42	39	59	56
Memorandum items (percent of GDP unless otherwise noted):										
Net financial worth including RERF (millions of A$) 3/	1277	1398	1517	1342	1244	1282	1328	1383	1442	1510
Net financial worth incl. RERF	506	541	501	416	347	335	332	333	334	336
Net financial worth excluding RERF (millions of A$)	123	225	165	149	129	82	37	-7	-70	-130
Net financial worth excl. RERF	49	87	54	46	36	21	9	-2	-16	-29
RERF balance	457	454	447	370	311	313	323	334	350	365
RERF real per capita value (2006 A$)	7322	7262	8032	6547	5713	5871	6053	6262	6550	6829
Cash reserve buffer 4/ (in percent of GDP)	71	108	71	61	49	45	42	39	37	34
Cash reserve buffer in excess of 3-months of current spending and LCDF	47	85	47	38	26	22	20	17	14	12
Public debt (in millions of A$)	57	53	52	49	46	89	131	170	229	285
Public debt 5/ (in percent of GDP)	22	21	17	15	13	23	33	41	53	63
Nominal GDP (millions of A$)	252	258	303	322	358	383	400	416	432	449

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

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

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

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

4/ Cash reserve buffer includes the custodial account and the cash account.

5/ In this table, the coverage of public sector debt is the central government and Kiribari Provident Fund(KPF), which is composed of external debt only, as all domestic debt was cleared in 2015. The government also guarantees loans worth AUD11.8million made by the social security fund to domestic SOEs.

Table 2b. Kiribati: Summary of Central Government Operations, 2019–28

(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Prel.	Est.			Proj.			
Total revenue and grants	147	132	100	91	102	105	104	102	98	97
Revenue	110	94	81	67	70	71	72	74	73	73
Tax revenue	20	20	22	19	20	21	21	22	22	22
Nontax revenue	91	74	60	47	49	50	50	52	51	51
Of which: fishing revenue	90	71	56	44	45	47	47	49	48	48
Project grants	37	35	15	17	24	28	28	23	23	22
Budget support grants	0.2	3	3	8	8	6	4	5	2	2
Total expenditure	134	127	112	111	114	117	116	113	113	112
Current expenditure	67	79	85	83	79	79	78	77	77	77
Wages and salaries	32	33	34	33	30	29	28	28	28	27
Subsidies and grants	18	26	39	38	38	39	37	36	36	36
Of which: copra subsidy	6	6	5	9	8	10	10	10	10	10
Of which: SOE subsidy	4	3	3	4	5	4	4	4	4	4
Of which: unemployment benefit	0	3	15	9	8	8	8	7	7	7
Of which: senior citizen benefit	1	5	7	6	6	5	5	5	5	5
Of which: leave grants for private sector	...	...	...	...	3	3	3	3	3	3
Other current expenditure	16	19	12	12	8	8	8	8	8	8
Interest payment	0	0	0	0	0	0	0	0	0	1
Contingency and maintenance rel. to climate change adaptation	...	...	...	...	3	3	4	4	5	5
Infrastructure maintenance	...	...	...	...	2	2	2	2	2	2
Other climate change adaptation costs	...	...	...	...	1	1	2	2	3	3
Development expenditure	67	48	26	28	35	38	38	36	36	35
Of which: local contribution to development fund (LCDF)	31	13	11	11	11	10	10	13	13	13
Domestic recurrent balance 1/	-46	-56	-60	-61	-55	-55	-53	-52	-52	-52
Recurrent fiscal balance (excl. grants)	44	15	-4	-17	-9	-8	-6	-3	-4	-4
Recurrent fiscal balance (incl. budget support grants)	44	18	0	-9	-1	-2	-2	2	-2	-3
Overall balance 2/	13	4	-11	-20	-12	-12	-11	-10	-15	-15
Financing	-13	-4	11	20	12	12	11	10	15	15
Domestic financing	-13	-4	12	21	13	1	1	1	1	3
Revenue Equalization Reserve Fund (RERF)	0	15	0	0	6	0	0	0	0	2
Cash reserve buffer	-13	-19	12	21	6	1	1	1	1	1
External financing (net)	-1	-1	-1	-1	-1	11	10	9	14	12
Memorandum items (percent of GDP unless otherwise noted):										
Net financial worth incl. RERF 3/	506	541	501	416	347	335	332	333	334	336
Net financial worth excl. RERF	49	87	54	46	36	21	9	-2	-16	-29
RERF balance	457	454	447	370	311	313	323	334	350	365
RERF real per capita value (2006 A$)	7322	7262	8032	6547	5713	5871	6053	6262	6550	6829
Cash reserve buffer 4/	71	108	71	61	49	45	42	39	37	34
Cash reserve buffer in excess of 3-months of current spending and LCDF	47	85	47	38	26	22	20	17	14	12
Public debt 5/	22	21	17	15	13	23	33	41	53	63
Nominal GDP (millions of A$)	252	258	303	322	358	383	400	416	432	449

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

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

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

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

4/ Cash reserve buffer includes the custodial account and the cash account.

5/ In this table, the coverage of public sector debt is the central government and Kiribari Provident Fund(KPF), which is composed of external debt only, as all domestic debt was cleared in 2015. The government also guarantees loans worth AUD11.8million made by the social security fund to domestic SOEs.

Table 3a. Kiribati: Balance of Payments, 2019–28

(In millions of Australian dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.		Proj.				
Current account	125	103	27	-13	30	39	46	51	27	29
Balance on goods	-135	-142	-180	-214	-212	-225	-238	-248	-257	-268
Goods, credit (exports)	18	14	13	13	15	15	15	15	16	16
Goods, debit (imports)	153	156	193	227	227	239	253	263	273	284
Balance on services	-73	-42	-74	-65	-65	-69	-72	-76	-79	-83
Services, credit (exports)	29	17	2	18	25	26	27	29	30	31
Services, debit (imports)	102	59	76	83	90	95	100	104	109	114
Balance on goods and services	-208	-185	-254	-279	-277	-293	-310	-324	-337	-351
Balance on primary income	279	225	215	205	221	243	259	281	296	312
Primary income, credit	282	229	220	209	226	249	266	289	304	321
of which: Fishing license fees	211	171	161	135	153	170	179	193	199	204
of which: Investment income	55	47	51	60	57	62	69	77	86	97
Income from RERF	47	41	43	42	40	42	47	53	59	66
of which: Remittances (COE)	17	12	8	15	16	17	18	19	20	20
Primary income, debit	3	4	6	4	5	6	7	7	8	9
Balance on secondary income	53	63	67	61	86	90	97	93	68	67
Secondary income, credit	57	65	70	64	89	93	100	96	71	70
General Government, credit	44	55	59	56	81	85	92	83	61	61
Secondary income, debit	3	3	3	3	3	3	3	3	3	3
Capital account	34	10	14	13	20	28	22	20	32	32
Capital transfers	34	10	14	13	20	28	22	20	32	32
General Government, Credit	36	12	15	14	21	29	24	22	34	34
General Government, Debit	2	2	1	1	1	1	1	1	2	2
Financial account	119	29	-40	-11	24	26	27	29	30	32
Direct investment, net	1	-4	-1	-2	-3	-2	-2	-3	-2	-3
Direct investment, assets	0	0	0	0	0	0	0	0	0	0
Direct investment, liabilities	-1	4	1	2	3	2	3	3	3	3
Portfolio investment, net	5	3	9	4	5	5	5	6	6	7
Portfolio Investment, assets	5	3	9	4	5	5	5	6	6	7
Portfolio Investment, liabilities	0	0	0	0	0	0	0	0	0	0
Other investment, net	113	29	-47	-14	22	23	24	25	26	27
Other investment, assets	104	28	-23	3	41	44	46	47	49	51
Other investment, liabilities	-9	-1	24	17	19	20	21	22	23	24
Loans, liabilities	-1	-1	-2	-3	-3	43	42	39	59	56
Net Errors and Omissions	-1	10	-18	0	0	0	0	0	0	0
Reserve Assets	39	95	63	11	26	41	41	42	29	29
Net International Investment Position	2056	1515	1673	…	…	…	…	…	…	…

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

Table 3b. Kiribati: Balance of Payments, 2019–28
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.		Proj.				
Current account	49.5	40.0	8.9	-4.0	8.4	10.3	11.6	12.2	6.2	6.4
Balance on goods	-53.6	-55.2	-59.6	-66.3	-59.3	-58.7	-59.5	-59.7	-59.6	-59.6
Goods, credit (exports)	7.0	5.4	4.2	4.0	4.1	3.9	3.8	3.7	3.6	3.5
Goods, debit (imports)	60.7	60.6	63.7	70.3	63.4	62.5	63.3	63.4	63.2	63.2
Balance on services	-28.8	-16.4	-24.5	-20.2	-18.1	-17.9	-18.1	-18.2	-18.3	-18.5
Services, credit (exports)	11.5	6.5	0.5	5.6	6.9	6.8	6.9	6.9	7.0	7.0
Services, debit (imports)	40.3	22.9	25.0	25.8	25.1	24.8	24.9	25.1	25.3	25.5
Balance on goods and services	-82.4	-71.6	-84.0	-86.5	-77.4	-76.6	-77.6	-77.9	-77.9	-78.1
Balance on primary income	110.7	87.3	70.9	63.5	61.8	63.4	64.9	67.7	68.5	69.6
Primary income, credit	111.9	88.8	72.7	64.9	63.1	65.0	66.6	69.5	70.4	71.6
of which: Fishing license fees	83.5	66.1	53.3	41.9	42.8	44.4	44.8	46.4	46.0	45.5
of which: Investment income	21.9	18.2	16.9	18.5	15.9	16.1	17.2	18.5	19.9	21.5
Income from RERF	18.8	15.9	14.1	13.1	11.3	11.0	11.8	12.7	13.6	14.8
of which: Remittances (COE)	6.6	4.5	2.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Primary income, debit	1.2	1.5	1.9	1.4	1.3	1.5	1.7	1.8	1.9	2.0
Balance on secondary income	21.2	24.3	22.0	19.0	24.0	23.5	24.3	22.4	15.7	15.0
Secondary income, credit	22.5	25.3	23.0	19.9	24.8	24.2	25.1	23.1	16.4	15.7
General Government, credit	17.5	21.3	19.4	17.3	22.7	22.1	22.9	20.0	14.2	13.6
Secondary income, debit	1.3	1.1	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7
Capital account	13.6	3.9	4.7	4.1	5.5	7.3	5.6	4.8	7.5	7.2
Capital transfers	13.6	3.9	4.7	4.1	5.5	7.3	5.6	4.8	7.5	7.2
General Government, Credit	14.3	4.5	5.0	4.5	5.9	7.6	5.9	5.2	7.9	7.5
General Government, Debit	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial account	47.2	11.2	-13.1	-3.3	6.6	6.9	6.9	6.9	6.9	7.0
Direct investment, net	0.4	-1.4	-0.4	-0.5	-0.8	-0.5	-0.6	-0.6	-0.6	-0.6
Direct investment, assets	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Direct investment, liabilities	-0.3	1.5	0.5	0.5	0.8	0.6	0.7	0.7	0.6	0.7
Portfolio investment, net	2.2	1.2	2.9	1.4	1.3	1.3	1.4	1.4	1.4	1.5
Portfolio Investment, assets	2.2	1.2	2.9	1.4	1.3	1.3	1.4	1.4	1.4	1.5
Portfolio Investment, liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	44.7	11.4	-15.6	-4.3	6.1	6.1	6.1	6.1	6.1	6.1
Other investment, assets	41.2	10.9	-7.6	1.1	11.4	11.4	11.4	11.4	11.4	11.4
Other investment, liabilities	-3.5	-0.5	8.0	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Loans, liabilities	-0.5	-0.6	-0.7	-0.8	-0.7	11.2	10.4	9.5	13.6	12.4
Net Errors and Omissions	-0.5	4.1	-6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Assets	15.3	36.8	20.7	3.5	7.3	10.6	10.3	10.1	6.8	6.5
Net International Investment Position	814.6	586.8	552.6	…	…	…	…	…	…	…

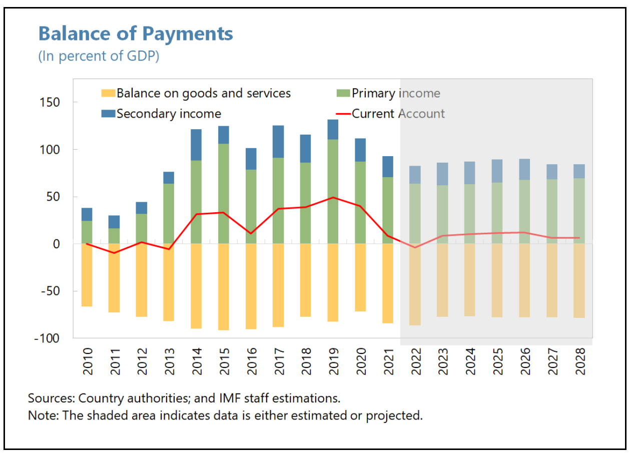
Sources: Kiribati authorities; and IMF staff estimates and projections.

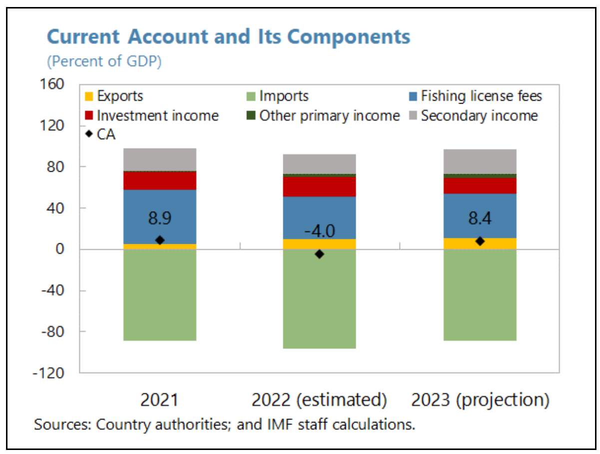
Annex I. External Sector Assessment[1]

Kiribati's external position in 2022 is assessed to be in line with the level implied by fundamentals and desirable policies, but Kiribati is highly vulnerable to external shocks. This assessment is subject to substantial uncertainty, given data gaps, the usual concerns of data quality, and the high dependence of current account (CA) determination on exogenous and volatile factors. Kiribati can improve its competitiveness and boost its export capacity through structural reforms aimed at boosting export competitiveness, supporting private sector development, and closing the infrastructure gap.

Current Account

1. **Kiribati's CA has been driven by large, volatile, and partially offsetting movements in the trade and income balances**. The persistent CA surplus since 2014 is the result of higher primary income balance more than offsetting the large, persistent trade deficit. With the implementation of Vessel Day Schemes in 2012,[2] fishing license fees significantly increased from an average of 20 percent of GDP in 2006–12 to 67 percent of GDP in 2013–21, accounting for three-quarters of the primary income receipts in 2013–21. Meanwhile, given Kiribati's large import needs and narrow export base, its trade balance has been persistently in deficit, averaging at 84 percent of GDP in 2013–21. The CA surplus narrowed to 8.9 percent of GDP in 2021 from 40 percent of GDP in 2020, largely due to the declines in fishing license fees and remittances as well as the increase in the shipping costs for imports.





2. **The CA is estimated to turn to a deficit of 4 percent of GDP in 2022**. The trade deficit is estimated to widen due to stronger domestic demand from the border reopening and the resumption of port activities, high freight costs, elevated energy and food import prices due to the Russia's war in Ukraine, and the poor performance of fishing revenues. The estimation, however, is

[1] Prepared by Anh Thi Ngoc Nguyen (APD).

[2] The Vessel Day Scheme (VDS) is a scheme that the Parties to the Nauru Agreement (PNA) annually sets the price of fishing licenses and total allowed fishing days in their exclusive economic zones, and vessel owners can purchase, and trade allowed fishing days, giving significant pricing power in the region to the PNA.

subject to substantial uncertainty due to elevated external risks, data gaps, and concerns in data quality.

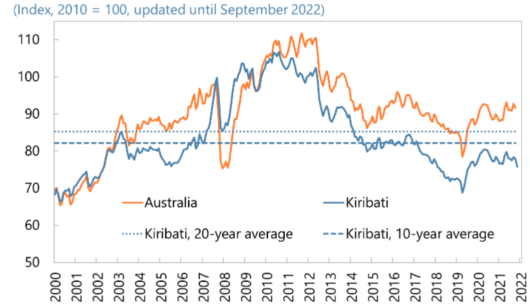
3. **The CA balance is projected to improve in 2023**. The improvement is supported by a mild recovery in fishing license fees, higher budget grants, and the expected drop in global commodity prices from the historical high levels in 2022. However, the surplus will remain below the historical average, reflecting a projected high demand of imports required for the resumption of delayed infrastructure projects. External risks to the CA include volatile fishing revenues, commodity price shocks, and prolonged global financial market volatility which could affect the returns on the RERF and the KPF.

4. **The external position in 2022 is assessed to be broadly in line with the level implied by fundamentals and desirable policies**. The idiosyncratic features of the Kiribati economy, most notably the large volatility of the fishing license fees, make the standard model-based assessment not suitable for Kiribati, with data gaps further complicating such exercises. Staff estimate the CA norm to be broadly in the range of 11 percent of GDP—approximately what staff estimate the CA would be in 2022 once the temporary effects of COVID-19, volatile fishery income, and high energy and food prices are stripped out. Adjusting for these temporary effects and given Kiribati's strong international investment position (See Paragraph 7), Kiribati's external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies. Kiribati's CA surplus is projected to converge toward the CA norm in the medium term.[3] The broadly stable real effective exchange rate (REER) also suggests an absence of large external imbalances. However, the idiosyncrasies and data gaps noted above imply a substantial degree of uncertainty around this assessment.

Exchange Rate

5. **After an initial decline at the onset of the pandemic, the REER has moved back within its historical band**. The fluctuations in the REER largely mirror movements in the Australian dollar, which is the legal tender in Kiribati. After a temporary depreciation in March 2020, the REER recovered recently and fluctuated around the 10-year average level. The REER is assessed to have generally remained stable and in line with its historical average.

Real Effective Exchange Rates
(Index, 2010 = 100, updated until September 2022)



Note: 2022 pertains to data until September 2022.
Sources: IMF, *Information Notice System*; and staff calculations.

Capital and Financial Accounts

6. **Kiribati's capital and financial account flows are mainly driven by donor project-related capital grants and other investment**. Net foreign direct investment (FDI) inflows

[3] The CA levels (and its norm) are expected to decline under the assumption of lower grants from 2027 onward.

have been limited largely due to structural impediments, such as infrastructure gap and long distance to the major markets. Capital account inflows were about 4.7 percent of GDP in 2021. Net other investment flows were -15.6 percent of GDP in 2021, largely due to the deaccumulation of other investment assets, reversing the past five consecutive years of accumulation of assets. Its flow of reserve assets stood at 20.7 percent of GDP. Net errors and omission remained large at -6.0 percent of GDP in 2021.

International Assets and Liabilities

7. Kiribati's net investment position (NIIP) is positive due to the assets accumulated in the RERF and limited external liabilities. Its NIIP, measured in Australian dollars, decreased to 553 percent of GDP at end-2021 from 587 percent of GDP at end-2020, mainly due to a decline in the other investment assets in terms of GDP and, to a lesser extent, an increase in debt liabilities. Measured in US dollars, the NIIP increased from US$1.1bn in 2020 to US$1.2bn in 2021, mainly due to the increase in the reserve assets from US$1.0bn to US$1.1bn over the same period.

8. Facing great external risks, it is important for Kiribati to enhance the resilience of the economy through:

- **Improving competitiveness and buttressing external sustainability through appropriate structural reforms**. The government's cash reserves (61 percent of GDP at end-2022) and the RERF (370 percent of GDP at end-2022) are the main instruments to absorb external shocks. While the large size of the RERF relative to its external debt limits immediate risks, the RERF is subject to the withdrawal rules and its asset size could decline significantly over the longer run in the downside scenarios with low fishing revenues and volatile global financial market. Closing the infrastructure gap and addressing governance weaknesses would expand the country's export capacity and attract FDI while increasing efficiency. In this context, securing donor grants for development spending and avoiding any new non-concessional borrowing are critical.

- **Maintaining prudent fiscal policy in the medium term to build up fiscal buffers and preserve external balance**. In the absence of monetary and exchange rate policies, Kiribati relies on fiscal policy and structural reforms to ensure external sustainability. Therefore, a fiscal adjustment in the domestic recurrent balance in line with staff advice would provide some cushion to Kiribati's external sustainability. Such adjustment could also provide additional space for high priority-investment spending if such projects are identified.

9. The use of the Australian dollar as the legal tender remains appropriate. It provides a strong nominal anchor given close trade and financial linkages with Australia (a high share of the RERF assets is invested in the Australian markets) and limited capacity to run an independent monetary authority.

Annex II. Risk Assessment Matrix[1]

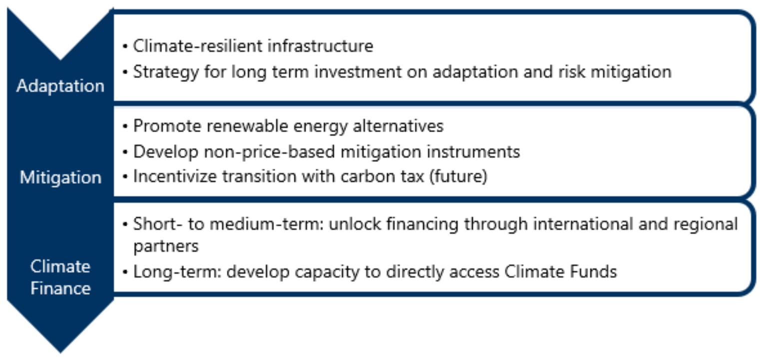
Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
Heavy Fiscal Reliance on Volatile Fishing Revenues. Government revenue is highly concentrated on a single source of fishing revenues, which are volatile, and vulnerable to fishing cycle and climate change.	**High**	**High**: A period of protracted low fishing revenues may jeopardize long-run fiscal sustainability. The cash reserve buffer can mitigate the shock if the decline is temporary.	Fiscal consolidation through scaling back recurrent spending. Continue to strengthen tax revenues by phasing out tax exemptions for SEOs and by increasing the excise tax on tobacco and other unhealthy products. Formulate a sustainable MTFF to promote fiscal discipline.
Commodity Price Volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**High**: Given Kiribati's high reliance on commodity imports, price volatility could have a negative impact on the inflation and current account balance.	Recalibrate SOE tariffs to improve SOEs' financial viability while protecting the most vulnerable.
Intensification of Regional Conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**High**: Prolonged conflicts could increase global financial market volatility, which could affect the expected returns on the RERF and the KPF, putting pressure on public finances. Disruptions to trade, remittances, FDI and financial flows could have a negative impact on inflation and growth.	Continue to strengthen tax revenues by phasing out tax exemptions for SEOs and by increasing the excise tax on tobacco and other unhealthy products. Put SOEs on a more commercial and sustainable footing to strengthen public finance.
Deepening Geo-Economic Fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**High**: Given Kiribati's high reliance on imported goods, supply disruption could have a negative impact on inflation and growth.	Prudent management of public resources and, in the longer run, boost export competitiveness, and private development would help improve resilience.
Abrupt Global Slowdown or Recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation.	**Medium**	**High**: Spillovers through trade and financial challenges could have a strong impact on inflation, growth, and returns on the RERF and the KPF.	Prudent management of public resources and seek concessional loans and grants.
Extreme Climate Events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**High**: Kiribati will be among the first countries to see its islands disappear if the sea level rises. Volatile weather conditions caused by global warming can lead to large losses in agricultural production and fishing revenues and therefore reducing potential growth.	Contingency plans should include maintaining a strong cash buffer, seeking cost effective insurance, leveraging technologies for land protection, channeling donor grants to climate projects, and establishing contingent financing plans with development partners.

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

Annex III. Navigating Climate Change: Policy Options for Kiribati[1]

1. **Swift action is needed to protect Kiribati from climate change risks**. As a low-lying atoll, the country is highly vulnerable to climate change. Sea level rise has already impacted Kiribati islands through territory loss and forced relocation, after erosion and salinization rendered some islands uninhabitable. Climate hazards could potentially further disrupt crucial natural resources—as an example, ocean acidification may disrupt coral reefs replenishment and in turn lead to the extinction of marine species that constitute the bulk of fishing activity—a critically important income source for the country. International cooperation is critical to help Kiribati address its climate challenges. Meanwhile, the country should continue to undertake both adaptation and mitigation efforts by drawing to the maximum extent available of climate finance resources to safeguard lives and livelihoods.

Possible Policy Areas to Cope with Climate Change



2. **Adaptation efforts began in the early 1990s and continue to this day**. The Environment Bill was passed in December 2021 and regulations are planned to be finalized in 2023. Recently, the Cabinet has approved in principle the Disaster Risk Management and Climate Change Regulations (2022). These policies are aimed at constructing climate-resilient physical infrastructure, including water and sanitary, roads, and coastal and port infrastructure. For instance, the South Tarawa Water Supply Project will provide inhabitants of Tarawa with safe and clean drinking water by means of desalination and by powering the plant with solar panels. Mangrove planting and other coastal defenses will reduce erosion while also contributing to mitigating greenhouse gas emission.

3. **Mitigation efforts through reducing carbon emission could help Kiribati promote economic development**. One case in point is renewable energy. It has been introduced and expanded, both in the outer islands and in Tarawa. The share of renewable energy in South Tarawa is expected to increase to 44 percent from the current 9 percent when an ongoing project funded by the ADB, New Zealand, and Strategic Climate Fund completes in 2024. In 2022, Kiribati submitted their revised Nationally Determined Contributions (NDCs) to the UNFCCC, where it committed to reducing per capita emissions by about 8 percent by 2030, and by up to more than 23.8 percent by 2030 conditional on continued and appropriate levels of access to financial and technical resources.

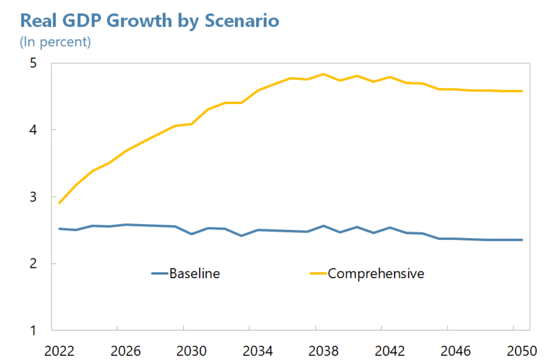
[1] Prepared by Michele Fornino, and Anh Thi Ngoc Nguyen based on the Selected Issues Paper on "Climate Change in Kiribati: The Way Forward."

The revised NDCs also strengthened planning for climate adaptation and mitigation, for example, by including reforms in transportation and energy efficiency sectors.

4. Finally, leveraging climate finance effectively is critical to ensure Kiribati implements climate projects. The World Bank estimates that the annual adaptation costs for coastal protection and infrastructure adaptation will range between 4 to 11 percent of GDP by 2040. Staff recommend the authorities create an exclusive budget line for climate-related spending needs at about 6 percent of GDP by 2030. Given the size of the economy and the scale of the challenge, Kiribati needs external support to finance mitigation and adaptation investments. However, to date, approved bilateral and multilateral funds have covered a small fraction of the total estimated investment needs, with actual disbursements at significantly lower levels. Challenges in accessing climate funds include both high compliance cost due to stringent accreditation requirements by the climate funds and the institutional and human resource capacity constraints in Kiribati. In the short term, the authorities should seek to obtain funding through either bilateral or multilateral donors. In the medium to long term, the authorities should seek to embed climate projects in a national strategy, continue improving public financial management and public investment management capacity, and coordinate with other Pacific Islands countries to undertake joint regional projects.

Annex IV. The Impact of Structural Reforms on Potential Growth[1]

1. **A recent staff analysis utilizes a long-term growth model to gauge the impact of structural reforms on growth in Kiribati**. Two scenarios are analyzed to demonstrate the impact on growth from different assumptions on input factors. The baseline scenario assumes no change from the present data (2020 or latest available), whereas the comprehensive reform scenario sets ambitious goals for human capital, labor market participation, and (public and private) investments and assumes higher efficiency of public investments.



Source: IMF staff calculations.

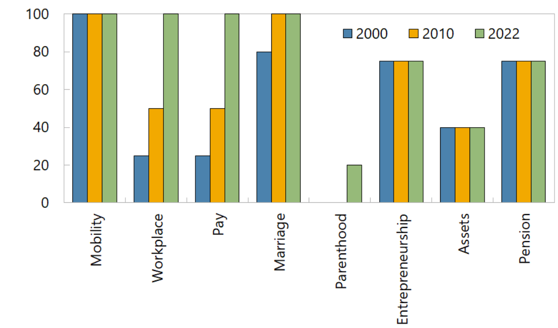
2. **The results show that, in the absence of major structural reforms, Kiribati's long-term growth will hover slightly above 2 percent, while well-targeted reforms could push it to 4 percent and significantly reduce poverty**. This result follows from a comparison of the baseline and reform scenarios, where the investment rate increases from 15 percent of GDP in 2020 to 20 percent by 2035 and labor participation rate increases significantly to 60 percent by 2050 from the current level of 45 percent, alongside a boost to total factor productivity and human capital. The reform scenario also allows for slightly higher external debt and foreign direct investment to finance these policies. The poverty headcount will fall below 10 percent by 2050 from 30 percent in 2020 if the pro-development policies are fully enacted. Without major structural reforms, a smaller decline to 20 percent by 2050 is expected in the baseline scenario, on account of generally low inequality and rising per capita GDP.

[1] Prepared by Anh Thi Ngoc Nguyen based on the Selected Issues Paper on "Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms."

Annex V. Gender Equality in Kiribati[1]

1. Despite the higher education attainment of women, gender inequalities in labor force participation and living standards remain in Kiribati. Kiribati women have significantly higher net enrollment rates in secondary schools and a lower share of reading or writing difficulty compared to men. However, women lag men in economic opportunities with lower labor force participation rate (LFPR), higher unemployment, and under-representation in managerial positions. In 2020, women held only 37.2 percent of managerial positions and 6.5 percent of seats in the National Parliament. They are also more likely to be living below the poverty line than men—the 2019–2020 household survey showed that female-head households earned just half of what male-head households earned in terms of average per capita income.

Scores of the Legal Framework on Gender Inequality
(Maximum score=100)



Source: World Bank, *Women, Business and the Law database.*

2. The government has been making great efforts to improve female legal equity. In 2015, the Employment and Industrial Relations Code was amended to address gender harassment at workplace, remove restrictions on women's employment (e.g., working at night and in the mining sector), promote equal pay for equal work, and introduce maternity leave. As a result, its ranking on the World Bank's Women, Business, and the Law (WBL) index has significantly improved over the last few years, climbing by 24 places to 114 in 2022 from 138 in 2010.

3. However, the lack of women empowerment is still the main area of concern. Staff have calculated a gender inequality index (GII)[2] for Kiribati and found that Kiribati has a better-than-average GII compared to the benchmark group of countries in the bottom 30 percent of the global income distribution. A comparison of the GII's sub-components indicates that Kiribati fares far better than peers on health and education indicators but is relatively weak in women empowerment areas such as the share of seats in Parliament and female LFPR.

4. Going forward, the country could consider additional reforms to further promote legal equity and gender equality. Reforms that grant women the same rights to immovable property (e.g., land) as men; guarantee paid parental leave; and increase maternity leave to the recommended 14 weeks would help further enhance women's economic empowerment and improve legal equity. Furthermore, gender budgeting to efficiently identify and execute gender-responsive fiscal policies, and the gradual construction and use of gender-disaggregated data in gender impact assessments of policies and budget proposals will help strengthening gender equality.

[1] Prepared by Anh Thi Ngoc Nguyen based on the Selected Issues Paper on "Gender Equality in Kiribati: Achievements and Prospects."

[2] The GII calculates an index of gender equality in terms of health, education, and economic empowerment, while the WBL index calculates gender equality in terms of the legal framework.

Annex VI. Integration Matrix of Surveillance Issues and Capacity Development

Surveillance Issues	ADB		DFAT		European Union		IMF		MFAT		World Bank	
	FY2022	Planned/ Ongoing	FY2022	Planned/ Ongoing	FY2022	Planned/ Ongoing	FY2022	Planned/ Ongoing	FY2022	Planned/ Ongoing	FY2022	Planned/ Ongoing
Fiscal Sector												
Public Financial Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Expenditure framework	✓	✓	✓	✓			✓	✓			✓	✓
Revenue Framework	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓
Macro-Financial Issues												
Financial supervision and regulation							✓	✓				
Financial market development												
Correspondent Banking												
Macro-Structural issues												
Infrastructure	✓	✓	✓	✓	✓	✓			✓	✓	✓	✓
Private sector development	✓	✓									✓	✓
Governance issues	✓	✓									✓	✓
Poverty/Gender/Inequality	✓	✓	✓	✓	✓	✓					✓	✓
Climate change and environment	✓	✓		✓	✓	✓			✓	✓	✓	✓
Natural Disaster Management											✓	✓
Financial Inclusion				✓								
Labor markets									✓	✓		
Land				✓								
Business Climate	✓	✓										
Statistics												
Data Enhancement	✓	✓					✓	✓			✓	✓

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

Annex VII. Implementation of Main Recommendations of the 2021 Article IV Consultation

2021 Article IV Consultation Recommendations	Actions Since the 2021 Article IV Consultation
Fiscal Policy	
Maintain supportive fiscal measures until the recovery is firmly underway, while ensuring measures are well-targeted and focused on social spending	The authorities have set up a Social Protection Unit (SPU) with the aim of strengthening the administration of social protection payments.
Mobilize revenues once a durable recovery is underway to strengthen Kiribati's net financial worth and help finance SDGs and climate-related spending priorities	The authorities drafted the new Income Tax Bill. The Bill includes a simplified tax regime for small business, and a new taxation framework for seabed mining operations. The Bill has been approved by the Cabinet and will be sent to Parliament for approval in April 2023.
Maintain fiscal discipline by formulating a sustainable medium-term fiscal framework and adhering to rules-based withdrawals from the sovereign wealth fund.	The authorities plan to withdraw AUD23 million from the RERF in 2023, as the real return of the RERF in 2021 was above 5 percent.
Improve public financial management, particularly in the areas of budget planning as well as strengthening cashflow management and projections.	The authorities have initiated the process of updating the PFM Act. They are in the process of implementing the IFMIS. Its implementation would allow for tracing fiscal spending electronically and facilitate the implementation of the TSA structure.
Pandemic-related spending safeguards should be put in place, which could include public access to procurement contracts for crisis-related spending, availability of beneficial ownership information for awarded entities, and publication of an ex-post audit report of emergency spending.	The Procurement Act was passed in 2019, and a Procurement Amendment Act was passed in 2021. The Amendment transfers the Chief Procurement Officer role to the Secretary of the MFED. The pandemic-related spending contracts, including beneficiary ownership information of awarded companies, as well as an ex-post audit, have not been published.
Structural Reforms	
Facilitate financial sector regulations and supervision by enacting legislations to develop a proper framework governed by an independent supervisory authority.	The Financial Supervisory Authority of Kiribati Act (2021) and Kiribati Financial Institutions Act (2021) have been approved. A PFTAC TA mission took place in 2022 to assist the authorities in developing a detailed plan to establish the KFSA.
Mitigate the long-term consequences of pandemic by implementing structural reforms to support a dynamic private sector, encourage economic diversification, improve governance, and promote sustainable financial deepening.	The authorities have made progress on the legislative aspect of structural reforms. These include passing financial sector laws; promulgation of the Environment Act (2021) aimed at reducing pollution, maintaining biodiversity, and better adapting to climate change; passing the Fisheries Act (2021) to support sustainable fishing; and amending the 2015 Employment and Industrial Relations Code in line with the ILO conventions. The authorities have also created a fund for outer islands development.
Accelerate SOE reforms and set strategy for putting SOEs on more commercial and sustainable footing, ensure financial viability and reduce pressure on public finances and improve governance.	Procurement by the SOEs has been streamlined under the Procurement Amendment Act passed in 2021. The SOE monitoring unit is making progress in strengthening SOE oversight.
Capacity Development and Data Issues	
Strengthen the institutional capacity to produce high-quality statistics in a timely manner to support data-driven policy formulation.	The authorities have taken TA to improve institutional capacity and to produce high quality statistics and minimize the reporting time lags.

Annex VIII. Sustainable Development Goals and Strategic Surveillance Matrix

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

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

INTERNATIONAL MONETARY FUND

KIRIBATI

March 31, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

As of February 28, 2023

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

General Resources Account:

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

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	16.06	100.00
Holdings	14.72	91.68

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Obligations to Fund: None

Implementation of HIPC Initiative: Not Applicable

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

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

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

Article IV Consultation: Kiribati is on a 12-month consultation cycle. The previous Article IV consultation was concluded on April 26, 2021, reflecting discussions that took place virtually during February 11–28, 2021.

Technical Assistance (TA), 2021–22: Experts from PFTAC and IMF headquarters provided support for capacity development in strengthening compilation and dissemination of real sector and government finance statistics; strengthening revenue administration management and governance arrangement; improving law and effective PFM institutions; and developing and strengthening the supervision of the financial system (see table).

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

Capacity Development Activities (2021-22)			
TA Area	**Description**	**Advisors**	**Period**
Financial Sector	Assist in developing a plan to establish the Kiribati Financial Supervisory Authority	MCM/PFTAC	May–July 2022
	Peer review of MFAT, Government of New Zealand-sponsored work on strengthening the supervision of the financial system in Kiribati	LEG/MCM/NZ/PFTAC	2021: H1
Public Financial Management	Assist the authorities to update the PFM Act	FAD/PFTAC	May–September 2022
Revenue Administration	Improve taxpayer services and collections	FAD/PFTAC	March 2021
	Strengthen tax audit with focus on tax audit methods to detect undeclared income	FAD/PFTAC	March 2021
	Legal support on seabed mining legislation	FAD/PFTAC	March 2021
	Review progress with PFTAC previous CD recommendations and discuss future CD needs	FAD/PFTAC	December 2021
	High-level review of joining the inclusive framework (IF) on the base erosion and profit shifting (BEPS)	FAD/PFTAC	August–November 2022
	Improve taxpayer service, communications, and the recovery of tax arrears	FAD/PFTAC	October–November 2022
	Develop standard operating procedures (SOPs) for VAT registration, filing and audits;	FAD/PFTAC	October–November 2022
Statistics	Support the KNSO to improve GFS and public sector debt statistics	STA	April–June 2021
	Assist the Kiribati National Statistics Office (KNSO) to update the GDP estimates to 2020	STA	October 2021
	Assist the KNSO to extract and prepare national accounts data from 2019 Household Income and Expenditure Survey (HIES)	PFTAC	October 2022
	Assist the KNSO to update the Kiribati consumer price index and resume its regular dissemination	STA	October–November 2022
	Assist the KNSO to update GDP estimates to 2021	PFTAC	November 2022

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank Group:
  http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KI

- Asian Development Bank:
  https://www.adb.org/countries/kiribati/main

- Pacific Financial Technical Assistance Center (PFTAC):
  https://www.pftac.org/content/PFTAC/en1/reports11.html#tab_5

STATISTICAL ISSUES

As of February 28, 2023

I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but is broadly adequate for surveillance. Improving the timely collection and dissemination of national accounts and government finance statistics is a priority. Consolidated financial sector statistics is also necessary. External sector could also be further improved.
National accounts: With PTFAC and STA assistance, GDP estimates were updated to 2021. The 2019/20 Household Income and Expenditure Survey (HIES), and the new benchmarks for current price household final consumption expenditure and several industries will be used to prepare the full GDP rebasing to 2019 during 2023/24. Improvements in sharing of administrative data by granting access to business license information from the Ministry of Tourism, Commerce, Industry and Cooperatives, and establishing a mechanism for regular supply of electronic VAT records will save cost and time to prepare business data. Staffing has improved while further capacity building would be needed to continue to prepare the rebase.
Price statistics: The monthly CPI (2006=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. The authorities, in consultation with PFTAC and STA, are in the process of updating the CPI with updated weights based upon 2019/2020 HIES results. A mission is planned for May 2023 to assist finalize the CPI update.
Government finance statistics (GFS): National fiscal data are compiled and disseminated broadly in line with the Government Finance Statistics Manual (GFSM) 1986. With the help of technical assistance (TA) coordinated through PFTAC, the authorities have also compiled and disseminated annual GFS data in line with the GFSM 2014 for the consolidated general government with data available from 2011–21. These data continue to be refined and improved, with further refinements made in the TA mission in January 2023, which also recommended that GFS data be compiled for the Revenue Equalization Reserve Fund (RERF), and that, like similar sovereign wealth funds in other countries, RERF be classified inside the general government sector. Past TA has also analyzed public corporation data to help expand the coverage of the public sector; further work is needed to improve data reporting and implement expansion of fiscal reporting to the nonfinancial public sector or entire public sector. The authorities do not report any sub-annual GFS to STA.
Monetary and financial statistics (MFS): While some data on financial institutions were shared with staff during the 2013 Article IV mission, monetary and financial statistics (MFS) and financial soundness indicators (FSIs) are not reported to STA. Kiribati has reported data until 2013 on some key series of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External sector statistics (ESS): An ESS mission to Kiribati was conducted by the PFTAC in 2019 which helped with the improvement of historical data for the balance of payments and International Investment Position. A diagnostic ESS TA mission will be conducted in April 2023 to further assist the authorities. The outstanding issues include inadequate periodicity and timeliness of data compilation and reporting to IMF, lack of consistency with the government accounts, deficiencies in source data for merchandise trade, limitations in data collection from direct investment enterprises, and shortcomings in compilation of cross-border positions data.
II. Data Standards and Quality
Kiribati participates in the IMF Enhanced General Data Dissemination System (e-GDDS), the first tier in the IMF Data Standards Initiatives aimed at promoting data transparency, but the country does not yet disseminate the economic data recommended under the e-GDDS through a National Summary Data Page (NSDP). The authorities plan to fully implement the e-GDDS by publishing essential macroeconomic and financial data on an NSDP. No data ROSC is available.

Kiribati: Table of Common Indicators Required for Surveillance					
	Date of latest observation	**Date received**	**Frequency of data**	**Frequency of reporting** 7/	**Frequency of publication** 7/
Exchange Rates	2/2023	2/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	NA	NA	NA	NA	NA
Reserve/Base Money	NA	NA	NA	NA	NA
Broad Money	NA	NA	NA	NA	NA
Central Bank Balance Sheet	NA	NA	NA	NA	NA
Consolidated Balance Sheet of the Banking System	NA	NA	NA	NA	NA
Interest Rates 2/	NA	NA	NA	NA	NA
Consumer Price Index	12/2022	1/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing 3/ - General Government 4/	2021	10/2022	A	A	I
Stocks of Central Government and Central Government-Guaranteed Debt 5/	2021	1/2023	A	A	A
External Current Account Balance	Q4/2021	12/2022	Q	Q	Q
Exports and Imports of Goods and Services	Q4/2021	12/2022	Q	Q	Q
GDP/GNP	2021	12/2022	A	A	A
Gross External Debt	2021	12/2022	A	A	A
International Investment Position 6/	Q4/2021	12/2022	Q	Q	Q

[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).

INTERNATIONAL MONETARY FUND

KIRIBATI

March 31, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Kiribati: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of Judgment	No

The 2023 Debt Sustainability Analysis (DSA) indicates the risk rating of debt distress for Kiribati remains high but is sustainable.[1] *High recurrent spending amid a decline in fishing revenues has led to large fiscal deficits in 2021–22. Maintaining existing social protection spending and introducing new leave grants for private sector employees in the 2023 budget will cause the fiscal balance to remain in deficit over the medium term, a departure from a surplus prior to the pandemic. As a result, the ratio of the present value (PV) of the public and publicly guaranteed (PPG) external debt-to-GDP is expected to breach the indicative threshold starting in 2030 under the baseline scenario. Moreover, the PV of the total public debt-to-GDP ratio is expected to breach the indicative benchmark starting in 2031 under the baseline scenario. Stress tests confirm the vulnerability of the debt position to plausible shocks. Despite high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable as its vulnerability to debt distress is mitigated by several factors: (i) the country currently benefits from its grant-only status for financing from the multilateral development banks (MDBs) and it is likely to maintain access to highly concessional financing over the long term; (ii) the government has large cash buffers which can be drawn on to finance deficits in the near term; and (iii) the breaches occur only in the long term and only for the PV of the debt-to-GDP ratios, while all the other ratios are expected to remain well below*

[1] Kiribati's Composite Indicator (CI) index is 2.70 calculated based on the October 2022 World Economic Outlook (WEO) and the 2021 Country Policy and Institutional Assessment (CPIA), indicating "medium" debt-carrying capacity.

their indicative thresholds. Consequently, Kiribati's debt trajectory is assessed to be sustainable. Although Kiribati does not currently face debt servicing risks thanks to the high cash buffers, risks from unfavorable weather conditions or a downturn in global financial markets (which would reduce the value of Kiribati's sovereign wealth fund) call for greater fiscal prudence. Fiscal consolidation will be necessary to reduce fiscal risks by scaling back recurrent spending and mobilizing higher revenue. Further progress in structural and fiscal reforms, such as formulating a sustainable medium-term fiscal framework, improving public financial management, and placing state-owned enterprises (SOEs) on a commercial and sustainable footing, is also needed to improve debt trajectories and safeguard medium-and long-run fiscal sustainability. Containing the risk of debt distress also requires continuation of grants to support the country's large development needs.

PUBLIC DEBT COVERAGE

1. **The coverage of Kiribati's public sector debt is the central government, central government-guaranteed debts and social security fund** (Text Table 1)**.** The DSA is conducted on residency basis. Data availability limits the debt coverage, especially the lack of information on a regularly updated balance sheet for the SOEs. Recent and planned technical assistance aim to improve data availability and coverage over time by reviewing the government financial statistics and greater data collection of the SOEs. Supported by the World Bank's FY2023 Sustainable Development Financing Policy (SDFP), the authorities published a Fiscal Reporting Policy in 2022, setting out new standards for regular public reporting on revenue, expenditure, public debt, and the performances of the SOEs and Revenue Equalization Reserve Fund (RERF).

Text Table 1. Kiribati: Public Sector Debt Coverage

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

2. **A stress test for the combined contingent liability accounts for implicit liabilities and a potential financial market shock** (Text Table 2). This stress test reflects the possible consequences for the path of public debt of a shock that requires the government to cover some contingent liabilities—including liabilities which are incurred only after the assumed shock. The test incorporates continent liabilities amounting to 7 percent of GDP, which comprises 2 percent of GDP of non-guaranteed SOE debt and a standard 5 percent of GDP cost to the government of a financial crisis.

Text Table 2. Kiribati: Combined Contingent Liability Shock

1	The country's coverage of public debt	The central government plus social security, gove		
		Default		Used for the analysis
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0
4	PPP	35	percent of PPP stock	0.0
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0
	Total (2+3+4+5) (in percent of GDP)			7.0

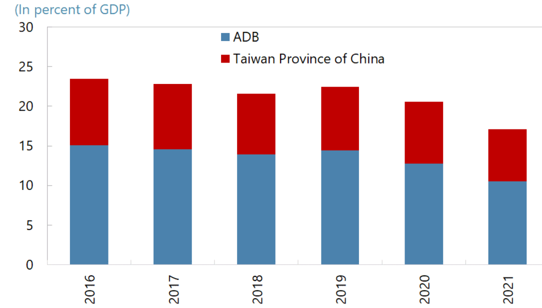
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed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

BACKGROUND ON DEBT

3. Kiribati is a small state in the Pacific and one of the most remote countries in the world. Its geography raises the cost of public service delivery, contributing to infrastructure gaps. Impediments such as a narrow production and export base (mainly related to tuna fishing and copra) make the country highly dependent on revenues from selling fishing licenses under various fisheries agreements and donor support for infrastructure investment. Kiribati has a sovereign wealth fund, the RERF, which was established in 1956. The RERF's balance was about AUD1.2 billion (close to 370 percent of GDP) at end-2022.

4. Kiribati's PPG debt, at 21 percent of GDP at end-2021, is composed of external debt and government guarantees. The external debt has slightly declined in recent years, as Kiribati has not incurred new external debt since 2014 on the back of strong fishing revenues. The fiscal deficit in 2021 was financed by cash reserves and a withdrawal of AUD40 million from the RERF. Kiribati has only PPG external debt from the Asian Development Bank (ADB) and Taiwan Province of China. The combined outstanding debt from these two stood at AUD52.0 million (about 17.1 percent of GDP) at end-2021 (Text Table 3 and text chart), estimated to decline to AUD49.3 million (about 15.2 percent of GDP) at end-2022. In terms of domestic debt, the government has guaranteed the loans that the Kiribati Provident Fund (KPF) has provided to two SOEs (Air Kiribati Limited and Development Bank of Kiribati) in the total amount of AUD11.8 million (3.9 percent of GDP at end-2021).

Kiribati: Outstanding Public External Debt by Creditor
(In percent of GDP)



Sources: Country authorities; and IMF staff estimates.

Text Table 3. Kiribati: Public External Debt Balance as of End-2021

Creditor	Balance
Asian Development Bank (ADB)	AUD 31,930,760
International Cooperation and Development Fund, Taiwan Province of China	AUD 19,788,244

Source: Country authorities.

BACKGROUND ON MACRO FORECASTS

5. The first COVID outbreak hit Kiribati in early 2022. After two years of strict travel restrictions and border closures, Kiribati resumed commercial flights in January 2022 which unfortunately brought the first positive case of COVID 19. More than half of the passengers tested positive for the virus, leading to a domestic outbreak. A state of emergency was declared in January 2022, and new lockdown restrictions were imposed which severely limited mobility, including labor and port activity. International borders were finally reopened in August 2022. After a slow start, vaccination rates have picked up with over 90 percent of the population currently inoculated.

6. **The economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022**. Due to supportive fiscal policies, the economy recovered strongly in 2021 with real GDP growing 7.9 percent from a contraction of 1.4 percent in 2020. However, the COVID-19 lockdown restrictions imposed during the first half of 2022 limited mobility and further delayed large infrastructure projects. The removal of these restrictions and subsequent border reopening in August 2022 have boosted growth, supported by a pickup of private consumption. However, a severe drought affected the agricultural sector, and real GDP growth in 2022 is estimated to have slowed to 1.2 percent.

7. **Inflation has picked up since the border reopening**. Inflationary pressures that arose in 2020H2-2021 due to supply disruptions peaked in late 2021 but have significantly intensified since August 2022. Headline inflation jumped to 16.2 percent (y-o-y) in December 2022 from 2.5 percent in December 2021 (averaging 5.3 percent in 2022), mainly due to a recovery in domestic demand, supply shortages, and elevated commodity and freight prices. An acceleration in the prices of food and non-alcoholic beverages (mainly sugar) accounted for close to 70 percent of the rise in inflation.

8. **Key assumptions over the medium term reflect the updated data provided by the authorities and estimated by staff** (Text Table 4). The economy is expected to gain momentum in 2023, with the long-term growth trend largely in line with the last DSA analysis conducted in 2021. The followings are the key macroeconomic assumptions used for the baseline scenario:

Text Table 4. Kiribati: Baseline Macroeconomic Assumptions

(In percent of GDP, unless otherwise noted)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2011-21 Historical average	2022-32 Average
Current DSA											
Real GDP growth (in percent)	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	2.6	2.1
Inflation, average (change in percent)	2.6	2.1	5.3	8.6	4.5	2.1	1.9	1.8	1.8	0.5	3.0
Current account balance	40.0	8.9	-4.0	8.4	10.3	11.7	12.3	6.3	6.5	21.5	6.8
Overall fiscal balance	4.4	-11.2	-19.8	-11.9	-12.2	-11.4	-10.5	-14.8	-15.4	13.8	-15.1
Previous DSA											
Real GDP growth (in percent)	-0.5	1.8	2.5	2.3	2.1	2.0	2.0	1.8	1.8		
Inflation, average (change in percent)	1.8	2.0	1.8	1.9	1.8	1.6	1.5	1.4	1.3		
Current account balance	6.9	10.7	11.2	11.6	11.8	12.3	12.2	12.4	13.1		
Overall fiscal balance	-3.1	-11.6	-17.0	-15.2	-12.5	-11.4	-10.7	-11.2	-11.9		

Sources: Country authorities; and IMF staff estimates.

- **Real GDP** growth is projected at 2.1 percent on average in 2022–32, consistent with Kiribati's long-term GDP growth and staff's analysis based on a long-term growth model.[1] Real GDP is projected at 2.5 percent in 2023, as economic activities return to a more normal state with the resumption of large infrastructure projects and improved weather conditions. Economic growth is estimated to stay around 2.1 percent over the long run, mainly reflecting the envisaged moderation of population growth, a slight improvement in total factor productivity with higher human capital growth, and the potential impact of climate change-related events (further details on the impact of climate change are incorporated in the analysis below). Annual population growth is estimated to

[1] See the Selected Issues Paper on "Unlocking the Growth Potential in Kiribati: Taking Stock of Structural Reforms", which is published together with the 2023 Kiribati Article IV Staff Report.

average about 1.5 percent over the projection period (broadly in line with the United Nations' World Population Prospects). The risks to the projections are mainly on the downside. External risks include an intensification of Russia's war in Ukraine, commodity price volatility, and an abrupt global slowdown—all of which could have spillover effects on Kiribati. Deepening geo-economic fragmentation could adversely impact inflation through supply disruptions. Prolonged global financial market volatility could affect the expected returns on the RERF and the Kiribati Provident Fund (KPF), putting pressure on public resources. Climate change remains a constant risk that could further threaten fishing revenues and adversely impact economic growth, with the frequency and severity of climate events aggravated by time.

- **Climate change and natural disasters**. In line with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF,"[2] staff's analysis of the baseline scenario explicitly reflects their impact in the long run given Kiribati's susceptibility to natural disasters and climate change.[3] Compared with the non-disaster potential growth rate, Kiribati's long-term growth projections are adjusted downward by 0.1 percentage point (ppt) in 2027–2042. Similarly, the current account balance is projected to further decline by 1 ppt of GDP on average in the long run to take into account the impact of natural disasters and climate change. No major disasters are assumed under the baseline scenario in the medium term.

- **Inflation** is projected to average 3.0 percent in 2022–32. Inflation is projected to increase to 8.6 percent in 2023, due to the low base effect in the first half of 2022, and the delayed pass-through of normalizing global prices before declining to 4.5 percent in 2024. In the medium to long term, consumer price increases are expected to hover around 1.8 percent, in line with major trading partners' inflation and international food and fuel price dynamics, given that the bulk of Kiribati's consumer basket comprises imported items. However, the forecast is subjected to sizeable uncertainty, especially given the recent high inflation observed in many countries largely due to high food and energy prices.

- **Fiscal revenue continued to decline in 2022 due to both lower revenue and grants**.

  - ***Fishing revenues*** are reported at AUD142 million (44 percent of GDP, a drop of 11 ppts of GDP from 2021) in 2022, marking three consecutive years of decline from the all-time high in 2019 (at 85 percent of GDP). Staff project that while a mild recovery is expected in 2023-26, fishing revenues as a ratio of GDP would decrease mildly and average about 48 percent of GDP in 2022–32. This assumption is subject to considerable uncertainties, given unpredictability in weather conditions and migratory patterns of fish.[4]

  - ***External grants***, including project-based grants and budget support, increased to 25 percent of GDP in 2022 from 19 percent of GDP in 2021 and is expected to further increase to

[2] Available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Small-States-Resilience-to-Natural-Disasters-and-Climate-Change-Role-for-the-IMF-PP5079.

[3] The baseline scenario is premised on a business-as-usual scenario for emissions and increase in world temperature.

[4] The fiscal implication of the opening of the Phoenix Islands Protected Area (PIPA) on fishing revenues is not included under the baseline scenario given the uncertainties.

32 percent of GDP on average in 2023–26 due to higher committed grants.[5] External grants are assumed to gradually decline in the long term and average about 23 percent of GDP in 2027–32. As some budget grants have not been committed after 2026, budget support is assumed at 2 percent of GDP from 2027, a decline of 3 ppts of GDP compared to the 2026 level.[6] External grants from 2027 onward would mainly constitute of project grants, which are used exclusively for development financing. The high reliance on grants highlights the need for the authorities to continue to seek grant support from bilateral donors and international financial institutions.

- **Fiscal expenditure** in 2022 is estimated to be similar to the level in 2021.

  - Kiribati's **recurrent spending** has increased and remained elevated since 2020, largely due to an introduction of the unemployment support scheme (covering 70 percent of Kiribati's working age population) in 2020, the increases in the wage bill and senior citizen's benefits in 2021, and a doubling of the copra subsidy in 2022. The 2023 budget introduced leave grants to private sector employees.[7] Climate change-related maintenance and contingency expenditures are assumed to gradually reach around 6 percent of GDP in 2030 and remain at that level thereafter.[8] Without a concrete plan of consolidation, the recurrent spending is expected to remain high around 79 percent of GDP in 2023 before stabilizing around 77 percent of GDP over the medium term.

  - **Development expenditure** slightly increased to 28 percent of GDP in 2022, 2 ppts higher than the 2021 level. Development expenditure is expected to further increase to 35 percent of GDP in 2023 as large infrastructure projects are resumed and could reach as high as 38 percent of GDP before gradually declining due to the completion of major pipeline projects.

- **The fiscal position** is expected to remain in deficit if no reforms are made to scale back the fiscal supports introduced recently. With COVID-related spending and the introduction of unemployment benefits in 2020, increases of the wage bills, senior citizen's benefits, and unemployment benefit in 2021, and the doubling of the copra subsidy in 2022, and the decline in fishing revenues, the overall fiscal surplus declined from 13 percent of GDP in 2019 to 4 percent of GDP in 2020, and has turned to a deficit of 11 percent of GDP in 2021 and 20 percent of GDP in 2022. With higher income from a projected recovery in fishing revenues and committed external grants, the fiscal deficit is expected to narrow to 12 percent of GDP in 2023. As staff do not assume there will be significant fiscal

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

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

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

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

consolidation but a moderate improvement in tax revenues associated with improvement in tax administration (including those introduced under the new Income Tax Bill), fiscal deficits are envisaged to remain elevated and hover around 15 percent of GDP over the medium and long term under the baseline scenario. However, fiscal deficits could be reduced relative to the baseline scenario if the authorities further mobilize revenue, consolidate recurrent spending, and improve the targeting and efficiency of the social safety net (including successful implementation of the reform agenda of the newly established Social Protection Unit within the Ministry of Women, Youth, Sport and Social Affairs). Climate change could further impact the fiscal balance due to affected fishing revenues and higher climate change-related expenditure as discussed above.

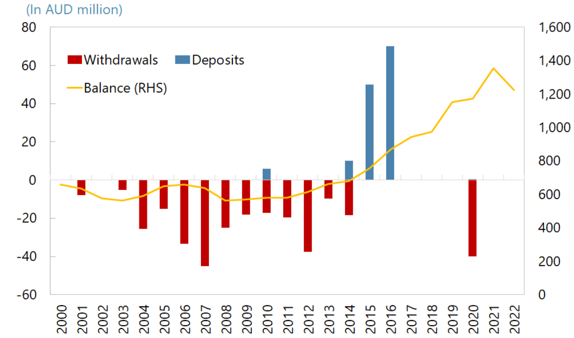
- **Financing** of fiscal deficits is assumed to be covered by cash reserves, external loans, and a withdrawal of RERF resources (Text Table 5).

  - **Cash reserves** decline to 61 percent of GDP at end-2022 from 71 percent of GDP at end of 2021 to help finance the fiscal deficit. Cash reserves would remain the main financing sources in 2023 while staff assumes a prudent rule of using cash reserves to finance deficits to prevent them from being depleted in the long run. More specifically, under the baseline scenario, staff assumes cash reserves will be used at a conservative pace of 1 percent of GDP each year in 2024–28 to finance fiscal deficits and no tapping starting from 2029, which would ensure cash reserves to (barely) meet the requirement of at least three months of government spending by the end of the projection period in 2042, in line with the government's fiscal responsibility ratio.

  - **External loans** will become more important in the medium term due to shrinking cash reserves. With a lack of domestic financing source and given the need to preserve cash reserves and the volatility of the RERF returns, external financing will have to be resorted to financing deficits if need arises. External financing under the baseline scenario is assumed at highly concessional terms.

  - However, withdrawals from the **RERF** could help keep projected debt accumulation moderate. The RERF balance has significantly increased from 2015 (helped by the contribution from the budget and positive returns) before declining in 2022 due to the decline in global equity and bond valuations (text chart). In order to protect the long-run sustainability of the fund, the authorities have implemented a rule that only returns in excess of 5 percent (in real terms) can be withdrawn, and these withdrawals can only be

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



Sources: Country authorities; and IMF staff estimates.

used for development spending.[9] The RERF could be depleted at a more rapid pace should sufficient access to external loans not be found and fiscal deficits continue to be elevated.

- **Kiribati's current account** is estimated to have registered a deficit of about 4 percent of GDP in 2022, a switch from a surplus of 8.9 percent of GDP in 2021, due to disappointing fishing revenues and higher import values which resulted from an increase in both the quantity (the increased domestic demand from the border reopening and the resumption of port activities) and price (elevated energy and food import prices due to the Russia's war in Ukraine). The current account is projected to turn to a surplus in 2023, supported by a mild recovery in fishing revenues, higher committed grants, and the expected drop in global commodity prices from the historical high levels in 2022. From 2027 onward, the current account surplus is expected to decline due to a lower secondary income under the assumption of excluding uncommitted budget support. The current account surplus is expected to stay at about 7 percent of GDP on average in 2022–32.

Text Table 5. Kiribati: Baseline Assumptions on Financing

(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2022-32
	Actual	Prel.				Proj.				Average
Overall Deficit	4	-11	-20	-12	-12	-11	-10	-15	-15	-15
Financing Needs (net)	-4	11	20	12	12	11	10	15	15	15
of which: Cash reserves	-19	12	21	6	1	1	1	1	1	3
RERF withdrawals	15	0	0	6	0	0	0	0	2	2
External financing (net)	-1	-1	-1	-1	11	10	9	14	12	11
Balance										
Cash reserves	108	71	61	49	45	42	39	37	34	39
excess over the threshold 1/	*47*	*85*	*47*	*38*	*26*	*22*	*20*	*17*	*14*	*19*
RERF	454	447	370	311	313	323	334	350	365	363
Public external debt	21	17	15	13	23	33	41	53	63	57

Sources: Country authorities; and IMF staff estimates.

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

- **Kiribati's current debt portfolio** is mainly composed of external debt. The baseline and alternative scenarios do not assume any domestic debt in the short, medium, and long terms.

9. The realism tools suggest that the projections are reasonable (Figures 3–4)**.** The primary balance is expected to deteriorate in 2021–22, largely due to an increase of recurrent spending including subsidies and grants. The primary balance is projected to remain in deficit under no fiscal reform assumption, albeit slightly improve from 2023 onwards on the back of the recovery of fishing revenues.

[9] The rule-based withdrawal policy was introduced in September 2020 with support from the World Bank. Despite withdrawals, the nominal balance of the RERF is expected to remain above the AUD1 billion target articulated in the authorities' fiscal strategy. Under the baseline scenario, the RERF is assumed to generate enough returns to finance a deficit equivalent to 2 percent of GDP every year starting from 2028 before increasing to 3 percent of GDP from 2035. The nominal return of the RERF is assumed to be 8.5 percent on average over the medium and long term, in line with the historical data. This assumption, however, is subject to high uncertainty due to global financial market volatility.

Both public and private investment rates remain almost the same for the projection period when compared to the previous DSA in 2021. The large contributions of residuals to debt creation in both external and public debts reflect the fact that Kiribati uses its cash reserves and the RERF withdrawal (when available) to finance deficits while accumulating cash buffers in time of a fiscal surplus.[10]

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

10. The debt-carrying capacity has remained "medium" as in the last DSA (Text Table 6)**.** Kiribati's current composite indicator (CI) score is 2.70, calculated based on the October 2022 WEO and the 2021 CPIA (published in July 2022). The CI reading puts the country in the medium debt-carrying capacity classification.[11] The relevant indicative thresholds for this category are 40 percent for the PV of the debt-to-GDP ratio, 180 percent for the PV of the debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. These thresholds are applicable to the PPG external debt. The benchmark for the PV of the total public debt-to-GDP ratio for medium debt-carrying capacity is 55 percent (Text Table 7).

Text Table 6. Kiribati: Composite Indicator Rating

Country	Kiribati
Country Code	**826**
Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium	Medium	Medium
	2.70	2.74	2.77

[10] In the past 5 years, large fishing revenues and associated fiscal and current account surpluses contained the PPG external debt and public debt, while a part of the surplus was accumulated as cash reserves or contributed to the RERF (shown as positive residuals). In the projected 5 years, prolonged fiscal deficits would explain the increase in public debt, as deficits are financed by deposit withdrawal (negative contribution of residuals in the public debt) and increased external financing despite running current account surpluses (positive contribution of residuals in the PPG external debt).

[11] It is worth noting that the CI has components that might not best reflect the characteristics of Kiribati's economy. For instance, the calculation does not include the primary income from fishing revenues.

Text Table 7. Kiribati: Debt Thresholds

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

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

11. Given that Kiribati is vulnerable to climate changes, a tailored stress test for natural disaster shock was conducted. Climate change challenges pose significant downside risks. Kiribati's low-lying atolls are vulnerable to rising sea levels that will lead to coastal erosion. Kiribati is also subject to other climate change challenges, including but not limited to drought, loss of groundwater, and higher incidences of natural disasters. Economic activities related to agriculture and tourism can be negatively affected. The costs of mitigating the adverse effects of climate change can partially be met by Kiribati's operating budget. However, capital projects require continued support from development partners. The near-term risk of a one-off extreme natural disaster is incorporated in the DSA analysis through a tailored stress test assuming that a one-off extreme natural disaster in the second year of the projection period would cut the real GDP growth and exports by 1.5 and 3.5 ppts, respectively.[12] This scenario aims to capture the possibility that the costs from natural disasters may exceed those already incorporated in staff's macroeconomic framework.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

12. Under the baseline scenario, Kiribati's external debt trajectory is projected to breach the indicative threshold in the long run.[13] The PV of the PPG external debt-to-GDP ratio is expected to increase and breach the indicative threshold (40 percent) in 2030 (Figure 1). As the bulk of the projected external debt, including new debt, is on concessional terms according to the World Bank's SDFP cap on non-concessional borrowing, debt service will remain relatively contained. However, the debt service-to-exports ratio will gradually increase over the projection period due to continued debt accumulation.

13. Stress tests confirm the vulnerability of debt dynamics to export market developments as well as to macroeconomic shocks. Under the extreme test scenarios, the PV of the PPG external

[12] See the "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries," available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf.

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

debt-to-GDP ratio will breach its threshold starting from 2026 (Figure 1). The ratio of the PV of the PPG external debt-to-exports is vulnerable to shocks emanating from exports, breaching its threshold starting from 2030.[14] The other stress test scenarios, including the severe natural disaster scenario and the contingent liabilities test, illustrate the vulnerability of debt trajectory to the external and potential domestic shocks (Table 3).

PUBLIC DEBT SUSTAINABILITY ANALYSIS

14. Public debt follows the same dynamics as the external debt, given that the limited domestic debt is the government guarantees to the SOE loans. While the historical fiscal surpluses were largely driven by strong fishing revenues, the moderation of the fishing revenues and contingent liabilities emanating from the government-managed pension fund[15] and SOEs pose risks and underscore the importance of placing SOEs on a commercial and sustainable footing, formulating a sustainable medium-term fiscal framework, improving the fiscal position, and supporting private sector development. Under the baseline scenario, the PV of the total public debt-to-GDP ratio will breach the indicative benchmark (55 percent) starting from 2031 (Figure 2).

15. The extreme shock scenario indicates an earlier breach of the debt benchmark. The most extreme stress test scenario of one standard deviation shock[16] to growth predicts that the PV of the total public debt-to-GDP ratio is expected to breach the benchmark (55 percent) starting from 2027 (Figure 2). The tailored natural disaster shock and combined contingent liabilities could cause the PV of the total public debt-to-GDP ratio to breach the benchmark from 2030 and 2031, respectively, illustrating the vulnerability of the debt trajectory to shocks (Table 4).

RISK RATING AND VULNERABILITIES

16. The DSA indicates that Kiribati's risk of external debt distress remains high. Under the baseline scenario, the PV of the PPG external debt-to-GDP ratio is expected to increase over time and breach the indicative threshold starting from 2030. The debt service-to-export ratio, however, will remain relatively contained albeit gradually increase over the projection period as the bulk of the projected external debt is on concessional terms.

17. The DSA suggests that the overall risk of debt distress is also high. The PV of the public debt-to-GDP ratio is projected to increase over time and breach the indicative benchmark starting from 2031. This increase reflects the high recurrent spending and investment needs, and declining grant commitments over the long term. It also follows the LIC-DSA's assumption that future financing is on credit

[14] For the purposes of the DSA, the exports data include fishing license fees, which would be counted as "primary income" under conventional balance-of-payments definitions.

[15] As provided under the Provident Fund Act 1977, the Government of Kiribati currently explicitly guarantees any obligations that are unable to be met by the KPF.

[16] Real GDP growth is set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.

rather than grant terms, and all future borrowing is assumed to be on concessional terms in line with the World Bank's SDFP. The debt trajectory is also vulnerable to growth, primary balance, and export shocks.

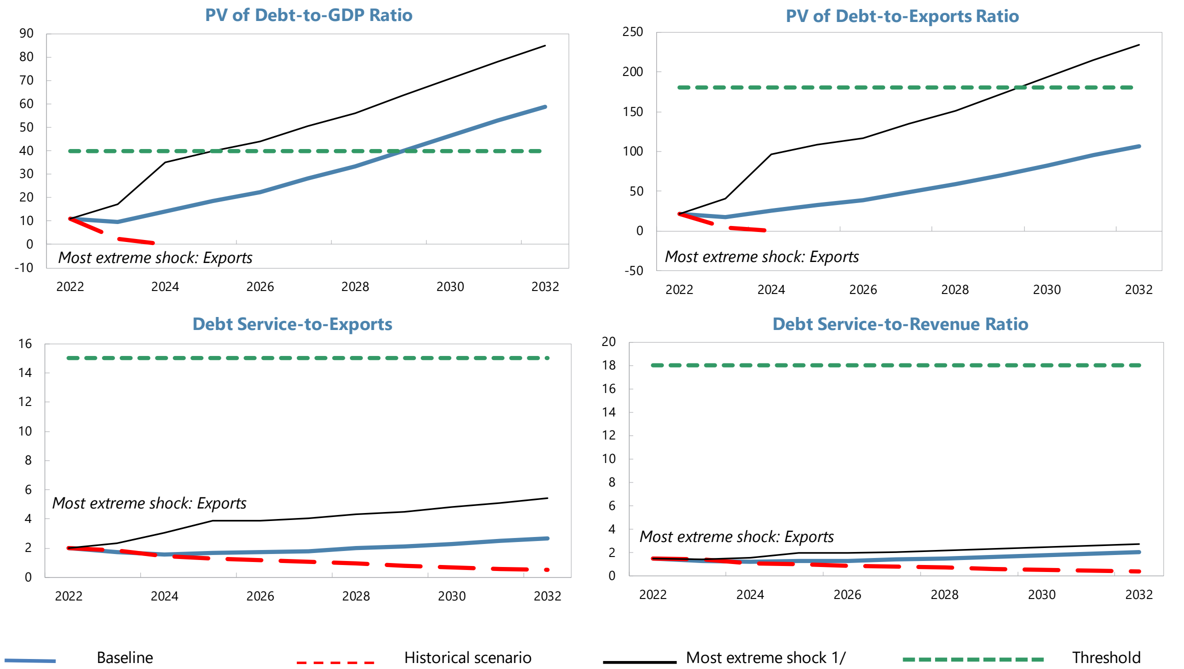
18. Despite high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable as its vulnerability to debt distress is mitigated by several factors. The PV of the PPG external debt-to-GDP ratio and the PV of the total public-debt-to-GDP ratio will breach their indicative threshold/benchmark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

19. Given Kiribati's high risk of debt distress, it will be critical that Kiribati manages its fiscal framework prudently and continues to benefit from external grants. No regular access to debt financing implies that large liquidity buffers could be vulnerable to depletion if fiscal deficits stay elevated. Hence, meeting the significant public spending needs to fill the infrastructure gap and reaching the development goals depends on employing the available fiscal resources in a prudent manner and securing grant support from development partners. The introduction and increases of several social benefits and grants since 2020 have worsened Kiribati's fiscal stance. Furthermore, vulnerabilities could be exacerbated by climate change and contingent liabilities. Fiscal consolidation will be necessary to reduce fiscal risks by further mobilizing revenue (including phasing out SOE tax exemptions), consolidating recurrent spending (including rationalizing the copra subsidy), and improving the targeting and efficiency of the social safety net (including successful implementation of the reform agenda of the newly established Social Protection Unit). Further progress in structural and fiscal reforms (such as formulating a sustainable medium-term fiscal framework, improving public financial management, and putting SOEs on a commercial and sustainable footing) is also needed to improve debt trajectories and safeguard fiscal sustainability. Containing the risk of debt distress also requires continuation of grants to support the country's large development needs.

AUTHORITIES' VIEWS

20. The authorities broadly agree with the non-technical aspects of the DSA assessment. They express their commitment to maintain fiscal discipline and note that they will continue with the current plan of contracting no new debt in the short to medium term. While the authorities acknowledge the importance of fiscal consolidation, they have concerns that reducing social protection spending will have adverse impact on economic growth and living standards. They expect the PIPA reopening will help generate additional fishing revenues and improve fiscal balance. The authorities affirm that they will continue to seek grants from bilateral donors and international financial institutions with a view to keep debt at a prudent level. In this context, they also recognize the need to comply with the non-concessional borrowing policies for securing grant support from the ADB and the World Bank.

Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–2032



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

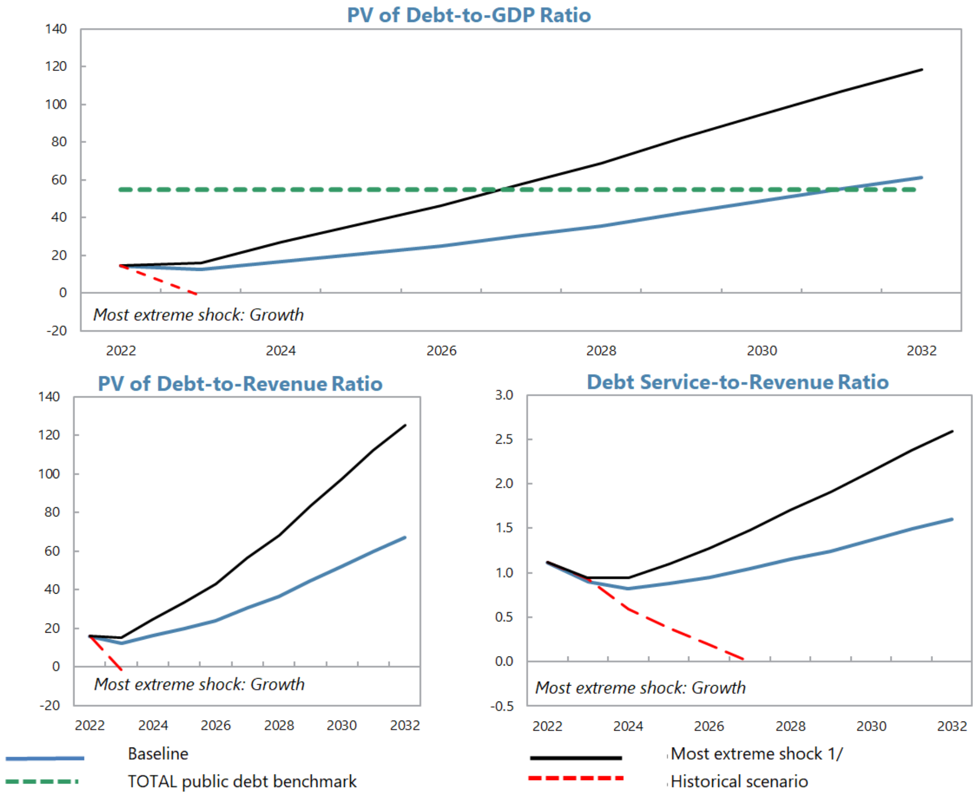
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kiribati: Indicators of Public Debt Under Alternative Scenarios, 2022–2032



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

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

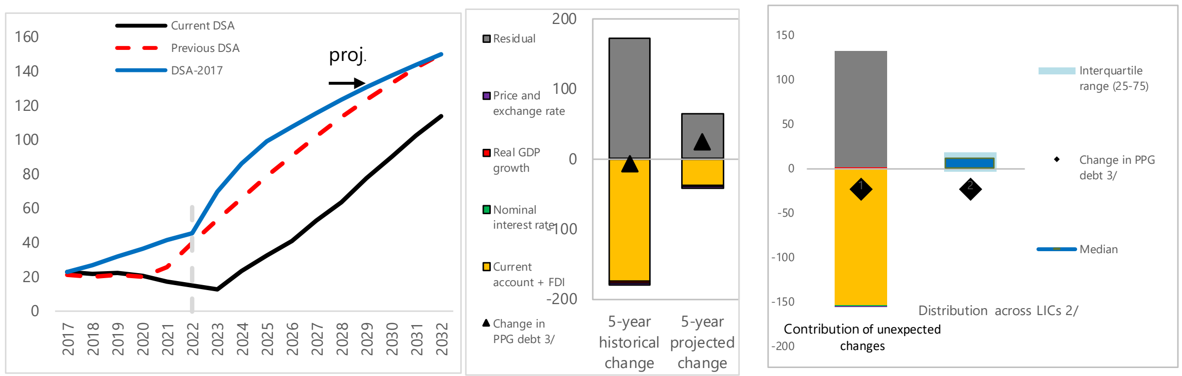
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

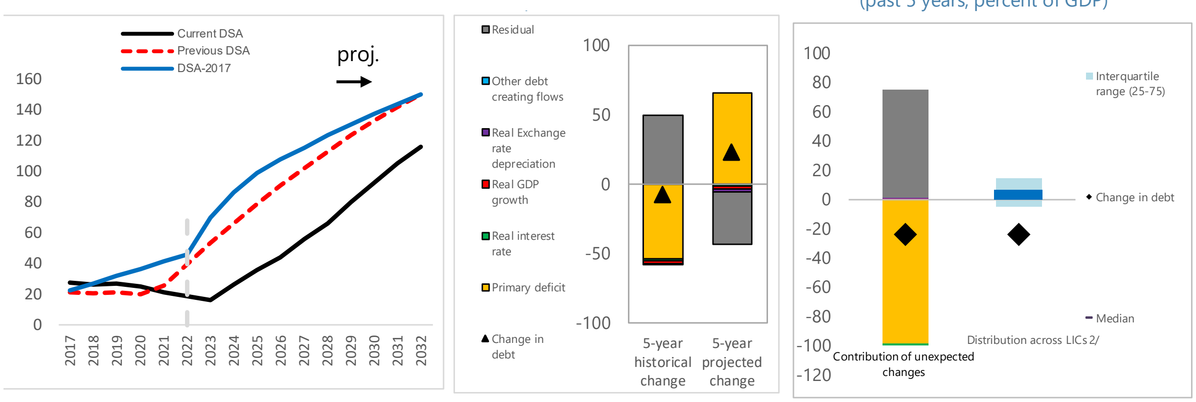
External Debt

Gross Nominal PPG External Debt (In percent of GDP, DSA Vintages) | Debt-Creating Flows (In percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public Debt

Gross Nominal Public Debt (In percent of GDP, DSA Vintages) | Debt-Creating Flows (In percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



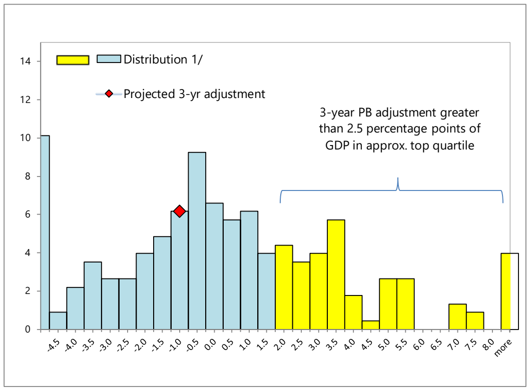
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

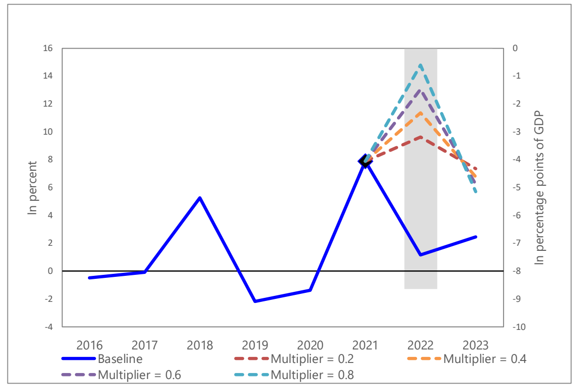
Figure 4. Kiribati: Realism Tools

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



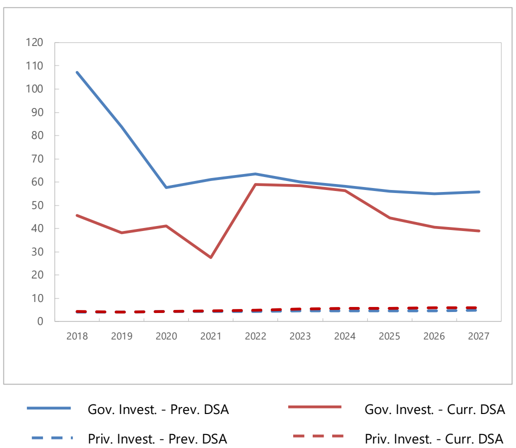
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

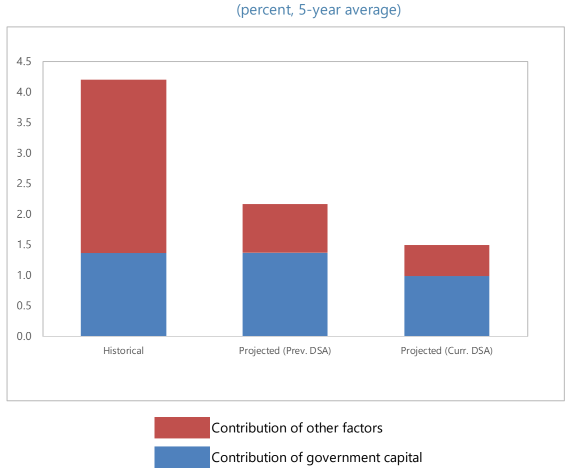


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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



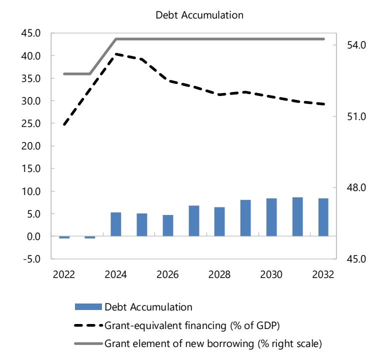
Sources: Country authorities; and staff estimates and projections.

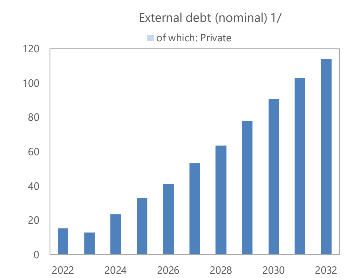
Table 1. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2019–2042

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2042	Historical	Projections
External Debt (Nominal) 1/	**22.4**	**20.6**	**17.1**	**15.2**	**13.0**	**23.4**	**32.8**	**41.0**	**53.1**	**63.5**	**77.6**	**90.5**	**102.8**	**113.8**	**175.3**	**12.8**	**57.0**
Of Which: Public and Publicly Guaranteed (PPG)	**22.4**	**20.6**	**17.1**	**15.2**	**13.0**	**23.4**	**32.8**	**41.0**	**53.1**	**63.5**	**77.6**	**90.5**	**102.8**	**113.8**	**175.3**	**12.8**	**57.0**
Change in external debt	0.8	-1.8	-3.5	-1.9	-2.2	10.4	9.4	8.2	12.1	10.4	14.1	12.8	12.4	11.0	3.4		
Identified Net Debt-Creating Flows	**-47.3**	**-38.9**	**-13.0**	**4.2**	**-8.0**	**-10.0**	**-11.7**	**-12.3**	**-6.5**	**-7.0**	**-7.5**	**-6.9**	**-6.4**	**-6.6**	**-9.7**	**-35.6**	**-7.2**
Non-Interest Current Account Deficit	**-49.8**	**-40.3**	**-9.1**	**3.8**	**-8.6**	**-10.5**	**-12.0**	**-12.6**	**-6.7**	**-7.0**	**-7.4**	**-6.6**	**-6.1**	**-6.1**	**-8.9**	**-24.8**	**-7.3**
Deficit in balance of goods and services	-1.0	5.5	30.7	44.6	34.6	32.2	33.0	31.7	32.2	32.8	33.2	34.2	35.1	36.2	48.7	**20.2**	**34.5**
Exports	102.0	78.0	58.0	51.5	53.8	55.1	55.9	57.5	57.0	56.5	56.2	55.8	55.5	55.2	52.0		
Imports	100.9	83.5	88.7	96.1	88.5	87.3	88.9	89.2	89.2	89.3	89.3	90.0	90.6	91.4	100.7		
Net current transfers (negative = inflow)	-21.2	-24.3	-22.0	-19.0	-24.0	-23.5	-24.5	-22.6	-15.8	-15.1	-14.4	-13.7	-13.0	-13.0	-12.7	**-24.6**	**-18.0**
of which: official	-37.0	-37.9	-19.0	-24.8	-32.5	-33.9	-33.1	-29.0	-25.3	-24.2	-23.2	-22.1	-21.0	-21.0	-20.5		
Other current account flows (negative = net inflow)	-27.5	-21.5	-17.8	-21.8	-19.2	-19.2	-20.4	-21.8	-23.1	-24.8	-26.2	-27.1	-28.2	-29.3	-44.9	**-20.4**	**-23.7**
Net FDI (Negative = Inflow)	**-0.4**	**1.4**	**0.4**	**0.5**	**0.8**	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**	**0.2**	**0.6**
Endogenous Debt Dynamics 2/	**2.9**	**0.0**	**-4.2**	**0.0**	**-0.1**	**-0.1**	**-0.3**	**-0.3**	**-0.4**	**-0.5**	**-0.6**	**-0.8**	**-1.0**	**-1.1**	**-1.4**		
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.8	0.9	1.0	1.6		
Contribution from real GDP growth	0.5	0.3	-1.3	-0.2	-0.3	-0.3	-0.5	-0.7	-0.8	-1.1	-1.3	-1.6	-1.8	-2.1	-3.0		
Contribution from price and exchange rate changes	2.1	-0.7	-3.2	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**48.1**	**37.1**	**9.4**	**-6.1**	**5.8**	**20.5**	**21.1**	**20.6**	**18.6**	**17.4**	**21.6**	**19.7**	**18.8**	**17.6**	**13.2**	**34.3**	**16.0**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4		
Sustainability Indicators																	
PV of PPG external debt-to-GDP ratio	**...**	**...**	**11.4**	**11.1**	**9.6**	**14.1**	**18.4**	**22.3**	**28.0**	**33.2**	**39.7**	**46.2**	**52.7**	**58.8**	**97.5**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**19.6**	**21.6**	**17.9**	**25.6**	**33.0**	**38.8**	**49.2**	**58.7**	**70.6**	**82.8**	**95.0**	**106.6**	**187.5**		
PPG debt service-to-exports ratio	**0.8**	**1.3**	**1.6**	**2.0**	**1.7**	**1.6**	**1.7**	**1.7**	**1.8**	**2.0**	**2.1**	**2.3**	**2.5**	**2.7**	**8.9**		
PPG debt service-to-revenue ratio	**0.8**	**1.1**	**1.1**	**1.5**	**1.3**	**1.2**	**1.3**	**1.3**	**1.4**	**1.5**	**1.6**	**1.8**	**1.9**	**2.1**	**6.8**		
Gross external financing need (Million of U.S. dollars)	-86.5	-67.5	-17.7	11.7	-17.2	-23.9	-28.6	-31.3	-15.1	-16.3	-18.1	-15.8	-14.1	-14.4	-19.3		
Key Macroeconomic Assumptions																	
Real GDP growth (in percent)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	1.8	**2.7**	**2.1**
GDP deflator in US dollar terms (change in percent)	-8.7	3.0	18.4	-2.7	8.1	3.6	1.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	**0.0**	**2.1**
Effective interest rate (percent) 4/	1.2	1.4	1.5	1.3	1.4	1.4	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	**1.2**	**1.1**
Growth of exports of G&S (US dollar terms, in percent)	22.2	-22.3	-5.0	-12.7	15.8	8.5	5.2	6.9	3.1	3.0	3.2	3.3	3.3	3.3	3.0	**11.6**	**3.9**
Growth of imports of G&S (US dollar terms, in percent)	3.9	-16.0	35.8	6.6	2.0	4.7	5.5	4.3	4.0	4.1	3.9	4.7	4.7	4.8	4.6	**3.3**	**4.5**
Grant element of new public sector borrowing (in percent)	...	...	...	52.8	52.8	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	**...**	**54.0**
Government revenues (excluding grants, in percent of GDP)	110.3	93.7	81.4	66.6	69.9	71.3	72.1	74.3	73.5	73.1	71.9	71.6	71.2	70.7	68.0	**86.3**	**71.5**
Aid flows (in Million of US dollars) 5/	64.9	67.5	43.1	55.5	80.7	120.5	120.6	111.0	116.7	114.1	124.7	126.7	128.0	129.6	169.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	24.8	32.5	40.3	39.1	34.5	33.1	31.3	31.9	30.9	29.8	29.3	27.3	**...**	**32.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	100.0	100.0	88.1	88.5	88.1	83.5	84.0	81.3	80.6	80.1	80.7	82.8	**...**	**86.8**
Nominal GDP (Million of US dollars)	175	178	228	224	248	263	273	284	295	306	318	331	344	357	515		
Nominal dollar GDP growth	-10.7	1.6	27.7	-1.6	10.8	6.0	3.6	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.6	**2.8**	**4.2**
Memorandum Items:																	
PV of external debt 7/	...	...	11.4	11.1	9.6	14.1	18.4	22.3	28.0	33.2	39.7	46.2	52.7	58.8	97.5		
In percent of exports	...	...	19.6	21.6	17.9	25.6	33.0	38.8	49.2	58.7	70.6	82.8	95.0	106.6	187.5		
Total external debt service-to-exports ratio	0.8	1.3	1.6	2.0	1.7	1.6	1.7	1.7	1.8	2.0	2.1	2.3	2.5	2.7	8.9		
PV of PPG external debt (in Million of US dollars)			25.9	24.9	23.9	37.1	50.3	63.2	82.6	101.5	126.2	152.8	181.2	210.0	502.2		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.4	-0.5	5.3	5.0	4.7	6.8	6.4	8.1	8.4	8.6	8.4	5.8		
Non-interest current account deficit that stabilizes debt ratio	-50.6	-38.5	-5.6	5.6	-6.4	-20.9	-21.4	-20.9	-18.8	-17.4	-21.6	-19.5	-18.4	-17.1	-12.3		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

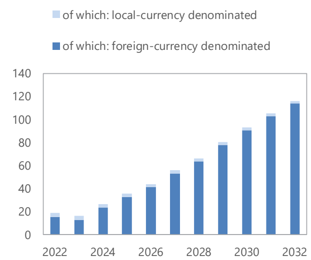
Table 2. Kiribati: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042

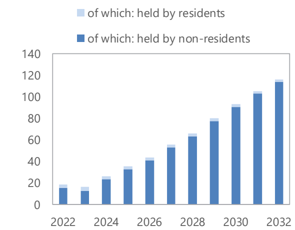
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public Sector Debt 1/	**27.1**	**25.2**	**21.0**	**18.9**	**16.3**	**26.5**	**35.8**	**43.9**	**55.8**	**116.1**	**176.9**	**15.5**	**59.8**
Of Which: External Debt	**22.4**	**20.6**	**17.1**	**15.2**	**13.0**	**23.4**	**32.8**	**41.0**	**53.1**	**113.8**	**175.3**	**12.8**	**57.0**
Change in public sector debt	1.0	-1.9	-4.2	-2.1	-2.6	10.2	9.3	8.1	12.0	10.9	3.4		
Identified Debt-Creating Flows	**-11.0**	**-6.6**	**8.6**	**19.4**	**11.2**	**11.7**	**10.7**	**9.6**	**13.7**	**13.8**	**7.8**	**-11.4**	**13.6**
Primary Deficit	**-13.4**	**-4.4**	**11.2**	**19.8**	**11.9**	**12.2**	**11.5**	**10.6**	**15.0**	**16.9**	**12.4**	**-17.1**	**15.1**
Revenue and grants	147.3	131.6	100.4	91.4	102.4	105.2	105.2	103.2	98.9	91.7	88.6	**128.9**	**97.9**
of which: grants	37.0	37.9	19.0	24.8	32.5	33.9	33.1	29.0	25.3	21.0	20.5		
Primary (noninterest) expenditure	133.9	127.1	111.6	111.2	114.3	117.4	116.7	113.8	113.8	108.6	100.9	**111.9**	**113.0**
Automatic Debt Dynamics	**2.4**	**-2.2**	**-2.6**	**-0.4**	**-0.7**	**-0.5**	**-0.8**	**-1.0**	**-1.3**	**-3.1**	**-4.6**		
Contribution from interest rate/growth differential	0.4	0.3	-2.1	-0.4	-0.7	-0.5	-0.8	-1.0	-1.3	-3.1	-4.6		
of which: contribution from average real interest rate	-0.1	-0.1	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.4	-0.9	-1.5		
of which: contribution from real GDP growth	0.6	0.4	-1.8	-0.2	-0.5	-0.4	-0.6	-0.7	-0.9	-2.2	-3.1		
Contribution from real exchange rate depreciation	1.9	-2.5	-0.5	...	...	...	...	...	...	...	...		
Other Identified Debt-Creating Flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**12.0**	**4.7**	**-12.8**	**-21.5**	**-13.8**	**-1.5**	**-1.4**	**-1.4**	**-1.7**	**-2.9**	**-4.4**	**9.9**	**-5.0**
Sustainability Indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**15.9**	**14.4**	**12.6**	**16.9**	**21.0**	**24.8**	**30.4**	**61.3**	**99.4**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**15.8**	**15.8**	**12.3**	**16.1**	**20.0**	**24.0**	**30.7**	**66.8**	**112.2**		
Debt service-to-revenue and grants ratio 3/	**0.6**	**0.8**	**0.9**	**1.1**	**0.9**	**0.8**	**0.9**	**1.0**	**1.0**	**1.6**	**5.2**		
Gross financing need 4/	-12.5	-3.4	12.1	20.9	12.8	13.1	12.4	11.6	16.0	18.4	17.0		
Key Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	1.8	**2.7**	**2.1**
Average nominal interest rate on external debt (in percent)	1.2	1.4	1.4	1.3	1.3	1.3	1.2	1.1	1.1	1.0	1.0	**1.2**	**1.1**
Average real interest rate on domestic debt (in percent)	4.9	...	...	...	...	...	...	...	...	...	...	**...**	**...**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.8	-11.0	-2.4	...	...	...	...	...	...	...	...	**0.0**	**...**
Inflation rate (GDP deflator, in percent)	-1.8	3.7	8.7	5.3	8.4	4.4	1.3	1.8	1.8	1.8	1.8	**3.0**	**2.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	1.2	-6.4	-5.3	0.8	5.3	5.2	1.6	-0.4	2.1	0.8	1.5	**5.9**	**1.9**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-14.4	-2.5	15.4	21.9	14.5	2.0	2.2	2.4	3.0	6.0	9.0	**-0.5**	**6.5**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
				0.43	0.73	0.53	0.75	1.00	1.29	3.11	4.62		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, government-guaranteed debt . Definition of external debt is Residency-based.

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

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

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

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

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

Table 3. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	11	10	14	18	22	28	33	40	**46**	**53**	**59**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	11	2	0	-2	-4	-8	-11	-14	-16	-19	-23
B. Bound Tests											
B1. Real GDP growth	11	10	16	21	26	32	38	**45**	**53**	**60**	**67**
B2. Primary balance	11	19	33	38	**42**	**47**	**52**	**59**	**66**	**72**	**78**
B3. Exports	11	17	35	40	**44**	**50**	**56**	**63**	**71**	**78**	**85**
B4. Other flows 3/	11	13	21	26	29	35	**40**	**47**	**53**	**60**	**66**
B5. Depreciation	11	12	13	18	23	30	36	**45**	**53**	**61**	**68**
B6. Combination of B1-B5	11	17	24	28	33	39	**45**	**52**	**59**	**67**	**73**
C. Tailored Tests											
C1. Combined contingent liabilities	11	13	17	22	26	31	36	**43**	**50**	**56**	**62**
C2. Natural disaster	11	15	20	25	29	36	**41**	**49**	**56**	**63**	**70**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	22	18	26	33	39	49	59	71	83	95	107
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	22	4	0	-4	-8	-13	-20	-25	-29	-35	-42
B. Bound Tests											
B1. Real GDP growth	22	18	26	33	39	49	59	71	83	95	107
B2. Primary balance	22	36	60	67	72	83	93	105	117	130	142
B3. Exports	22	41	97	109	117	135	151	172	**193**	**214**	**234**
B4. Other flows 3/	22	25	39	46	51	62	71	83	96	108	120
B5. Depreciation	22	18	19	26	32	43	52	64	76	88	100
B6. Combination of B1-B5	22	35	38	59	66	79	91	107	123	138	153
C. Tailored Tests											
C1. Combined contingent liabilities	22	24	32	39	45	55	64	76	89	101	113
C2. Natural disaster	22	28	37	45	52	64	75	88	101	115	128
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	2	2	2	2	2	2	2	2	2	2	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	2	1	1	1	1	1	1	1	1	0
B. Bound Tests											
B1. Real GDP growth	2	2	2	2	2	2	2	2	2	2	3
B2. Primary balance	2	2	2	2	2	2	3	3	3	3	3
B3. Exports	2	2	3	4	4	4	4	5	5	5	5
B4. Other flows 3/	2	2	2	2	2	2	2	2	3	3	3
B5. Depreciation	2	2	2	2	2	2	2	2	2	2	3
B6. Combination of B1-B5	2	2	2	2	2	3	3	3	3	3	4
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	2	2	2	2	2	2	2	3	3
C2. Natural disaster	2	2	2	2	2	2	2	2	3	3	3
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	2	1	1	1	1	1	2	2	2	2	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	1	1	1	1	1	1	1	1	0	0
B. Bound Tests											
B1. Real GDP growth	2	1	1	1	2	2	2	2	2	2	2
B2. Primary balance	2	1	1	2	2	2	2	2	2	2	3
B3. Exports	2	1	2	2	2	2	2	2	2	3	3
B4. Other flows 3/	2	1	1	1	2	2	2	2	2	2	2
B5. Depreciation	2	2	1	1	2	2	2	2	2	2	2
B6. Combination of B1-B5	2	1	2	2	2	2	2	2	2	2	3
C. Tailored Tests											
C1. Combined contingent liabilities	2	1	1	1	1	1	2	2	2	2	2
C2. Natural disaster	2	1	1	1	1	2	2	2	2	2	2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Kiribati: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	14	13	17	21	25	30	35	42	49	**55**	**61**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	14	-2	-12	-21	-31	-40	-51	-61	-70	-78	-87
B. Bound Tests											
B1. Real GDP growth	14	16	27	37	46	**58**	**69**	**82**	**94**	**107**	**118**
B2. Primary balance	14	23	37	41	45	50	**55**	**63**	**69**	**76**	**82**
B3. Exports	14	19	34	38	42	48	53	**60**	**66**	**73**	**79**
B4. Other flows 3/	14	16	24	28	32	37	42	50	**56**	**62**	**68**
B5. Depreciation	14	14	14	14	13	14	14	16	17	19	21
B6. Combination of B1-B5	14	23	27	22	25	31	36	43	49	**56**	**62**
C. Tailored Tests											
C1. Combined contingent liabilities	14	16	20	24	28	34	39	46	52	**59**	**65**
C2. Natural disaster	14	18	23	28	32	38	44	52	**59**	**66**	**72**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	16	12	16	20	24	31	36	45	52	60	67
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	16	(1)	(11)	(20)	(30)	(41)	(52)	(64)	(75)	(86)	(97)
B. Bound Tests											
B1. Real GDP growth	16	15	24	33	43	56	68	83	97	112	125
B2. Primary balance	16	22	35	39	43	51	57	66	74	82	89
B3. Exports	16	19	32	36	41	48	54	63	71	79	86
B4. Other flows 3/	16	16	23	27	31	38	44	52	60	68	75
B5. Depreciation	16	14	13	13	13	14	15	17	19	21	23
B6. Combination of B1-B5	16	22	26	21	25	31	37	45	53	61	67
C. Tailored Tests											
C1. Combined contingent liabilities	16	16	19	23	27	34	40	48	56	64	71
C2. Natural disaster	16	18	22	26	31	39	45	54	63	71	79
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	1	1	1	1	1	1	1	1	1	1	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	1	1	1	0	0	(0)	(0)	(0)	(1)	(1)	(1)
B. Bound Tests											
B1. Real GDP growth	1	1	1	1	1	1	2	2	2	2	3
B2. Primary balance	1	1	1	1	1	1	2	2	2	2	2
B3. Exports	1	1	1	1	1	1	1	2	2	2	2
B4. Other flows 3/	1	1	1	1	1	1	1	1	2	2	2
B5. Depreciation	1	1	1	1	1	1	1	1	1	1	2
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	1	1	2
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	1	1	1	1	1	1	1	2	2
C2. Natural disaster	1	1	1	1	1	1	1	1	2	2	2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.