



GOVERNMENT OF KIRIBATI
MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT

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Fiscal Strategy for the 2019 Budget

The Fiscal Strategy outlines the major parameters that the Government will use to form the 2019 Budget. This includes the setting of Fiscal Targets that will guide expenditure decisions, and the indexation to be applied to Ministry operating and personnel budgets. The Fiscal Strategy must ensure that the top priorities of Government can be met in a sustainable way, without compromising the delivery of essential services or the budget in the long run – particularly in an environment where extremely volatile fishing revenues can lead to significant risks.

While it has been common practice that the Government has a Fiscal Strategy, this is the first time that the Government has taken the step to make the Strategy publicly available. This is part of the Government's commitment to improved public financial management and transparency, is consistent with global best-case practice, and is recommended under the International Monetary Fund's (IMF) Public Expenditure and Financial Accountability framework.

Economic assumptions

Each year, the IMF Article IV mission does an assessment of the Kiribati economy and public finances. As the Government of Kiribati currently has limited capacity to provide independent macroeconomic forecasts of its own, the IMF Article IV review is used as the primary source for the forecasts for the national budgeting process.

After growing 10.3 percent in 2015, the Kiribati economy grew by 1.1 percent in real terms in 2016. The fall in the growth rate was driven largely by a fall in fishing revenues after the record high of 2015 and the completion of the major construction phase of some development projects. The IMF estimates that real GDP growth is expected to pick up to about 3 percent in 2017 and 2.3 percent in 2018, driven by construction, and wholesale and retail trade. For 2019, growth is expected to be stable at 2.4 percent.

Inflation has remained subdued in line with the prices of imported goods, with 5-year average inflation of 0.7 percent. The IMF expects inflation in 2019 to closely follow the expected Australian inflation rate of 2.5 percent, but it is notable that inflation was just 1.5 percent in the March quarter 2018.

Table 1: Economic assumptions as at 1 July 2018

	2017	2018	2019	2020	2021	2022
Real economic growth (%rGDP)	3.1	2.3	2.4	2.3	1.9	1.9
Nominal economic growth (%nGDP)	6.9	4.2	4.5	3.7	3.2	3.7
Consumer price growth (%CPI)	2.2	2.5	2.5	2.5	2.5	2.5
Population growth (%)	2.1	2.1	2.1	2.1	2.1	2.1

Fiscal Strategy

Within the context of the economic forecasts, the Fiscal Strategy sets out a series of Fiscal Targets that will guide the formation of the 2019 Budget:

1. The Budget balance

- a. **At least a balanced budget** – the Government commits to spending less than it earns in revenue across 2019 and the medium-term.
- b. **No RERF Drawdown** – the Government is committed to achieving the \$1 billion target for the RERF balances and ensuring that the RERF benefits all generations of I-Kiribati.
- c. **No new debt** – as the Budget is not anticipated to be in deficit and the Government has sufficient cash reserves to cover a revenue shock there is no need to draw on additional lending.

2. Revenue estimates for fishing

- a. Consistent with the medium-term forecast for the 2018 Budget, fishing license revenue is forecast to be \$130m in 2019 and the medium term.

3. Expenditure

- a. **A continuation of the Copra Price Scheme** – the Government is committed to the \$2 per kilogram price, with no intention to reduce or increase the price guarantee.
- b. **No further step-change in civil servant salaries in 2019** – given the large increase in the 2018 Budget there will be no further general pay increase until a review of the performance improvements and impacts from the previous pay rise. The Government remains committed to better pay and conditions for public servants.
- c. **Operational baselines for Ministries will be indexed at 1.5%** – this is to ensure that operational budgets are kept in line with general price rises, but this does not include any provision for new measures or operational overspends, which will be considered through the Budget Committee process as normal.
- d. The Government recognises the importance of the Local Contribution to Development as an important tool in achieving its development aims, and will look to increase its involvement in local development activities.

Along with the Fiscal Targets, the Government is also committing to the following Budget initiatives:

4. **The Government is committed to Asset Management and Maintenance** and will make provision for the management of major assets in the 2019 Budget. In particular, this includes a provision for the maintenance and upkeep of the South Tarawa road network.

5. **Cash management practices will be improved**, mainly in relation to cash balances that earn zero-interest (i.e. they will be invested in interest bearing accounts) and a review of the number, and role, of Special Funds.
6. **The Establishment Register process will be integrated with the Budget process** to allow for the effective funding and operational needs of new and continuing staff.

If the Fiscal Strategy is observed, prior to the consideration of any new Budget proposals, it is estimated that total expenditure and total revenue will be approximately as follows:

Table 2 Estimated medium-term outlook (\$m), no new measures

	2019	2020	2021	2022
Total Revenue	204.7	207.2	203.1	204.7
Total Expenditure	191.9	193.9	195.3	196.0
Projected Balance	12.7	13.3	7.7	8.7

The above table forecasts revenue increases as due largely to tax growth from a growing economic base. Fishing revenues are held steady at \$130 million across the estimates as per the Fiscal Strategy. More accurate estimates will become possible once more data on current revenue collections becomes available, particularly for taxes. There are also substantial risks surrounding the fisheries estimates, with revenues affected by weather, commercial, and exchange rate risks. Fishing revenues are the single largest source of risk to the Fiscal Strategy, with any fluctuations in fishing revenue (either positively or negatively) having a significant impact on the Government's fiscal position.

The figures in Table 2 show an improvement in the fiscal balance across the forward estimates, although the fiscal balance declines from 2021 onwards due to the completion of some budget support programs. These fiscal balances are essential in defining the fiscal space for the government to take on additional expenditure measures, be they once-off expenditures or recurrent.