

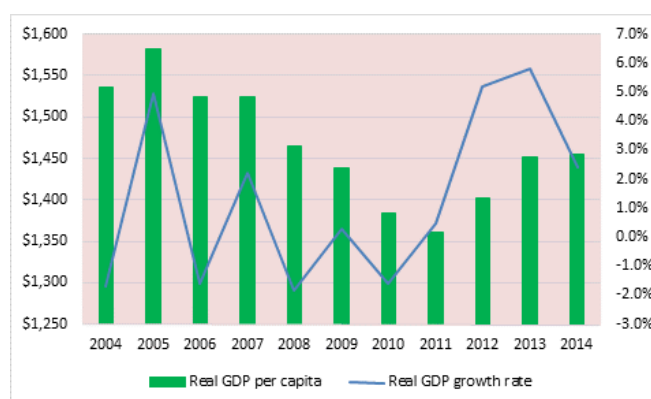
Economic Outlook, Kiribati, February 2016

Gross Domestic Product

Kiribati National Statistics Office (KNSO) figures show that GDP growth in 2014 was 2.4%. This compares with 5.8% in 2013 and 5.2% in 2012. The major influences on growth in 2014 were increases in electricity, gas and water supplies, financial services, and real estate.

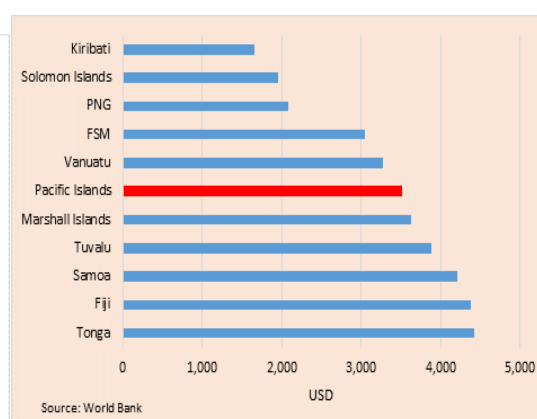
The effects of the Global Financial Crisis in 2007-08 had an influence on GDP levels in Kiribati in recent years with a decline in growth in 2010 of 1.9% followed by only a modest rise of 2.1% in 2011. For 2015, the IMF expects growth in Kiribati to rise to 3.1% in real terms, mainly reflecting the impact of major donor projects including the conclusion of the Kiribati Roads Rehabilitation project, the Bonriki airport terminal renovation and the water and sanitation rehabilitation project for South Tarawa. Recent increases in population have caused a general reduction in real GDP per capita but this has improved since 2012 with higher growth rates. GDP per capita in 2014 was \$1,838, one of the lowest of Pacific Island nations.

Figure 1: Kiribati Real Growth Rate and GDP per Capita, 2004-14



Source: Kiribati National Statistics Office

Figure 2: GDP per Capita, South Pacific 2013



Source: World Bank

Prices

The latest KNSO figures for the December Quarter 2015 show an increase in the rate of inflation of 1.3% compared with the same quarter a year ago. The VAT was introduced on 1 April 2014 and this caused a slight rise of 2.1% in 2014. However, since April 2015, prices have dropped. The major area that experienced price falls in the December quarter 2015 was clothing (down 5.1%). Rises were felt in alcohol and tobacco (2.4%), and food (2.3%). The continuing low world price of rice, a staple commodity, has to an extent, contained increases in retail prices. The world price of rice is currently the lowest since December 2007.

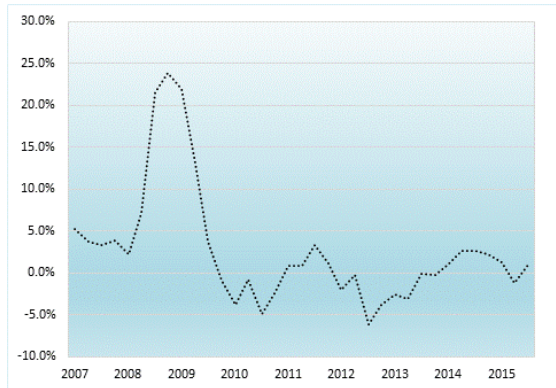
Inflationary effects have been mild in the past few years with the Retail Price Index (RPI) falling by 3.9% in 2010 then rising by 1.5% in 2011, followed by a decline of 3.0% in 2012. This trend of low inflation has continued in 2013 with the RPI in 2013 falling by 1.5%. In 2014 the average RPI was 2.1%. In 2015, the RPI was 0.6%.

Since the Australian dollar is the official currency of Kiribati, movements in the Australian dollar effect prices of internationally tradable goods in Kiribati. The Australian dollar hit a

high of US\$1.08 in February 2012. Since then there has been some volatility in Australian dollar movements with the dollar at US\$0.73 at the end of December 2015.

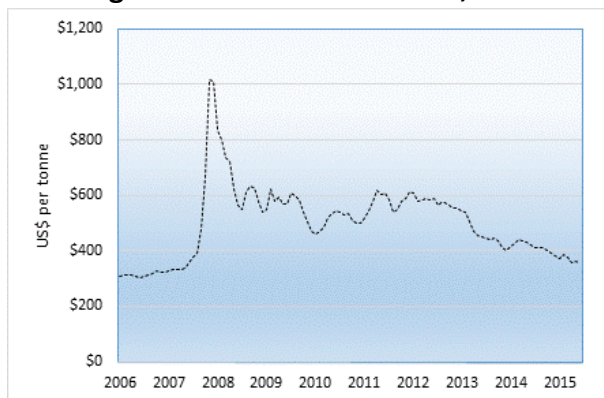
The IMF forecasts that inflation will remain low in 2015 at around 1.4%.

Figure 3: Quarterly Inflation Rates, 2007-15



Source: Kiribati National Statistics Office

Figure 4: World Price of Rice, 2006-15



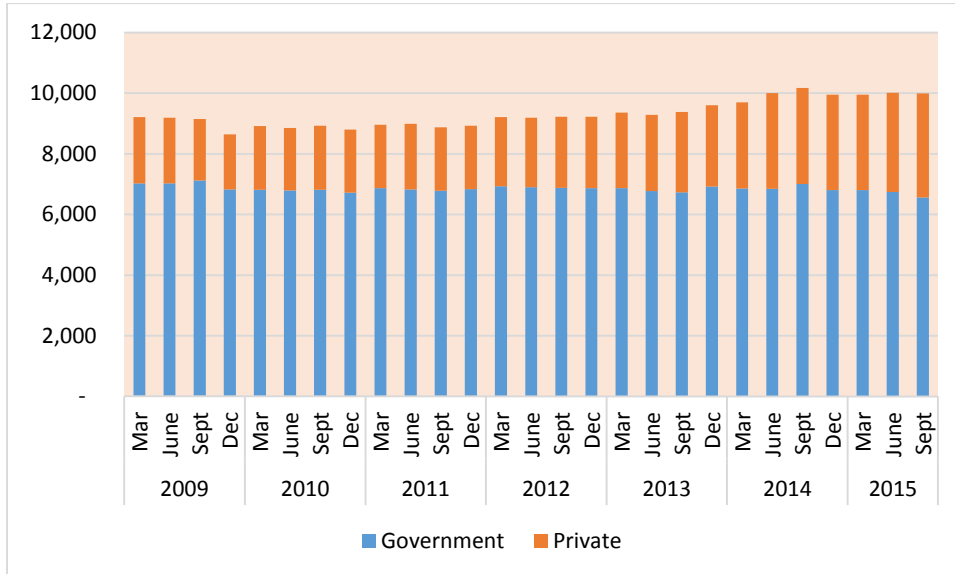
Source: Mundi Index

Employment

Stimulating economic growth and creating employment opportunities in the cash economy is a crucial goal of the government. Unemployment at the 2010 census was 31%. Youth unemployment is a severe problem with the youth unemployment rate at 54% in 2010. Young people account for more than half of all unemployed people. The labour force accounted for 39,034 people over the age of 15. Of these, 27,096 people were employed in either paid or unpaid work. The private sector is small in relation to the size of government because of geographical isolation and high costs associated with the importation of goods. Only 22% of employed paid workers in 2010 were in the private sector while 34% were employed in the public sector. Another 31% were producing goods for sale while 7% were self-employed.

Data from the Kiribati Provident Fund shows that the number of contributors in the private sector has risen sharply from 2,033 in September 2009 to 3,435 in September 2015, a rise of 59.2%. In the public sector, comparable figures were 7,115 for 2009 and 6,557 for 2015. While non-compliance means that not all private sector employees are covered by the KPF, the government employment data is in line with the 2010 Population Census information. This data implies that Kiribati has experienced strong growth in employment in the private sector over the past 6 years.

Figure 5: Public and Private Sector KPF Contributors, Kiribati, 2009-2015

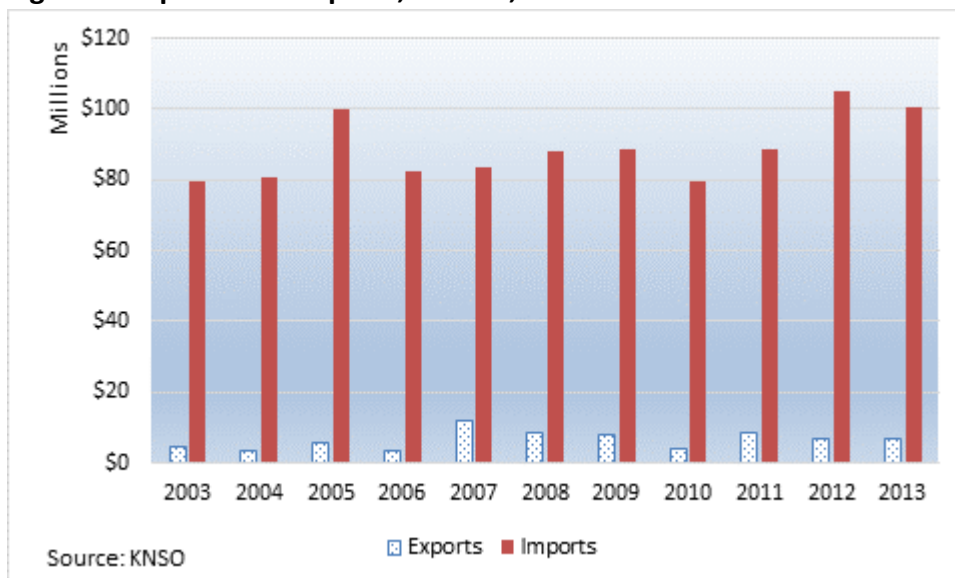


Source: KPF

Trade

Exports have traditionally been mainly coconut products and fish. Kiribati is highly reliant on imports of foodstuffs. Exports in 2013 rose slightly by 0.9% to \$A6.8m and imports fell by 1.6% to \$A103.3m leaving a balance of trade of -\$A96.5. The decline in imports was mainly due to declines in the imports of manufactured goods (down 42.6%). Imports of foodstuffs rose by 5.6%.

Figure 6: Exports and Imports, Kiribati, 2002-13



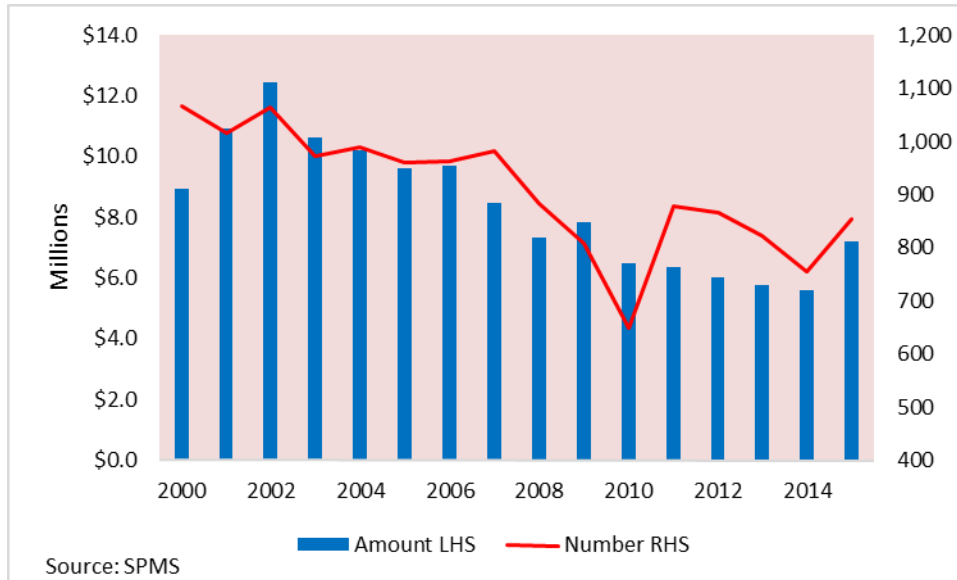
Source: KNSO

Remittances

Remittances from seamen in the past have been a large source of income from abroad. However, since the Global Financial Crisis, the number of seamen employed overseas has steadily declined. Besides economic conditions, changes in vessel technology, where ships have become larger, and increased competition from Asian nations' seamen has contributed

to this decline. Seamen’s remittances were \$7.2 million at the end of 2015 compared with \$5.6 million in 2014 and \$12.5 million at their peak in 2002. 855 seamen were employed at the end of 2015. In 2015, there was substantial growth in remittances which reversed a decline since 2009. However, there are concerns that the growth experienced in 2015 will not translate to future years because of lower forecasts for international shipping.

Figure 7: Seamen’s Remittances, 2000 to 2014



Reform agenda

The economic reforms of the Government have focused on three areas. First, the Government has adopted a National Fisheries Strategy. The goals of this strategy are to support economic growth through sustainable fisheries and to ensure the long-term conservation of fisheries and marine ecosystems. An emphasis on governance and capacity building is expected to improve revenue performance from fishing license sales. Legislation has been passed to improve the governance and management of SOEs. A debt policy has also been introduced to strengthen decision-making processes and avoid expensive commercial borrowing. The Government is also expanding opportunities for the private sector such as the introduction of the first Public-Private Partnership with the operations of the Otintai Hotel. Further economic reforms will continue into 2015.

Fiscal Strategy

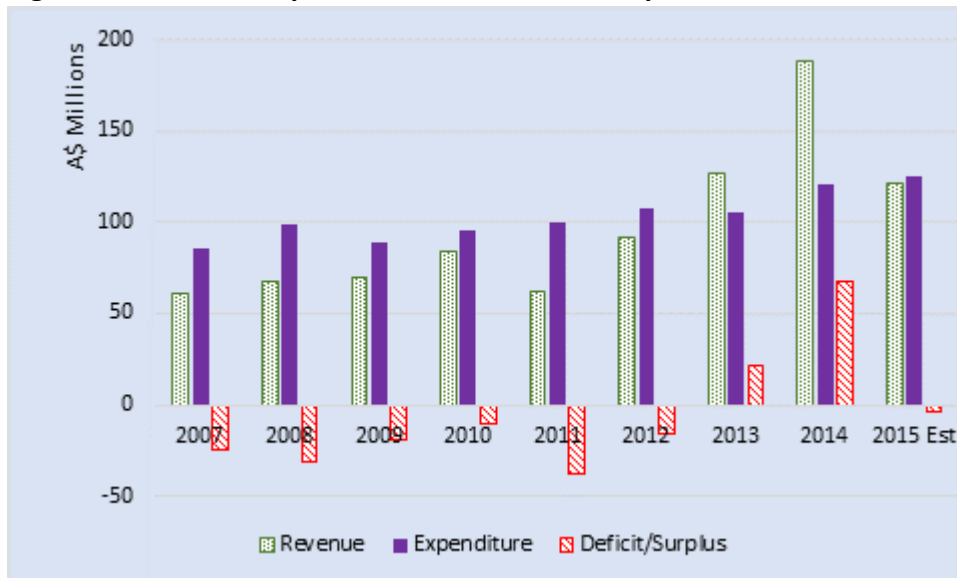
The fiscal strategy of the Government is to manage expenditure prudently and provide the necessary resources to achieve sustainable economic growth. The 2015 Budget estimates that total revenue will reach \$120.7 million. This compares with actual revenue in 2014 of \$187.8. For 2015, the main item of revenue will continue to be revenue from fishing licenses which is estimated at \$75 million. In 2015, Taxation revenue is expected to reach \$31.6 million compared with the budget of \$26.9 million in 2014 and the actual figure of \$28.4 million. The higher taxation revenue base in 2015 is mainly due to a full year’s collection of VAT and a rise in personal income tax through economic growth. The introduction of the VAT in 2014 eventually will not only increase the collection of revenue but lead to better compliance and

improvements in the collection of Company Tax. In 2014, \$5.8 million of budget support has been provided by the World Bank, NZ provided \$1 million, and the ADB provided a further \$3.6 million for a total of \$10.4 million. In 2015, budget support is expected to reach \$7.4 million.

Revised Expenditure for the 2015 budget is expected to be \$135.7 million which is \$13.6 million higher than the revised budget estimate of \$122.1 million in 2014 and \$15.4 million higher than the actual figure of \$120.3 million. Personal emoluments account for 70% of Ministries' expenditure. Loans of \$8.9 million that were taken up by the Government on behalf of State Owned Enterprises (SOEs) have been fully repaid in 2014. Community Service Obligations for SOEs in 2015 will amount to \$5 million.

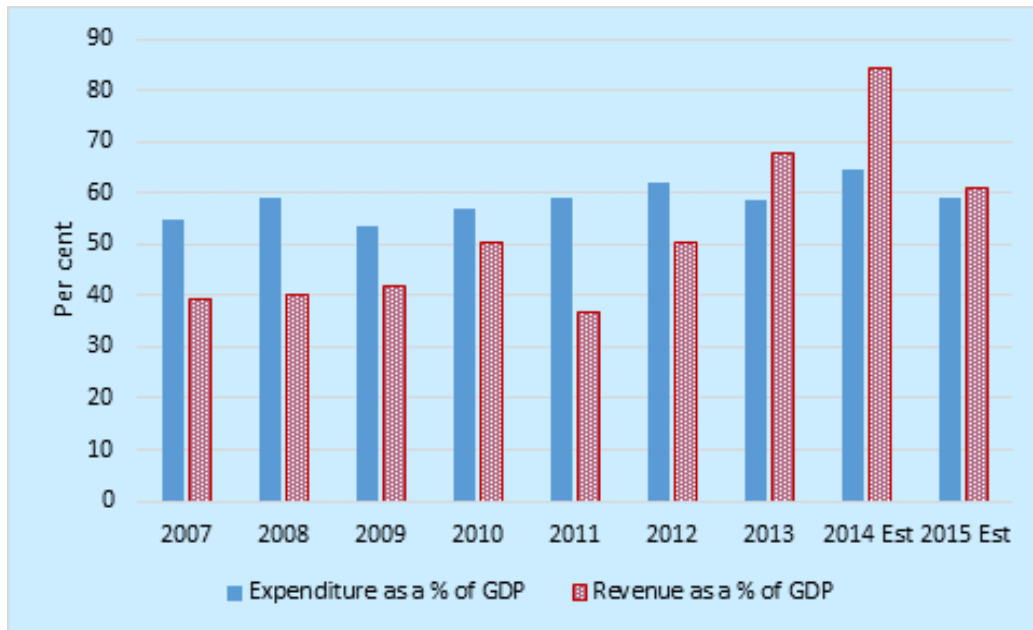
In 2014, revenue from fishing license fees was at a record level of \$141.6 million compared with the budget estimate of \$38 million. Total income in 2014 was \$187.8 million and total expenditure was \$120.3 million resulting in a surplus of \$67.6 million. A surplus of \$21.2 million (11.3% of GDP) was also achieved in 2013, the first since 1998.

Figure 8: Revenue, Expenditure, Deficits and Surpluses, Kiribati, 2007-2015



Source: MFED

Figure 9: Revenue and Expenditure as a Proportion of GDP, Kiribati, 2007-15



Source: MFED, KNSO

At the end of July 2015, the sovereign wealth fund, the RERF, stood at \$730.3 million. In 2015, Government debt will be restricted to concessional loans from the Asian Development Bank, Taiwan and the European Investment Bank.

The development budget is expected to reach \$113.0 million in 2015 compared with the expenditure in 2014 of \$118.2 million. The main projects will be the Kiribati Roads Rehabilitation Project (total of \$67.4 million), the South Tarawa Sanitation Improvement Sector Project, (total of \$25 million) and the Kiribati Aviation Investment Project (total of \$29.7 million).

Key Economic Indicators

	2010	2011	2012	2013	2014	2015
GDP (Nominal) \$A'000	167,101.4	171,739.3	181,614.5	193,853.7	206,422.7	
GDP (Nominal) growth rate	-0.1%	2.8%	5.8%	6.7%	6.5%	
GDP (Nominal) per capita \$A	1,621.4	1,630.9	1,687.9	1,763.3	1,837.6	
GDP (Real) \$A'000	142,688.7	143,369.1	150,806.8	159,526.7	163,369.2	
GDP (Real) growth rate	-1.6%	0.5%	5.2%	5.8%	2.4%	
GNI (Nominal) \$A'000	264,570.5	246,731.2	286,004.8	311,992.2	365,727.3	
GNI (Nominal) growth rate	13.4%	-6.7%	15.9%	9.1%	17.2%	
Retail Price Index growth rate	-3.9%	1.5%	-3.0%	-1.5%	2.1%	0.6%
Balance on Current Account \$A'000	(3,681.5)	(23,038.0)	(8,135.0)	17,994.8	50,437.7	
Exports \$A'000	4,245.2	8,331.2	6,715.0	6,776.6		
Growth rate	-47.2%	96.2%	-19.4%	0.9%		
Imports \$A'000	79,686.5	88,902.8	104,971.0	103,317.0		
Growth rate	-10.4%	11.6%	18.1%	-1.6%		
KPF public sector contributors	6,723	6,832	6,862	6,922	6,806	
Growth rate	-1.5%	1.6%	0.4%	0.9%	-1.7%	
KPF private sector contributors	2,078	2,089	2,355	2,677	3,143	
Growth rate	14.2%	0.5%	12.7%	13.7%	17.4%	
Government Revenue A\$'000	84,336.0	61,849.0	91,339.2	126,764.6	187,842.6	
Growth rate	21.2%	-26.7%	47.7%	38.8%	48.2%	
Government Expenditure A\$'000	95,197	100,212.0	107,319.3	105,585.9	120,254.8	
Growth rate	6.9%	5.3%	7.1%	-1.6%	13.9%	
Surplus (Deficit) A\$'000	(10,861.4)	(38,363.0)	(15,980.1)	21,178.7	67,587.8	
Development Expenditure A\$'000	42,013	49,280	79,237	70,566.8	118,221.7	112,957.3
Revenue Equalisation Reserve Fund \$A'000	580,916.5	578,939.1	613,875.4	660,916.1	678,971.1	
Growth rate	1.8%	-0.3%	6.0%	7.7%	2.7%	
Net International Investment Position \$A'000	671,757.7	668,698.7	721,591.6	722,590.8	889,160.3	
External debt \$A'000	14,048.2	12,070.3	13,299.5	18,625.6	26,560.4	48,654.8
External debt servicing \$A'000	555.5	557.6	1,302.1	902.8	10,087.3	

Source: KNSO, NEPO, KPF