

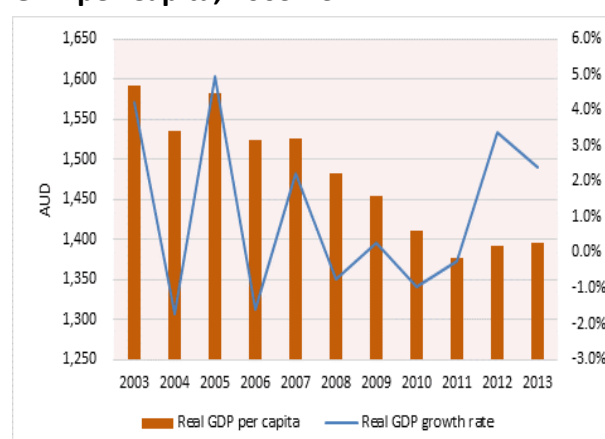
## Economic Outlook, Kiribati, February 2015

### Gross Domestic Product

Kiribati National Statistics Office (KNSO) figures show that GDP growth in 2013 was 2.4%. This compares with 3.4% in 2012. The major influences on growth in 2013 were increases in the communication sector, construction and transport.

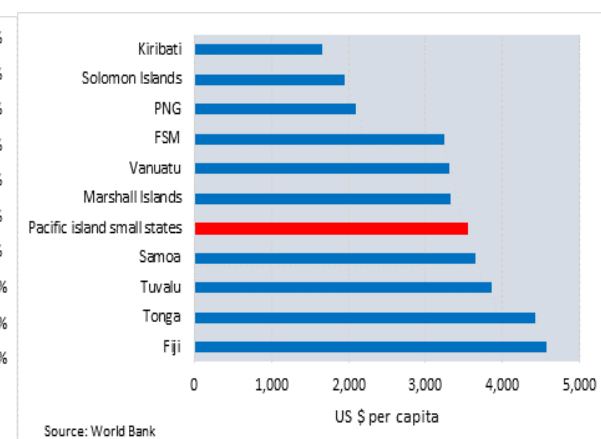
The effects of the Global Financial Crisis in 2007-08 had an influence on GDP levels in Kiribati in recent years with a decline in growth in 2010 of 1.3% followed by only a modest rise of 0.8% in 2011. For 2014 the IMF expects growth in Kiribati to remain around 2.9% in real terms and 2.7% in 2015, mainly reflecting the impact of some major donor projects including 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 in both 2012 and 2013 with higher growth rates. However, GDP per capita in 2013 was \$1,701, one of the lowest of Pacific Island nations.

**Figure 1: Kiribati Real Growth Rate and GDP per Capita, 2003-13**



Source: Kiribati National Statistics Office

**Figure 2: GDP per Capita, South Pacific 2013**



Source: World Bank

### Prices

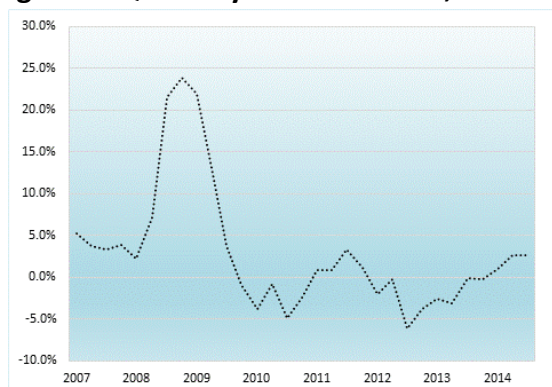
The latest KNSO figures for the December Quarter 2014 show a rise of year-on-year inflation of 2.2%. The main influence on the recent movement in prices has been the introduction of the VAT from 1 April. The major areas that experienced price rises were household operations through increased prices for telephone calls (up 31.4%) and house maintenance equipment (up 17.3%). Utilities rose by 9.0% and non-alcoholic drinks also rose by 6.2%. The continuing low world price of rice, a staple commodity, has, to an extent, contained increases in retail prices.

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%.

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, then fell to US\$0.89 in August 2013 and rose to US\$0.96 by the end of October 2013. It fell again to US\$0.89 by the end of December 2013. At the end of June 2014 the Australian dollar was at US\$0.942 but had fallen to US\$0.813 at the end of December 2014.

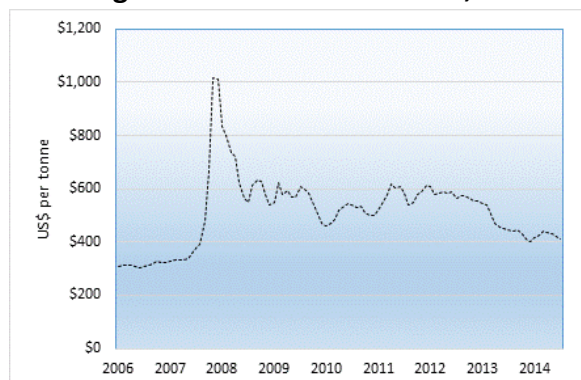
The IMF forecasts that inflation will remain low in 2015 at around 2.7%.

**Figure 3: Quarterly Inflation Rates, 2007-14**



Source: Kiribati National Statistics Office

**Figure 4: World Price of Rice, 2006-14**



Source: Mundi Index

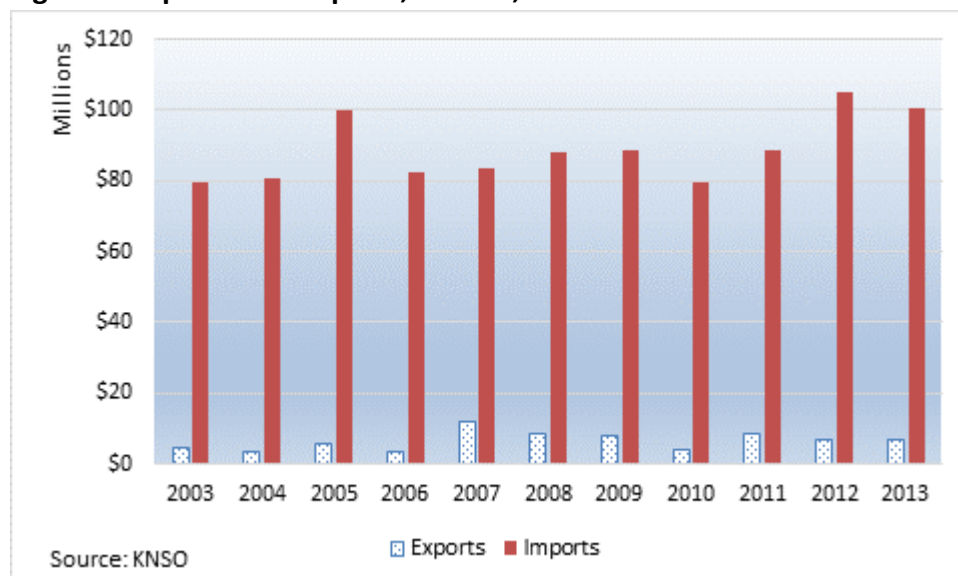
## Employment

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.

## Trade

Exports have traditionally been mainly coconut products and fish. Kiribati is highly reliant on imports of foodstuffs. Exports in 2013 rose slightly by 2.0% to \$A6.9m and imports fell by 3.9% to \$A100.7m leaving a balance of trade of -\$A93.8m. 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%.

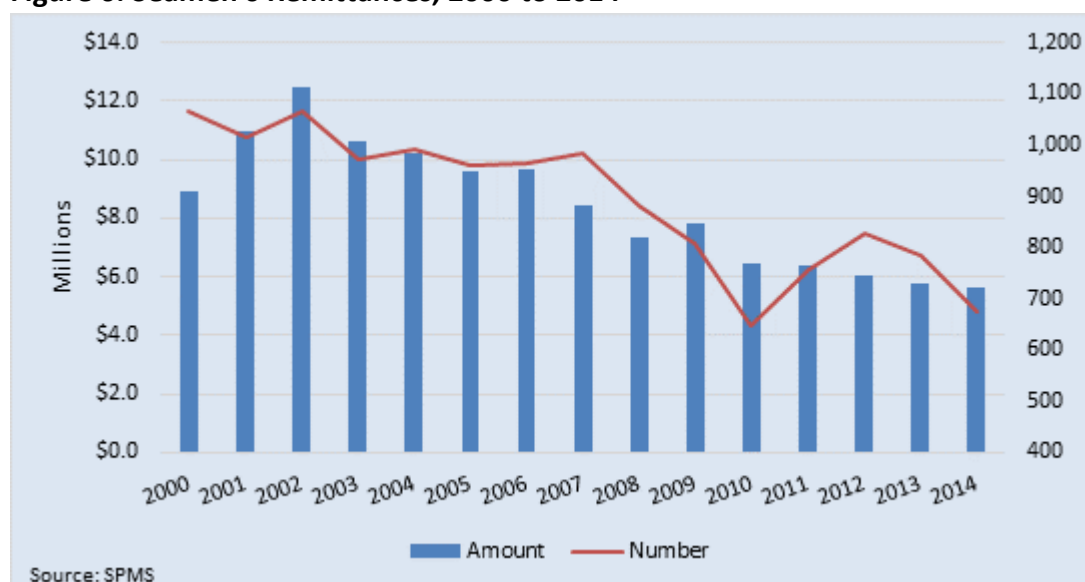
**Figure 5: Exports and Imports, Kiribati, 2002-13**



## 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 \$5.6 million at the end of 2014 compared with \$12.5 million at their peak in 2002. 676 seamen were employed at the end of 2014.

**Figure 6: 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 Otintaa hotel. Further economic reforms will continue into 2015.

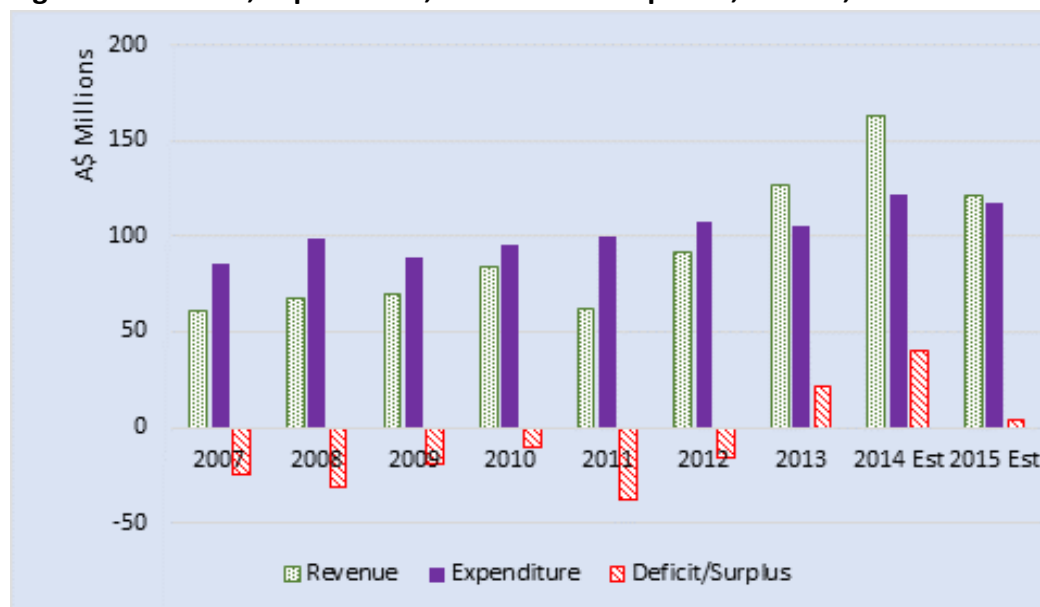
## **Fiscal Strategy**

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 budgeted revenue of \$78.8 million in 2014 and actual revenue in 2013 of \$126.8 million. The main item of revenue will continue to be revenue from fishing licenses which is estimated at \$75 million for 2015. 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 \$29.6 million in 2013. 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 and NZ has provided \$1 million. In 2014, the ADB will provide a further \$3.0 million. In 2015, budget support is expected to reach \$7.4 million.

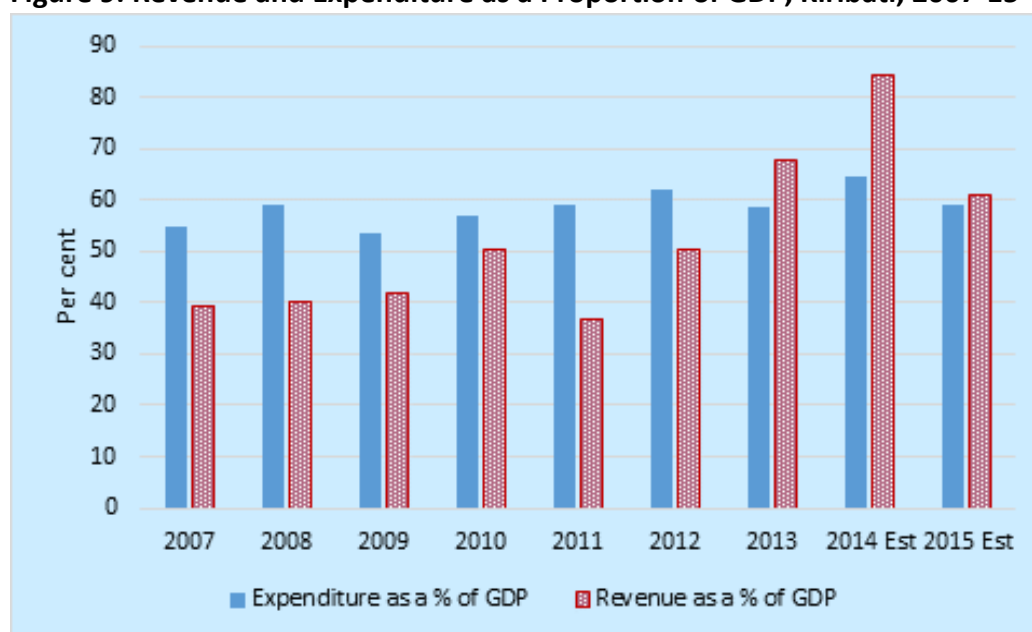
Expenditure in the 2015 budget is expected to be \$116.9 million which is \$5.2 million lower than the revised budget estimate of \$122.1 million in 2014. Personal emoluments account for 70% of Ministries' expenditure. Loans of \$8.9 million that were taken up by the Government on behalf of State Owned Enterprises (SOEs) have been fully repaid in 2014. Community Service Obligations for SOEs in 2015 will amount to \$5 million. The budget surplus in 2015 is expected to reach \$3.7 million, roughly 1.9 per cent of GDP.

In 2013, revenue from fisheries exceeded expectations reaching \$89.8 million compared with the budget estimate of \$37.4 million. Total income in 2013 was \$126.8 and total expenditure was \$105.6 million. A surplus of \$21.2 million (11.3% of GDP) was achieved in 2013, the first since 1998. Fisheries revenue in 2014 is expected to exceed \$100 million and another surplus will be generated, higher than that in 2013.

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



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



At the end of October 2014, the sovereign wealth fund, the RERF, stood at \$669.7 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 \$149.3 million in 2015 compared with the budget estimate of expenditure in 2014 of \$114.3 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).