INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/207

KIRIBATI

July 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2015 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 lapse of time basis, following discussions that ended on May 14, 2015, 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 July 9, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

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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July 29, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with Kiribati

On July 24, 2015, 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[2].

Recent economic performance has been strong. Donor-financed large infrastructure projects and a pick-up in credit to households have boosted real GDP growth to close to 4 percent in 2014 and to about 3 percent in 2015. Inflation remains low, underpinned by lower food and commodity prices. The current account turned into a strong surplus in 2013–14 on account of the high fishing license fees.

The fiscal outlook has improved markedly in recent years. The recurrent balance was in large surplus in 2014 and is expected to remain positive in 2015, reflecting high revenue from license fees and notwithstanding a large increase in development expenditures. On structural reforms, significant progress has been achieved with the introduction of VAT in 2014 and implementation of the State-Owned Enterprise (SOE) Reform Act, including privatization of key assets.

The medium-term outlook is relatively favorable although growth is expected to weaken in the next few years with the completion of large donor financed infrastructure projects. A major risk to the outlook is the revenue from fishing license fees, which has been very high in the last few years but could decline sharply in future given its volatility. The recent damages caused by Cyclone Pam and high tidal waves underscore the risks and the economic and social costs related to climate change and natural disasters.

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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 it is agreed by the Board that a proposal can be considered without convening formal discussions.

Executive Board Assessment

In concluding the 2015 Article IV consultation with Kiribati, Executive Directors endorsed staff's appraisal, as follows:

Economic performance has been strong, buoyed by large donor-financed infrastructure projects. Staff projects real GDP growth will remain above 3 percent in 2015, while inflation should stay low.

The fiscal position has improved markedly, but further efforts are needed to ensure sustainability. We commend the authorities for achieving substantial fiscal surpluses in recent years, although the improvement was mainly driven by record-high fishing license fees which can be volatile. Recent increases in recurrent expenditures are partly explained by a more transparent support to SOEs. Nevertheless, the historical pace of increase in spending is unsustainable over the long term.

Nominal expenditure growth should be limited to 1½ per year over the next years. In order to enhance fiscal discipline, budget contingencies should be built in for unexpected expenditures, consistent with this expenditure path. Public sector wages and SOEs' subsidies should be contained to create room for pro-growth and climate change-related expenditures. Expenditure growth path may be increased over time when the fiscal position has strengthened and become more sustainable, depending on the fishing license fees outturn.

The introduction of the VAT has overall been successful and revenues are in line with expectations. Consideration should be given to phase out existing exemptions and replace them with targeted support of low income households. If exemptions are to be maintained, the list should be short and narrowly defined.

Strengthening the RERF (Revenue Equalization Reserve Fund—sovereign wealth fund) should remain a key policy goal. Important progress has been made in reforming RERF financial management. Transfers and withdrawals should be more transparent and symmetric around the proposed expenditure path: subject to maintaining a cash buffer equivalent to around two months of budget expenditures, a substantial part of the current above-average surpluses should be saved to allow for sustainable drawdowns when they fall below the average. Accordingly, the major part of the 2014 surplus should be transferred to the RERF.

Progress has been made in creating conditions for private sector growth. Going forward, further lowering telecommunication and transportation costs, streamlining business registration processes, and facilitating the private usage of land will be critical to improve the investment climate and lift growth prospects.

There has also been progress on implementing the reform of SOEs to improve their efficiency and contain the drain on public finances. Going forward, the authorities are encouraged to further reduce the copra subsidy and speed up the restructuring of the energy sector through further increasing the efficiency of the two energy companies and rationalizing the structure of both fuel and electricity prices.

Given fiscal constraints, Kiribati will need continued support from donors and IFIs. Future donor-supported projects should focus on climate change mitigation measures, and improving the provision of basic services such as water, electricity, housing, education, and health.

Table. Kiribati: Selected Economic Indicators, 2009–17

Nominal GDP (2013): US$181.1 million	GDP per capita (2013): US$1,676
Nominal GNI (2013): US$289.8 million	Population (2013): 108,021
Main export products: fish and copra	Quota: SDR 5.6 million

	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Est.		Proj.	
Real GDP (percent change)	0.3	-0.9	-0.2	3.4	2.4	3.7	3.1	1.8	2.1
Real GNI (percent change)	-2.9	1.8	-5.8	14.3	11.5	13.6	-7.7	-3.6	1.9
Consumer prices (percent change, average)	9.8	-3.9	1.5	-3.0	-1.5	2.1	1.4	0.3	0.8
Central government finance (percent of GDP)									
Revenue and grants	68.4	70.2	59.6	84.2	94.4	128.7	105.4	94.9	95.0
Total domestic revenue	41.2	46.2	35.6	50.3	65.6	84.9	65.5	56.6	57.0
Grants	27.1	23.9	24.1	33.9	28.8	43.8	39.9	38.3	38.0
Expenditure and net lending	79.9	82.4	81.9	80.5	84.9	107.6	106.5	102.2	97.3
Current	52.8	56.1	57.6	47.0	56.5	59.5	59.7	59.3	58.5
Of which: wages and salaries	23.8	26.2	26.3	26.4	27.9	26.8	26.5	26.4	26.1
Development	27.1	26.3	24.3	33.5	28.4	48.1	46.8	42.9	38.7
Current balance 1/	-11.5	-9.9	-22.0	3.4	9.1	25.4	5.8	-2.8	-1.5
Overall balance	-11.5	-12.2	-22.2	3.8	9.5	21.1	-1.1	-7.3	-2.3
Financing	11.5	12.2	22.2	-3.8	-9.5	-21.1	1.1	7.3	2.3
of which Revenue Equalization and Reserve Fund (RERF)	10.7	10.2	11.3	10.9	-9.1	-13.5	-9.3	0.4	1.5
RERF									
Closing balance (in millions of US$)	512	566	588	606	551	580	590	608	627
Closing balance (in millions of A$) 2/	571	571	581	579	614	703	754	788	821
Per capita value (in 2006 A$)	5,209	5,040	4,767	4,870	5,113	5,113	5,276	5,292	5,299
Balance of payments (in millions of US$)	-	-							
Current account including official transfers	-8.3	3.1	-24.1	-2.8	25.8	30.4	-8.3	-17.3	-12.5
(In percent of GDP)	-6.2	2.0	-13.4	-1.5	14.2	16.8	-5.1	-10.4	-7.4
External debt (in millions of US$) 3/	15.9	14.3	14.3	14.3	14.3	14.3	20.8	32.4	40.1
(In percent of GDP)	10.5	8.5	8.1	7.5	8.5	8.7	12.7	19.6	23.9
External debt service (in millions of US$)	1.0	0.9	0.8	0.9	0.8	0.5	0.5	0.6	0.7
(In percent of exports of goods and services)	4.4	4.4	3.3	3.8	4.0	2.5	2.9	3.4	3.7
Exchange rate (A$/US$ period average) 3/	1.3	1.1	1.0	1.0	1.0	1.1	...	...	...
Real effective exchange rate (period average) 4/	98.3	100.0	104.2	101.0	94.0	89.3	...	...	...
Memorandum item:									
Nominal GDP (in millions of Australian dollars)	168.7	169.6	174.0	181.4	187.0	200.0	209.2	213.7	219.8
Nominal GDP (In millions of US dollars)	131.6	155.9	179.6	187.9	181.1	180.6	...	...	...

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

1/ Current balance excludes grants and development expenditure.

2/ Balances assume A$25 Million from the 2014 surplus are transferred to the RERF

3/ The Australian dollar circulates as legal tender.

4/ Index, 2005=100.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

July 9, 2015

KEY ISSUES

Context. Donor-financed large infrastructure projects, increased public spending, and a pick-up in credit to households have boosted real GDP growth to close to 4 percent in 2014 and to about 3 percent in 2015. Inflation remains low, underpinned by lower food and commodity prices. Steps are being taken to reduce the many hurdles to private growth that Kiribati faces, among which are high transportation and communication costs and an increasing impact of climate change.

Fiscal policy. The fiscal outlook has improved, but further efforts are needed to ensure sustainability. The recurrent balance was in large surplus in 2014 and is expected to remain positive in 2015, reflecting high revenue from license fees, and notwithstanding a large increase in expenditures. But under the historic pace of spending the sovereign wealth fund (Revenue Equalization Reserve Fund—RERF) would be depleted in about 20 years. Ensuring sustainability requires containing nominal expenditure growth to around 1½ per annum over the next five years (after accommodating climate-change-related costs), with transparent and symmetric transfers and withdrawals from the RERF around this path.

Structural reforms. There is a consensus among donors that significant progress has been achieved. The State-Owned Enterprise (SOE) Reform Act is being implemented in a satisfactory way, as illustrated by the recent successful privatization of the telecommunication company. Key outstanding issues include further reforming the energy and copra sectors and improving the investment climate.

Approved By
Hoe Ee Khor (APD) and Peter Allum (SPR)

The IMF team included Mr. Maliszewski (Head), Mr. Poulain (FIN), Ms. Zhang (APD) and Ms. Rahman-Garrett (ICD). Mr. Choi (OED) joined the team for the last three days of the consultation.
Discussions were held in Kiribati during May 4–14, 2015. The team reviewed recent developments and the outlook, and discussed the main policy issues. Staff met with Vice-President Ms. Onorio, Minister of Finance Mr. Murdoch, Secretary of the Cabinet Ms. Tira, Secretary of Finance Mr. Manaima, and other government officials, donors and private sector. The mission benefitted from the coordination of Mr. Reynolds, Director of National Economic Planning Office.

CONTENTS

TABLES

ANNEX

BACKGROUND

1. **Kiribati is one of the most remote and geographically dispersed small states in the world.** Its territory comprises 33 islands spread over 3.5 million square kilometers of ocean and a population of about 100,000. High transportation and communication costs, together with weak infrastructure and poor investment climate, are key obstacles to development. Extreme poverty is low, at around 5 percent, but 22 percent of the population lives below the basic needs poverty line. Climate change presents significant challenges given the low elevation of the land and rising sea levels.

2. **Kiribati's economy is supported by revenues from the sovereign wealth fund, fishing license fees and donors' aids.** The sovereign wealth fund (RERF) was established in 1956 to save proceeds from mining phosphate deposits before they were exhausted in 1979 and for fiscal stabilization. Its balance declined from 565 percent of GDP in 2006 to 365 percent last year due to higher than sustainable drawdowns (to finance deficits stemming largely from weak tax compliance and increasing subsidies to SOEs) but also because of capital losses during the Global Financial Crisis. Fishing license fees have been volatile, but their management has improved due to a regional agreement to charge higher fees and limit the total number of fishing days and the number of vessels ('Nauru Agreement'). The country relies on foreign aid to finance its large development needs.

3. **The key policy challenge is to continue to manage these resources wisely, while overcoming obstacles to private sector growth** To this end, the authorities have embarked on an ambitious macroeconomic reform program supported by the IMF (through provision of technical assistance) and other development partners.[1] The Economic Reform Plan intends to restore fiscal sustainability through improvements in revenue performance and containing public expenditure, while safeguarding vital public services and infrastructure investments. Significant progress has been made following the previous Fund advice, including in the area of debt management (costly overdraft debt has been cleared and non-concessional borrowing eliminated), tax reforms (implementation of the VAT last year), asset management of the RERF, and SOE performance. But more progress is needed in fiscal reforms to fully secure sustainability and improve resilience to shocks, and in structural reforms to support private sector growth.

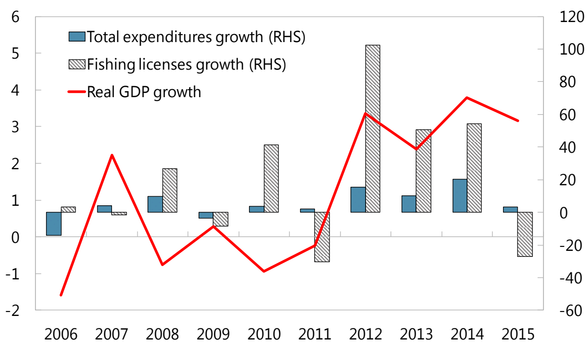
RECENT DEVELOPMENTS AND OUTLOOK

4. **Recent economic performance has been strong.** With the strengthening of the vessel day scheme, fishing license fees have been on the rise in the last three years, reaching a record-high 68 percent of GDP in 2014 (compared to the past average of about 20 percent). Donor-financed infrastructure projects (mainly in the road, port, and aviation sectors) have also reached unprecedented levels (45 percent of GDP in 2014). This, together with a pick-up in credit to

[1] Progress is monitored by the Economic Reform Task Force, which is comprised of Government officials, the IMF, the World Bank, the Asian Development Bank (AsDB), the EU, and Australia and New Zealand development partners.

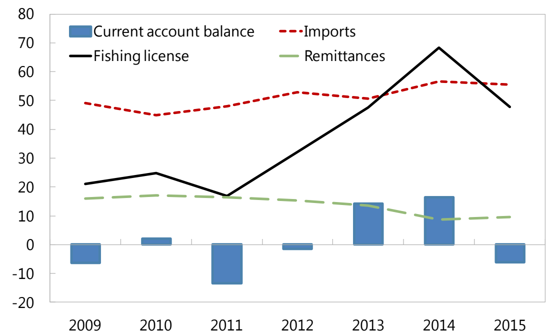
households, boosted GDP growth, which was around 4 percent in 2014. Growth is projected at about 3 percent in 2015, driven by stepped-up infrastructure projects feeding through into activity in the retail sector, as well as reconstruction activity after the extreme weather damages earlier in the year. Inflation remains subdued, underpinned by lower food and commodity prices.

Growth
(In percent, year-on-year)



Sources: Kiribati Authorities; and IMF staff calculations.

Current Account Balance
(In percent of GDP)



Source: Kiribati Authorities; and IMF staff estimates.

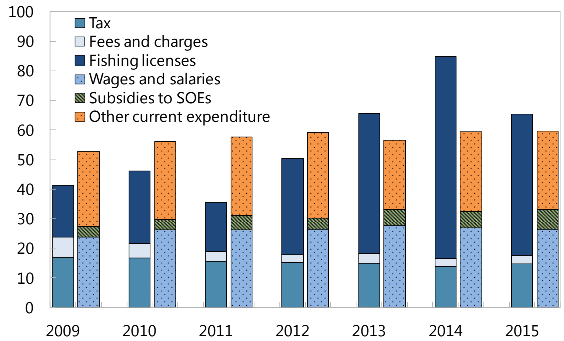
5. **The current account turned positive in 2014 on account of the high fishing license fees, but is expected to revert to a deficit in 2015.** High imports related to donors' projects—largely matched by external grants—are projected to offset gains from lower oil prices, estimated at around 5 percent of GDP in 2015. Remittances have decreased in recent years, but they should pick-up as employment overseas increases back to past levels after the implementation of additional employment schemes. Reflecting developments in the Australian dollar, the exchange rate has depreciated in real effective terms to below the historical average, but the effect on the current account is expected to be limited as trade dynamics are dominated by structural factors (Box 1).

6. **Fishing license fees should remain high in 2015.** On the one hand, fishing license fees revenues have been very strong during the first four months of 2015, exceeding their level during the first four months of 2014. On the other hand, the Phoenix Island Protected Area (PIPA) has been temporarily closed to protect the stock of fish, and the significant drop in tuna price since the beginning of the year should have a negative impact on revenues going forward. On balance, staff anticipates that fishing revenues should remain high in 2015, although below the 2014 peak.

7. **Against this backdrop, the recurrent fiscal balance is expected to be positive in 2015 for the third consecutive year**. The recurrent balance turned positive in 2013, further strengthened in 2014, and should remain in surplus in 2015. The improvement was mainly driven by record high fishing license fees. Recurrent expenditures increased by nearly 13 percent in 2014 and a further 5 percent in 2015 (per supplementary budget), but wages and salaries have remained under control. The increase in expenditures in 2014 reflected bringing on budget the previously non-transparent support to the state-owned power company (equivalent to around 3½ percent of GDP) and a one-off transfer to clear the debt of one large SOE (worth around 4 percent of GDP), both following previous staff recommendations. The increase in 2015 expenditures was largely the result of weather

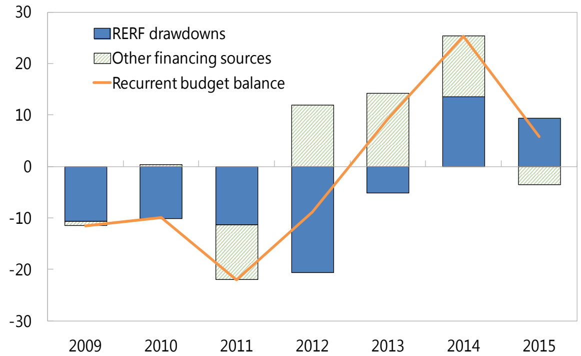
damage-related costs. Notwithstanding the rollout of the VAT in April 2014, tax revenues have yet to pick up, reflecting challenges in tax compliance and collection.

Revenue and Expenditure
(In percent of GDP)



Sources: Kiribati Authorities; and IMF staff estimates.

Fiscal Balance and Financing
(In percent of GDP)

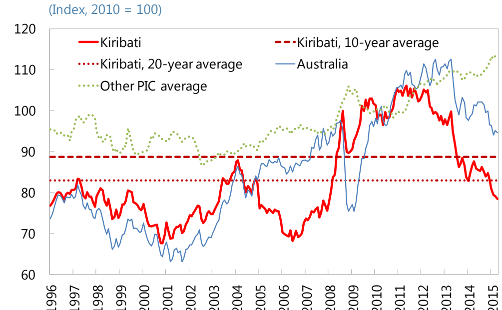


Sources: Kiribati Authorities; and IMF staff estimates.

Box 1. External Competitiveness and Exchange Rate Assessment

The real effective exchange rate (REER) depreciated over last two years and is now below its historical average. This mainly reflects the weakening of the Australian dollar, which circulates as legal tender in Kiribati. Nevertheless, competitiveness continues to be hampered by high transportation costs, lack of scale and remoteness as discussed in this report. This makes structural reforms to improve the business climate and growth opportunities critically important for competitiveness. Precise CGER-like estimates of exchange rate alignment are neither feasible – given data limitations – nor meaningful for Kiribati: the REER plays a limited role in current account developments, which are mostly driven by exogenous factors (fishing license fees and donor flows on the one hand, and global commodity prices on the other hand).

Real Effective Exchange Rate
(Index, 2010 = 100)



Sources: IMF, *Information Notice System*, *APDCORE*; and IMF staff calculations.

The use of the Australian dollar as the official currency remains appropriate[2]. Kiribati needs a strong nominal anchor and does not have institutional capacity to conduct its own monetary policy. The choice of the Australian dollar is dictated by strong trade and financial linkages (investment of a large share of RERF assets in Australian markets).

[2] The Australian dollar circulates as legal tender. Kiribati has accepted the obligations under Article VIII of the Fund's Articles of Agreement and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

8. The medium-term outlook is more uncertain and will be mostly driven by the realized level of future fishing license fees. The fishing license fees are expected to stay higher than their historical level but fall from their 2014 peak. These revenues remain highly volatile and subject to downside risks. Furthermore, donors' activity is projected to diminish with the completion of large infrastructure projects. This will reduce growth in the medium term and, if the discipline is not maintained, could again expose fiscal pressures. Furthermore, the extent of the recent damages caused by Cyclone Pam and high tidal waves underscore the risks and the economic and social costs related to climate change. Finally, returns on RERF and other financial assets could also be affected by global risks. A protracted period of slower global growth and low inflation could compress both equity returns and bond yields for several years (RAM Annex).

RESTORING SUSTAINABILITY AND IMPROVING RESILIENCE TO SHOCKS

The key policy challenge is to manage the intergenerational benefits of Kiribati's large sovereign wealth fund against a background of uncertainty about future fishing license fees and spending pressures to address important infrastructure and social needs and prepare for the adverse consequences of climate change. Spending growth should be reduced from historic levels, public investments largely grant-financed, and structural fiscal reforms accelerated.

9. The medium-term fiscal outlook appears more favorable in the context of higher expectations for fishing license fees, but downside risks are significant. The baseline for the main fiscal revenue—fishing license fees—has been revised upwards. The large increase in this source of revenue in the past years can be attributed to the recent changes adopted under the Parties to the Nauru Agreement (PNA): effective in 2012, the PNA introduced a US$5,000 minimum fee for fishing per vessel day, subsequently increased to US$6,000 in 2014 and to US$8,000 in 2015. If member countries manage to enforce the agreement, this could lead to a lasting increase in revenues. Staff considers such enforcement as the baseline scenario, and annual fishing license fees are accordingly projected to be around 40 percent of GDP on average over 2015–20, up from an average of about 24 percent of GDP over the past decades, but below outturns averaging more than 50 percent of GDP in 2013–14. Because these revenues are inherently uncertain (fishing stock and prices are volatile, including the risk of overfishing), lower fishing license fees represent a plausible and high impact downside risk. Staff accordingly discussed fiscal policy approaches that would be sustainable in the event that license fees revert to the past historical average (Box 3).[3]

10. In addition, spending pressures are increasing. First, additional infrastructure and other spending will be needed to mitigate the effects of climate change, such as drought, loss of potable ground water, and rising sea levels. Climate change related costs are highly uncertain but are assumed to be at around 3½ percent of GDP per annum (Box 2). Second, room needs to be made

[3] See '"Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific", Ezequiel Cabezon, Leni Hunter, Patrizia Tumbarello, Kazuaki Washimi and Yiqun Wu, WP/15/125", Chapter 2, for a more thorough discussion on revenue volatility and policy options for managing it in small developing states.

within the budget envelope to accommodate future maintenance costs of the newly constructed infrastructure, which are expected to be only partly covered by user charges. Taken together, these pressures could require additional budgetary expenditures amounting to around 4 percent of GDP per annum (largely for capital maintenance and recurrent climate-change-related costs), and the continuation of high donors' support for capital spending.

Box 2. The Key Challenge of Adapting to Climate Change

Climate change poses a major threat to Kiribati and could lead to significant fiscal pressures.

The rise in the sea levels has both a structural and a cyclical component. The structural component is related to climate change and while still moderate, it is on track to become much more significant as Kiribati's average height above sea level is only around 2 meters and climate model simulations estimate that sea level could increase by 24 cm by 2050 and 61 cm by 2100 compared to the 1985–2005 average.[1] This trend is compounded by the medium term cyclical impact of predominance of El Niño, putting upward pressure on sea levels and causing larger and more frequent high tide levels (the current cycle could continue for another 10–20 years).

The main impact of climate change will be through rising sea levels, but also warmer average temperatures and more frequent and severe storms. This would lead to permanent erosion of the shoreline and loss of land, frequent inundation, lower biodiversity, lower agricultural production, and water resource and food security issues. Waves and unprecedented flooding already caused severe and costly destruction earlier this year. Higher temperatures and wider flooded areas could increase the spread of vector borne diseases such as dengue fever.

While the fiscal costs are uncertain, they are likely to be substantial. Coastal protection costs alone are estimated be in the region of 1 percent of GDP per annum.[2] These estimates can be seen as a floor: they exclude any transition costs, as well as the potential cost of inefficiencies in adaptation responses. Additional expenditures will be needed to adapt to climate variability, such as repairing damages arising from more frequent extreme weather events, or those associated with adjustments in response to the salinization of agricultural land. The annual adaptation costs could be in the range of ½ to 1½ percent of GDP (medium emissions scenario) and as high as 2½ percent of GDP in the worst case scenario.[3]

Overall, climate change related costs could reach 3½ percent per year, and possibly more in worst case scenarios. Given Kiribati's fiscal constraints, this would require more donor funding towards these needs, including from the new Green Climate Fund.

[1] High emission scenario. See "Climate Variability, Extremes and Change in the Western Tropical Pacific: New Science and Updated Country Reports 2014."

[2] Nicholls and Tol, 2006, "Impacts and Responses to Sea-Level Rise: A Global Analysis of the SRSS Scenarios over the Twenty-first Century," *Philosophical Transactions of the Royal Society*, Vol. 363, pp. 1073–1095.

[3] "The Economics of Climate Change in the Pacific," Asian Development Bank, 2013 and "Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific," Ezequiel Cabezon, Leni Hunter, Patrizia Tumbarello, Kazuaki Washimi and Yiqun Wu.

11. Against this backdrop, continued fiscal prudence is required to preserve fiscal sustainability and maintain resilience to shocks. Given that the (RERF) is the main mechanism to save wealth for future generations and a buffer against shocks, staff policy advice focused on strengthening its role as an anchor for fiscal sustainability:

- *Preserving wealth*. Returns on RERF investments are an important source of income for Kiribati. For intergenerational equity, they should be distributed proportionally to the growing population, ensuring constant real per capita budget drawdowns over time. From this perspective, the sustainable level of drawdown is estimated at about 3–4 percent of GDP (the wide range reflects uncertainty surrounding projected investment returns and population growth). Given the downside risks to fishing license fees, staff recommended that expenditure plans be framed around a more conservative fiscal stance, aiming at a RERF drawdown averaging about ½ percent of GDP over 2016-2020. This would help accumulate savings when fish license fees remain strong, while limiting the RERF drawdown in the event that they would disappoint.

- *Expenditure rule*. The RERF drawdown of ½ percent of GDP annually would be consistent with recurrent expenditure growth of 1.5 percent per annum over the next 5 years, assuming fishing licenses fees remain robust. This would result in a gradual reduction in real per capita spending, but leave sufficient room to cover pressing expenditure needs (see below). If license fees remain strong, real per capita RERF balances would rise, implicitly saving for future generations part of the fishing revenues and providing a buffer against higher climate-change-related costs. With greater confidence about the durability of fishing license fees, the sustainable rate of spending could be revisited, perhaps leading to faster spending growth beyond the 5-years horizon. With lower fishing revenues—closer to the historical average—RERF per capita balances would initially fall, but later stabilize, guaranteeing that the proposed expenditure path is sustainable, although with smaller buffers (Box 3). This approach to fiscal sustainability would also require that capital spending be primarily grant-financed.

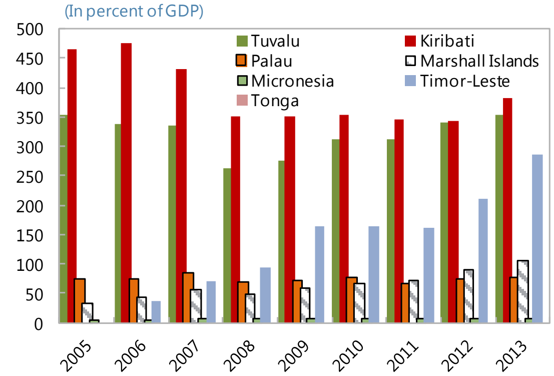
- *Stabilization*. For the RERF to perform its dual role, the policy of budget transfers and withdrawals should be more transparent, systematic and symmetric around the proposed expenditure path. Staff recommended saving a substantial part of the revenues in the RERF when license fees are above average to allow for a sustainable drawdown when they fall below the average. Given more volatile weather patterns, staff also recommended maintaining a larger cash buffer—equivalent to around two months of budget expenditures (around AUD20 million)—in light of volatility of revenue and in case of emergency needs. A part of the cash balance from the 2014 budget surplus could be used for this purpose, with the rest transferred to the RERF. To date, only AUD 10 million out of the record 2014 fiscal surplus of around AUD 50 million was transferred to the RERF.[4]

[4] Last year, the authorities purchased 20 square kilometers of land in Fiji in 2014, for around AUD 9 million drawn down from the RERF, so the net savings in the RERF was very small. The aim of the purchase was to improve food security through agriculture and fish farming projects and eventually for potential resettlement if rising sea levels threaten to submerge parts of Kiribati.

Box 3. Managing Volatility of Fishing License Fees and Ensuring Fiscal Sustainability

The RERF has been managed well relative to peers, but recent developments have jeopardized its sustainability. The RERF was capitalized with revenues from phosphates until reserves were exhausted in 1979 and, in the early decades, with fiscal surpluses. But the sharp increase in current expenditures—from an average of 48 percent of GDP in 1991–2000 to 58 percent in 2010–14—resulted in large deficits financed by drawdowns from the RERF, which stopped only when fishing revenue increased in 2013 (even though regular spending has largely been contained since 2011, regularizing SOE subsidies and clearing overdrafts kept the deficit high). The global financial crisis also caused significant capital losses. As a consequence, the current per capita value of the RERF is down to around AUD 5,400 (in 2006 dollars) from around AUD 9,300 in 2000.

Cross-Country Comparison: Sovereign Wealth Fund Values
(In percent of GDP)

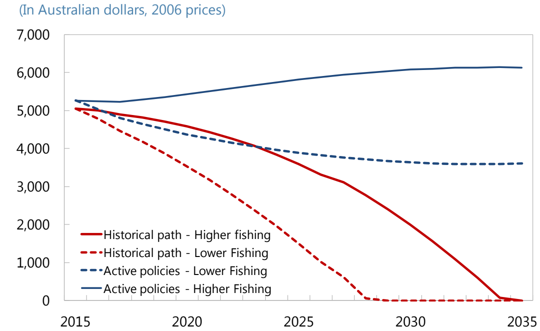


Sources: Authorities data and IMF staff calculations

Staff simulations indicate than targeting an annual expenditure growth of 1½ percent in the medium term would restore sustainability. Staff analyzes two scenarios for revenues from fishing license fees: (i) a baseline where they stay high (AUD 100 Million on average over 2015–35); (ii) a decrease to an average of AUD 63 million, consistent with the historical average of around 24 percent of GDP since 1991:

- The historical pace of spending ('historical path'—nominal expenditure growth of 5.5 percent per annum) would be unsustainable, leading to a depletion of the RERF in about 20 years, even in the higher fishing revenue scenario.
- Expenditure growth of 1½ percent per year would ensure sustainability in both scenarios. Under the lower revenue scenario, it would stabilize the RERF around AUD 4,000 in real per capita terms by 2035. In the higher revenue scenario, this path would increase RERF real per capita balances to around AUD 6,000, effectively saving part of the fishing revenue windfall, and therefore further improving intergenerational equity. This would allow for higher sustainable transfers to the budget, helping stabilize real per capita expenditures in the long term.

Real Per-capita RERF Balance - Simulations
(In Australian dollars, 2006 prices)



Source: IMF Staff estimates.

Fishing revenues are likely to remain volatile, and long-term policy commitments should be guided by indicators that are not affected by such volatility. While the proposed expenditure path is a viable anchor, complementary indicators could include the recurrent non-fish balance (i.e. the current fiscal balance excluding fishing revenues). The proposed expenditure path would be consistent with maintaining the recurrent non-fish deficit at below 35 percent of GDP.

12. **Improved management of the RERF is critical for the success of the adjustment.** The disappointing financial performance of the RERF in the past several years highlighted that investment policy and strategic asset allocation were not aligned with the long term objectives and

nature of the fund. With ongoing assistance from the World Bank, the Cabinet of Ministers recently approved reforms that are in the process of being implemented. The current phase is focusing on the appointment of new asset manager(s), which is advancing well. In the context of reforming the fund investment mandate, staff also discussed the idea of better articulating the saving and stabilization roles of the RERF and making these objectives explicit in formulating the optimal investment strategy of the fund.

13. The recommended fiscal path has sufficient room to accommodate new spending needs, but it will require the continuation of efforts on several fronts. The 2015 budget includes one-off expenditures—mainly for weather-related damages—equivalent to around 4 percent of GDP. Staff projections assume that costs of a similar magnitude (covering both climate-change-related spending and the maintenance of new capital assets) will become permanent. There is sufficient room for this in the overall budget envelope provided that other recurrent spending remains contained. This requires the continuation of the current wage policy (allowing for a 'wage drift' from the automatic promotion process, but no additional wage increases) and maintaining subsidies to SOEs at the current nominal level (by exploiting efficiency gains from the restructuring of the energy sector and the copra sector, for which Technical Assistance is underway). To avoid expenditure surprises and enhance fiscal discipline budget, contingencies for unexpected expenditures should be provided within the envelope consistent with the recommended path. The authorities' prudent debt management and policy of avoiding non-concessional debt financing of the recurrent budget should also continue. Given moderate growth prospects, the scope for external borrowing—even from IFIs at concessional terms—remains limited (DSA Annex).

14. Improving tax compliance and collection is also an essential element of the strategy. After staying broadly stable at around 19 percent of GDP in the two decades leading to 2007, tax revenues started declining in 2008 and had dropped to about 14 percent of GDP in 2014. The VAT was introduced in 2014 as a key element of the fiscal reforms. The implementation of the tax has been successful, as revenues are in line with expectations. This, together with efforts to improve compliance and strengthen SOE efficiency, would allow for the tax ratio to gradually increase to 17 percent in the next five years. However, recent policy proposals—such as widening the already broad list of exemptions to essential services—would undermine tax collection. It would also increase tax administration and compliance costs for businesses. To guard against this risk, further exemptions should be avoided, and consideration should be given to phasing out existing exemptions and replacing them with targeted support for low income households and direct transfer payments. If exemptions are to be maintained, the list should be short and narrowly defined.

Authorities' Views

15. The authorities remain committed to secure a sustainable fiscal position. They acknowledged that given the volatility of fishing license fees, they cannot count on fees staying at their 2014 level for an extended period. Reflecting these concerns, spending in 2014 and 2015 budgets had remained contained, notwithstanding increases that were due to more transparent budgeting, one-off spending, and natural disasters. They have the intention to maintain spending discipline in the future, and are considering additional transfers to the RERF, as well as maintaining a larger cash buffer and investing part of the surplus in alternative safe financial assets given the transition in RERF asset management. They also pointed out the trade-off between the need to strengthen the RERF and the immediate infrastructure and social needs of Kiribati, and in this context they welcomed staff advice to allocate additional resources to climate-change-related and maintenance expenditures. Regarding tax policy, the authorities were concerned about the negative public perception of the impact of VAT on prices, which led to the proposal to exempt essential services from the tax, but the authorities remain committed not to undermine the tax.

PROMOTING GROWTH AND REDUCING POVERTY

Increasing growth opportunities will require alleviating key barriers to private sector growth, pursuing the implementation of SOE reforms, and enhancing access to finance for viable business projects, while maintaining adequate financial risk management.

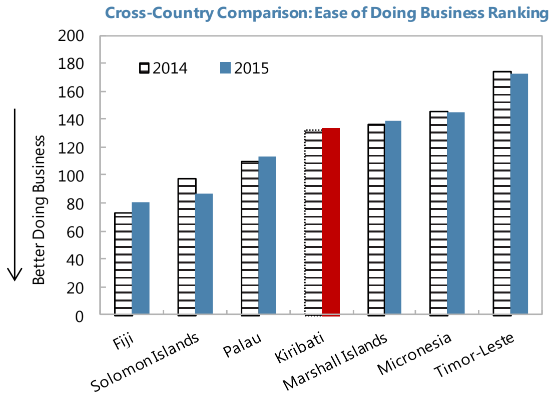
A. Removing Barriers to Private Sector Growth

16. Important progress is being made in creating conditions for private sector growth, but more needs to be done. In addition to progress in improving the physical infrastructure through donor-funded projects, the authorities have successfully privatized the telecommunication company. Improvement in telecommunication can lower transaction costs and foster private sector activity in a number of areas. Most importantly, it could promote the development of mobile banking, where Kiribati is currently lagging behind other small states in the Pacific. It could also facilitate the delivery of government services and the payment of taxes, fees and bills via electronic and mobile devices. In this context, consideration could be given to initiatives that may further support investment in these areas utilizing donors' funding. The government is also making efforts to promote competition in the airline industry. Enhancing competition could make Kiribati more accessible by reducing transportation costs, and promote tourism. Going forward, improving business climate, in particular through further streamlining business registration processes and facilitating private usage of government-owned land, is critical to fostering private sector growth (see Box 4).

17. Supporting policies should continue to focus on building human capital and better utilizing marine resources. The recent expansion of the Marine Training Center will help raise teaching standards for fishermen to internationally-recognized levels. This is an important achievement given improved employment prospects abroad and also in the context of government efforts to develop the domestic fishing industry. In this context, the expansion of joint projects with Kiribati Fishing Limited—if well-managed—may boost employment, exports and domestic activity. Developing other domestic resources—such as agriculture production— should also be encouraged particularly if government support is limited and if it facilitates a gradual reduction in copra subsidies. As donor-funded infrastructure projects are completed, shifting the focus to maintenance of infrastructure could also promote private sector growth and employment by outsourcing this activity to microenterprise units.

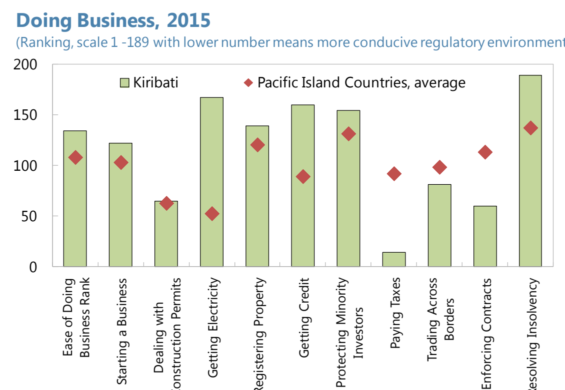
Box 4. Growth and Investment Climate[1]

High costs related to geographic isolation and small size are formidable barriers to growth. The remoteness, dispersion, and small population lead to a lack of scale and high transportation costs, constraining private sector development, Accordingly, the private sector in Kiribati remains small and is concentrated in fisheries, retail trade, copra, and tourism. While the Chamber of Commerce estimates that there are some 2,000 businesses, only 2 employ over 200 people. The public sector dominates the economy: recurrent budget expenditures are close to 60 percent of GDP and SOE revenues are about 40 percent of GDP. Overall, the public sector represents nearly 80 percent of jobs in the formal sector. Only 20 percent of the labor force is employed in the formal sector, and the unemployment rate exceeds 30 percent.



Sources: World Bank, *Doing Business Reports* 2016 and 2015.

While overcoming physical constraints is difficult, a more enabling business environment would support private sector growth. Insufficient infrastructure—including in communication systems—weak business climate, and limited financial intermediation are key obstacles to be removed. Kiribati's investment climate ranks 134th out of 189 economies globally and 8th out of 11 within the Pacific region in the World Bank's 2015 *Doing Business* Report**.** Its ranking has fallen each year since 2010, although primarily as a result of lack of improvements rather than worsening in the country's regulatory regime.[2] Starting a business, for example, takes 31 days, against the regional average of 26 days and the regional best practice of 9 days. Land sales are prohibited except between Kiribati citizens and are only allowed after the consent of the Land Court, which applies strict eligibility criteria. It takes on average 153 days to register a property and almost a year to settle a contract dispute. Getting credit is costly and a large proportion of the population remains outside the formal banking system. Businesses are also subject to price controls that cover a wide range of goods and are subject to irregular revisions issued by the Minister of Commerce.



Sources: World Bank, *Doing Business Reports 2016*; and IMF staff calculations

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[1] Prepared by Mizuho Kida, World Bank.

[2] The absence of changes in absolute scores in most of the ten dimensions studied in the Report and small changes in the distance to frontier (DTF) scores over time support this assessment.

Authorities' views

18. The authorities broadly agreed with priorities identified by staff to foster private sector growth. They reiterated that continued development of the fishing sector is key to improve growth and employment. They are also committed to reducing communication and transportation costs, not only internationally but also between Tarawa and outer islands, but pointed to difficulties in developing viable alternatives for international air transport links.

B. Implementing SOE Reforms

19. Significant progress has been made in SOE reforms. Reforming SOEs is important not only for a better allocation of scarce public resources (through reducing subsidies and guarantees to underperforming enterprises), but their divestment would also open opportunities for private sector growth. Recent progress includes the adoption of the SOE Act in 2013, the closure of underperforming SOEs, and the measures taken to commercialize and improve the operational efficiency of other SOEs (Box 5).

Box 5. Improving the Efficiency of State-Owned Enterprises[1]

The SOE Act approved in 2013 was an important milestone, stipulating the requirement for every SOE to operate as a successful and sustainable business. The key areas of focus are the following:

- *Improved financial reporting and governance.* All SOEs (currently 18) should submit Statement of Intents no later than 2 months before the beginning of the financial year. This allows SOEs to think strategically, improve their business plans and better manage their cash flows. The number of civil servants on SOE Boards has also been reduced.
- *Greater transparency of subsidies*, in particular through introducing on-budget subsidies covering community service obligations.
- *Restructuring.* Because the public sector had expanded excessively into several commercial activities that could be undertaken by the private sector, it was decided to assess for each SOE whether it should be kept as a fully public entity (and possibly restructured), privatized, or moved towards a public-private partnership model. Decision criteria included the SOE primary role (commercial, regulatory, administrative), its supply of community service obligations, and its viability.
- *Monitoring.* The Act also established the SOE Monitoring Unit within the Ministry of Finance and Economic Development to monitor the performance of all SOEs.

Significant steps have already been taken, with the assistance of the Asian Development Bank and the World Bank. Several SOEs were successfully privatized (government hotel, government retailer, and Telecommunications Company) and a few others should be transformed into public-private partnership concessions (shipping and shipyard), although the majority will remain under government control. The government is also merging the two SOEs in the coconut sector to improve efficiency. Overall, profitability of most SOEs has been improving. Future technical assistance will assist in seeking solutions to improve performance of the electricity company.

[1] Prepared by Malie Lototele, AsDB

20. Staff also encouraged the authorities to speed up the restructuring of the energy sector. Notwithstanding recent improvements and plans for further increasing the efficiency of the electricity and oil importer/distributor companies, the financial situation of the former remains a drain on public sector resources and also undermines the performance of the latter through payment arrears. Going forward, rationalizing the structure of both fuel and electricity prices (cushioning the impact of higher tariffs through targeted transfers for the poor) would be an important step towards increasing the transparency of public sector operations and improving the provision of essential services. The current level of oil prices provides an opportunity to implement these changes without delay.

Authorities' Views

21. The authorities remain fully committed to the SOE reform agenda. On the energy sector, they noted the need to see more efficiency gains in the electricity company and to wait for upcoming technical assistance before considering additional measures.

C. Fostering Financial Deepening

22. The recent credit expansion has been driven by personal loans, largely from public financial institutions (PFIs). The financial system is composed of one commercial bank (a joint-venture between ANZ and the Government of Kiribati), the Development Bank of Kiribati (DBK), the Kiribati Provident Fund (KPF—the national pension plan), an insurance company, and a few credit unions. The recent increase in personal loans was mainly triggered by increased lending from PFIs: KPF small loans scheme (SLS) and personal loans from DBK. The rise in personal loans have boosted short term consumption and retail activity, but the boom may be short-lived given still limited growth prospects, and increasing risks to the financial sector.

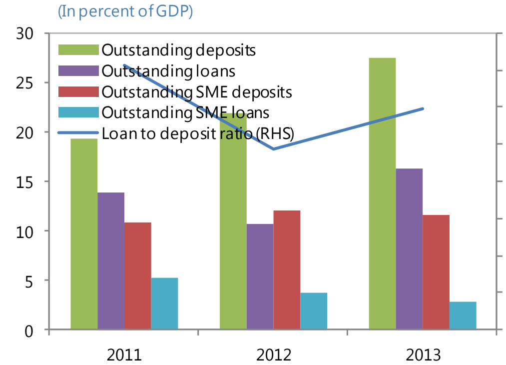
Kiribati: Outstanding Banking Loans, 2012-14

	2012	2013	2014(e)
Total Loans	40.2	46.9	54.1
Households	9.4	21.4	27.0
	(In percent of GDP)		
Total Loans	22.1	25.1	27.0
Households	5.2	11.4	13.5

1/ KPF's small loan scheme: data is estimated.
Source: Kiribati authorities and IMF staff calculations.

23. Financial system development is an essential element of the growth strategy, but PFIs should not expand into commercial ventures. The increase in the DBK personal loan portfolio is not consistent with its development bank mandate, and staff recommended against its further commercialization by expanding into deposit taking, in particular given the poor track record of loan collection (NPLs in the DBK remain high at around 20 percent in 2014) and without supervisory and regulatory frameworks in the country. In the same vein, the KPF should not allocate a larger share of its investment portfolio to commercial real estate, as

Commercial Banks Outstanding Deposits and Loans
(In percent of GDP)



Sources: IMF Financial Acess Survey and staff calculations.

this creates high risks for participants in the system.[5] Liquidity in the commercial bank (ANZ) has been ample after the repayment of public sector overdrafts, which creates room for lending to the private sector. Facilitating private sector access to credit would therefore be best achieved by removing structural impediments: improving financial education, land access procedures, dispute resolution mechanism, recovery processes and financial reporting.

Authorities' Views

24. The authorities agreed that some of these plans were risky and noted that Cabinet approval was required for any substantial change in the activities of public financial institutions.

D. Improving Social Outcomes

25. Extreme (food) poverty is low in Kiribati (around 5 percent), but basic needs poverty is relatively widespread. The share of population with income below the cost of acquiring enough food for adequate nutrition and other essentials such as clothing and shelter is around 22 percent, with over 24 percent in the main urban center of South Tarawa. About half of all households do not have access to toilet facilities and access to safe drinking water is available to about 65 percent of households.

26. Kiribati also faces challenges in improving health and education outcomes. Rising population density, particularly in South Tarawa, increases risks of communicable diseases. Non-communicable diseases (diabetes in particular) also represent a significant challenge. On education, about 57 percent of the population reached the secondary level, but only about 3 percent the tertiary level.[6] At the same time, education and health already represent the two largest items in the budget. Kiribati is also among the top Pacific Island countries in terms of health expenditures as a percent of GDP and ranks twentieth in the world.[7]

Pacific Islands: Health Expenditure in 2013

(In % GDP)	
Tuvalu	19.7
Marshall Islands	16.5
Micronesia	12.6
Kiribati	10.1
Palau	9.9
Samoa	7.5
Solomon Islands	5.1
Tonga	4.7
Papua New Guinea	4.5
Fiji	4.1
Vanuatu	3.9
Timor-Leste	1.3

Source: World Bank, *World Development Indicators*.

27. Given fiscal constraints, Kiribati will need continued support from donors and IFIs. Future donor-supported projects should focus on improving the provision of basic services such as water, electricity, housing, education, and health. The relatively high share of health and education

[5] The KPF is a 'cash balance plan', which resembles a defined contribution scheme, but members' balances are credited with a notional rate of return only loosely linked to the actual return on fund's investment. As a result of low investment returns and higher crediting rates on members' balances, the KPF has accumulated substantial unfunded liabilities and investing in domestic high-return (but risky) assets has been an attempt to restore its sustainability. Bringing the rate of return credited to KPF members' balance in line with the actual rate of return on assets would ensure sustainability of the system, and a switch to a more passive investment strategy with assets allocated abroad would allow KPF to better meet its ongoing contractual obligations.

[6] Based on the 2010 census.

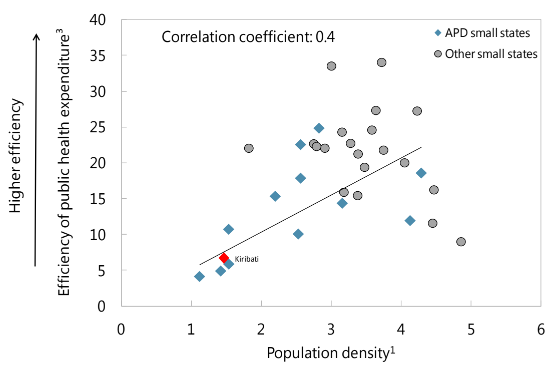
[7] World Bank's World Development indicators.

expenditures as a percent of GDP and as a share of the budget is partly a result of high fixed costs due to the lack of scale, but also suggests that there is room for efficiency gains, particularly in personnel management (Figure 3).

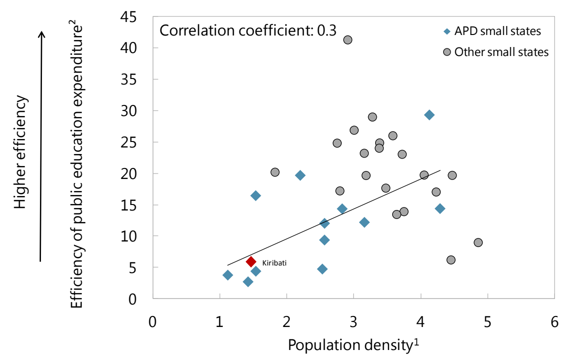
Authorities' Views

28. Education and health will continue to be the highest priorities going forward. While acknowledging possible efficiency gains, the authorities emphasized challenges remaining in the health and education sectors, in particular insufficient resources to maintain capital assets and inadequate supplies in hospitals. Several infrastructure projects are being implemented to improve water access and sanitation.

Efficiency of Public Heath Expenditure



Efficiency of Public Education Expenditure



* Density computed as inhabitants per square kilometers. The variable was rescaled by taking log of the density multiplied by 1,000. Efficiency measured as secondary enrollment rate divided by public education expenditure-to-GDP ratio. Efficiency measured as life expectancy divided by public health expenditure-to-GDP ratio, 1990–2012. (Red dots: Kiribati)

Source: Board Paper "Macroeconomic Developments and Selected Issues in Small Developing States" (FO/DIS/15/40).

STAFF APPRAISAL

29. Economic performance has been strong, buoyed by large donor-financed infrastructure projects. Staff projects real GDP growth will remain above 3 percent in 2015, while inflation should stay low.

30. The fiscal position has improved markedly, but further efforts are needed to ensure sustainability. We commend the authorities for achieving substantial fiscal surpluses in recent years, although the improvement was mainly driven by record-high fishing license fees which can be volatile. Recent increases in recurrent expenditures are partly explained by a more transparent support to SOEs. Nevertheless, the historical pace of increase in spending is unsustainable over the long term.

31. Nominal expenditure growth should be limited to 1½ per year over the next years. In order to enhance fiscal discipline, budget contingencies should be built in for unexpected expenditures consistent with this expenditure path. Public sector wages and SOEs' subsidies should be contained to create room for pro-growth and climate change-related expenditures. Expenditure growth path may be increased over time when the fiscal position has strengthened and become more sustainable, depending on the fishing license fees outturn.

32. The introduction of the VAT has overall been successful and revenues are in line with expectations. Consideration should be given to phase out existing exemptions and replace them with targeted support of low income households. If exemptions are to be maintained, the list should be short and narrowly defined.

33. Strengthening the RERF should remain a key policy goal. Important progress has been made in reforming RERF financial management. Transfers and withdrawals should be more transparent and symmetric around the proposed expenditure path: subject to maintaining a cash buffer equivalent to around two months of budget expenditures, a substantial part of the current above-average surpluses should be saved to allow for sustainable drawdowns when they fall below the average. Accordingly, the major part of the 2014 surplus should be transferred to the RERF.

34. Progress has been made in creating conditions for private sector growth. Going forward, further lowering telecommunication and transportation costs, streamlining business registration processes, and facilitating the private usage of land will be critical to improve the investment climate and lift growth prospects.

35. There has also been progress on implementing the reform of SOEs to improve their efficiency and contain the drain on public finances. Going forward, the authorities are encouraged to further reduce the copra subsidy and speed up the restructuring of the energy sector through further increasing the efficiency of the two energy companies and rationalizing the structure of both fuel and electricity prices.

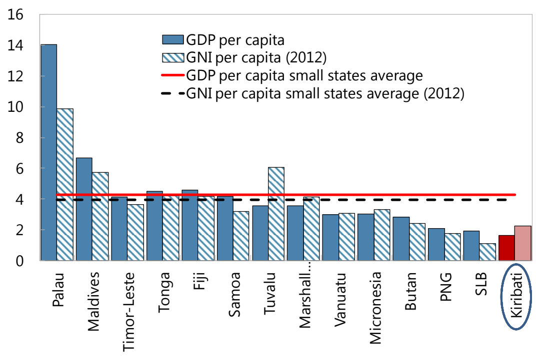
36. Given fiscal constraints, Kiribati will need continued support from donors and IFIs. Future donor-supported projects should focus on climate change mitigation measures, and improving the provision of basic services such as water, electricity, housing, education, and health.

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

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

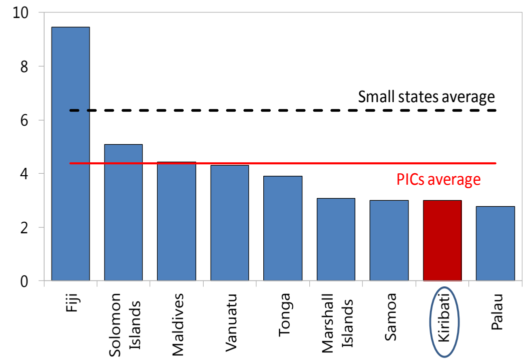
Kiribati's per capita income remains below that of many other small states.

Per Capita Income, 2013
(In thousands of U.S. dollars)



One of the key challenge relates to Kiribati's remoteness, as measured by connectivity/transportation costs

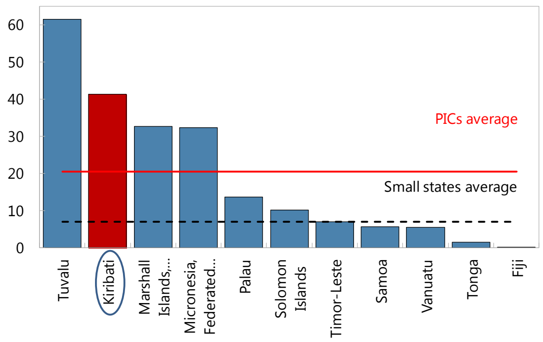
Liner Shipping Connectivity Index, 2005-2014



Note: A smaller number indicates lower connectivity/high transportation costs. Countries with maximum connectivity=100.

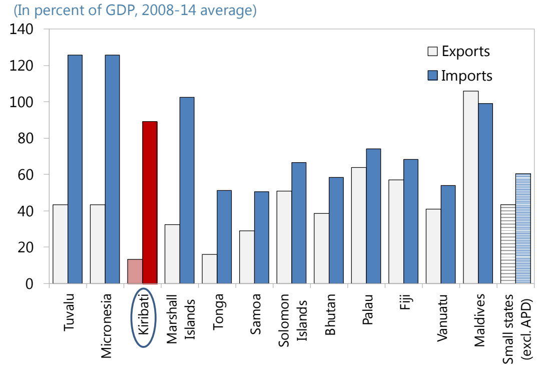
Kiribati is heavily reliant on donors' support to finance its development...

External Grants, 2013
(In percent of GDP)



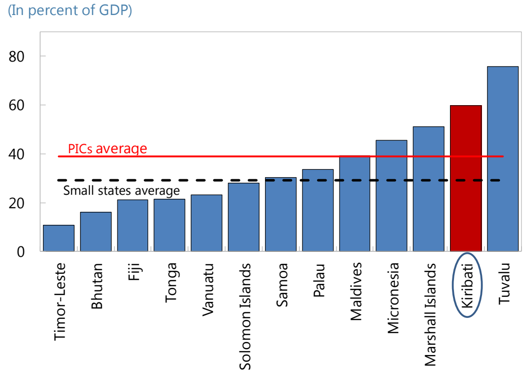
... which increases import demand. The export base remains very limited.

Trade Balance of Goods and Services
(In percent of GDP, 2008-14 average)



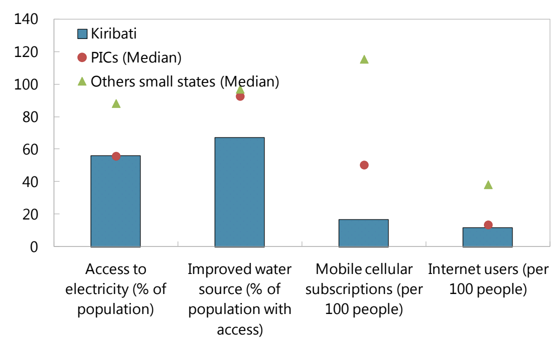
The public sector dominates the economy...

Current Government Expenditure, 2013
(In percent of GDP)



... but key infrastructure are still lagging

Infrastructure Indicators, 2013 1/



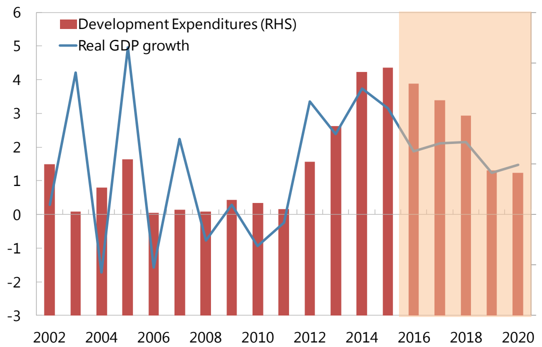
1/ or latest data available

Sources: IMF LIC data and staff estimates.

Figure 2. Kiribati: Macroeconomic Prospects

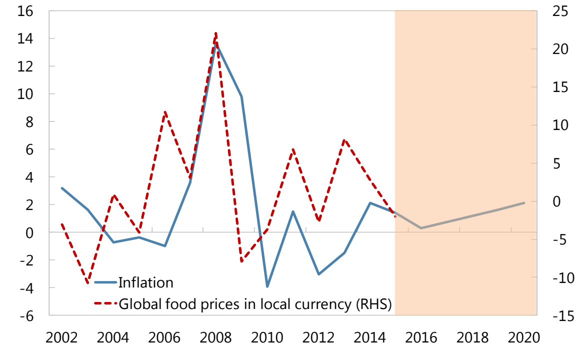
Growth has been supported by donor-financed large infrastructure projects...

Growth and Development Expenditures
(In percent, year-on-year; in millions of Australian dollars)



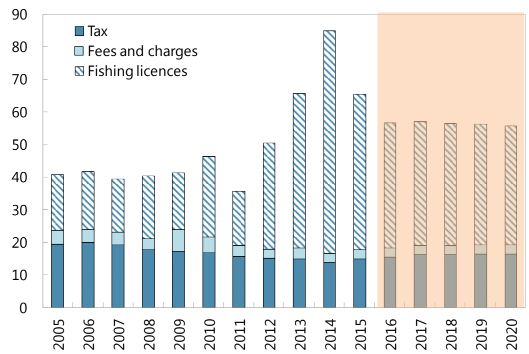
... while inflation remains moderate, driven by subdued food prices

Inflation
(In percent, year-on-year)



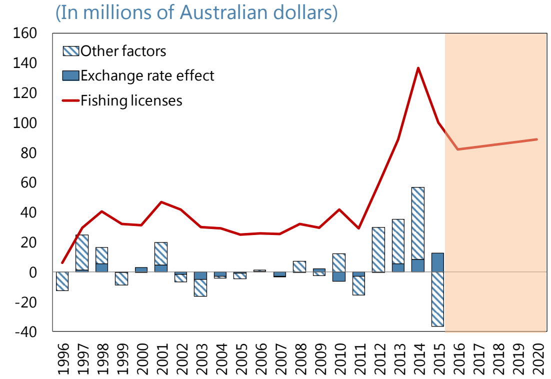
Fishing license fees have boosted revenues in the last three years...

Revenue
(In percent of GDP)



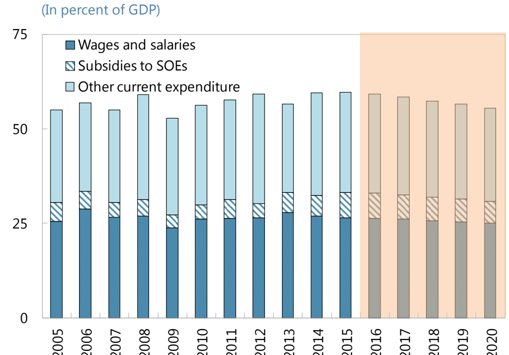
... and are expected to remain higher than in the past, albeit lower than their 2014 peak

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



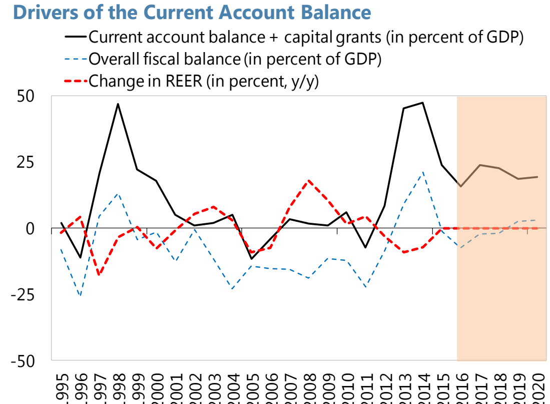
Expenditures have increased since 2009 but are expected to gradually decline in percent of GDP

Current Expenditure
(In percent of GDP)



The current account tends to be driven by fiscal developments

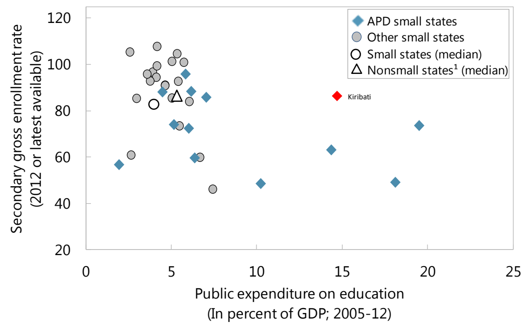
Drivers of the Current Account Balance



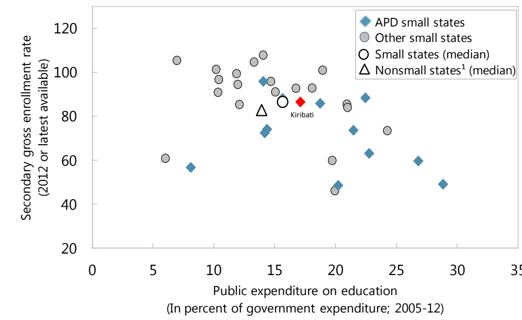
Sources: Kiribati authorities and IMF staff estimates.

Figure 3. Kiribati: Health, Education Expenditure, and Selected Human Development Indicators

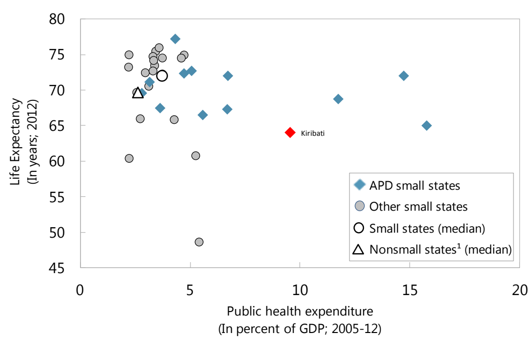
Public Expenditure on Education and Secondary Enrollment



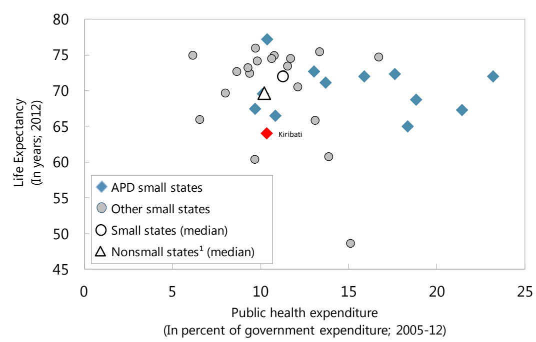
Public Expenditure on Education and Secondary Enrollment



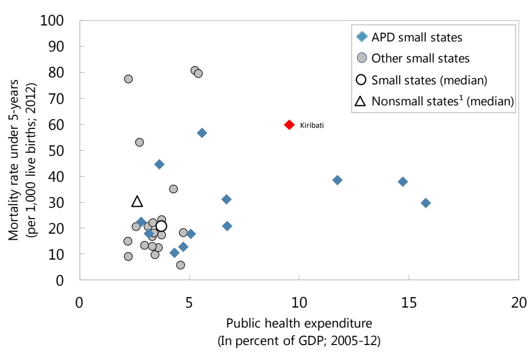
Life Expectancy and Public Health Expenditure



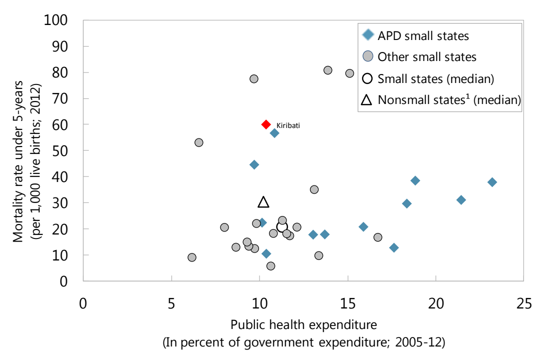
Life Expectancy and Public Health Expenditure



Mortality Under 5-years and Public Health Expenditure



Mortality Under 5-years and Public Health Expenditure



Sources: World Bank, WDI; board paper "Macroeconomic Developments and Selected Issues in Small Developing States" and IMF staff estimates.

Table 1. Kiribati: Selected Economic Indicators, 2009–17

Nominal GDP (2013): US$181.1 million
Nominal GNI (2013): US$289.8 million
Main export products: fish and copra

GDP per capita (2013): US$1,676
Population (2013): 108,021
Quota: SDR 5.6 million

	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Est.	Proj.		
Real GDP (percent change)	0.3	-0.9	-0.2	3.4	2.4	3.7	3.1	1.8	2.1
Real GNI (percent change)	-2.9	1.8	-5.8	14.3	11.5	13.6	-7.7	-3.6	1.9
Consumer prices (percent change, average)	9.8	-3.9	1.5	-3.0	-1.5	2.1	1.4	0.3	0.8
Central government finance (percent of GDP)									
Revenue and grants	68.4	70.2	59.6	84.2	94.4	128.7	105.4	94.9	95.0
Total domestic revenue	41.2	46.2	35.6	50.3	65.6	84.9	65.5	56.6	57.0
Grants	27.1	23.9	24.1	33.9	28.8	43.8	39.9	38.3	38.0
Expenditure and net lending	79.9	82.4	81.9	80.5	84.9	107.6	106.5	102.2	97.3
Current	52.8	56.1	57.6	47.0	56.5	59.5	59.7	59.3	58.5
Of which: wages and salaries	23.8	26.2	26.3	26.4	27.9	26.8	26.5	26.4	26.1
Development	27.1	26.3	24.3	33.5	28.4	48.1	46.8	42.9	38.7
Current balance 1/	-11.5	-9.9	-22.0	3.4	9.1	25.4	5.8	-2.8	-1.5
Overall balance	-11.5	-12.2	-22.2	3.8	9.5	21.1	-1.1	-7.3	-2.3
Financing	11.5	12.2	22.2	-3.8	-9.5	-21.1	1.1	7.3	2.3
of which Revenue Equalization and Reserve Fund (RERF)	10.7	10.2	11.3	10.9	-9.1	-13.5	-9.3	0.4	1.5
RERF									
Closing balance (in millions of US$)	512	566	588	606	551	580	590	608	627
Closing balance (in millions of A$) 2/	571	571	581	579	614	703	754	788	821
Per capita value (in 2006 A$)	5,209	5,040	4,767	4,870	5,113	5,113	5,276	5,292	5,299
Balance of payments (in millions of US$)									
Current account including official transfers	-8.3	3.1	-24.1	-2.8	25.8	30.4	-8.3	-17.3	-12.5
(In percent of GDP)	-6.2	2.0	-13.4	-1.5	14.2	16.8	-5.1	-10.4	-7.4
External debt (in millions of US$) 3/	15.9	14.3	14.3	14.3	14.3	14.3	20.8	32.4	40.1
(In percent of GDP)	10.5	8.5	8.1	7.5	8.5	8.7	12.7	19.6	23.9
External debt service (in millions of US$)	1.0	0.9	0.8	0.9	0.8	0.5	0.5	0.6	0.7
(In percent of exports of goods and services)	4.4	4.4	3.3	3.8	4.0	2.5	2.9	3.4	3.7
Exchange rate (A$/US$ period average) 3/	1.3	1.1	1.0	1.0	1.0	1.1	…	…	…
Real effective exchange rate (period average) 4/	98.3	100.0	104.2	101.0	94.0	89.3	…	…	…
Memorandum item:									
Nominal GDP (in millions of Australian dollars)	168.7	169.6	174.0	181.4	187.0	200.0	209.2	213.7	219.8
Nominal GDP (In millions of US dollars)	131.6	155.9	179.6	187.9	181.1	180.6	…	…	…

Sources: Data provided by the Kiribati authorities; and Fund staff estimates and projections.
1/ Current balance excludes grants and development expenditure.
2/ Balances assume A$25 Million from the 2014 surplus are transferred to the RERF
3/ The Australian dollar circulates as legal tender.
4/ Index, 2005=100.

Table 2. Kiribati: Summary of Central Government Operations, 2009–20 1/

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Est.			Proj.			
					(In millions of Australian dollars)							
Total revenue and grants	115.4	119.0	103.7	152.8	176.5	257.4	220.5	202.7	208.8	205.2	187.2	190.7
Revenue	69.6	78.4	61.9	91.3	122.6	169.7	137.0	120.9	125.3	128.4	131.7	135.1
Tax revenue	28.7	28.3	27.3	27.4	27.8	27.6	30.9	32.7	35.4	36.7	38.2	39.6
Of which: Personal income tax	6.2	6.1	6.1	7.2	7.1	7.0	7.4	7.5	7.7	8.0	8.2	8.5
Company tax	7.0	7.3	5.7	4.7	4.6	4.7	5.5	5.9	6.4	7.0	7.6	8.2
Import duties	15.5	14.8	15.4	15.4	16.1	...	...	...	...	...	...	...
VAT & Excise	...	...	...	...	...	15.7	18.1	19.3	21.2	21.7	22.3	22.9
Other taxes (hotel)	0.1	0.1	0.1	0.1	0.0	0.0	...	...	...	...	...	...
Nontax revenue	40.8	50.1	34.6	64.0	94.8	142.2	106.0	88.1	89.9	91.7	93.5	95.4
Of which: Fishing license fees	29.5	41.7	29.1	58.8	88.6	136.8	100.0	82.0	83.6	85.3	87.0	88.8
Other	11.3	8.4	5.6	5.1	6.2	5.4	6.0	6.1	6.3	6.4	6.5	6.7
External grants	45.8	40.6	41.9	61.5	53.9	87.7	83.5	81.9	83.5	76.8	55.4	55.7
Total expenditure	134.9	139.7	142.4	146.0	158.8	215.3	222.8	218.4	213.8	209.6	190.1	191.1
Current expenditure	89.1	95.2	100.2	85.2	105.6	119.0	124.9	126.7	128.6	130.6	132.5	134.5
Of which: Wages and salaries	40.2	44.4	45.8	47.9	52.1	53.7	55.3	56.4	57.4	58.5	59.6	60.7
Subsidies to public enterprises 2/	5.8	6.3	8.5	6.8	9.8	11.2	14.1	14.1	14.1	14.1	14.1	14.1
Other current expenditure	43.1	44.6	42.7	52.7	43.7	54.1	47.4	47.9	48.6	49.2	49.8	50.3
Repayments	1.4	8.3	1.0	0.9	2.0	9.1	0.7	0.5	0.0	0.5	0.0	1.0
Interest payments	1.4	1.4	2.7	6.2	0.8	0.8	1.0	1.2	1.2	1.2	1.2	1.5
Others	40.2	34.9	39.1	45.6	40.8	44.2	45.7	46.2	47.4	47.5	48.5	47.8
Contingency and maintenance							8.0	8.4	8.5	8.8	9.1	9.4
Development expenditure 3/	45.8	44.5	42.2	60.8	53.2	96.3	98.0	91.7	85.1	79.0	57.5	56.6
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurrent fiscal balance 4/	-19.5	-16.8	-38.3	6.1	17.0	50.7	12.1	-5.9	-3.4	-2.2	-0.8	0.5
Overall balance 5/	-19.5	-20.8	-38.7	6.8	17.7	42.2	-2.4	-15.7	-5.0	-4.3	-2.9	-0.4
Financing	19.5	20.8	38.7	-6.8	-17.7	-42.2	2.4	15.7	5.0	4.3	2.9	0.4
Revenue Equalization and Reserve Fund (RERF)	18.0	17.3	19.7	19.7	-17.0	-27.0	-19.5	0.9	3.4	2.2	0.8	-0.5
Cash Account	0.0	0.0	0.0	0.0	0.0	-26.1	0.0	0.0	0.0	0.0	0.0	0.0
Project loans (net)	-0.9	4.0	0.4	-0.7	-0.7	8.6	14.5	9.8	1.6	2.2	2.1	0.9
Commercial borrowing	-2.1	-0.5	18.6	-25.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0
Budget support	...	...	...	...	0.0	10.4	7.4	5.0	...	...	...	...
					(In percent of GDP)							
Total revenue and grants	68.4	70.2	59.6	84.2	94.4	128.7	105.4	94.9	95.0	90.3	79.9	78.6
Revenue	41.2	46.2	35.6	50.3	65.6	84.9	65.5	56.6	57.0	56.5	56.2	55.6
Tax revenue	17.0	16.7	15.7	15.1	14.9	13.8	14.8	15.3	16.1	16.1	16.3	16.3
Of which: Personal income tax	3.6	3.6	3.5	4.0	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Company tax	4.2	4.3	3.3	2.6	2.5	2.4	2.6	2.8	2.9	3.1	3.2	3.4
Import duties	9.2	8.7	8.9	8.5	8.6	...	...	...	...	...	...	...
VAT	...	...	...	...	...	7.9	8.7	9.0	9.6	9.5	9.5	9.4
Other taxes (hotel)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	24.2	29.5	19.9	35.3	50.7	71.1	50.7	41.2	40.9	40.4	39.9	39.3
Of which: Fishing license fees	17.5	24.6	16.7	32.4	47.4	68.4	47.8	38.4	38.1	37.5	37.1	36.6
Of which: other	6.7	5.0	3.2	2.8	3.3	2.7	2.9	2.9	2.9	2.8	2.8	2.7
External grants	27.1	23.9	24.1	33.9	28.8	43.8	39.9	38.3	38.0	33.8	23.7	22.9
Total expenditure	79.9	82.4	81.9	80.5	84.9	107.6	106.5	102.2	97.3	92.2	81.1	78.7
Current expenditure	52.8	56.1	57.6	47.0	56.5	59.5	59.7	59.3	58.5	57.5	56.6	55.4
Of which: Wages and salaries	23.8	26.2	26.3	26.4	27.9	26.8	26.5	26.4	26.1	25.7	25.4	25.0
Subsidies to public enterprises 2/	3.4	3.7	4.9	3.7	5.2	5.6	6.7	6.6	6.4	6.2	6.0	5.8
Other current expenditure	25.5	26.3	24.6	29.0	23.4	27.1	22.7	22.4	22.1	21.7	21.2	20.7
Repayments	0.8	4.9	0.6	0.5	1.1	4.6	0.3	0.3	0.0	0.2	0.0	0.4
Interest payments	0.9	0.8	1.5	3.4	0.4	0.4	0.5	0.5	0.6	0.5	0.5	0.6
Others	23.8	20.6	22.5	25.1	21.8	22.1	21.9	21.6	21.6	20.9	20.7	19.7
Development expenditure	27.1	26.3	24.3	33.5	28.4	48.1	46.8	42.9	38.7	34.8	24.6	23.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current fiscal balance (excl. grants)	-11.5	-9.9	-22.0	3.4	9.1	25.4	5.8	-2.8	-1.5	-1.0	-0.3	0.2
Overall balance	-11.5	-12.2	-22.2	3.8	9.5	21.1	-1.1	-7.3	-2.3	-1.9	-1.2	-0.2
Financing	11.5	12.2	22.2	-3.8	-9.5	-21.1	1.1	7.3	2.3	1.9	1.2	0.2
RERF	10.7	10.2	11.3	10.9	-9.1	-13.5	-9.3	0.4	1.5	1.0	0.3	-0.2
Project loans (net)	-0.5	2.3	0.2	-0.4	-0.4	4.3	6.9	4.6	0.7	0.9	0.9	0.4
Commercial borrowing	-1.3	-0.3	10.7	-14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4
Budget support	...	...	...	...	0.0	5.2	3.5	2.3	...	...	...	...
Memorandum items:												
RERF balance (in millions of Australian dollars)	571	571	581	579	614	703	754	788	821	856	895	937
RERF balance (in percent of GDP)	338	337	334	319	328	352	360	369	373	377	382	386
Real per capita value (in 2006 A$)	5209	5040	4767	4870	5113	5113	5276	5292	5299	5314	5338	5370
Nominal GDP	169	170	174	181	187	200	209	214	220	227	234	243
Real GDP (percentage change)	0.3	-0.9	-0.2	3.4	2.4	3.7	3.1	1.8	2.1	2.1	1.4	1.5

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

1/ Expenditure path based on staff recommended "active policies" scenario

2/ Includes subsidies to copra production.

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

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

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

Table 3. Kiribati: Medium-Term Projections, 2009–20

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
								Est.			Proj.			
Real sector														
Real GDP (percentage change)			0.3	-0.9	-0.2	3.4	2.4	3.7	3.1	1.8	2.1	2.1	1.4	1.5
Inflation (period average)			9.8	-3.9	1.5	-3.0	-1.5	2.1	1.4	0.3	0.8	1.2	1.7	2.1
Nominal GDP at market prices (in millions of A$)	156.3	167.3	168.7	169.6	174.0	181.4	187.0	200.0	209.2	213.7	219.8	227.2	234.3	242.7
Government finance								(In percent of GDP)						
Total revenue and grants	66.1	64.8	68.4	70.2	59.6	84.2	94.4	128.7	105.4	94.9	95.0	90.3	79.9	78.6
Revenue	39.3	40.2	41.2	46.2	35.6	50.3	65.6	84.9	65.5	56.6	57.0	56.5	56.2	55.6
External grants	26.7	24.6	27.1	23.9	24.1	33.9	28.8	43.8	39.9	38.3	38.0	33.8	23.7	22.9
Total expenditure and net lending	81.7	83.6	79.9	82.4	81.9	92.6	84.9	107.6	106.5	102.2	97.3	92.2	81.1	78.7
Current expenditure	54.9	59.0	52.8	56.1	57.6	59.1	56.5	59.5	59.7	59.3	58.5	57.5	56.6	55.4
Of which: Wages and salaries	26.5	26.9	23.8	26.2	26.3	26.4	27.9	26.8	26.5	26.4	26.1	25.7	25.4	25.0
Development expenditure	26.7	24.6	27.1	26.3	24.3	33.5	28.4	48.1	46.8	42.9	38.7	34.8	24.6	23.3
Current balance			-11.5	-9.9	-22.0	-8.8	9.1	25.4	5.8	-2.8	-1.5	-1.0	-0.3	0.2
Overall balance	-15.6	-18.8	-11.5	-12.2	-22.2	-8.4	9.5	21.1	-1.1	-7.3	-2.3	-1.9	-1.2	-0.2
RERF balance (end of period; in millions of A$)	637.4	561.7	562	571	581	579	614	703	754	788	821	856	895	937
Real per capita balance (in 2006 A$)			5209	5040	4767	4870	5113	5113	5276	5292	5299	5314	5338	5370
Balance of payments								(In percent of GDP)						
Current account balance	-3.4	-4.1	-6.3	2.0	-13.4	-1.5	14.2	16.8	-5.1	-10.4	-7.4	-5.2	-1.0	-0.6
Trade balance			-43.4	-40.7	-41.7	-47.4	-45.0	-50.7	-50.2	-47.9	-45.0	-42.2	-36.6	-35.7

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

Table 4. Kiribati: Outstanding Banking Loans, 2007–14

	2007	2008	2009	2010	2011	2012	2013	2014(e)
	(In millions of Australian dollars)							
DBK	8.9	9.1	9.4	9.1	9.0	8.7	8.9	8.9
Personal Loans	-	-	-	-	-	3.8	3.5	4.0
ANZ	32.9	49.9	48.9	36.3	40.0	31.4	38.0	33.2
Government, SOE and other	20.1	34.0	36.9	31.7	25.3	17.7	16.8	7.7
Corporates	11.9	14.8	11.3	4.0	11.4	10.1	10.3	14.6
Households	0.9	1.1	0.7	0.6	3.2	3.6	10.9	10.9
KPF 1/	-	-	-	-	-	2.0	7.0	12.0
Total Loans	41.8	59.0	58.3	45.4	49.0	40.2	46.9	54.1
Households	-	-	-	-	-	9.4	21.4	27.0
	(In percent of GDP)							
DBK	5.7	5.4	5.6	5.4	5.1	4.8	4.8	4.4
Personal Loans	-	-	-	-	-	2.1	1.9	2.0
ANZ	21.1	29.8	29.0	21.4	23.0	17.3	20.3	16.6
Government, SOE and other	12.9	20.3	21.9	18.7	14.5	9.8	9.0	3.8
Corporates	7.6	8.9	6.7	2.4	6.6	5.6	5.5	7.3
Households	0.6	0.7	0.4	0.3	1.9	2.0	5.8	5.5
KPF	-	-	-	-	-	1.1	3.7	6.0
Total Loans	26.8	35.3	34.6	26.8	28.1	22.1	25.1	27.0
Households	-	-	-	-	-	5.2	11.4	13.5

1/ KPF's small loan scheme: data is estimated.
Source: Kiribati authorities and IMF staff calculations.

Table 5. Kiribati: Balance of Payments, 2009–20

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Est.	Proj.					
	(In millions of Australian dollars)											
Current account balance	-10.6	3.3	-23.3	-2.8	26.6	33.7	-10.6	-22.3	-16.2	-11.8	-2.5	-1.4
Trade balance	-73.2	-69.0	-72.5	-85.9	-84.2	-101.4	-104.9	-102.4	-98.9	-95.9	-85.7	-86.8
Exports, f.o.b.	9.5	7.3	11.1	9.8	10.6	11.2	10.6	11.0	12.0	13.3	13.6	13.8
Imports, f.o.b.	82.7	76.3	83.7	95.8	94.8	112.6	115.5	113.4	111.0	109.2	99.4	100.6
Balance on services	-50.2	-46.7	-54.0	-62.7	-60.8	-65.0	-67.5	-67.6	-67.6	-67.9	-67.3	-67.0
Credit	16.1	14.1	14.2	12.3	11.2	11.7	12.3	12.8	13.4	14.0	14.8	15.6
Debit	66.2	60.7	68.1	75.0	72.1	76.7	79.8	80.4	81.0	81.9	82.1	82.6
Balance on factor income 1/	71.6	78.7	66.6	95.9	124.2	164.6	132.1	116.1	118.9	121.7	124.7	127.8
Credit	76.8	84.4	70.7	99.3	127.6	168.2	135.9	120.3	123.3	126.5	129.7	133.2
Fishing license fees	35.4	42.0	29.3	58.4	89.0	136.8	100.0	82.0	83.6	85.3	87.0	88.8
Investment income	26.9	29.0	28.7	27.8	25.5	17.6	21.1	22.7	23.6	24.6	25.7	26.8
Remittances	12.8	11.9	11.2	11.5	12.5	13.1	14.2	14.9	15.3	15.9	16.4	16.9
Debit	5.3	5.7	4.1	3.4	3.4	3.6	3.9	4.1	4.4	4.7	5.1	5.4
Balance on current transfers	41.2	40.3	36.6	49.9	47.4	35.4	29.7	31.6	31.5	30.3	25.9	24.6
Credit	45.7	46.7	43.3	57.0	53.6	41.2	35.7	37.8	37.8	36.8	32.7	31.6
Of which: Government	26.0	31.1	32.4	44.9	36.7	23.8	17.0	18.9	19.2	18.8	15.9	15.3
Debit	3.5	5.9	6.9	7.3	6.0	5.2	4.7	4.8	4.9	5.0	5.1	5.2
Of which:G overnment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial and capital account balance	13.0	12.6	11.0	-6.8	4.6	39.5	49.1	42.9	35.3	33.0	26.1	27.5
Government	11.5	5.9	10.5	17.4	15.3	70.0	76.4	67.3	60.1	54.3	36.4	35.9
Capital transfers	12.4	6.8	10.5	18.1	16.0	61.4	61.9	57.5	58.4	52.1	34.3	35.0
Loans (net)	-0.9	-0.9	0.1	-0.7	-0.7	8.6	14.5	9.8	1.6	2.2	2.1	0.9
Direct investment	4.7	-8.7	-0.8	-4.9	-3.8	-4.6	3.1	2.9	2.8	2.7	2.5	2.4
Financial institutions 2/	-3.2	15.4	1.3	-19.3	-6.8	-25.9	-30.3	-27.4	-27.6	-23.9	-12.8	-10.8
Errors and omissions	-4.6	-4.7	15.1	-7.2	-20.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.2	11.3	2.7	-16.7	11.1	73.2	38.5	20.6	19.1	21.2	23.6	26.1
Change in external assets (increase -) 3/	2.2	-11.3	-2.7	16.7	-11.1	-73.2	-38.5	-20.6	-19.1	-21.2	-23.6	-26.1
Revenue Equalization Reserve Fund	-2.3	-10.5	-1.9	16.7	-11.1	-43.2	-38.5	-20.6	-19.1	-21.2	-23.6	-26.1
Government funds 4/	4.5	-0.8	-0.8	0.0	0.0	-30.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)											
Current account balance	-6.3	2.0	-13.4	-1.5	14.2	16.8	-5.1	-10.4	-7.4	-5.2	-1.0	-0.6
Trade balance	-43.4	-40.7	-41.7	-47.4	-45.0	-50.7	-50.2	-47.9	-45.0	-42.2	-36.6	-35.7
Exports, f.o.b.	5.6	4.3	6.4	5.4	5.7	5.6	5.1	5.1	5.5	5.8	5.8	5.7
Imports, f.o.b.	49.0	45.0	48.1	52.8	50.7	56.3	55.2	53.0	50.5	48.0	42.4	41.4
Balance on services	-29.7	-27.5	-31.0	-34.5	-32.5	-32.5	-32.3	-31.6	-30.8	-29.9	-28.7	-27.6
Credit	9.5	8.3	8.1	6.8	6.0	5.9	5.9	6.0	6.1	6.2	6.3	6.4
Debit	39.3	35.8	39.2	41.3	38.5	38.3	38.1	37.6	36.8	36.0	35.0	34.0
Balance on factor income 1/	42.4	46.4	38.3	52.9	66.4	82.3	63.1	54.3	54.1	53.6	53.2	52.7
Credit	45.5	49.8	40.7	54.7	68.2	84.1	65.0	56.3	56.1	55.7	55.4	54.9
Fishing license fees	21.0	24.8	16.8	32.2	47.6	68.4	47.8	38.4	38.1	37.5	37.1	36.6
Investment income	15.9	17.1	16.5	15.3	13.6	8.8	10.1	10.6	10.8	10.8	11.0	11.1
Remittances	7.6	7.0	6.5	6.4	6.7	6.6	6.8	7.0	7.0	7.0	7.0	7.0
Debit	3.1	3.4	2.4	1.9	1.8	1.8	1.8	1.9	2.0	2.1	2.2	2.2
Balance on current transfers	24.4	23.8	21.0	27.5	25.4	17.7	14.2	14.8	14.3	13.3	11.1	10.1
Credit	27.1	27.6	24.9	31.4	28.6	20.6	17.1	17.7	17.2	16.2	14.0	13.0
Debit	2.1	3.5	4.0	4.0	3.2	2.6	2.3	2.2	2.2	2.2	2.2	2.1
Financial and capital account balance	7.7	7.4	6.3	-3.7	2.5	19.8	23.5	20.1	16.1	14.5	11.1	11.3
Government	6.8	3.5	6.0	9.6	8.2	35.0	36.5	31.5	27.3	23.9	15.5	14.8
Capital transfers	7.4	4.0	6.0	10.0	8.6	30.7	29.6	26.9	26.6	22.9	14.6	14.4
Loans (net)	-0.5	-0.5	0.0	-0.4	-0.4	4.3	6.9	4.6	0.7	0.9	0.9	0.4
Direct investment	2.8	-5.1	-0.5	-2.7	-2.0	-2.3	1.5	1.4	1.3	1.2	1.1	1.0
Financial institutions 2/	-1.9	9.1	0.7	-10.6	-3.7	-12.9	-14.5	-12.8	-12.5	-10.5	-5.5	-4.5
Errors and omissions	-2.7	-2.8	8.7	-3.9	-10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.3	6.7	1.6	-9.2	5.9	36.6	18.4	9.6	8.7	9.3	10.1	10.7
Change in external assets (increase -) 3/	1.3	-6.7	-1.6	9.2	-5.9	-36.6	-18.4	-9.6	-8.7	-9.3	-10.1	-10.7
Revenue Equalization Reserve Fund	-1.4	-6.2	-1.1	9.2	-5.9	-21.6	-18.4	-9.6	-8.7	-9.3	-10.1	-10.7
Government funds 4/	2.7	-0.4	-0.5	0.0	0.0	-15.0	0.0	0.0	0.0	0.0	0.0	0.0

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

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

2/ Including errors and omisions for projections.

3/ Excludes valuation changes.

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

Annex 1. Risk Assessment Matrix [1/]

Sources of Risks	Likelihood	Potential Impact
Risks to fishing license fees	**Medium** Inability to durably enforce the Nauru Agreement or weather pattern changes lead to a sharp drop in revenues fishing license fees from their 2012-2014 level	**High** This would expose fiscal pressures and lead to high fiscal deficits that would jeopardize fiscal sustainability.
Global financial risks	**Medium** Financial imbalances from protracted period of low interest rates remain high: excess leverage, especially for corporates; asset price bubbles. **Low** Sovereign stress in the Euro area re-emerges due to policy uncertainty, faltering reforms, and political and social upheaval, particularly in Greece. In Japan: Abenomics falters, resulting in an eventual return of depressed domestic demand and deflation and leading to bond market stress (medium-term).	**Medium** Exposure to Australian assets makes the RERF vulnerable to the materialization of downside risks related to this country, among which the risks related to a booming property market. Declining growth prospects could impinge on global asset valuations and negatively affect the value of the RERF assets.
Protracted slowdown in key advanced and emerging economies	**Medium (emerging markets)** **High (advanced economies)** Euro area and Japan: Weak demand and persistently low inflation from a failure to fully address crisis legacies and appropriately calibrate macro policies Emerging markets: Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	**Medium** A decline in global returns and valuations would have a negative impact on RERF assets. Also, fishing license fees and seamen's remittances could be negatively affected if global demand for fish and shipping grows at a slower pace of growth.
Risks to energy prices	**Medium** Persistently low prices triggered by supply factors reversing only gradually, and weaker demand.	**Medium** Decline in commodity prices would be favorable to Kiribati since it would reduce the value of imports.
Sharp growth slowdown and financial risks in China	**Low** Growth falls significantly below target in 2015-2016, possibly due to a severe housing downturn or a shock in the shadow banking sector, and absent offsetting stimulus.	**Medium** Fishing license fees may be affected by a resulting lower growth in the Asia Pacific region and disruption of shipping.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (that is, which is the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly"

INTERNATIONAL MONETARY FUND

KIRIBATI

July 9, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of May 31, 2015)

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

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

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	5.32	100.00
Holdings	5.39	101.29

Outstanding Purchases and Loans: None.

Financial Arrangements: None.

Projected Obligations to Fund: None.

Implementation of HIPC Initiative: Not Applicable.

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

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

Article IV Consultation:
The 2015 Article IV consultation discussions with Kiribati were held in Tarawa during May 4–14, 2015. Kiribati is on a 12-month consultation cycle.

Technical Assistance (TA), 1995–2015:

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

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

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

(As of 31 May, 2015)

During the current funding cycle (May 2011 to May 2015), PFTAC assistance to Kiribati has included 35 advisory missions. Kiribati also sent 40 officials to regional seminars and workshops.

Tax Administration and Policy

Kiribati implemented VAT on April 1st 2014 with support from PFTAC and the Australian Department of Foreign Affairs (DFAT). Appropriate steps were taken in the lead up to implementation with a strong focus on community outreach and education. Although these reforms have been a step in the right direction the authorities acknowledge that compliance could be further facilitated through an improved organizational structure, alignment of functions and building internal staff capability. To support this need PFTAC assisted the Kiribati Taxation Division (KTD) in a review of current organizational arrangements that were presented to and approved by the Internal Revenue Board. PFTAC is currently assisting in implementing the new structure and designing new job descriptions for each function. These changes will provide the KTD with a strong foundation to strengthen overall compliance management. The next phase of technical assistance will be geared towards developing a compliance improvement strategy which will be piloted on a few high risk VAT segments.

The implementation of a new IT system (RMS7) funded by Australia's Department of Foreign Affairs and Trade (DFAT) has played an instrumental role in modernizing operations. The first phase was implemented in December 2013 and included a VAT component aligned to VAT implementation on 1 April 2014. Training on the system was provided with a good level of involvement by staff. Staff attended further training in New Zealand in October 2014 for User Acceptance testing of phase 2 of the project. E-filing will be introduced as part of phase 3 to be implemented during 2015.

DFAT continues to support Kiribati with funding for a resident tax adviser who has played an important role in implementing VAT through on the ground support and training of staff.

Public Financial Management (PFM)

An August 2011 mission to Kiribati assisted the Ministry of Finance in prioritizing its PFM reform activities (RBM 1.2), and provided a framework for the current joint AusAid/AsDB long-term TA. Prior to the inception of that TA, two PFTAC/IMF missions worked with the Ministry of Finance officials to modify their chart-of-accounts (RBM 1.4) to capture more information on donor-funded projects, to

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

improve the integration of planning and budgeting (RBM 1.5), and to provide options for better cash and debt management (RBMs 1.3 & 1.6) . In addition, PFTAC's PFM Advisors participated in the August 2012 AsDB/AusAid Technical Assistance inception mission, and a concurrent donor forum. During 2013 several missions were conducted with multiple focuses including training budget analysts (RBM 1.5) in the National Economic Planning Office (NEPO), supporting the Team Leader of the joint Australia/ADB Treasury Reform TA (RBM 1.4), and assisting the authorities to develop an improved debt/cash management policy (RBMs 1.3 & 1.6) with support from IMF's APD and MCM Divisions. PFTAC PFM Advisors have also participated in interview/CV review teams for both Australian and EU-funded TA.

A PEFA review is tentatively scheduled for late 2015/early 2016.

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

Financial Sector Regulation and Supervision

The Resident Technical Advisor is engaged with the Registrar of Credit Unions with the implementation of the Credit Union Act, which became in force on January 1 2015. A mission was held in January 2015 aimed at introducing a credit union financial reporting system. A number of workshops were held on this topic and the Registrar's staff received training on how to properly complete the reports. While the credit unions are being registered with the Ministry, the Registrar is implementing the reporting program. An additional mission is planned in late 2015 to review the progress of the implementation of the Act and the reporting system. It is anticipated that more workshops will be held on the subject of financial reporting and analysis.

It was further recommended that Kiribati consider establishing a Banking Commission who could undertake the oversight of the financial sector. Discussions will be held with the Ministry of Finance on this approach to sector surveillance.

Economic and Financial Statistics

GDDS metadata was first published on the IMF website in April 2004 and subsequently updated in March 2013, following assistance by PFTAC. The balance of payments (BOP) compiler benefited from training provided in regional courses in 2005 and 2010. PFTAC provided TA on balance of payments in 2008, 2010 and 2012, improving compilation methods and use of source data, as well as providing training, and helping with the transition to BPM6. Starting from 2012, TA on BOP and government finance statistics (GFS) has been provided by related IMF JSA projects.

PFTAC has provided regular TA on national accounts since 2008, assisting the authorities in making significant improvements in methodology and use of source data. Beginning in 2012, PFTAC has increased its TA with the development of an expenditure measure of GDP and with the preparation of statistical procedures for the incorporation of VAT data. However, progress has been slow due to resource and capacity constraints. The NA compilers benefited from regional courses in 2009, 2012, 2013, and 2014. PFTAC also sponsored a one-month attachment for the BOP compiler with Statistics New Zealand in May 2009.

Macroeconomic Analysis

Two missions in 2011 provided assistance in building capacity related to basic forecasting techniques, using the medium-term fiscal framework developed as part of ADB assistance, and assessing sustainable levels of drawdowns from Kiribati's Reserve Equalization Reserve Fund. A regional financial programming workshop held jointly in 2012 by PFTAC and the Singapore Regional Training Institute provided training in financial programming techniques to two economists of the Ministry of Finance and Economic Development. In 2015 an economist from the Ministry of Finance and Economic Development participated in a PFTAC workshop on incorporating disaster risk into fiscal planning.

BANK-FUND COLLABORATION

A. World Bank-IMF Collaboration

(As of May 31, 2015)

The Fund and the Bank teams maintain close cooperation in various areas and consult frequently. During the current cycle, the Bank staff has joined the IMF missions, including IMF staff visits and the 2015 Article IV mission. The IMF staff and the World Bank staff maintained continuing close dialogue on economic developments and all aspects of the government reform program.

During the current cycle, the teams have produced a Joint DSA. The IMF team provided analysis and advice on the overall macroeconomic and fiscal framework, including fiscal and RERF sustainability. The IMF and World Bank have also been engaged in provision of technical assistance and advice in public financial management and debt management and policy. The Fund also provided technical assistance on tax administration and policy, budget management, Revenue Equalization Reserve Fund (RERF), and on statistical issues, including Government Finance Statistics and Balance of Payments. The Bank has been engaged in various infrastructure projects, including road rehabilitation, airport improvement, solar energy, and adaptation to climate change. Bank staff provided technical assistance on government expenditures, reforms of copra subsidy and import levy fund, liberalization of telecommunication sector, management of RERF assets, and social protection issues. During this cycle the Bank has continued to work closely with the government on the comprehensive program of priority economic reforms and building resilience against external shocks, and supported coordination of donor TA around the reform agenda. Reforms identified through this process are now being supported under joint donor budget support, coordinated by the World Bank, with the third operation currently prepared in close consultation with the Government and donors.

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

B. Relations with the World Bank Group[2]

Kiribati became a member of the World Bank Group (WBG) in 1986. Since then, the WBG has provided strong support to Kiribati, including 15 IDA/ IBRD, Global Environment Fund, and Institutional Development Fund projects in different sectors totaling US $170 million.

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

[2] Prepared by the World Bank staff.

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

The CAS heralded an expanded WBG support for Kiribati. Both IDA and IFC are significantly increasing engagement. Consistent with Kiribati's limited repayment capacity highlighted in the DSA, IDA-financing are being provided on 100 percent grant terms. IFC is playing an important role in strengthening investment climate in countries across the Pacific, and is similarly scaling up technical assistance to Kiribati to strengthen the business environment and to support specific PPP transactions or asset sales as the government moves to rationalize SOEs.

Key components of WBG engagement include:

- Building resilience against external shocks. Since 2003, the World Bank has been supporting climate change mitigation through the Kiribati Adaptation Program, with activities such as seawall construction, mangrove planting, and water conservation. Beyond climate change adaptation, the World Bank has been committed to addressing wider issues of vulnerability in Kiribati, including supporting renewable energy generation to reduce reliance on volatile imported diesel, and assisting transport of essential food items to ensure the availability and affordability of food on the outer islands.

- Mitigating the effects of geographic isolation. To mitigate Kiribati's geographical disadvantage, the World Bank has scaled up support for basic infrastructure that connects the people of Kiribati to the outside world. Infrastructure investments integrating climate change adaptation planning has started in parallel with efforts to develop coordinated and more comprehensive multi-donor adaptation interventions. A South Tarawa road improvement investment (US$24 million in IDA and Trust Fund financing) is being undertaken jointly with the Asian Development Bank. The World Bank has also mobilized significant grant resources with New Zealand and other development partners to help bring Kiribati airports up to international safety standards.

- Supporting economic reform and regional integration. Through a programmatic budget support operation, the World Bank has supported the Government's implementation of the Economic Reform Plan—a medium-term strategy to restore the country's fiscal sustainability adopted in 2011. The first and second operations, with disbursements of US$5.2 million and US$3 million, respectively, have been completed in 2014–15. The third operation is currently being prepared in close consultation with the Government and other donors. As well as domestic reform, the World Bank continues to support efforts by Kiribati and other Pacific Island countries to gain benefits from greater regional integration, including participation in temporary labor migration schemes in Australia and New Zealand, and improving the governance of marine and fishery resources.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK[4]

The Asian Development Bank has approved eight project loans to Kiribati amounting to US$34.7 million, all from Asian Development Fund (ADF) resources since Kiribati joined the AsDB in 1974. In addition, TA amounting to US$18.4 million has been provided for 40 projects. The latest AsDB loan to Kiribati, for South Tarawa Sanitation Improvement Sector project, was approved in October 2011. The AsDB most recently approved an US$0.8 million TA grant for enhancing economic competitiveness through SOE reform in October 2013.

In line with the broad objective of the Kiribati Development Plan, 2012–15, which focused on enhancing economic growth for sustainable development, ADB's program aims to reduce poverty and promote economic opportunity by improving public financial management and delivering sustainable infrastructure services. As many of the infrastructure services are provided by state-owned enterprises, improving corporate governance arrangements and the commercial focus of these enterprises is a key objective of ADB's support to the government's structural reform program. Technical assistance provided through the Economic Management and Public Sector Reform program helped strengthen state owned enterprise governance. ADB's support has also helped Kiribati move toward a number of Millennium Development Goals. In October 2011, ADB approved a loan for the South Tarawa Sanitation Improvement Sector Project, which aims to improve sanitation and hygiene practices in South Tarawa and increase access to sanitation from 64 percent to 80 percent by 2019. The Road Rehabilitation Project, approved in December 2010, will rehabilitate 32.5 kilometers of main roads and about 8 kilometers of feeder roads. Cofinanced by the Government of Australia, the World Bank and the Pacific Regional Infrastructure Facility, the project will improve socioeconomic conditions for the people of South Tarawa. ADB also provided its first policy grant of $3m to Kiribati in 2014.

Kiribati: Loan, Grant and Technical Assistance Approvals (2007–13)1/

	2008	2009	2010	2012	2013	2014
Loan Approvals						
Number	0	0	1	1	0	0
Amount (US$m)	0	0	12	7.56	0	0
Grant Approvals						
Number	0	0	0	0	0	1
Amount (US$m)	0	0	0	0	0	3
TA Approvals						
Number	1	2	2	1	2	0
Amount (US$m)	0.8	0.85	0.2	0.8	1	0

1/ Prepared by the Asian Development Bank Staff.

[4] Prepared by the Asian Development Bank Staff.

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance	
(As of June 5, 2015)	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Balance of Payments data are the most affected area.	
National Accounts: With PTFAC assistance GDP estimates have improved. Three TA missions took place in 2014 to improve national account data and produce revised estimates. However, further capacity building would be needed to continue to improve the quality of GDP estimates. So far, estimates are limited to Gross Domestic Product (GDP) at current and constant 06 prices, using the production approach. Work is ongoing on the expenditure-based GDP estimates.	
Price statistics: The monthly retail price index (1996=100) is produced with a short lag (about a month), based on a survey in South Tarawa (a national index is not available). There are no producer, wholesale, or trade price indices.	
Government finance statistics: A Government Finance Statistics mission took place in June 2014 to integrate GFS requirements into the ongoing Chart of Accounts and approaches to extend coverage to include donor-financed projects. The mission also explored possibilities to reclassify existing GFS data for consolidated central government to create a historical time series. While a complete review of government units, statutory extra budgetary units, and state-owned enterprises (SOE) was completed, a gap still remains regarding donor-financed project funds.	
Monetary statistics: The balance sheets of all the financial institutions (Bank of Kiribati, Development Bank of Kiribati, Kiribati Provident Fund, and Kiribati Insurance Corporation) are available with lags, but the consolidated balance sheet of the financial sector is not available. Data on interest rates are reported with a long lag.	
Balance of payments: Kiribati is part of the Pacific Region module of the JSA project on Improvement of External Sector Statistics (ESS) in the Asia and Pacific region. Three ESS missions were undertaken during 2014. Data are compiled quarterly in the BPM6 format. However, the quality of the data is improving marginally due to capacity constraints, and quality of source data. The shortcomings pertain to adjustments to trade data, recording of investments income, direct investment and foreign aid data.	
DATA STANDARDS AND QUALITY	
Kiribati has been a participant in the General Data Dissemination System (GDDS) since 04.	No data ROSC are available.
REPORTING TO STA (OPTIONAL)	
No data are currently reported to STA for publication in the *Government Finance Statistics Yearbook*, the Balance of Payments Statistics Yearbook or in the IFS.	

Kiribati: Table of Common Indicators Required for Surveillance					
	Date of latest observation	**Date received**	**Frequency of Data**	**Frequency of Reporting/7**	**Frequency of publication/7**
Exchange Rates	6/4/2015	6/4/2015	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	3/31/15	5/7/15	A	A	I
Consumer Price Index	3/15	4/15	M	Q	Q
Revenue, Expenditure, Balance and Composition of Financing/3 - General Government /4	2014	2/2015	A	A	I
Stocks of Central Government and Central Government-Guaranteed Debt /5	2014	2/2015	A	A	I
External Current Account Balance	2012	07/2014	A	A	I
Exports and Imports of Goods and Services	2013	2/2015	A	A	I
GDP/GNP	2013	2/2015	A	A	I
Gross External Debt	2013	2/2015	A	A	I
International Investment Position /6	2012	07/2014	A	A	I

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

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

July 9, 2015

Approved By
Hoe Ee Khor and Peter Allum (IMF) and Satu Kahkonen and Mark Thomas, (IDA)

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

The Debt Sustainability Analysis (DSA) indicates that Kiribati remains at high risk of debt distress. Despite the improvement in the fiscal position in recent years from the high fishing license fees, containing the risk of debt distress requires continuation of grants to support the country's large development needs, and implementation of fiscal and further structural reforms to promote fiscal sustainability and growth.

BACKGROUND

Kiribati is one of the most remote and geographically dispersed small states in the world. It is comprised of 33 islands spread over 3.5 million square kilometers of ocean, with a population of about 100,000. Kiribati has a limited export base and is largely dependent on fishing license fees and donor support. The export and production bases are narrow and limited to fishing, copra, and tourism. The revenue base is driven by volatile fishing license fees. Kiribati's sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), is a stabilization and saving fund that was established in 1956 from phosphate mining proceeds before phosphate deposits were exhausted in 1979. The RERF has been used to ensure intergenerational equity and smooth expenditures from the highly volatile non-tax revenues.

Climate change raises additional significant challenges. The costs of mitigating the effects of climate change, including drought, loss of potable ground water, and rising sea levels, while

[1] The DSA has been produced in consultation with the Asian Development Bank (AsDB).

uncertain, are estimated to be equivalent to around 3½ percent of GDP per year (see Box 2 in 2015 Article IV consultation staff report). Some of these costs will be covered in the recurrent budget from Kiribati's own resources (without the need for additional borrowing). But capital projects for climate-change adaptation would require additional support from donors. Given these constraints, the country would continue to rely heavily on external support.

THE BASELINE SCENARIO

The baseline scenario assumes continued implementation of government reform plans and projections for fishing license fees based on historical averages. The government has made welcome progress in debt management, with adoption of a formal approval process for government's external borrowing and issuance of loan guarantees, the clearance of costly overdraft debt and the elimination of non-concessional borrowing.

The following are the key macroeconomic assumptions under the baseline scenario:

- **GDP growth and inflation are in line with historical averages.** The economy is expected to grow at about 3.1 percent in 2015 and moderate to an average of 1.8 percent a year in the medium term through 2020, reflecting declining donor-financing as infrastructure projects are completed. In the longer term, growth is assumed to average 1.7 percent, with per capita GDP growth higher than the historical average, but still very low reflecting current impediments to growth and the potential impact of climate change. Inflation is projected to return to an average of about 2 percent per year in the longer term after a spell of lower increases driven by food price and exchange rate dynamics.
- **Fishing license fees decline slightly in the long run**. In the past three years, record fishing license fees have boosted government revenues and the current account balance, peaking at 68 percent of GDP in 2014. Fishing license fees are projected to decline from their peak to the level consistent with the average fish price and catch volumes, but still higher that the historical average, reflecting a stricter implementation of the regional fishing agreement ('Nauru agreement'). They are expected to remain at this level in real terms.
- **Fiscal balance**. The overall fiscal balance improved in recent years, moving to a surplus in 2013–14, reflecting higher fishing license fees. The balance is projected to return to a small deficit of about one percent in 2015, and widen in the medium and longer term:
- **Recurrent deficit: financed by sustainable drawdowns from the RERF.** Recurrent expenditure growth is assumed at 1½ percent per year until 2020, increasing to an average growth of around 3½ percent per year in the long-term. Thus, they initially fall as a percent of GDP before stabilizing in the long-term. The initial fall allows for an accumulation of RERF balances, which later translates to higher returns and drawdowns, while maintaining the real per capita value of the fund. The drawdowns allows for stabilizing the level of recurrent expenditures (as a share of GDP) despite a gradual fall in the revenue share (fishing license fees remain constant in real terms, but decline as percent of GDP; tax revenues are projected to initially increase on the back of gains from the tax reform, but then stabilize as a share of GDP; budget support grants are expected to stop in 2017). Climate-change-related recurrent spending and new infrastructure

maintenance costs—together equivalent to around 4 percent of GDP—are included in the expenditure envelope.

- **Development expenditures: financed partly by loans.** High development expenditures, estimated at about 47 percent of GDP in 2015, are expected to decline to around 23 percent of GDP in 2020 in line with donors' commitments, reflecting a completion of infrastructure projects currently underway. They are projected to return to a historical average of about 30 percent of GDP in the long-term, reflecting the cost of climate-change adaptation projects. Development expenditures are assumed to be financed by a combination of loans and grants, with an increasing share of loans after 2020 compared to the medium term.

- **Current account**. After surpluses in 2013-14 driven by record fishing license fees, the current account is expected to return to a deficit in 2015 as fishing license fees moderate. In the medium and longer term the current account deficit is expected to widen, reflecting imports related to capital projects and financed by capital grants and loans as discussed above.

RESULTS

The results indicate that Kiribati is at high risk of debt distress.

- **The risk is the most evident for the sustainability of external debt.** The present value (PV) of external debt increases significantly due to loan disbursements. The PV of the debt-to-GDP ratio threshold (30 percent) is projected to increase from about 10 percent of GDP in 2015 and breach the threshold around 2028 for the remaining of the projection period. The long run increase in the external nominal debt is largely driven by continued high imports as a percent of GDP, which reflect the large dependence on imports—including imports needed to mitigate climate-change-related risks—as well as a low growth potential due to Kiribati's physical constraints and remoteness. In the baseline scenario, the PV of the debt-to-exports ratio also breaches the threshold around 2035.

- **Stress tests indicate that the external debt path is vulnerable to shocks to financing terms and to exports.** The PV of debt-to-export ratio and the PV of debt-to-GDP ratio thresholds are breached under the extreme stress test scenario.

- **Public debt is also close to breach indicative risk thresholds**. Under the baseline scenario, the PV of total public debt is projected to increase from about 14 percent of GDP in 2015 and breaches the threshold by 2032, driven mainly by external borrowings. Large residuals for 2013-14 reflect the increase in assets related to high surpluses from windfall fishing revenues (cash and the purchase of land in Fiji).

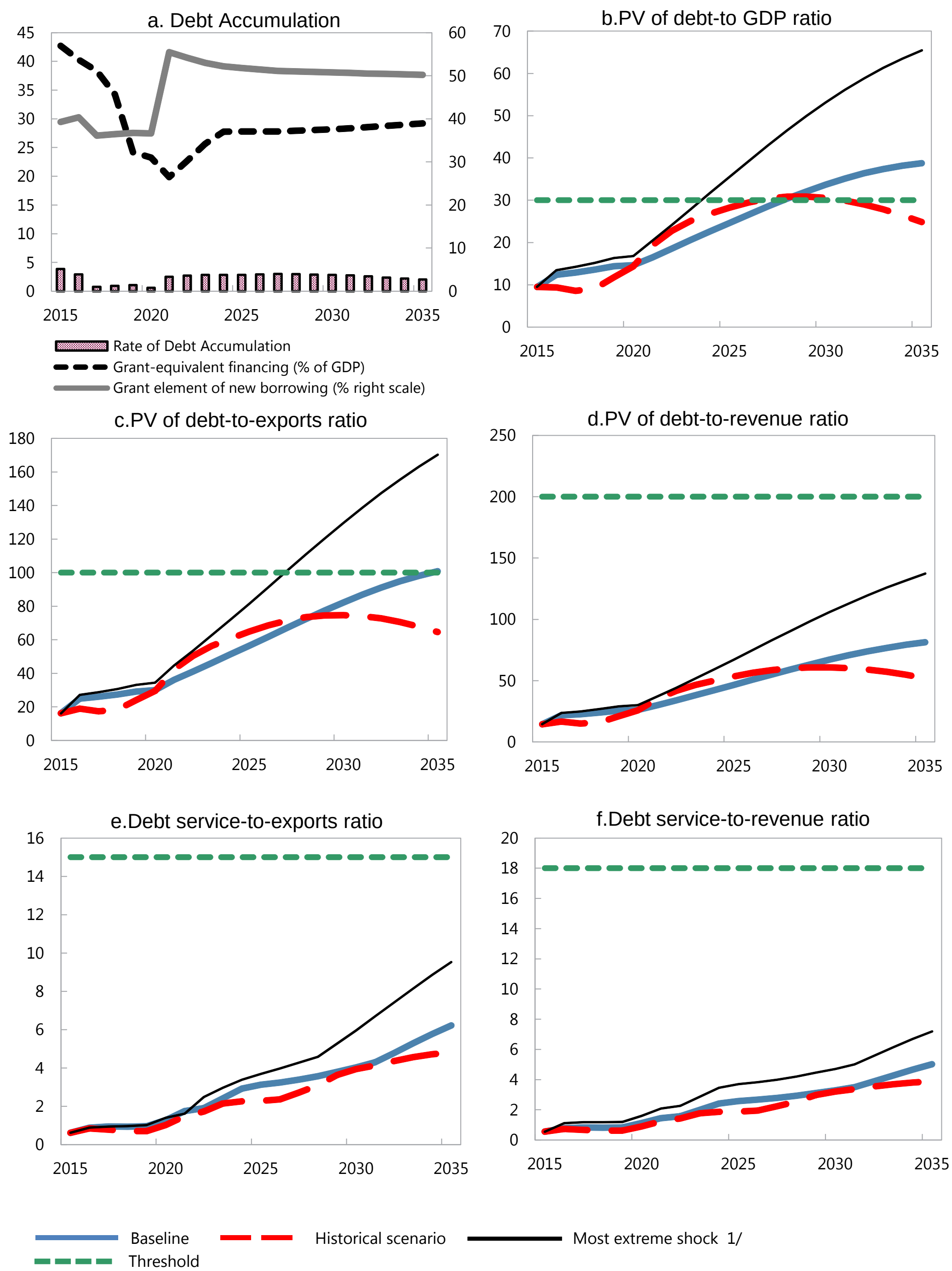
- **Public debt sustainability is vulnerable to shocks.** Under the most extreme stress test scenario the PV of debt-to-GDP breaches the threshold by 2022 and exceeds 65 percent by 2033. The scenario where the primary balance is fixed at the 2015 level is not representative, as the positive fiscal balances in 2014–15 were mainly driven by record fishing license fees. The baseline projects an overall fiscal deficit from 2016 to 2035.

CONCLUSION

The debt sustainability analysis indicates that Kiribati's scope for external borrowing, even on concessional terms, remains limited. The risk of high debt distress remains despite the availability of RERF resources, which should be treated like an endowment fund to ensure sustainable financing for recurrent expenditures in light of limited growth prospects (and also provide a cushion in case of lower revenues from fishing license fees or higher climate-change-related costs). To limit the risk of debt distress, the authorities should save the record recent windfalls from fishing license fees, maintain conservative fiscal stance, and further implement structural reforms to make SOEs more competitive and limit the cost of SOE subsidies. Development expenditures need to be financed largely from external grants, and even concessional loan financing should be limited. Baseline projections in the staff report assume that these principles are followed and the development budget largely relies on grants, with the exception of already committed loans.

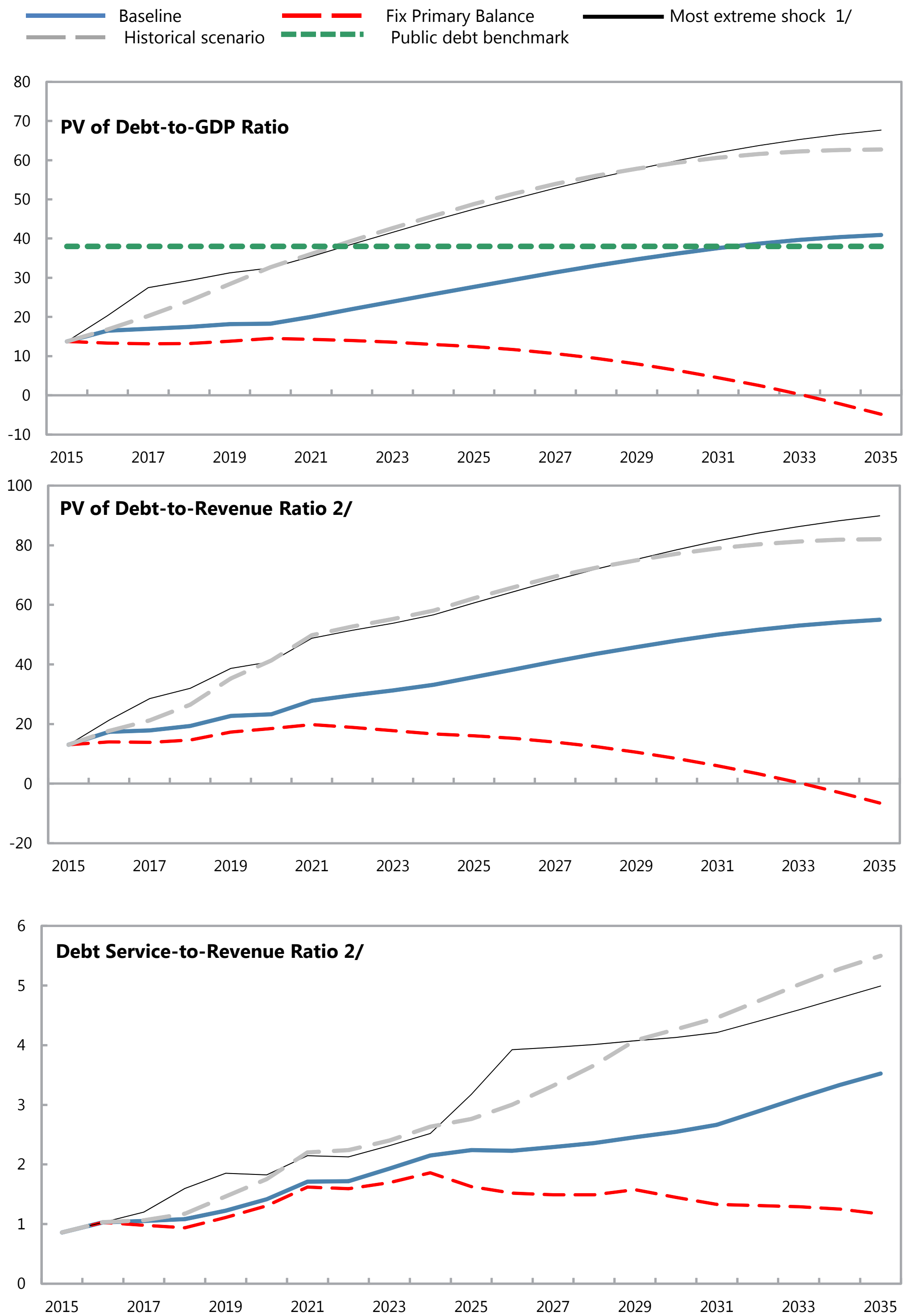
The authorities broadly agree with this assessment. They expressed their commitment to continue avoiding non-concessional external borrowing, pursuing the SOE reform agenda and following a prudent fiscal path.

Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2. Kiribati: Indicators of Public Debt Under Alternative Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Table 1. Kiribati: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	10.9	13.3	13.1			19.9	24.3	24.6	25.0	25.7	25.6		46.9	70.7	
of which: foreign-currency denominated	7.5	8.5	8.7			15.7	20.2	20.6	21.1	21.9	22.0		43.9	68.6	
Change in public sector debt	-17.1	2.3	-0.2			6.8	4.4	0.3	0.4	0.6	-0.1		4.0	0.9	
Identified debt-creating flows	-3.9	-28.7	-7.7			10.3	6.7	0.3	0.4	0.4	-0.3		3.9	0.8	
Primary deficit	8.0	-10.1	-21.7	7.0	12.9	0.5	6.6	1.5	1.1	0.5	-0.7	1.6	5.2	7.0	5.9
Revenue and grants	84.2	94.4	128.7			105.4	94.9	95.0	90.3	79.9	78.6		77.4	74.3	
of which: grants	33.9	28.8	43.8			39.9	38.3	38.0	33.8	23.7	22.9		24.5	26.7	
Primary (noninterest) expenditure	92.2	84.3	107.0			105.9	101.5	96.5	91.5	80.4	77.8		82.6	81.4	
Automatic debt dynamics	-1.0	1.4	0.4			0.5	0.5	0.3	0.2	0.2	0.2		-0.6	-1.6	
Contribution from interest rate/growth differential	-0.8	0.2	-0.2			0.1	0.1	-0.1	-0.2	-0.1	0.0		-0.6	-1.5	
of which: contribution from average real interest rate	0.1	0.4	0.3			0.5	0.4	0.4	0.3	0.3	0.4		0.1	-0.4	
of which: contribution from real GDP growth	-0.9	-0.3	-0.5			-0.4	-0.4	-0.5	-0.5	-0.4	-0.4		-0.7	-1.2	
Contribution from real exchange rate depreciation	-0.2	1.3	0.6			0.5	0.5	0.4	0.4	0.3	0.2		...	...	
Other identified debt-creating flows	-10.9	-20.1	13.5			9.3	-0.4	-1.5	-1.0	-0.3	0.2		-0.6	-4.6	
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 implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (RERF)	-10.9	-20.1	13.5			9.3	-0.4	-1.5	-1.0	-0.3	0.2		-0.6	-4.6	
Residual, including asset changes	-13.3	31.0	7.6			-3.5	-2.3	0.0	0.0	0.3	0.2		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	9.6			13.8	16.5	17.0	17.5	18.2	18.3		27.7	40.9	
of which: foreign-currency denominated	...	...	5.2			9.5	12.4	12.9	13.6	14.4	14.6		24.6	38.8	
of which: external	...	...	5.2			9.5	12.4	12.9	13.6	14.4	14.6		24.6	38.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.8	-9.1	-20.9			1.4	7.6	2.5	2.1	1.5	0.4		6.9	9.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	7.5			13.0	17.4	17.9	19.3	22.7	23.2		35.7	55.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	11.3			21.0	29.2	29.7	30.9	32.3	32.8		52.3	85.7	
of which: external 3/	...	...	6.1			14.5	21.9	22.7	24.0	25.6	26.3		46.5	81.3	
Debt service-to-revenue and grants ratio (in percent) 4/	0.9	1.0	0.6			0.9	1.0	1.1	1.1	1.2	1.4		2.2	3.5	
Debt service-to-revenue ratio (in percent) 4/	1.6	1.5	0.9			1.4	1.7	1.7	1.7	1.7	2.0		3.3	5.5	
Primary deficit that stabilizes the debt-to-GDP ratio	25.1	-12.4	-21.5			-6.4	2.2	1.2	0.7	-0.2	-0.7		1.2	6.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.4	2.4	3.7	1.3	2.3	3.1	1.8	2.1	2.1	1.4	1.5	2.0	1.7	1.7	1.7
Average nominal interest rate on forex debt (in percent)	1.0	0.9	1.0	0.9	0.3	1.6	1.4	1.2	1.2	1.2	1.9	1.4	1.4	1.0	1.3
Average real interest rate on domestic debt (in percent)	0.8	14.0	7.7	7.5	4.3	11.2	12.5	12.2	11.8	11.5	11.1	11.7	10.0	8.7	9.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.8	17.4	7.5	-0.1	13.6	5.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	0.7	3.1	2.4	2.7	1.4	0.3	0.8	1.2	1.7	2.1	1.2	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	19.4	-6.4	31.7	4.4	11.6	2.0	-2.4	-2.9	-3.2	-10.9	-1.7	-3.2	1.2	1.6	2.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.3	40.3	36.1	36.5	36.7	36.6	37.6	51.8	50.2	...

Sources: Country authorities; and staff estimates and projections.

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

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Table 2. Kiribati: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

		Projections						
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	14	17	17	17	18	18	28	41
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	17	20	24	28	33	49	63
A2. Primary balance is unchanged from 2015	14	13	13	13	14	14	12	-5
A3. Permanently lower GDP growth 1/	14	17	18	19	20	21	37	74
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	14	18	21	23	26	27	46	74
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	14	23	34	35	36	36	45	55
B3. Combination of B1-B2 using one half standard deviation shocks	14	20	28	29	31	33	48	68
B4. One-time 30 percent real depreciation in 2016	14	20	20	21	22	22	25	32
B5. 10 percent of GDP increase in other debt-creating flows in 2016	14	22	23	24	25	25	34	56
PV of Debt-to-Revenue Ratio 2/								
Baseline	13	17	18	19	23	23	36	55
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	18	21	26	35	41	62	82
A2. Primary balance is unchanged from 2015	13	14	14	15	17	18	16	-7
A3. Permanently lower GDP growth 1/	13	18	18	21	25	26	47	96
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	13	19	21	25	31	34	58	97
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	13	25	36	38	44	46	59	74
B3. Combination of B1-B2 using one half standard deviation shocks	13	21	29	32	39	41	61	90
B4. One-time 30 percent real depreciation in 2016	13	21	21	23	27	28	32	43
B5. 10 percent of GDP increase in other debt-creating flows in 2016	13	23	24	27	31	32	44	75
Debt Service-to-Revenue Ratio 2/								
Baseline	1	1	1	1	1	1	2	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	1	1	1	1	2	3	5
A2. Primary balance is unchanged from 2015	1	1	1	1	1	1	2	1
A3. Permanently lower GDP growth 1/	1	1	1	1	1	1	3	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	1	1	1	1	1	2	3	6
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	1	1	1	2	2	2	3	5
B3. Combination of B1-B2 using one half standard deviation shocks	1	1	1	1	2	2	3	5
B4. One-time 30 percent real depreciation in 2016	1	1	1	1	1	2	3	5
B5. 10 percent of GDP increase in other debt-creating flows in 2016	1	1	1	1	1	1	3	3

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

Table 3. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2012–35
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**7.5**	**8.5**	**8.7**			**15.7**	**20.2**	**20.6**	**21.1**	**21.9**	**22.0**		**43.9**	**68.6**	
of which: public and publicly guaranteed (PPG)	7.5	8.5	8.7			15.7	20.2	20.6	21.1	21.9	22.0		43.9	68.6	
Change in external debt	-0.6	1.0	0.2			7.0	4.5	0.4	0.5	0.8	0.0		4.1	0.9	
Identified net debt-creating flows	3.8	-11.9	-14.5			3.3	8.8	5.7	3.6	-0.3	-0.7		4.6	6.5	
Non-interest current account deficit	**1.4**	**-14.3**	**-16.9**	**3.1**	**12.5**	**4.9**	**10.2**	**7.1**	**4.9**	**0.8**	**0.2**		**6.1**	**9.3**	6.5
Deficit in balance of goods and services	49.7	29.9	14.8			34.6	41.2	37.7	34.5	28.2	26.8		40.1	45.3	
Exports	44.3	59.3	79.9			58.7	49.5	49.6	49.5	49.3	48.7		43.6	38.4	
Imports	94.1	89.2	94.6			93.4	90.7	87.3	84.1	77.5	75.5		83.7	83.7	
Net current transfers (negative = inflow)	-27.5	-25.4	-17.7	-24.2	3.3	-14.2	-14.8	-14.3	-13.3	-11.1	-10.1		-17.1	-18.4	-16.9
of which: official	-23.9	-20.3	-13.2			-10.3	-11.4	-11.4	-10.9	-9.0	-8.5		-15.2	-16.6	
Other current account flows (negative = net inflow)	-20.8	-18.9	-14.0			-15.5	-16.2	-16.3	-16.3	-16.3	-16.5		-17.0	-17.5	
Net FDI (negative = inflow)	**2.7**	**2.0**	**2.3**	**1.2**	**2.3**	**-1.5**	**-1.4**	**-1.3**	**-1.2**	**-1.1**	**-1.0**		**-1.3**	**-2.4**	-1.6
Endogenous debt dynamics 2/	**-0.3**	**0.4**	**0.1**			**-0.2**	**-0.1**	**-0.2**	**-0.2**	**0.0**	**0.1**		**-0.1**	**-0.4**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.2	0.2	0.2	0.3	0.4		0.5	0.7	
Contribution from real GDP growth	-0.3	-0.2	-0.3			-0.3	-0.3	-0.4	-0.4	-0.3	-0.3		-0.7	-1.1	
Contribution from price and exchange rate changes	-0.1	0.5	0.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.4**	**12.9**	**14.7**			**3.7**	**-4.3**	**-5.3**	**-3.0**	**1.1**	**0.8**		**-0.6**	**-5.6**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	5.2			9.5	12.4	12.9	13.6	14.4	14.6		24.6	38.8	
In percent of exports	...	...	6.5			16.2	25.0	26.0	27.4	29.2	30.0		56.5	100.9	
PV of PPG external debt	**...**	**...**	**5.2**			**9.5**	**12.4**	**12.9**	**13.6**	**14.4**	**14.6**		**24.6**	**38.8**	
In percent of exports	**...**	**...**	**6.5**			**16.2**	**25.0**	**26.0**	**27.4**	**29.2**	**30.0**		**56.5**	**100.9**	
In percent of government revenues	**...**	**...**	**6.1**			**14.5**	**21.9**	**22.7**	**24.0**	**25.6**	**26.3**		**46.5**	**81.3**	
Debt service-to-exports ratio (in percent)	**1.0**	**0.8**	**0.4**			**0.6**	**0.9**	**1.0**	**0.9**	**1.0**	**1.3**		**3.1**	**6.2**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**0.8**	**0.4**			**0.6**	**0.9**	**1.0**	**0.9**	**1.0**	**1.3**		**3.1**	**6.2**	
PPG debt service-to-revenue ratio (in percent)	**0.9**	**0.7**	**0.3**			**0.6**	**0.8**	**0.8**	**0.8**	**0.8**	**1.1**		**2.6**	**5.0**	
Total gross financing need (Millions of U.S. dollars)	8.6	-21.4	-25.9			6.3	15.4	10.7	7.3	0.3	-0.3		13.1	29.1	
Non-interest current account deficit that stabilizes debt ratio	2.0	-15.3	-17.1			-2.1	5.7	6.7	4.4	0.0	0.1		2.0	8.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.4	2.4	3.7	1.3	2.3	3.1	1.8	2.1	2.1	1.4	1.5	2.0	1.7	1.7	1.7
GDP deflator in US dollar terms (change in percent)	1.2	-5.9	-3.9	4.9	9.9	-11.8	-0.8	-0.3	0.1	0.3	1.2	-1.9	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.0	0.9	1.0	0.9	0.3	1.6	1.4	1.2	1.2	1.2	1.9	1.4	1.4	1.0	1.3
Growth of exports of G&S (US dollar terms, in percent)	47.9	28.8	34.4	17.0	20.0	-33.1	-14.9	2.0	2.1	1.1	1.4	-6.9	2.5	2.4	2.1
Growth of imports of G&S (US dollar terms, in percent)	12.8	-8.6	5.8	7.6	17.0	-10.3	-1.9	-2.0	-1.6	-6.3	0.0	-3.7	3.7	3.7	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.3	40.3	36.1	36.5	36.7	36.6	37.6	51.8	50.2	51.6
Government revenues (excluding grants, in percent of GDP)	50.3	65.6	84.9			65.5	56.6	57.0	56.5	56.2	55.6		52.9	47.7	51.3
Aid flows (in Millions of US dollars) 7/	63.7	52.2	79.2			77.3	71.5	65.7	60.4	43.9	42.8		66.4	98.6	
of which: Grants	63.7	52.2	79.2			65.6	63.6	64.1	58.4	41.5	41.3		52.8	82.9	
of which: Concessional loans	0.0	0.0	0.0			11.7	8.0	1.6	2.0	2.4	1.5		13.6	15.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			42.7	40.3	38.3	34.3	24.2	23.2		27.8	29.2	27.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			90.8	93.3	98.4	97.9	96.5	97.8		90.1	92.0	90.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	187.9	181.1	180.6			164.2	165.9	168.7	172.5	175.5	180.1		215.5	310.9	
Nominal dollar GDP growth	4.7	-3.6	-0.3			-9.1	1.0	1.7	2.2	1.7	2.7	0.0	3.7	3.7	3.7
PV of PPG external debt (in Millions of US dollars)			8.5			15.6	20.4	21.7	23.3	25.1	26.2		53.1	120.6	
(PVt-PVt-1)/GDPt-1 (in percent)						3.9	2.9	0.8	0.9	1.1	0.6	1.7	2.9	2.1	2.7
Gross workers' remittances (Millions of US dollars)	11.9	12.1	11.8			11.1	11.6	11.8	12.0	12.2	12.6		15.4	22.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	4.9			8.9	11.6	12.1	12.7	13.4	13.7		23.0	36.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	6.0			14.5	21.9	22.8	24.0	25.6	26.3		48.5	85.1	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.3			0.6	0.8	0.8	0.8	0.8	1.1		2.7	5.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 4. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	10	12	13	14	14	15	**25**	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	10	9	9	9	12	14	**28**	25
A2. New public sector loans on less favorable terms in 2015-2035 2	10	13	14	15	16	17	**36**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	10	13	14	14	15	15	**26**	41
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	10	9	7	7	8	8	**19**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	10	13	14	15	16	16	**27**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	10	12	11	12	12	13	**23**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	10	3	-7	-7	-7	-7	**5**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	10	18	18	19	21	21	**35**	56
PV of debt-to-exports ratio								
Baseline	16	25	26	27	29	30	**56**	101
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	16	19	17	18	24	30	**65**	65
A2. New public sector loans on less favorable terms in 2015-2035 2	16	27	29	31	33	34	**81**	170
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	16	25	26	27	29	30	**56**	101
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	16	15	13	14	15	15	**40**	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	16	25	26	27	29	30	**56**	101
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	16	23	22	23	25	26	**52**	99
B5. Combination of B1-B4 using one-half standard deviation shocks	16	5	-11	-10	-10	-10	**8**	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	16	25	26	27	29	30	**56**	101
PV of debt-to-revenue ratio								
Baseline	15	22	23	24	26	26	**47**	81
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	15	17	15	16	21	26	**53**	52
A2. New public sector loans on less favorable terms in 2015-2035 2	15	24	25	27	29	30	**67**	137
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	15	22	24	25	27	28	**49**	86
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	15	15	12	13	14	15	**35**	75
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	15	23	25	26	28	29	**51**	89
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	15	20	19	21	22	23	**43**	79
B5. Combination of B1-B4 using one-half standard deviation shocks	15	6	-13	-12	-12	-12	**9**	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	15	31	32	34	37	38	**67**	117

Table 4. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34 (concluded)

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
Debt service-to-exports ratio								
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	1	1	1	**2**	5
A2. New public sector loans on less favorable terms in 2015-2035 2	1	1	1	1	1	1	**4**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	1	1	1	**3**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	1	1	1	**2**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	1	1	1	**3**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	1	1	1	1	**3**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	0	0	0	0	**0**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	1	1	1	1	**3**	6
Debt service-to-revenue ratio								
Baseline	1	1	1	1	1	1	**3**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	1	1	1	**2**	4
A2. New public sector loans on less favorable terms in 2015-2035 2	1	1	1	1	1	1	**3**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	1	1	1	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	1	1	1	**2**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	1	1	1	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	1	1	1	1	**2**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	0	0	**0**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	1	1	1	2	**4**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46	46	46	46	46	46	**46**	46

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.