



International Monetary Fund
2014 Article IV mission
Sergei Dodzin



Kiribati

March 2014

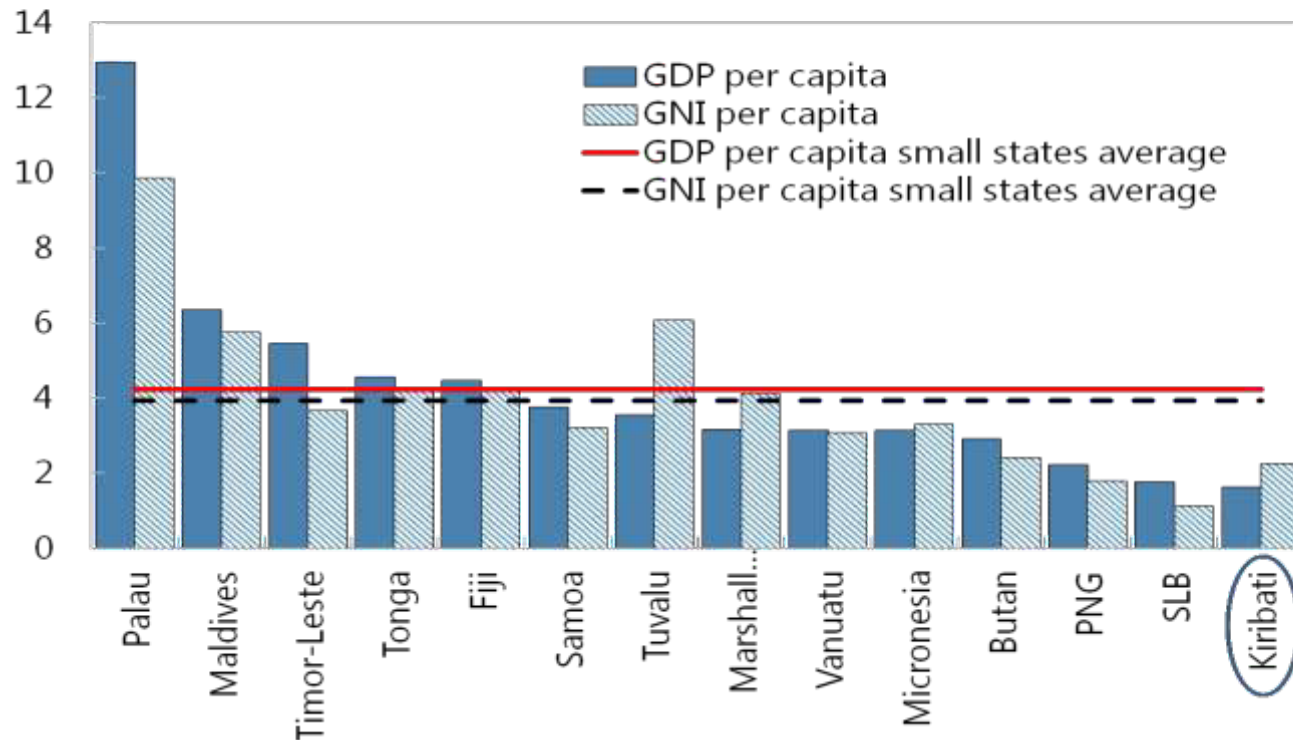
Kiribati:

Setting in a Cross-Pacific Context

Kiribati is one of the lower income...

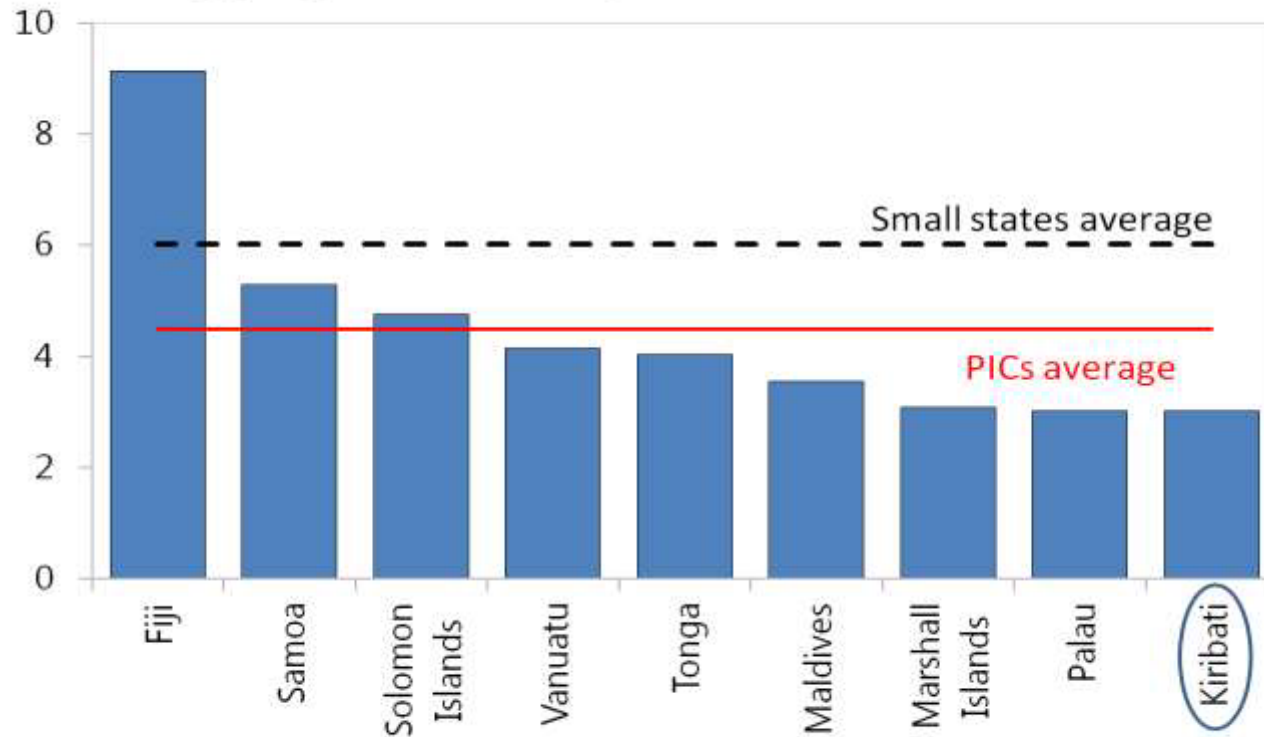
Per Capita Income, 2012

(In thousands of U.S. dollars)



... and the most remote islands among small states.

Liner Shipping Connectivity Index, 2005-2012

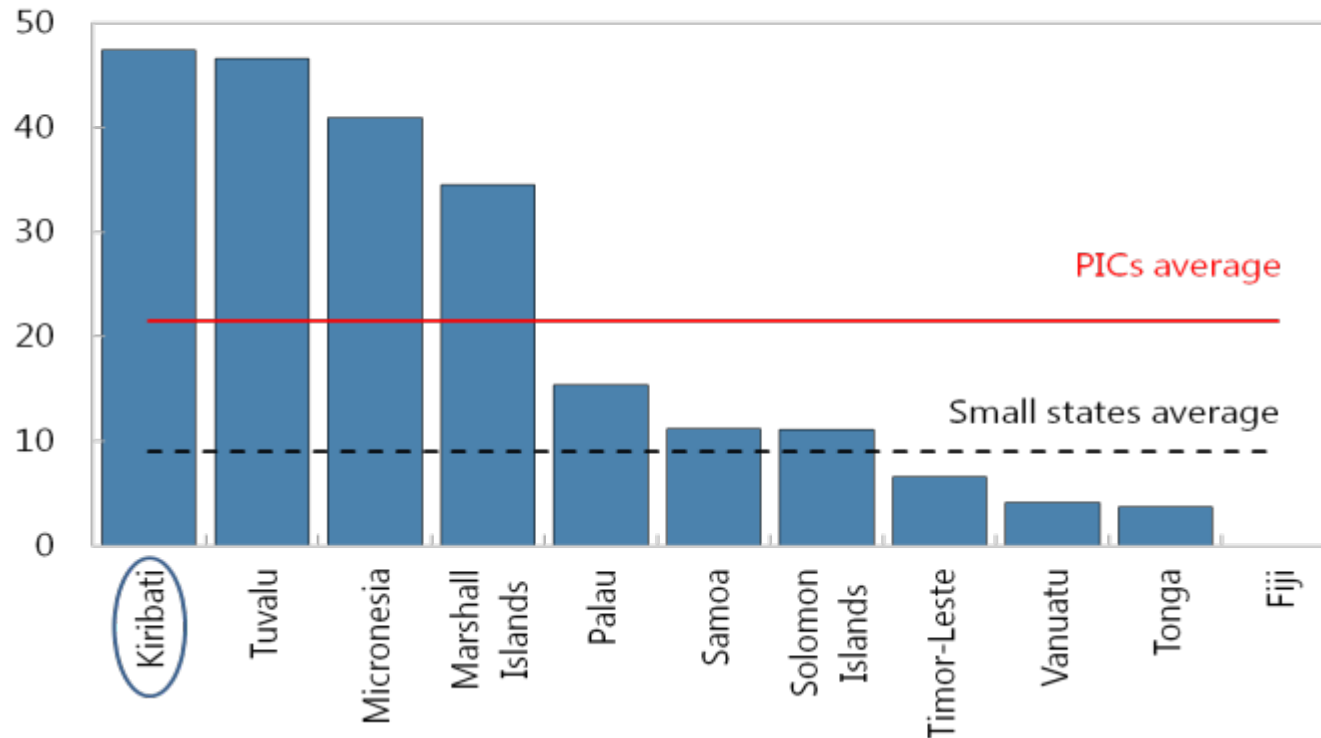


Note: A smaller number indicates lower connectivity/high transportation costs. Countries with maximum connectivity=100. Non-small states mean= 26.1.

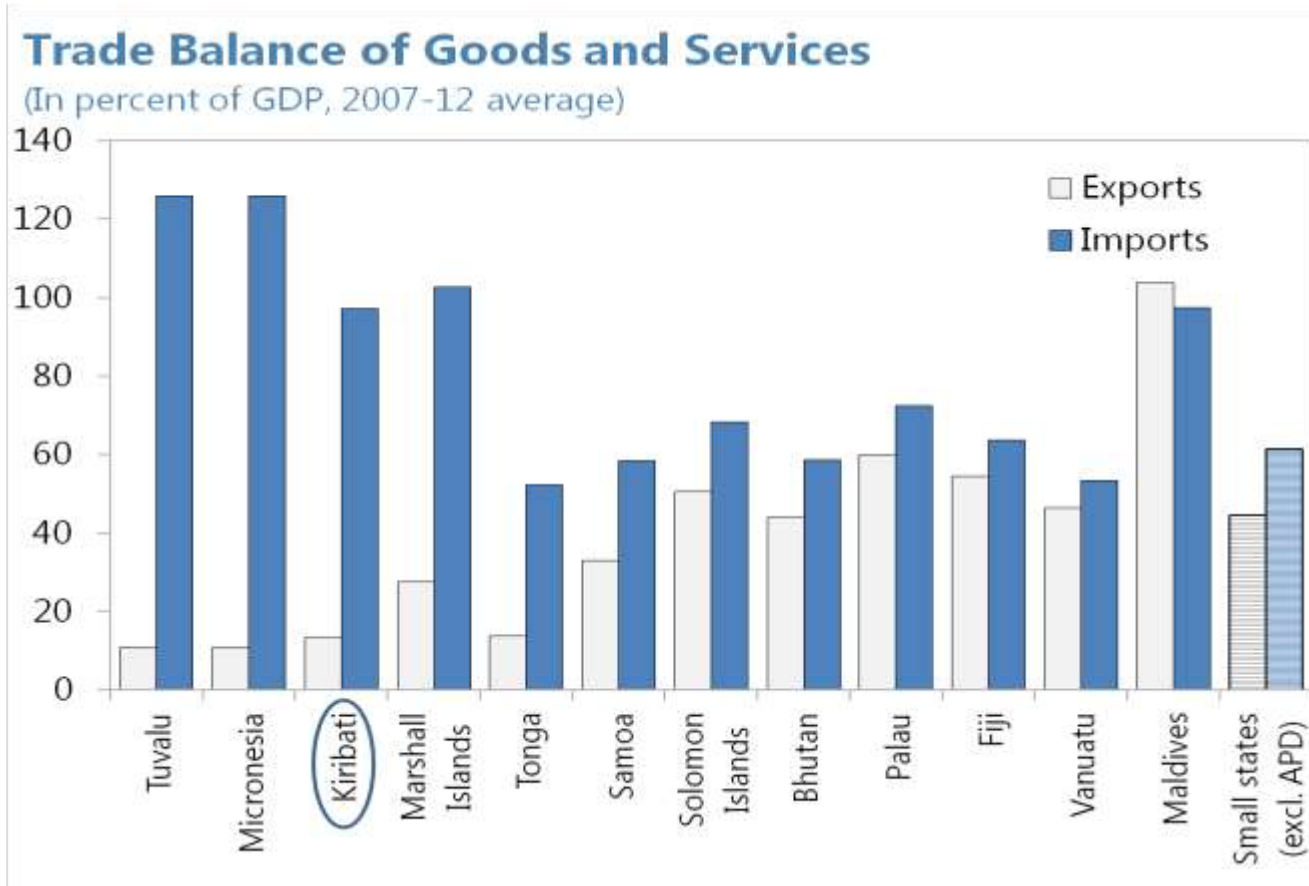
The country relies heavily on foreign aid...

External Grants, 2012

(In percent of GDP)



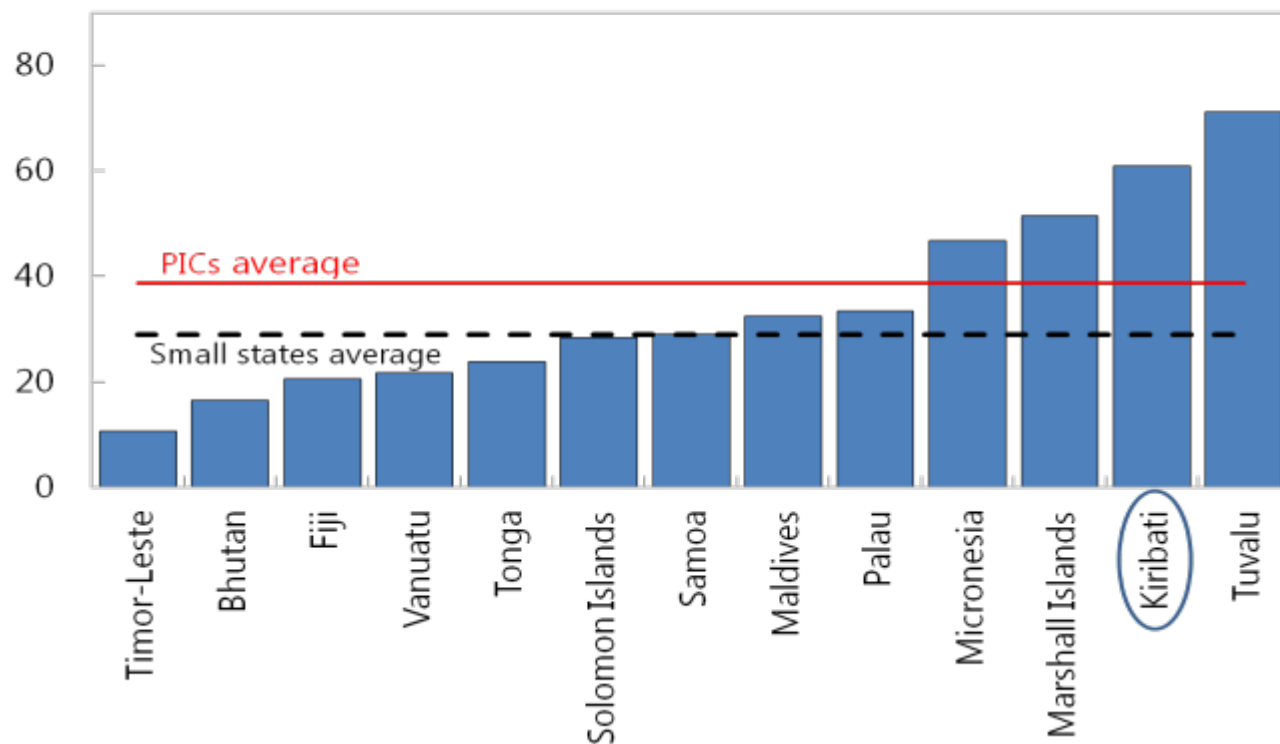
...to finance its large development needs, which are contributing to import demand.



Public sector is dominant due to economy's narrow production base...

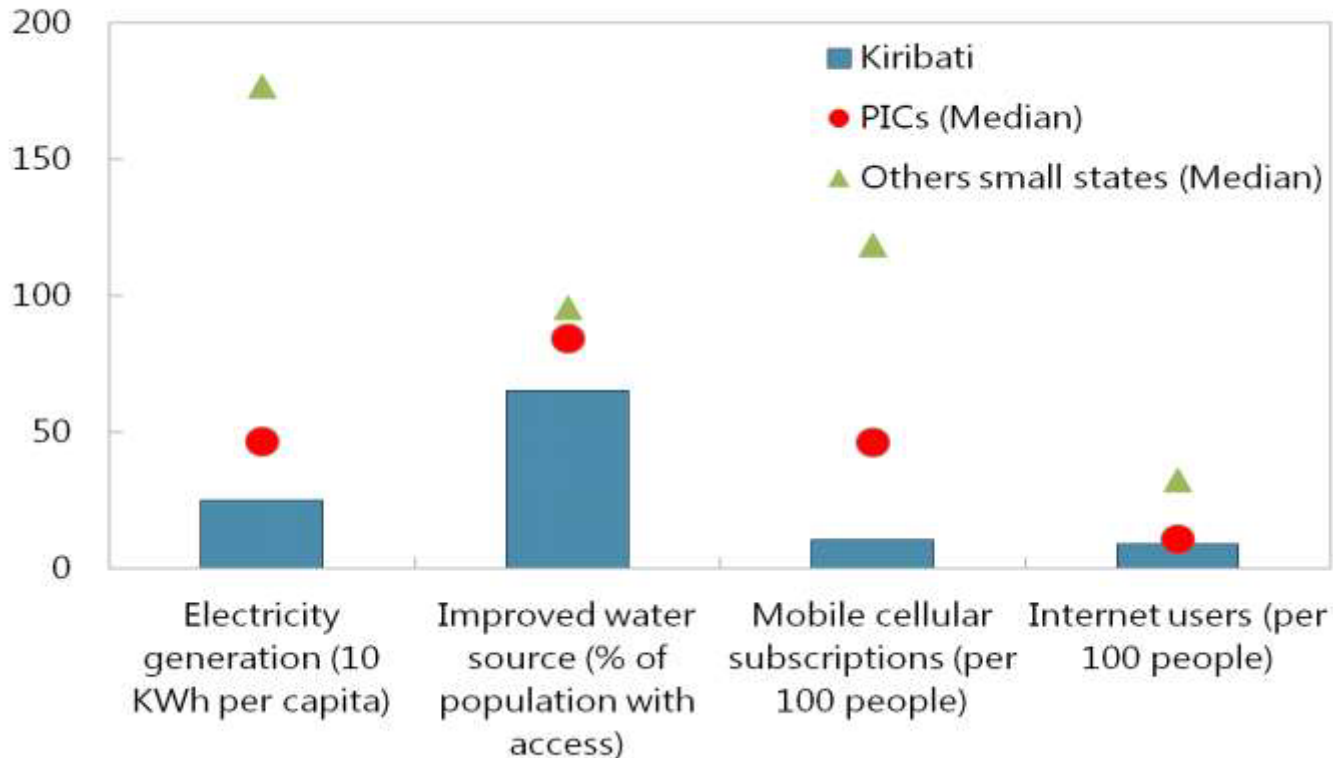
Current Government Expenditure, 2012

(In percent of GDP)



...and constraints to private sector development.

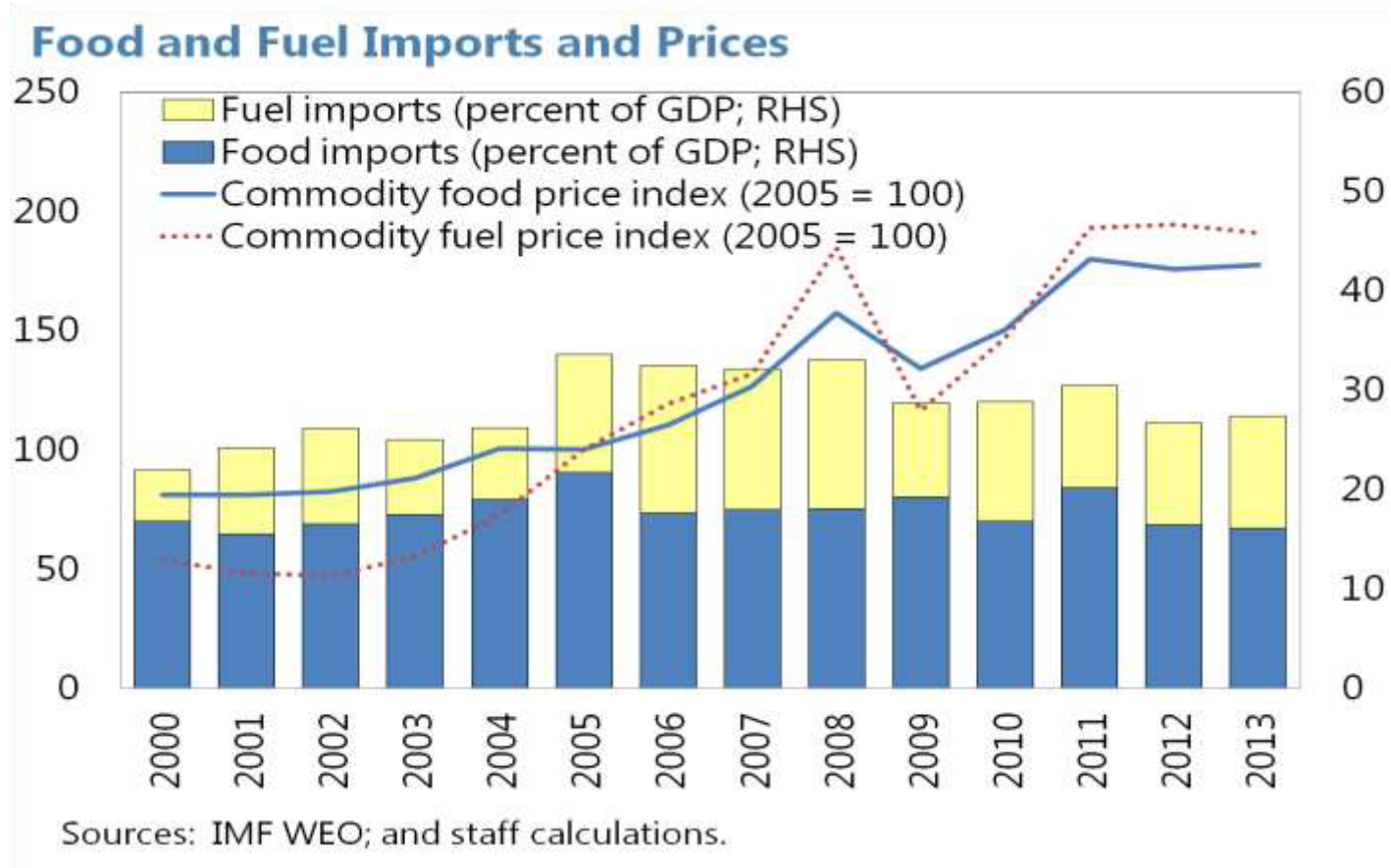
Infrastructure Indicators, 2012



Kiribati:

Recent Developments

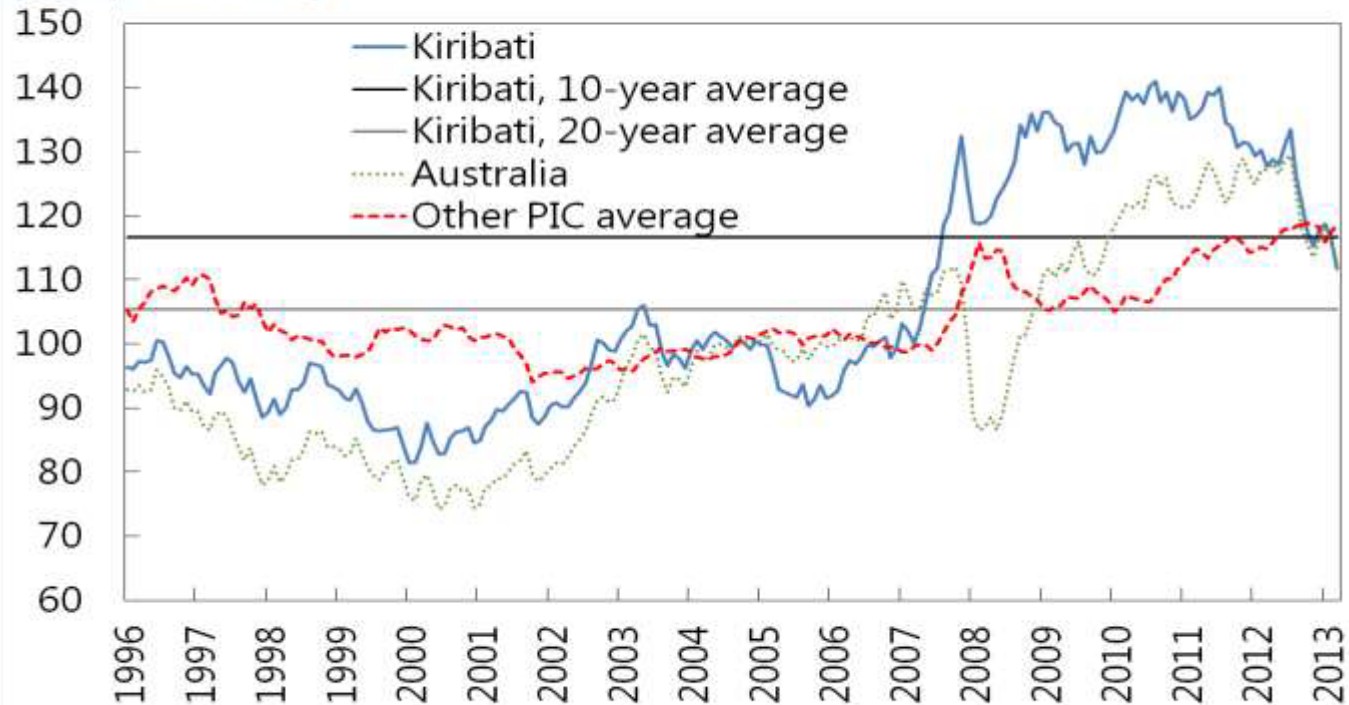
Food and fuel prices have recovered since 2009, raising somewhat the costs of Kiribati imports.



Kiribati Real Effective Exchange Rate broadly follows Australian dollar.

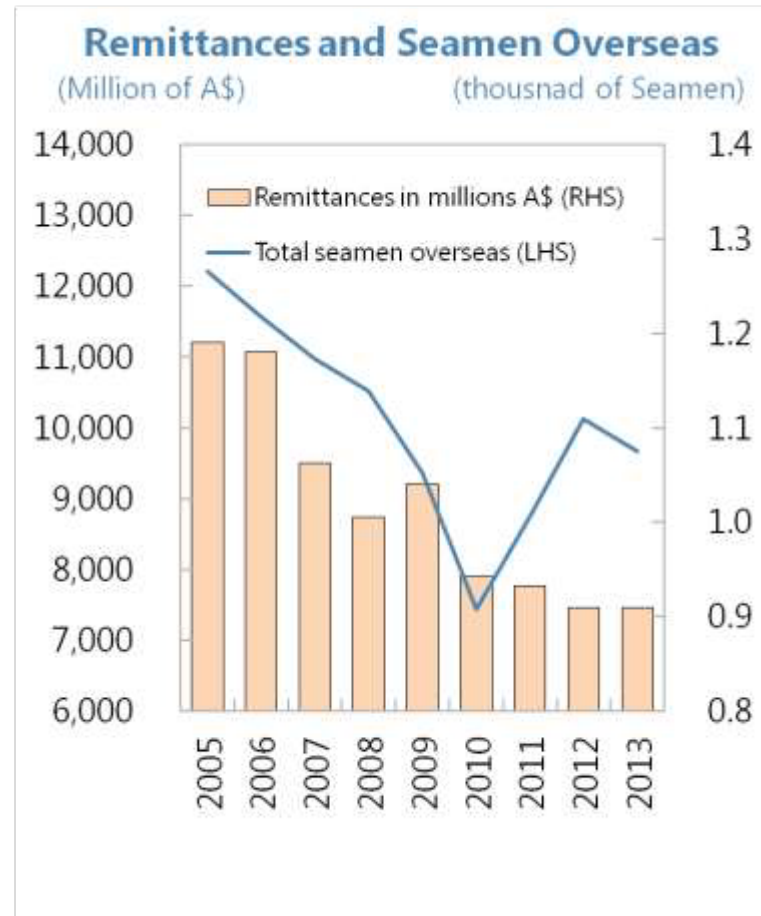
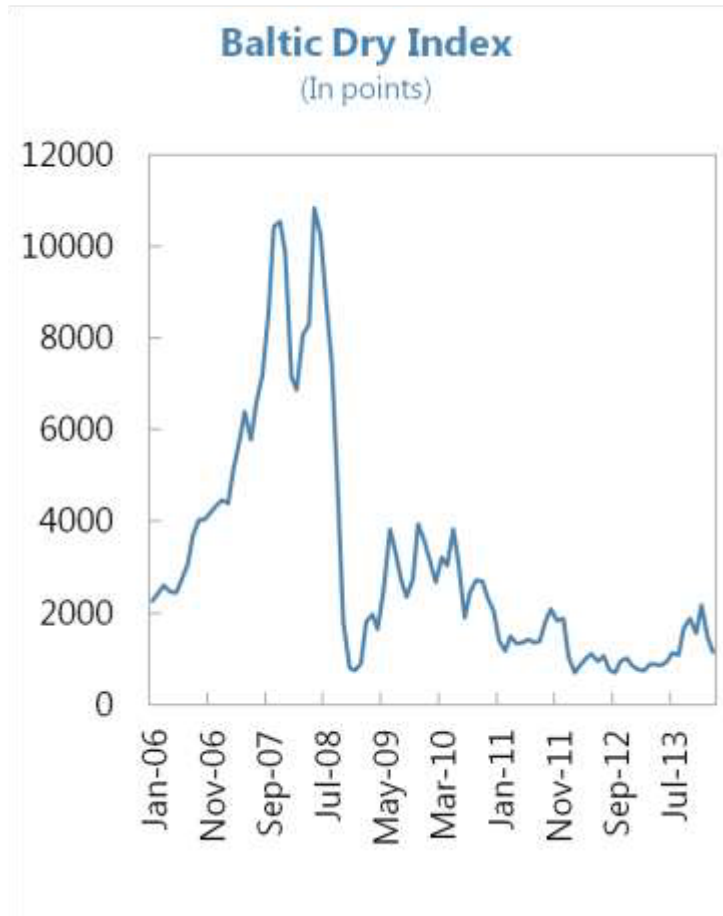
Kiribati: Real Effective Exchange Rate

(Index, 2005 = 100)



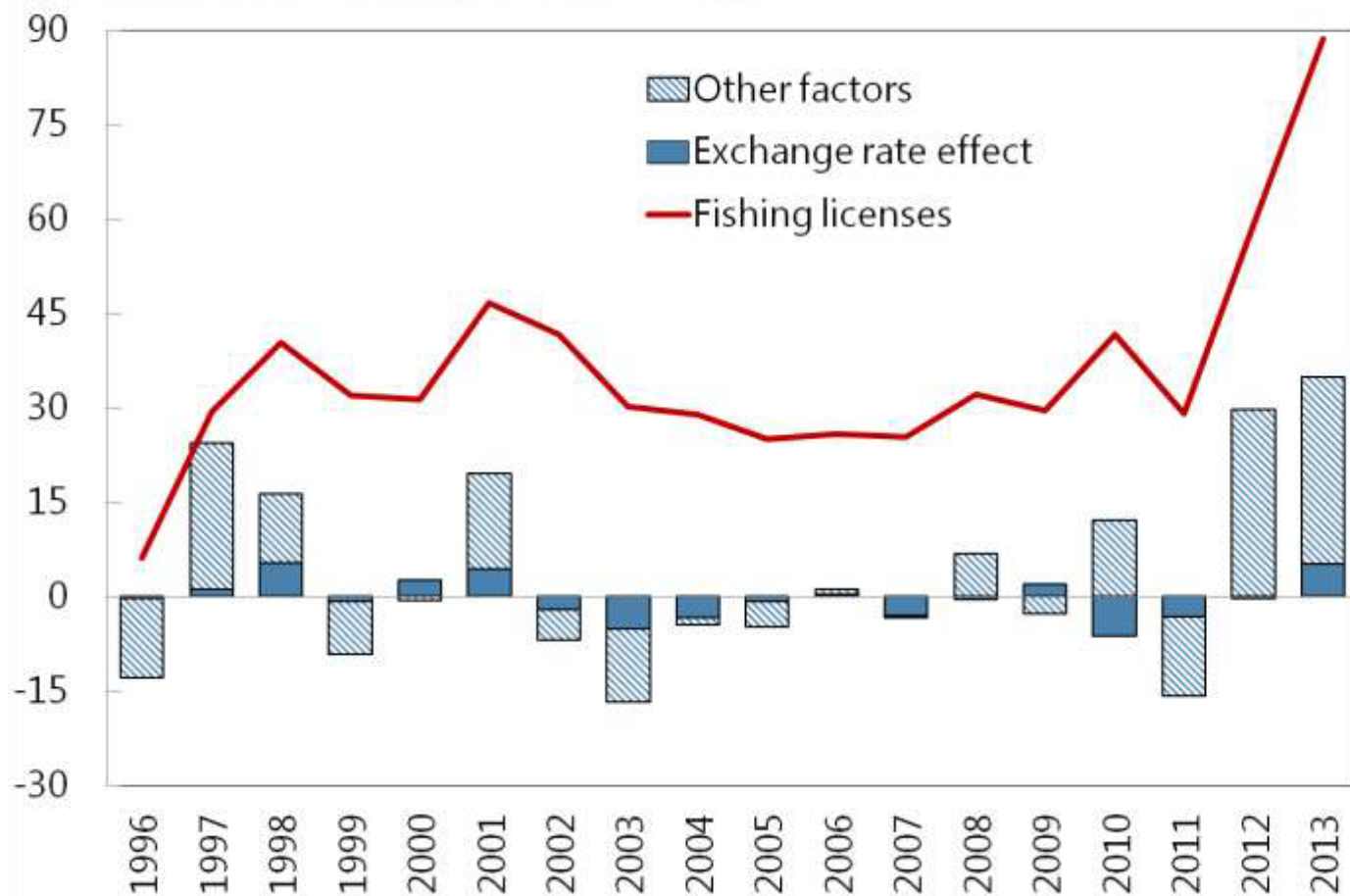
Sources: INS, APDEER and IMF staff calculations.

The number of Kiribati seamen on board of international ships has been declining.



Fishing License Fees and Their Changes

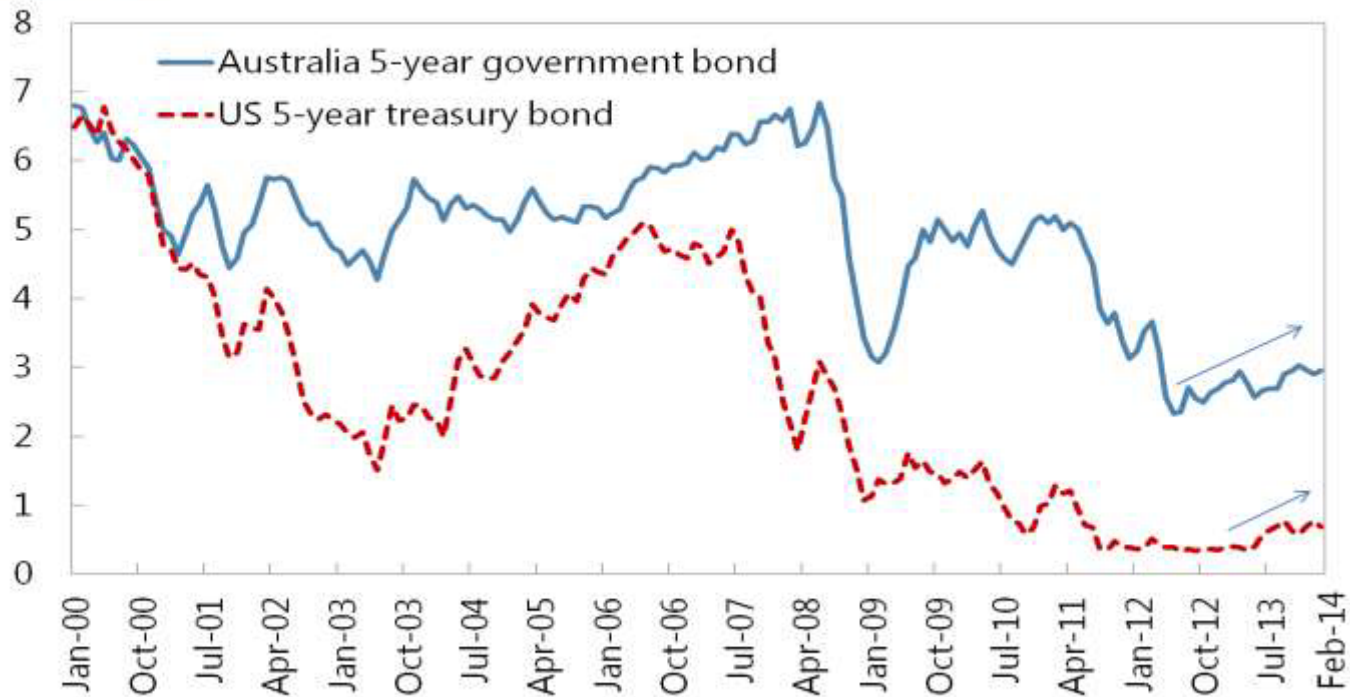
(In millions of Australian dollars)



Yields on Australian securities are relatively high,
helping RERF investments.

Government Bond Yields

(In percent)



Kiribati:

Achievements, Challenges and Recommendations

Kiribati - Achievements

- The government is pursuing a broad range of reforms with the help of development partners
- SOE reform improved efficiency and established a strengthened legal framework for governance, financial reporting, and management of SOEs.
- Introduction of a value added and excise taxes is planned in April 2014.

Kiribati – Achievements (continued)

- Work is underway to improve fisheries policy.
- The government plans to introduce improvements in RERF management and asset allocations.

Kiribati - Challenges

- Stabilizing RERF should continue to be a major objective.
- Underperforming SOEs (in particular PUB) are still a drag on the budget.
- Revenue collection needs to be improved
- VAT implementation

Kiribati – Challenges (continued)

- Unemployment remains very high
- Private sector opportunities need to be improved
- Addressing infrastructure challenges (both in South Tarawa and the outer islands).
- Climate change and its impact.
- Ensuring financial sector soundness

Copra Subsidy

- Copra subsidy scheme in its current design lacks efficiency.
- Options for improvement may include alternative forms of subsidies and transfers.

SOEs

- The government has been implementing SOE reforms.
- Some challenges remain, in particular with losses at PUB. Work is underway to strengthen revenue collection and improve PUB's performance.

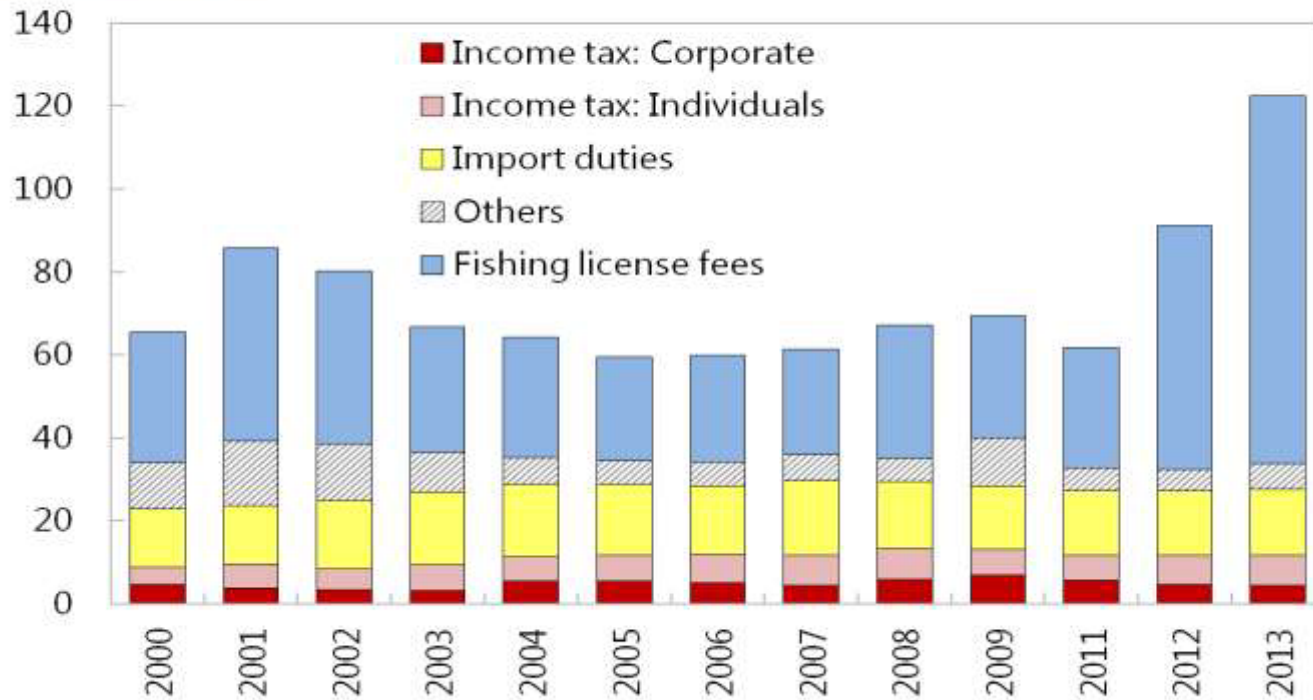
Fiscal Sustainability

- Achieving stable RERF real per capita balance would require substantial reduction in recurrent balance in the medium term.
- The budget should continue to avoid financing of recurrent deficit by non-concessional borrowing.
- Even after introducing VAT additional reforms would be needed to eventually stabilize RERF per capita value.
- Improving public financial management and developing debt and guarantee policy is important for fiscal sustainability.

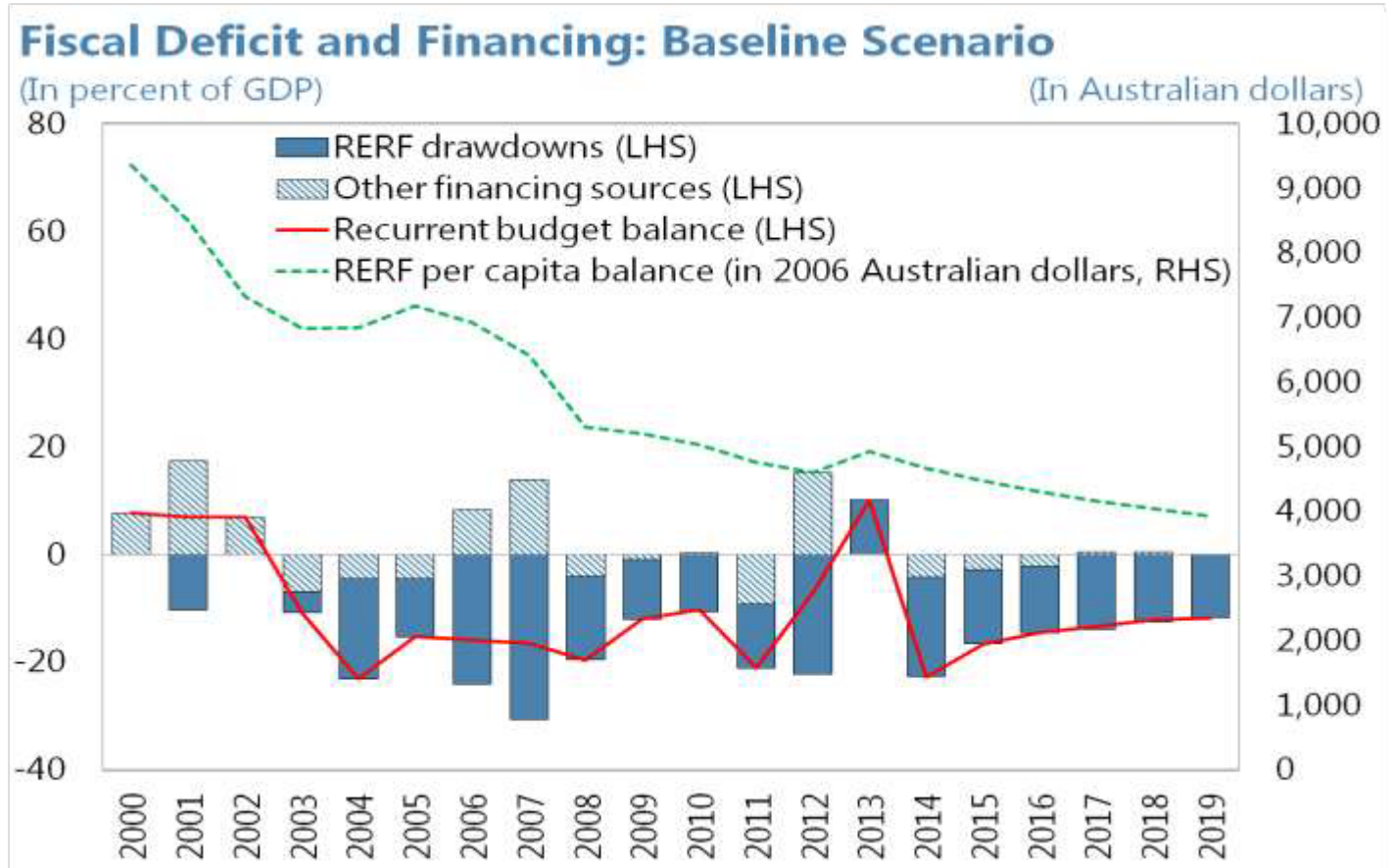
Fishing license fees increased significantly in the last two years...

Fiscal Revenue

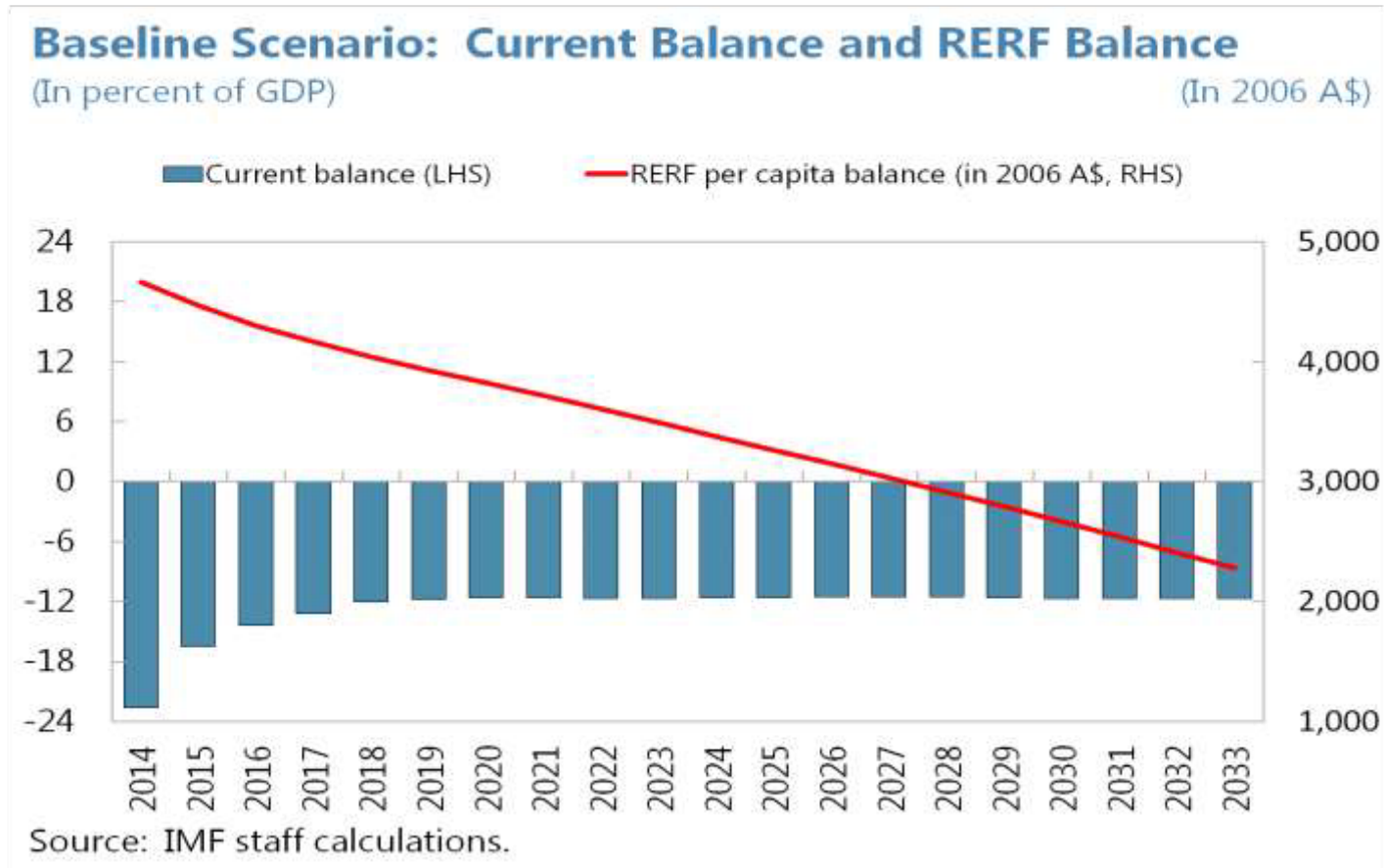
(In millions of A\$)



Baseline Scenario: Eliminating Overdraft in 2012 Reduced Budget Costs. However, RERF Per Capita Balance Is Still Falling...



Under the baseline scenario RERF still falling in per capita terms over the longer run

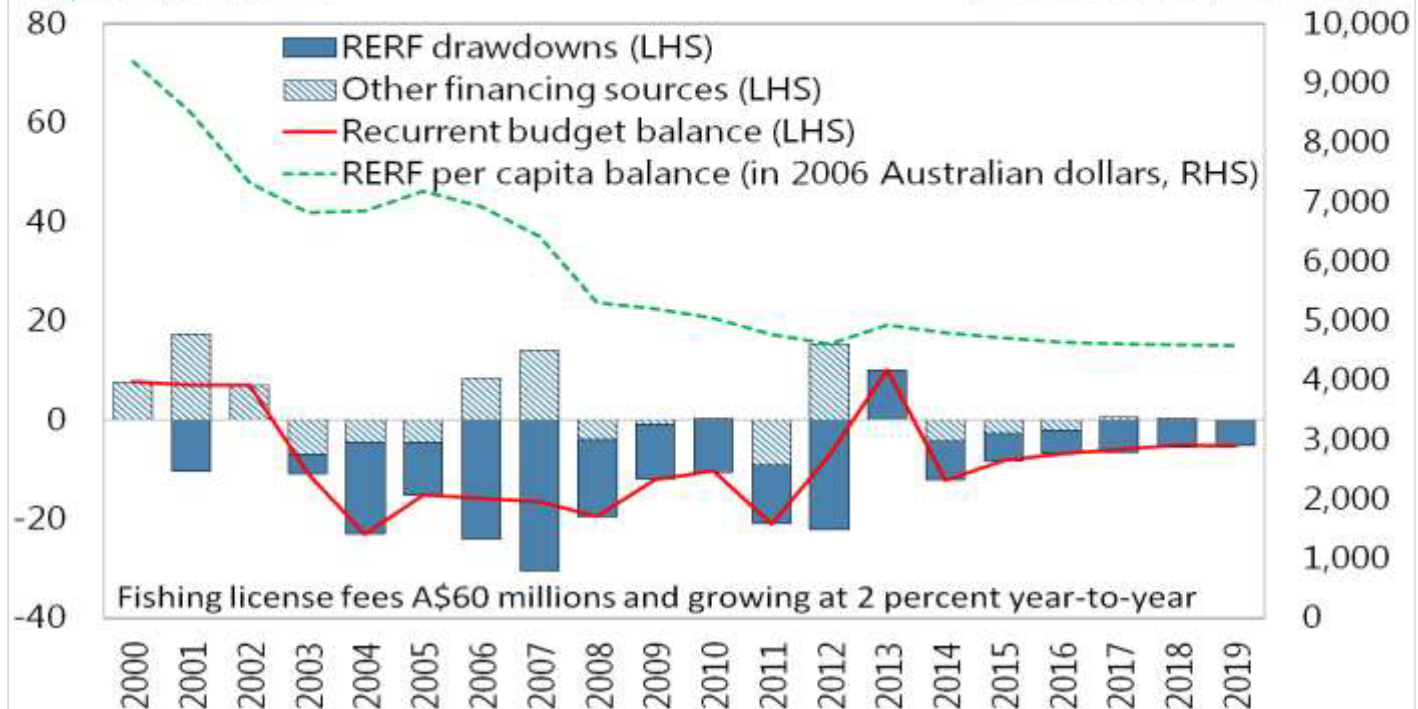


High Fishing License Fees Scenario...

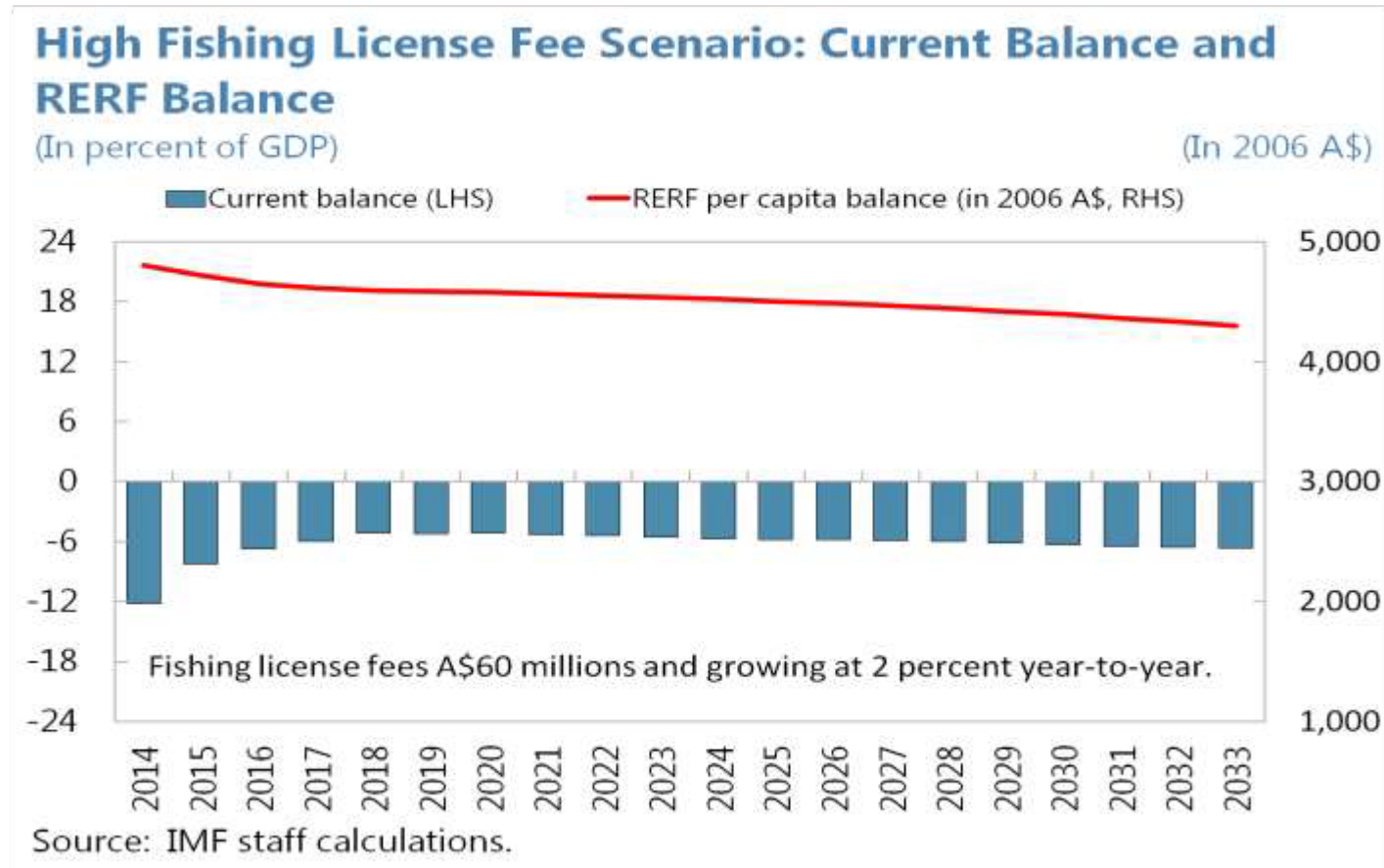
Fiscal Deficit and Financing: High Fishing License Fees Scenario

(In percent of GDP)

(In 2006 Australian dollars)



Under the high fishing license scenario it would be easier to stabilize the RERF



Private Sector Development

- Key to supporting robust growth.

Focus areas:

- Developing fishing industry to utilize marine resources beyond license fees.
- Tourism
- Education and opportunities to have working experience abroad.
- Removing obstacles for doing business.

Supporting Private Sector Growth

Ease of Doing Business Indicators (2014)

	FIJ	KIR	RMI	FSM	SOL	SAM
Rank ¹	62	122	114	156	97	61
Getting electricity rank	81	159	77	106	130	37
Cost (% of income per capita)	1835	5296	730	375	2114	783
Getting construction permits (days)	142	170	76	114	92	87

FIJ=Fiji Islands, FSM=Federated States of Micronesia, KIR=Kiribati, RMI=Republic of Marshall Islands, SOL=Solomon Islands, SAM=Samoa, TON=Tonga.

Source: World Bank *Doing Business Report, 2014*.

1 Economies are ranked from 1-185, 1 being the best and reflective of a conducive environment for business operations.

- **Looking at the business environment, improving doing business indicators and reducing business costs are important for attracting and securing both foreign and domestic investment.**

Supporting Private Sector Growth (cont.)

Business Legal Environment Indicators (2014)

	FIJ	KIR	RMI	FSM	PNG	SAM	TON
Enforcing contracts	63	74	61	152	168	77	48
Cost (% of claim)	39	26	27	66	110	20	31
Time (days)	397	660	476	885	591	455	350

FIJ=Fiji Islands, FSM=Federated States of Micronesia, KIR=Kiribati, RMI=Republic of Marshall Islands, PNG=Papua New Guinea, SAM=Samoa, TON=Tonga.

1 Index ranges from 0 to 10, with higher values reflective of better investment protection.

- **Accessing land, together with obtaining licenses, was identified as the biggest impediment to starting a business in a KCCI survey of businesses.**

The IMF is committed to continue working in partnership with the government and international community to assist in addressing challenges facing Kiribati.

Thank you!