

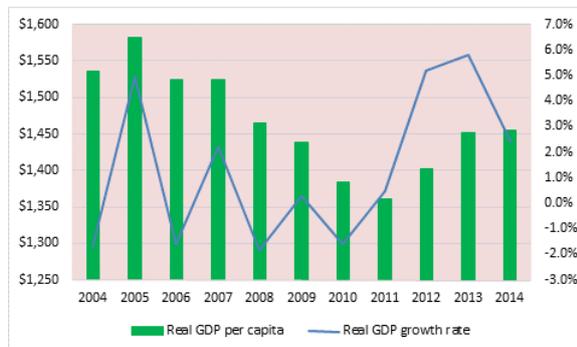
Economic Outlook, Kiribati, September 2016

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.

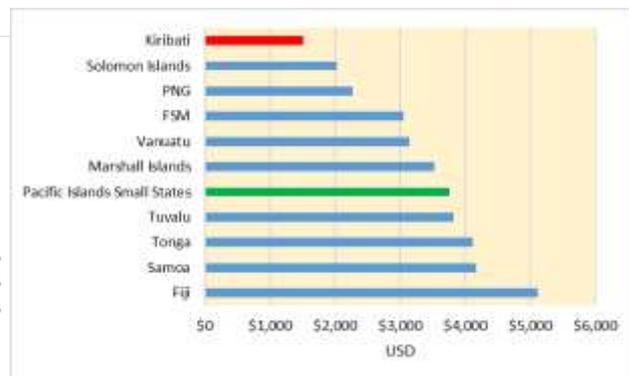
The effects of the Global Financial Crisis in 2007-08 had an influence on GDP levels in Kiribati in recent years with a decline in growth in 2010 of 1.9% followed by only a modest rise of 2.1% in 2011. For 2015, the IMF expects growth in Kiribati to rise to 3.1% in real terms, mainly reflecting the impact 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, Pacific Islands, 2014



Source: World Bank

Prices

The latest KNSO figures for the June Quarter 2016 show an increase in the rate of inflation of 2.6% 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 June Quarter 2016 was household operation (down 3.2%). Rises were felt in non-alcoholic drinks (7.3%), alcohol and tobacco (5.3%), housing (2.5%) and food (1.8%). A large factor in the rise of the RPI for the June Quarter was the world increase in the price of sugar which rose from US 15 cents a pound in December 2015 to 19.4 cents a pound in June 2015, the highest figure since October 2012. Consumption of sugar is high in Kiribati which contributes to its high ranking in the basket of goods from which the RPI is derived. World markets suggest that the global deficit in the stock of sugar will continue for some months adding to price pressures on the RPI.

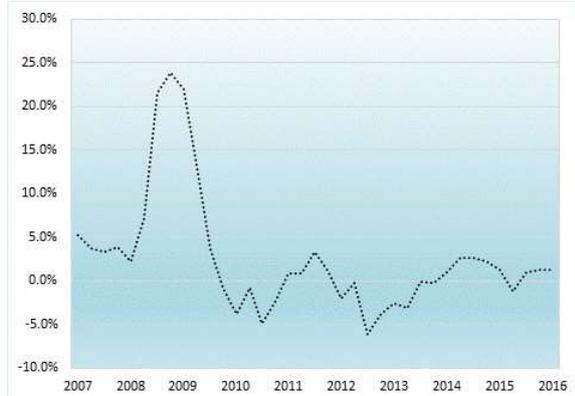
Inflationary effects have been mild in the past few years with the Retail Price Index (RPI) falling by 3.9% in 2010 then rising by 1.5% in 2011, followed by a decline of 3.0% in 2012. This trend of low inflation has continued in 2013 with the RPI falling by 1.5%. In 2014 the annual average RPI was 2.1%.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

Since the Australian dollar is the official currency of Kiribati, movements in the Australian dollar affect 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 US0.7533 in September 2016.

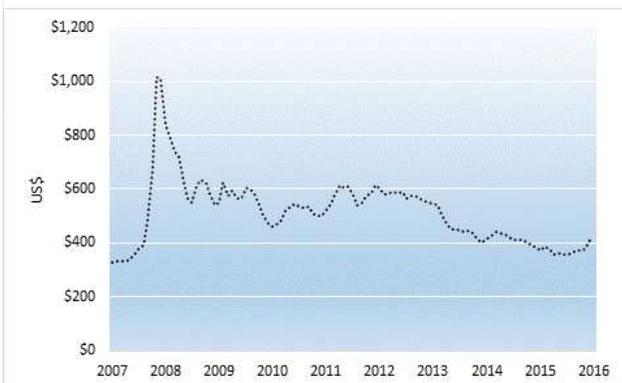
The IMF forecasted that inflation will remain low in 2016 at around 1.4% but this was before the rise in the world price of sugar.

Figure 3: Quarterly Inflation Rates, 2007-16



Source: Kiribati National Statistics Office

Figure 4: World Price of Rice, 2006-16



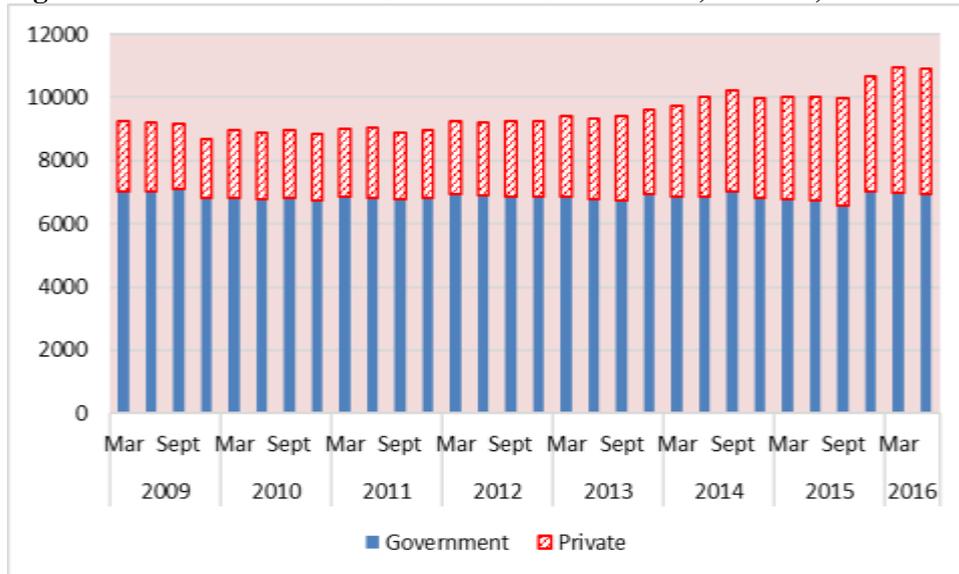
Source: Mundi Index

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 2,130 in June 2010 to 3,982 in June 2016, a rise of 87%. In the public sector, comparable figures were 6,789 for 2010 and 6,917 for 2016. 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 5 years.

Figure 5: Public and Private Sector KPF Contributors, Kiribati, 2009-2016

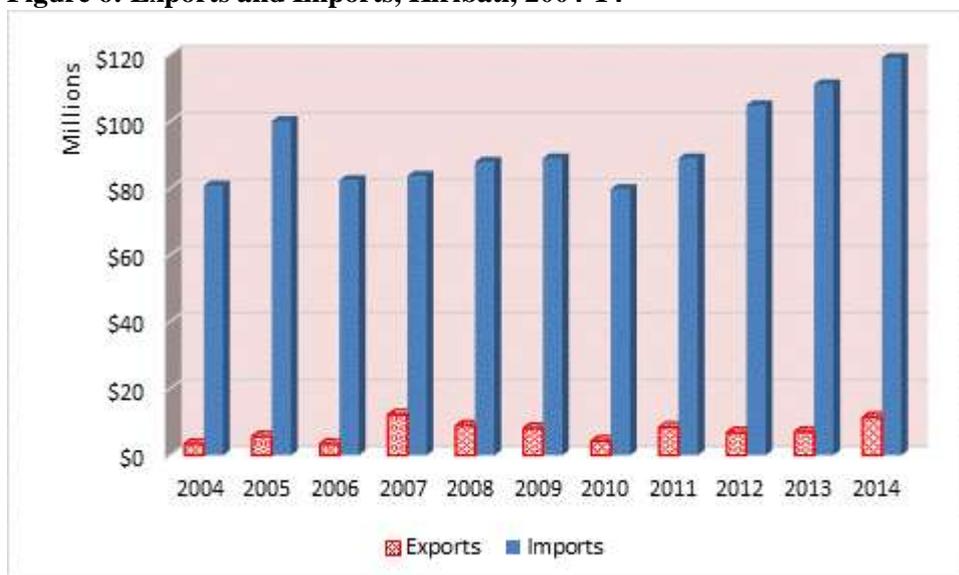


Source: KPF

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, 2004-14



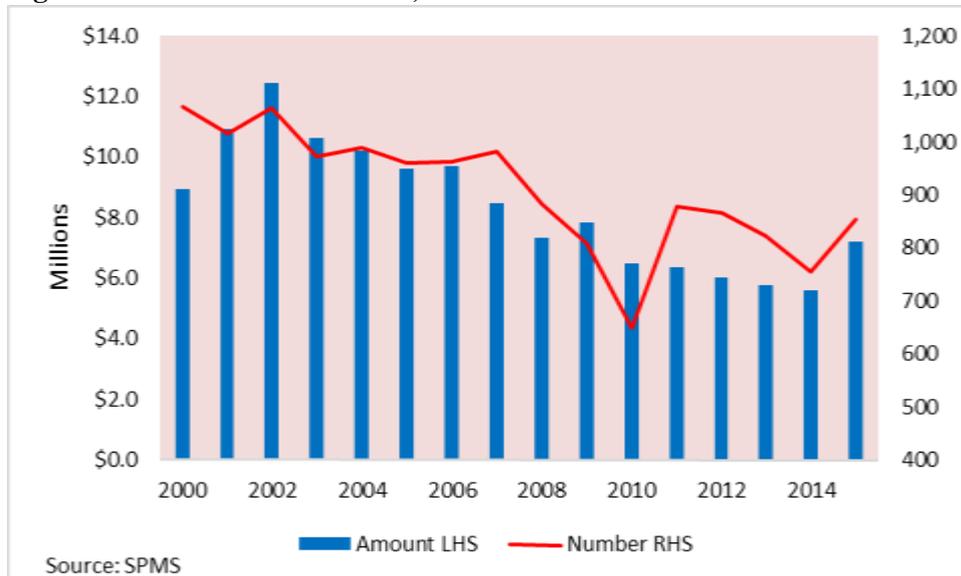
Source: KNSO

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 2015



Reform agenda

The economic reforms of the Government have focused on three areas – improving the management of fishing revenue, improving the management of State Owned Enterprises (SOEs) and expanding private sector opportunities. 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 Otintaa Hotel. Further economic reforms will continue into 2016.

Fiscal Strategy

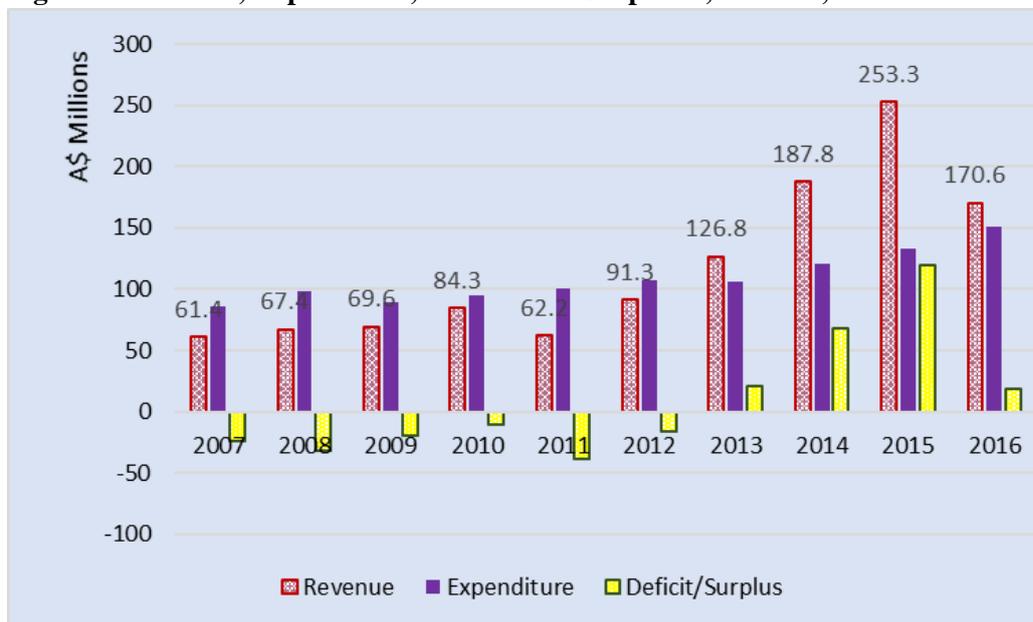
The fiscal strategy of the Government is to manage expenditure prudently and provide the necessary resources to achieve sustainable economic growth. The 2016 Budget estimates that total revenue will reach \$150.9 million. This compares with actual revenue in 2015 of \$252.9 million. For 2016, the main item of revenue will continue to be revenue from fishing licenses which is estimated at \$100 million. In 2016, Taxation revenue is expected to reach \$32.9 million compared with the budget of \$31.6 million in 2015 and the actual figure of \$35 million in 2015. The lower taxation revenue in 2016 is mainly due to exemptions for SOEs for payment of VAT. The introduction of the VAT in 2014 will not only increase the collection of revenue but lead to better compliance and improvements in the collection of Company Tax. Company Tax rose from \$4.5 million in 2014 to \$7.5 million in 2015. Budget estimates for Company Tax in 2016 were \$7.6 million. In 2015, \$3.8 million of budget support has been provided by the World Bank, and NZ provided \$1 million for a total of \$4.8 million. In 2016, budget support is expected to reach \$10.45 million.

Expenditure for the 2016 budget is expected to be \$151.6 million which is \$15.1 million higher than the revised budget estimate of \$136.5 million in 2015 and \$18.4 million higher than the actual figure of \$133.2 million. Personal emoluments account for 70% of Ministries' expenditure. Community Service Obligations for SOEs in 2016 will amount to \$5 million.

In 2015, revenue from fishing license fees was at a record level of \$197.8 million compared with the budget estimate of \$75 million. The revised budget estimate of \$110 million for 2016 is due to the end of the El Nino Effect which attracts larger fish stocks to Kiribati, the withdrawal of EU fishing fleets, and the reduction in the number of fishing days allocated to US vessels.

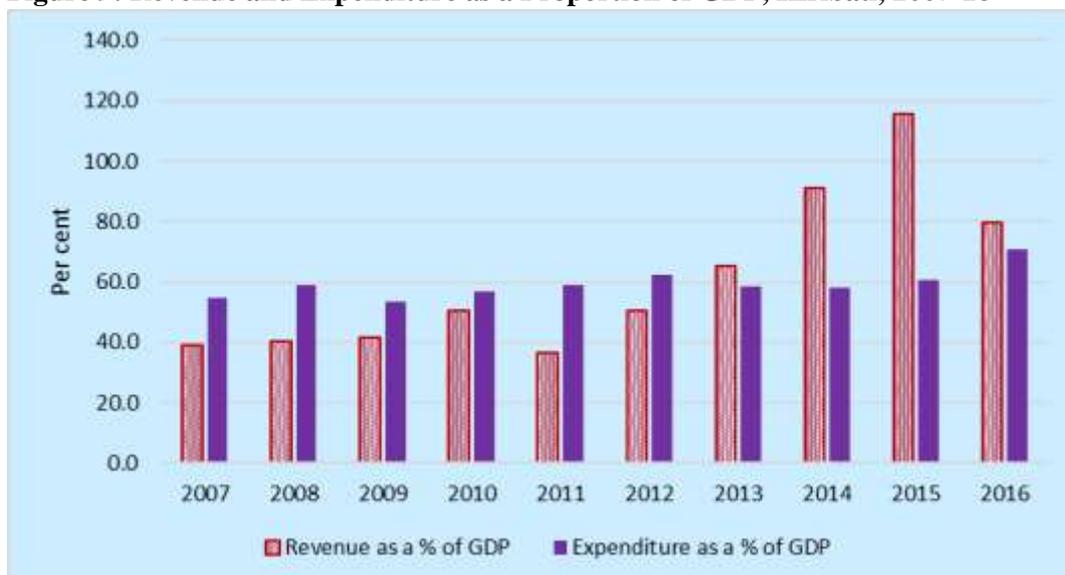
Total income in 2015 was \$253.3 million and total expenditure was \$133.2 million resulting in a surplus of \$120.1 million. This is the third surplus achieved in successive years. For the 2016 budget, total income is expected to be \$170.6 million while total expenditure is forecast at \$151.6 million resulting in a surplus of \$19 million.

Figure 8: Revenue, Expenditure, Deficits and Surpluses, Kiribati, 2007-2016



Source: MFED

Figure 9: Revenue and Expenditure as a Proportion of GDP, Kiribati, 2007-16



Source: MFED, KNSO

At the end of July 2016, the sovereign wealth fund, the RERF, stood at \$855.5 million. \$70 million was deposited in the RERF in July 2016. 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 \$153.6 million in 2016 compared with the estimated expenditure in 2015 of \$119.1 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	6,782.8	6,919.1	11,253.6	
Growth rate	-47.2%	96.2%	-18.6%	2.0%	62.6%	
Imports \$A'000	79,686.5	88,902.8	104,824.5	111,087.8	118,990.2	
Growth rate	-10.4%	11.6%	17.9%	6.0%	7.1%	
KPF public sector contributors	6,723	6,832	6,862	6,922	6,806	6,881
Growth rate	-1.5%	1.6%	0.4%	0.9%	-1.7%	1.1%
KPF private sector contributors	2,108	2,120	2,385	2,708	3,174	3,632
Growth rate	15.9%	0.6%	12.5%	13.5%	17.2%	14.4%
Government Revenue A\$'000	84,336.0	61,849.0	91,339.2	126,764.6	187,842.6	252,933.4
Growth rate	21.2%	-26.7%	47.7%	38.8%	48.2%	34.7%
Government Expenditure A\$'000	95,197	100,212.0	107,319.3	105,585.9	120,254.8	136,531.0
Growth rate	6.9%	5.3%	7.1%	-1.6%	13.9%	13.5%
Surplus (Deficit) A\$'000	(10,861.4)	(38,363.0)	(15,980.1)	21,178.7	67,587.8	116,402.3
Development Expenditure A\$'000	42,013	49,280	79,237	70,566.8	118,666.1	119,118.5
Revenue Equalisation Reserve Fund \$A'000	580,916.5	578,939.1	613,875.4	660,916.1	678,971.1	756,259.2
Growth rate	1.8%	-0.3%	6.0%	7.7%	2.7%	11.4%
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	1,149.7

Source: KNSO, NEPO, KPF