

Kiribati: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix paper for Kiribati was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on April 16, 2009. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Kiribati or the Executive Board of the IMF.

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KIRIBATI

Selected Issues and Statistical Appendix

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Approved by Asia and Pacific Department

April 16, 2009

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EXECUTIVE SUMMARY

Chapter I discusses recent developments with, and the outlook for, Kiribati's Revenue Equalization Reserve Fund (RERF). The RERF is around 3½ times Kiribati's GDP and is a key revenue source. With large drawdowns in recent years (to fund fiscal deficits), and the global decline in asset prices, the RERF has declined in real per capita terms by around 40 percent from the peak in 2000; and the outlook for the RERF has worsened. Estimates suggest that long-term sustainability of the RERF and fiscal position would require reducing fiscal deficits and RERF drawdowns to around 6–7 percent of GDP. A well-defined target or rule for RERF drawdowns combined with a medium-term budgeting framework would allow for expenditure smoothing while safeguarding the RERF.

Chapter II examines fiscal aspects of climate change. Kiribati will be adversely affected by deteriorating climatic conditions, and the impacts will likely intensify over time. The main impact will come from rising sea levels, more frequent and severe storms, and erratic rainfall. While the fiscal costs are uncertain, they are likely to be substantial relative to GDP. An important first step is to recognize the fiscal risks involved and to start building a fiscal buffer—with the assistance of international donors—and to consider the implications for expenditure programs. Insurance markets have proven effective in several low-income countries, including in Africa, in strengthening these strategies, but may be subject to limitations.

Chapter III considers options for improving fishing license fees, which remain an important source of revenue. The options include pursuing regional approaches (such as collective regional licenses, or regional joint-venture fishing companies), using auctions to allocate licenses, reducing illegal fishing, and improving governance (such as through greater transparency or involvement of an independent committee). Options for stabilizing the revenue flows include efforts to negotiate longer license periods, and the use of currency hedging. Adoption of a medium-term budget framework would help smooth expenditure based on the trend fishing license revenues.

Chapter IV discusses recent developments and the outlook for remittances to Kiribati, which are another important source of external revenue and bring important economic benefits (such as reducing poverty and stabilizing national income). Going forward, remittances are likely to remain an important external revenue source; and revenues could be supported and diversified through appropriate development of human capital.

I. THE REVENUE EQUALIZATION RESERVE FUND: RECENT DEVELOPMENTS AND OUTLOOK¹

A. Background

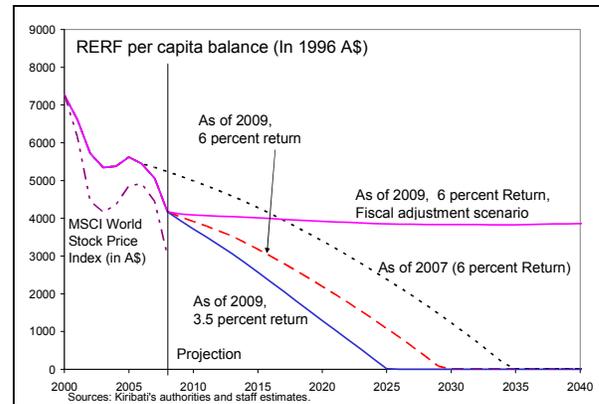
1. **The RERF is a key source of income for Kiribati.** The fund was established in 1956 and capitalized using phosphate mining royalties. Under a conservative policy, the fund's assets grew steadily until 1979 when phosphate deposits were exhausted. In subsequent years, this conservative approach continued, but since 2001 there has been an increase in fiscal deficits and drawdowns from the RERF. The fund has taken a relatively risk-averse investment strategy, and the current share of bonds in the portfolio is around 70 percent.

	1956	1979	1987–91	1992–96	1997–2001	2002–07	2008
RERF Balance (A\$ mn, eop)	0.6	68.0	262.0	371.8	635.9	637.4	561.6
Per capita RERF Balance (1996 A\$, eop)	179.0	3393.8	4032.3	4703.4	6615.3	5051.8	4173.0
Average Drawdown (percent of GDP)	...	...	...	...	-3.0	-14.5	-15.7
Average Return (percent per year)	...	...	11.5	9.5	12.7	3.9	-7.7

Source: Authorities and IMF Staff Estimates.

B. Recent Trends and Projections

2. **More recently, the RERF has been adversely affected by the global financial crisis.** In 2008, the capital loss in A\$ terms was over 10 percent of the fund's outstanding value;² and drawdowns (for financing the budget deficit) mean the per capita RERF balance dropped by around 20 percent to less than A\$4,200 (in 1996 A\$). This is less than 60 percent of the peak in 2000 (of over A\$7,000).



3. **Going forward, the outlook for the fund has worsened.** If past trends persist, even under a relatively optimistic assumption of 6 percent nominal returns, the fund is projected to be depleted by 2030—five years earlier than the projection during the 2007 Article IV consultation (using similar assumptions).³

¹ Prepared by Kiichi Tokuoka.

² The RERF capital loss in 2008 was 30 percent in U.S. dollar terms, but the large depreciation of the A\$ by end-2008 contained the RERF capital loss in A\$ terms.

³ With a conservative assumption of 3.5 percent nominal returns, the fund is projected to be exhausted in 2026. On the other hand if a higher return is assumed, the timing of the depletion will be postponed. For example, with an 8 percent nominal return (roughly the historical average over 1990–2008), the fund is projected to be exhausted in 2036.

4. **To maintain the per capita RERF balance (in 1996 A\$), a substantial fiscal effort is required.** An informal target for the RERF used by the authorities in the past has been to maintain the real per capita value of the RERF at or above the level in 1996 (A\$4,700). Under the baseline parameter values, targets for the real per capita level of the RERF near the current level or a simple fiscal sustainability rule suggest fiscal deficits need to be reduced to around 6 percent of GDP, implying an adjustment of around 6 percent of GDP from the expected deficit this year. (Baseline parameter values: nominal returns of 6.0 percent; real GDP growth of 1.1 percent; and an inflation rate of 2.8 percent).

Criteria	Level of Fiscal Deficit (In percent of GDP)
<i>Fiscal deficit, which allows a shift to a stable per capita RERF balance</i>	
Per capita RERF balance stabilizes at around A\$ 4,500 (in 1996 A\$) in long run	5.5
Per capita RERF balance stabilizes at around A\$ 4,000 (in 1996 A\$) in long run	6.0
Fiscal deficit, for which the <i>present discounted value is equal to the level of RERF today</i>	6.6
Source: IMF Staff Estimates.	

5. **These projections are subject to significant uncertainty, particularly if a higher share of equities in the portfolio is chosen.** To quantify the uncertainty, stochastic simulations are performed in a simple model with four variables: real returns, real GDP growth, the inflation rate, and RERF drawdowns (in percent of GDP). The model allows for correlations of the shocks to the four variables.⁴ Results are shown in the fan charts (the center, middle and outer areas cover 50 percent, 70 percent, and 90 percent confidence intervals, respectively). Mean nominal returns from equities are 7.0 percent, mean nominal returns from bonds are 5.0 percent, and real GDP growth and the inflation rate are the same as those in the nonstochastic simulation above.⁵

6. **The simulation results confirm the importance of a conservative fiscal stance for sustainability of the RERF.** Regardless of growth rates and returns, the faster pace of fiscal drawdowns (as in recent years) is likely to be unsustainable. At the same time, the higher growth scenario highlights the benefit of an increase in tax revenues.

⁴ As a first step, a Vector Autoregression is run using the four variables, and the variance-covariance matrix for the error terms, denoted Ω , is estimated. Then, simulations were performed using stochastic error terms with covariance structure Ω .

⁵ This set of parameter values produces the 6 percent nominal return assumed in the non-stochastic simulation above, if the portfolio is 50 percent equities and 50 percent bonds.

Table I.3. Summary of the Stochastic Simulation Results

	Portfolio Mix	Fiscal drawdowns of 15 percent (average) of GDP	Fiscal drawdowns of (average) 7.5 percent
Baseline scenario	50 percent equities and 50 percent bonds	The per capita balance is projected to be maintained with a probability of only around 5 percent	The per capita balance is projected to be maintained with a probability of around 25 percent
Real GDP growth: 1.1			
Mean nominal return with the portfolio of 50-50: 6.0	100 percent bonds	A continuous decline in the per capita balance is predicted	A continuous decline in the per capita balance is predicted
Higher growth scenario.^{1/}	50 percent equities and 50 percent bonds	The per capita balance is projected to be maintained with a probability of around 15 percent (benefiting from higher tax revenues)	The per capita balance is projected to be maintained with a probability of around 50 percent
Real GDP growth: 3.1			
Mean nominal return with the portfolio of 50-50: 6.0	100 percent bonds	A continuous decline in the per capita balance is predicted	The per capita balance is projected to be maintained
Lower return scenario	50 percent equities and 50 percent bonds	A continuous decline in the per capita balance is predicted	The per capita balance is projected to be maintained with a probability of 5 percent
Real GDP growth: 1.1			
Mean nominal return with the portfolio of 50-50: 3.5			
Higher return scenario	50 percent equities and 50 percent bonds	The per capita balance is projected to be maintained with a probability of around 25 percent. This implies that a higher percentage of drawdowns is likely to be unsustainable regardless of the returns ^{2/}	The per capita balance is projected to be maintained with a probability of around 75 percent
Real GDP growth: 1.1			
Mean nominal return with the portfolio of 50-50: 8.0			

1/ In this scenario, an increase in tax revenue (partly) offsets fiscal drawdowns. Assumed drawdowns of 15 percent and 7.5 percent are those before subtracting this offsetting effect.

2/ On the other hand, assuming a 10 percent mean nominal return, the per capita balance is projected to be maintained with a probability of around 75 percent.

Figure I.1. Per Capita RERF Balance (In 1996 A\$):
Baseline Scenario

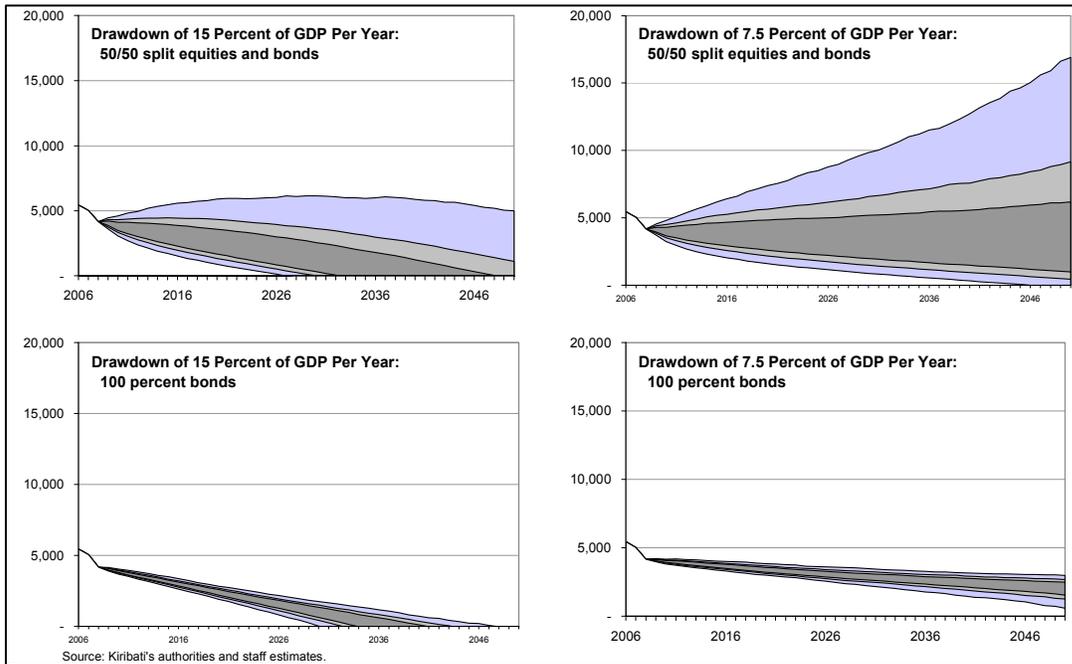


Figure I.2. Per Capita RERF Balance (In 1996 A\$):
Higher Growth Scenario (3.1 Percent Real GDP Growth)

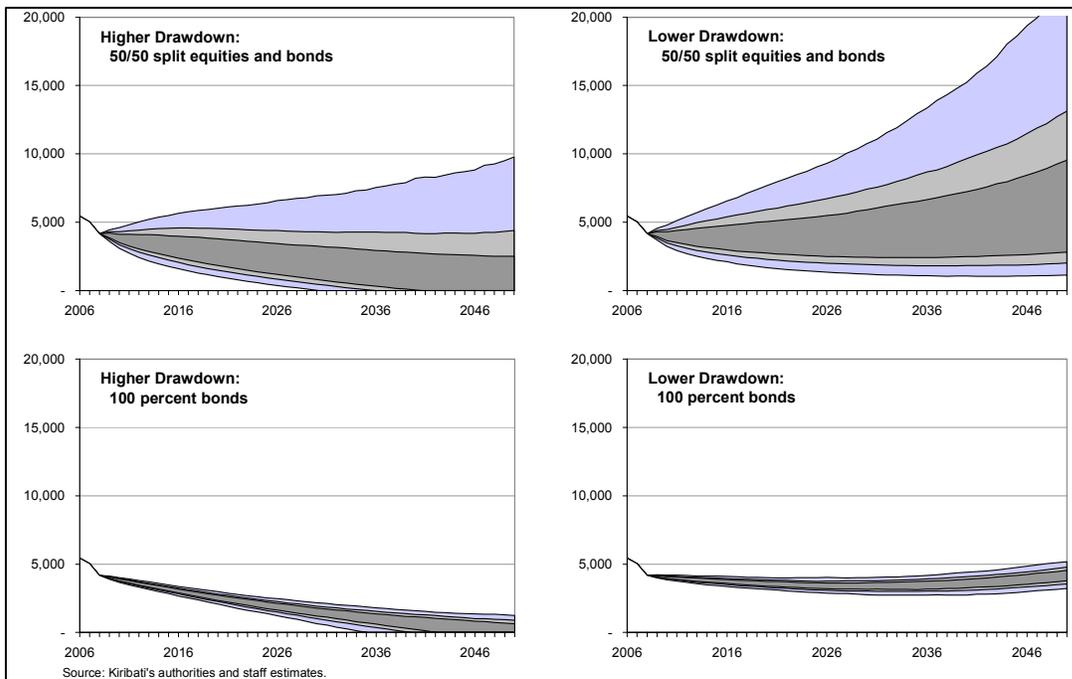


Figure I.3. Per Capita RERF Balance (In 1996 A\$):
Lower Return Scenario (3.5 Percent Nominal Returns)

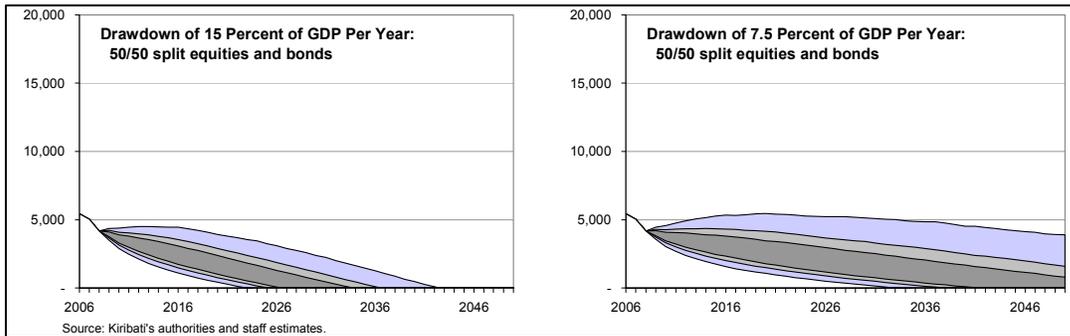
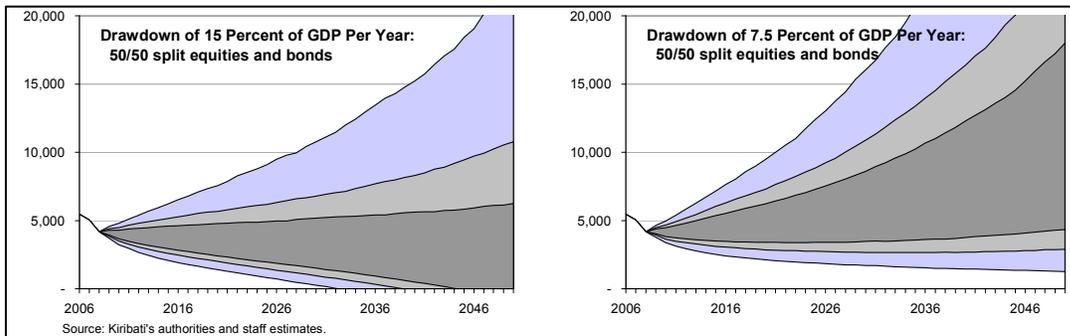


Figure I.4. Per Capita RERF Balance (In 1996 A\$):
Higher Return Scenario (8.0 Percent Nominal Returns)



C. Implications of the Large Capital Loss and Reform Directions

7. **The asset mix of the fund is currently around 30 percent equity (from around 50 percent equity before 2005).⁶** The asset mix is less risky than other funds in Pacific island countries and is not a primary reason for the decline of the fund. Indeed, Kiribati's RERF still averaged a 4.5 percent return during 2004–08. Moreover, simulation results using historical data on equity and bond returns indicate that, if we take 1990 as the starting point, the realized level of the RERF is much higher than in the 100 percent bonds portfolio; and nearly the same level in 2008 as a 100 percent equities portfolio.

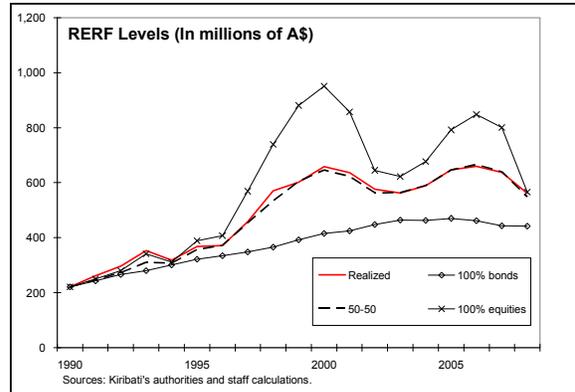
Table I.4. Share of Equity in Reserve Fund
(In percent)

Kiribati	around 30
Palau	around 65
Micronesia	86

Sources: Authorities and IMF staff calculations.

⁶ The share of equities declined to around 30 percent in 2005, because Nikko Asset Management, which manages half the fund, reduced its share of equities to 15 percent (at the maximum) from 50 percent.

8. **In addition to a reduction in fiscal drawdowns, there is a need for a well-defined target or rule for the RERF combined with a medium-term budgeting framework.** Successful experiences of natural resource funds (for example in Norway) indicate that formulating a medium-term plan is effective in allowing expenditure smoothing. If reforms can reduce fiscal uncertainty, a more return oriented portfolio mix might be appropriate.



Box I.1. Some Lessons on Drawdowns and Longer-term Fiscal Planning

Successful cases:

Tuvalu

- The Tuvalu Fund's independent advisory committee consists of qualified economists, financial experts and others.
- The committee has not only provided advice to trustees' decision making, but also has helped to incorporate the fund's management into long-term fiscal planning, taking into account the impact of fiscal drawdowns on the fund (ADB, 2005).

Norway

- Norway formulated a well-defined numerical rule, which limits drawdowns for the non-oil deficit to the realized real returns in the fund. This helps to cap the drawdowns from the fund to a sustainable level.
- Further, the operation of the rule is supported by fiscal projections covering a 50-year period. The forecasts help reduce political pressures for higher spending (and larger drawdowns), (IMF, 2005).

Unsuccessful case:

Mexico

- While Mexico had numerical rules on how excess revenues to the fund should be used, these have been relaxed over time, and there is no medium-term fiscal framework. As a result, the authorities failed to build up temporary windfalls from oil receipts (IMF, 2005).

9. **Efforts to improve governance, particularly through better disclosure would also be welcome.** Experiences elsewhere indicate that weak governance will likely to lead to poor performance of a reserve fund.

Box I.2. Governance, Disclosure and Fund Performance

Successful case:

Norway

- The public is well informed about how the money is invested and what the returns have been. Detailed information is also readily available to the public.
- This high degree of transparency has helped to build a consensus in decision making at both policy and operational levels (IMF, 2005).

Unsuccessful cases:

Tonga

- The operation of the fund has been outside of the fiscal system, and has not been subject to the same accountability as the national budget.
- In the late-1990s, the fund incurred a US\$26 million (20 percent of GDP) capital loss due to risky investments (following the investment strategy of an advisor who was subsequently sued by the authorities). The structurally weak fiscal setup is believed to have increased the potential for the misuse of resources (ADB, 2005).

Nauru

- The governance on the fund had been very weak; the fund was used as collateral for borrowing against (which was violation of the rules), and poor investments were made. As a result, the fund was (nearly) depleted by 2005, (ADB, 2005).

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II. FISCAL ASPECTS OF CLIMATE CHANGE¹

A. Background

1. **Kiribati is extremely vulnerable to climate change (CC).** Like many islands in the Pacific, Kiribati consists of low-lying atolls with an average height above sea level of around three meters. Kiribati has 1,143 kilometers of coastline and 21 inhabited islands.
2. **Higher sea levels, more frequent and extreme storms, and changing patterns of rainfall may adversely affect, for example, water supplies, agriculture and fisheries output, and human health:**
 - **Water resources.** Although projections are uncertain, changing precipitation patterns are likely to further reduce the size of Kiribati's already limited freshwater lens.
 - **Agriculture and fisheries.** Increased inundation and salinization of agricultural land is likely to reduce agricultural output and productivity; while damage to coral reefs may accelerate the depletion of fish stocks. The World Bank estimated potential costs in the region of one-sixth of GDP in 1998 under some future emissions scenarios.
 - **Human health.** Higher temperatures and wider areas of flooded land could increase the prevalence of vector borne diseases such as dengue fever.
3. **These risks are exacerbated by Kiribati's limited capacity to adapt.** Poor information, skills, access to technologies, public services, and infrastructure as well as existing environmental stresses mean that the population of Kiribati is unlikely to be able to manage impacts efficiently or effectively.

B. Fiscal Costs of Adaptation

4. **Evidence on the likely cost of adaptation measures for lower income countries is scant, and even rarer in the case of fiscal costs.** Little is known of the fiscal costs in the poorest and most vulnerable countries. This information gap reflects remaining scientific uncertainties, particularly acute in lower income regions. Still, emerging estimates of aggregate adaptation costs in developing countries run in several tens of billions of dollars per annum, with two recent studies by the World Bank and the United Nations Development Program (UNDP) placing the aggregate cost at around US\$45 billion per annum.
5. **Rudimentary and limited analysis for Kiribati suggests that adaptation could often be relatively inexpensive in absolute terms, but large relative to its resources.** Kiribati's National Adaptation Plan for Action (NAPA) identified priority adaptation investments totaling approximately US\$12 million. The World Bank (2000) estimates that the impact of climate change on Kiribati could cost up to 1/3 of 1998 GDP. Nicholls and Tol

¹ Prepared by Chad Steinberg.

(2006) find coastal protection costs could be in the region of one percent of GDP annually in some of the most affected islands in the Pacific.²

6. Further efforts to assess the costs and benefits of CC responses are essential to facilitate integration of spending on adaptation into wider development programs.

Adaptation needs to compete with other uses of scarce funds. While benefit-cost ratios seem high for many measures of public spending on adaptation, the same is true for many nonclimate-related items. Kiribati's NAPA is a welcome start in this direction.

C. Fiscal Strategies

7. Institutional and financial weaknesses in many of the most vulnerable countries create scope for donor support in meeting adaptation costs.

Funds have been created to this end, but remain modest: delivered financing is around US\$26 million (UNDP, 2007)—though committed amounts are larger—and is likely to expand, for example, with the establishment of the United Nations Adaptation Fund (financed from a 2 percent levy on the sale of Clean Development Mechanism credits). Kiribati has received support, for example, from the United Nations Framework Convention on Climate Change in the development of its NAPA and from the Global Environmental Facility (reported to be approximately US \$6.6 million). In addition, a strong case can be made for increased assistance, with achievement of the Millennium Development Goals otherwise potentially jeopardized.

8. Adaptation will require increased public expenditure both on climate-related public goods and to protect programs driven by other concerns. Kiribati's NAPA identified priority expenditure areas such as improving drinking wells, reducing losses from water distribution systems, and reinforcing natural sea defenses. In addition, the provision of more generalized public services, such as health and education systems, are likely to be an important part of resilience building efforts.

9. Significant uncertainties and irreversibilities require balancing precautionary spending on adaptation against the risk of undertaking unnecessary expenditures. To the extent that public investments are more likely to involve heavy sunk costs (for example, desalinization plants), the option value of waiting may be significant in favor of more flexible, incremental strategies. Additional spending will also be needed to protect wider investments, but *full "climate proofing" is generally not optimal: the investments themselves may need reconsideration, and some residual climate risk accepted.*

10. Thus, in the near term Kiribati could usefully concentrate on capacity building and other low cost actions, as has been done in several other Pacific Island nations; and

² However, these estimates are likely to include a number of biases. They exclude any transition costs, as well as the potential cost of inefficiencies in adaptation responses. In addition, they do not include costs of adapting to climate variability, such as reducing damages arising from higher storm surges, or those associated with adjustments in response to the salinization of agricultural land.

better evaluation of larger expenditure programs, including permanent migration, and contingent liabilities in the longer term. Many of the low cost actions used in the Pacific today entail reducing environmental and economic stresses by reinforcing traditional knowledge and resource management practices. The Solomon Islands, for example, has made efforts in marine conservation and Samoa has made efforts with an environmental health program. Coastal defense is another major strategy, particularly for urban areas. Successful examples of mangrove rehabilitation in the region include Palau and Tonga, with projects in Samoa and Papua New Guinea performing less favorably. Moreover, the UNDP finances a relatively inexpensive Coastal Zone Management Project in Majuro.

11. **Finally, climate change responses may raise some limited revenue opportunities.** Water pricing, for example, has the potential to be an effective measure with which to foster increased conservation and reduce demand for limited water resources. In addition, large renewable endowments may create opportunities for generating revenues from emissions “offsetting schemes.”

D. Examples of Insurance Markets as a Complimentary Strategy

12. **Intervention may be appropriate to facilitate private insurance.** Insurance does not reduce the physical damage from climate change (and through moral hazard effects could worsen it). It can however reduce the consequent welfare losses, including by reducing implicit fiscal risks. In many developing countries, however, market insurance may be unavailable or unaffordable at actuarially fair rates. There may then be scope for public intervention to provide or facilitate access to risk markets: in Malawi, for instance, the World Bank and donors provide drought insurance. Strengthening wider social insurance schemes also improves resilience to extreme weather events, as to other traumas.

13. **Recent financial innovations also point to new ways of coping with some climate related fiscal risks.** The Caribbean Catastrophe Risk Insurance Facility, for example—bringing together CARICOM countries and launched with donor support in 2007—pays out in the event of parametric trigger points (such as hurricane wind speeds) being exceeded. It is estimated to offer premia about 40 percent below market rates, and provides rapid payment if disaster strikes. Still, such schemes (as well as wholesale instruments such as catastrophe bonds, which tap deeper capital markets) are often limited by high transaction costs, asymmetric information, and issues of moral hazard, but indicates scope for addressing fiscal and other risks from climate change through insurance mechanisms. Moreover, whether further innovations could deal with longer-term climate risk, and the uncertainty surrounding some risks, remains an open question (Heal and Kristrom, 2002).

14. **Given the many other fiscal challenges faced by Kiribati, and the possible scale of damage, however, the self-insurance reasonably achievable may be limited.**

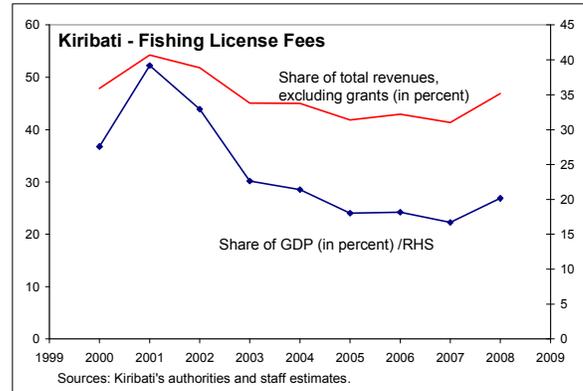
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III. OPTIONS FOR IMPROVING KIRIBATI'S FISHING LICENSE REVENUES¹

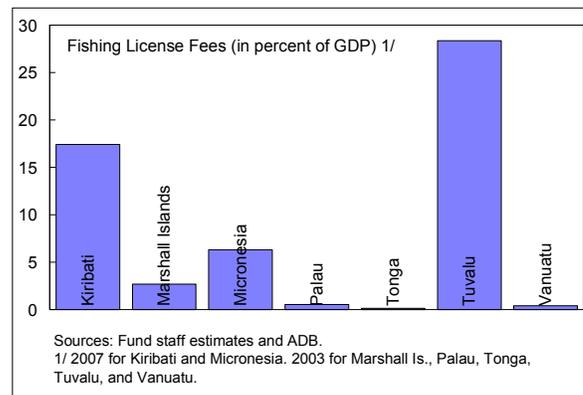
A. Background

1. **Fishing license fees are a key income source for Kiribati.** Fishing license fees, relative to total revenue or GDP, peaked in 2001 and have been on a declining trend since.² However these remain high at above 30 percent of total revenue (excluding grants) and around 20 percent of GDP, and are among the highest in Pacific Island countries (reflecting Kiribati's relatively large and productive Exclusive Economic Zone (EEZ)).



2. **Fees received by Kiribati and other Pacific Islands are not large relative to the value of fish catches.** The ratio of the fees to fishing entities' revenues is reported to be around 5 percent, while the ratio is higher in some other regions (ADB, 2003).³

3. **Kiribati's fishing license fees have also been extremely volatile.** Volatility (measured by the standard deviation) of real growth in fishing license fees over the period 2000–08 is nearly five times as large as that of GDP. This volatility reflects fluctuations in fish catches (climatic conditions are an important factor in this regard) and prices,⁴ and exchange rate movements (fees are typically dominated in U.S. dollars).



B. Policy Options for Increasing the Size and Stability of Fishing License Revenues

- *Collective (sub-) regional action* would strengthen bargaining power of countries issuing fishing licenses. A major challenge is how to reach a within region agreement particularly on the distribution of fees (given the disparity in the distribution of marine resources)—namely one that makes every country at least as well off. The region could draw on experiences with collective action so far (for example, with the United States),

¹ Prepared by Kiichi Tokuoka and Yougsh Khatri.

² In 2008, the jump in fishing license fees in A\$ terms mainly reflected the depreciation of A\$ (a vast majority of the fees are paid in U.S. dollars).

³ The fees are calculated as a percentage of total revenue, not profit.

⁴ The El Niño tends to boost fish catches in Kiribati's EEZ, while the La Niña tends to reduce them.

which have yielded higher returns for coastal countries (ADB, 2004). An existing intra-regional organization could also be developed to pursue this.

- *Introduction of auctions* could increase the fees and contract duration. Auctions can be designed quite flexibly, for example, in such a way that fees increase in line with fish prices.

Box III.1. Two Possible Auction Schemes Being Considered

Two possible auction schemes have been considered (ADB, 2005):

- Fishing countries bid for access fees for a limited number of days or a limited catch per year.
- Fishing countries bid for access fees (tons/year) plus agree to a *rate* of additional contributions (in line with fish prices) when fish prices exceed a certain level.

The latter has an advantage for coastal countries such as Kiribati, since they can exploit rent if there is revenue surplus for fishing countries. However, fishing countries would likely oppose this scheme (relative to the former), and a challenge is how to make an agreement with them on adoption of this scheme. Coastal countries may need to offer some benefit to fishing countries (for example, provision of tenure (ADB, 2005)).

- *Improved governance*, particularly through greater transparency in licensing negotiations and decisions. Enhancing transparency can take various forms including:

- Active involvement of an independent body: an independent committee (either country or regional level) can play a monitoring role. A more drastic approach would be to give the mandate of endorsement to the committee.

- Public disclosure of the negotiation process and licensing details: licensing negotiations are, in many cases, held in a secretive way and in fishing (not coastal) countries. Disclosure of minutes during the negotiations and licensing details (for example, terms and conditions, entities and vessels to which licenses are granted) would help to ensure greater transparency.

Measure	Country
Multiple reviews of licensing decisions (e.g., checks by independent committees)	Fiji Papua New Guinea
Public disclosure of licensing details	Papua New Guinea

Source: Asian Development Bank.

- *Utilization of expertise*. An option is to hire an expert on (licensing) negotiations—formerly the Forum Fisheries Agency (FFA) provided such services. Active involvement of Ministry of Finance could benefit negotiations, taking advantage of their financial and economic expertise.

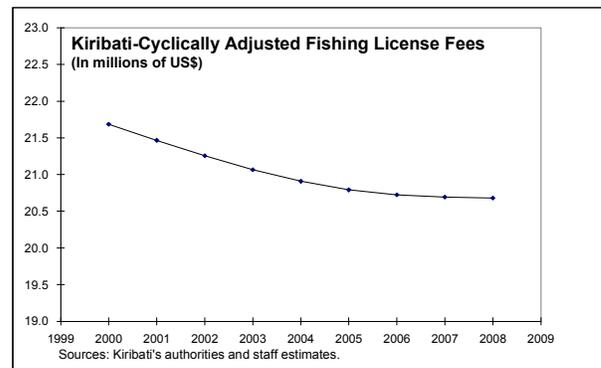
- *Separation of licensing fee agreements from development aid.* Development aid is in some cases effectively linked to licensing fee negotiations, which will likely reduce bargaining power of the coastal countries. At a minimum, donors should ensure separation of negotiations on fishing licenses from aid.
- *Reduction in illegal fishing.* Better coastal patrols to reduce illegal fishing could substantially increase fishing license fees and help to preserve marine resources, since a likely large volume of fish is illegally caught (some suggest this could be in the region of 50 percent of the legal catches). Cooperation with fishing countries (such as the recent agreement with the United States) is key given Kiribati's limited resources.
- *Ownership of fishing facilities.* An ultimate measure to increase revenues from marine resources is for Kiribati to own the necessary facilities (for example, ships, and processing factories) and catch fish for itself. While the costs and risk may be prohibitive for Kiribati to bear alone, together with other Pacific island countries, the authorities have started preliminary discussions of a possible joint venture.

Stabilizing the flow of the fees

- *Continued efforts to negotiate longer license periods:* the Kiribati authorities have made some progress in this direction, but collective action could also help in extending contracts.
- *Hedging currency risk* can help increase the certainty of the A\$ revenue. The potential contribution to revenue stability of this measure is large; give the substantial share of volatility stemming from currency movements.⁵

Establishing a medium-term budgeting framework

4. **Revenues from fishing license fees, like other components of Kiribati's external income, are highly volatile.** A medium-term budget framework would serve to smooth and constrain expenditures based on the trend components of revenues. For example, a cyclically adjusted level of revenues for 2008 from a smoothing algorithm (a simple Hordrick-Prescott filter) suggests trend revenues of US\$20.7 million in 2008.



⁵ For example, IMF (2005) estimates that in 2004 about two thirds of the decline in fishing license fees reflected currency movements. Furthermore, an increase in fishing license fees in A\$ terms in 2008 (by around 30 percent relative to the previous year) was largely due to the depreciation of A\$.

References

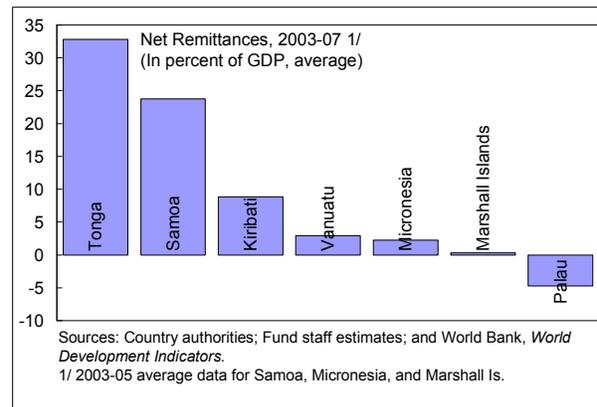
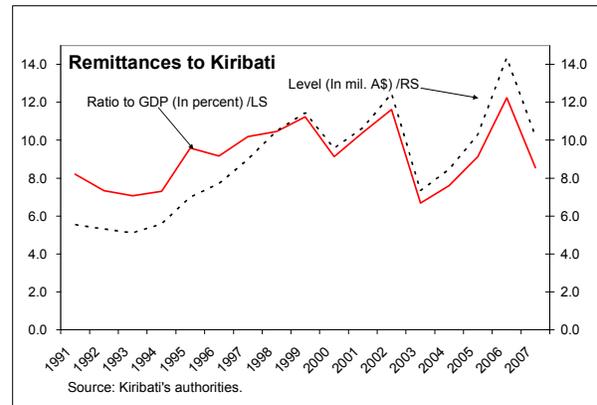
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IV. KIRIBATI'S REMITTANCES: RECENT DEVELOPMENTS AND POLICY OPTIONS¹

1. **The flow of remittances to developing countries has been increasing over the past three decades**, and reached around 1½ percent of their GDP (IMF, 2005), which is even higher than official aid (though lower than FDI). The rising trend is expected to persist given population aging in many advanced countries, and remittances are likely to remain important income sources for developing countries.

2. **Kiribati, like many Pacific Island countries, depends heavily on remittances as a source of external funds.**

The ratio of remittances to GDP has been particularly high (7–12 percent over the past 20 years), while the amount of FDI has been negligible. While the ratio of remittances to GDP has not been trending upward, it is still one of the highest among the Pacific Island countries. Large remittances support the economy, but also highlight limited opportunities in the domestic economy. Kiribati's remittances (mostly) come from seamen who work outside the country, and go to their spouses and parents, indicating that remittances are generally sent for altruistic motives rather than for the portfolio management of the senders.



3. **Remittances are generally believed to have favorable implications for the economy** through the following channels:

- **Remittances have positive impacts on economic welfare** including through reducing poverty and volatility of aggregate income. Empirical evidence indicates that remittances are resilient in the face of economic downturns and crises in recipient countries. In Kiribati, remittances seem to be playing an important role in reducing poverty. According to previous research (for example, Cornell and Brown, 2005), remittances to Kiribati are used for meeting basic needs including food.

¹ Prepared by Kiichi Tokuoka.

- **Remittances to Kiribati also appear have contributed to stabilizing national income.** The correlation between real growth in GDP and remittances is moderately negative (-0.2), suggesting that remittances work as a buffer in domestic economic downturns. However, remittances to Kiribati are more volatile than GDP; the standard deviation of real growth in remittances is 20.4 percent and higher than that of GDP growth (5.2 percent). This volatility may be due to the fact that Kiribati's remittances are mostly sent by seamen, a large part of which depends on volatile fish catches.
- Theoretically, **remittances also help accelerate economic growth by providing funds for development**, although the positive impacts on growth are not empirically well-established (IMF, 2005; Browne and Mineshima, 2007).²
- **Remittances could be exploited for financial development**, by bringing a larger share of the population into the formal financial sector (IMF, 2005). In particular, those who receive remittances can be persuaded to put the remittances into bank deposits. Financial development may itself have a positive impact on economic growth through better utilization of remittances.

4. **Going forward, remittances will likely remain a major source of external funds**, since it may take some time for the private sector in Kiribati to create greater domestic employment opportunities. Given specific features of remittances to Kiribati, the following policy options could be considered:

- **Securing a stable inflow of remittances:**
 - *Continue to produce high-skilled seamen* (the main source of remittances to Kiribati). This will be achieved through training, as has been done by the Kiribati Marine Training Center. However, too much reliance on remittances from seamen poses risks given they are highly volatile and may be subject to exogenous medium-term risks such as climate change.
 - *Diversify sources of remittances.* Since Kiribati's remittances come mostly from seamen, diversification would be desirable. In this respect, the authorities' objectives of increasing other types of migrant labor could help to diversify sources of remittances and increase national income at least in the short-run. Indeed, there are some opportunities such as in Australia and New Zealand, which have introduced seasonal work schemes.³ Furthermore, there has been some progress in developing specific skills.

² IMF (2005) notes that remittances can help loosen budget constraints, support human capital development (through both education and health care), and support increased physical and financial investment. However, significant remittances could also weaken recipients' incentives to work.

³ Australia has recently announced a seasonal work scheme for 2,500 workers from Pacific Islands countries (ADB, 2008), of which 250 will be from Kiribati.

For example, under Kiribati Australia Nursing Initiative young Kiribati nationals are currently being trained as nurses in Australia (for future work there). Promoting regional cooperation in the context of the Pacific Island Countries Trade Agreement (PICTA) would also help to expand labor mobility by integrating labor markets in the region (one of the PICTA's objectives). However, since migration may also involve side effects (such as a "brain drain" problem), it should be planned and implemented carefully.

- *Reduce costs of remittances.* The cost of remittances to Pacific Island countries can be relatively large. Source countries will play a more important role in determining the cost of sending remittances, but financial sector development and competition in Kiribati would also support lower remittance costs. A World Bank initiative has targeted reducing remittance costs, including by the creation of a "Remittance Price Database". The Australian and New Zealand aid agencies have also launched a joint web-based initiative that aims to reduce the cost of remittances to Pacific Islands.

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Table 1. Kiribati: Gross Domestic Product by Economic Activity at Current Prices, 2004–08

(In millions of Australian dollars)

	2004	2005	2006	2007	2008
Agriculture, Forestry, Hunting & Fishing	33.9	32.7	33.7	37.6	41.1
Agriculture	22.4	20.1	20.9	24.4	27.2
Fishing	11.3	12.3	12.6	13.0	13.6
Seaweed	0.2	0.3	0.3	0.2	0.2
Mining and Quarrying	0.1	0.0	0.1	0.1	0.1
Manufacturing	6.2	6.1	6.5	7.9	8.6
Electricity, Gas & Water Supply	1.5	0.7	0.5	0.0	-0.1
Construction	3.3	2.2	3.2	3.0	3.2
Wholesale & Retail trade	7.8	9.4	8.1	7.8	7.8
Hotel & Restaurants	1.0	1.3	1.1	1.5	1.5
Transport and Storage	9.4	9.7	8.3	9.4	8.9
Communications	4.6	6.6	8.4	8.2	8.3
Financial Intermediation	8.0	9.7	10.4	11.8	11.0
Real Estate	2.3	2.4	2.5	2.7	2.8
Owner Occupied Dwellings	13.1	13.4	13.6	13.9	14.2
Business Services	1.1	1.2	1.2	1.3	1.3
Public Administration and Defence	19.7	21.9	23.6	24.3	25.1
Education	10.6	10.6	12.0	12.1	12.4
Health	5.3	5.2	6.7	6.9	7.1
Other Community, Social & Personal Services	2.3	2.4	2.4	2.5	2.4
Less imputed bank service charges	-3.3	-4.1	-5.6	-6.6	-6.2
Plus taxes on products	19.5	18.6	17.9	20.0	22.4
less subsidies	-11.0	-11.6	-12.7	-12.3	-12.3
GDP at market prices	135.3	138.3	142.0	152.0	159.7

Sources: Data provided by the Kiribati authorities.

Table 2. Kiribati: Gross Domestic Product by Economic Activity
at Constant 2006 Prices, 2004–08

(In millions of Australian dollars)

	2004	2005	2006	2007	2008
Agriculture, Forestry, Hunting & Fishing	34.1	31.5	33.7	34.1	35.7
Agriculture	21.6	18.9	20.9	20.8	22.4
Fishing	12.3	12.3	12.6	13.0	13.1
Seaweed	0.2	0.3	0.3	0.2	0.2
Mining and Quarrying	0.1	0.0	0.1	0.1	0.1
Manufacturing	6.1	6.0	6.5	7.6	7.9
Electricity, Gas & Water Supply	0.4	0.4	0.5	0.5	0.5
Construction	3.3	2.2	3.2	2.7	2.8
Wholesale & Retail trade	7.6	9.2	8.1	7.4	7.2
Hotel & Restaurants	1.1	1.1	1.1	1.2	1.2
Transport and Storage	10.1	10.1	8.3	9.1	8.4
Communications	7.0	7.2	8.4	8.4	8.8
Financial Intermediation	8.5	10.1	10.4	10.1	10.3
Real Estate	2.3	2.4	2.5	2.7	2.8
Owner Occupied Dwellings	13.4	13.4	13.6	13.9	13.9
Business Services	1.1	1.2	1.2	1.2	1.2
Public Administration and Defence	19.7	21.9	23.6	21.5	22.3
Education	10.6	10.6	12.0	10.7	11.0
Health	5.3	5.2	6.7	6.1	6.3
Other Community, Social & Personal Services	2.3	2.3	2.4	2.4	2.2
Less imputed bank service charges	-3.5	-4.3	-5.6	-5.7	-5.8
Plus taxes on products	19.1	18.3	17.9	19.2	20.6
less subsidies	-10.8	-11.4	-12.7	-11.8	-11.3
GDP at market prices	137.5	137.5	142.0	141.3	146.1

Sources: Data provided by the Kiribati authorities.

Table 3. Kiribati: Contributions to GDP Growth, 2005–08

(Change in percent of previous year's total GDP)

	2005	2006	2007	2008
Agriculture, Forestry, Hunting & Fishing	-1.8	1.6	0.2	1.2
Agriculture	-1.9	1.4	-0.1	1.2
Fishing	0.1	0.2	0.3	0.1
Seaweed	0.1	0.0	0.0	-0.1
Mining and Quarrying	0.0	0.0	0.0	0.0
Manufacturing	0.0	0.3	0.8	0.2
Electricity, Gas & Water Supply	0.0	0.0	0.0	0.0
Construction	-0.8	0.7	-0.4	0.1
Wholesale & Retail trade	1.2	-0.8	-0.4	-0.2
Hotel & Restaurants	0.0	0.0	0.0	0.0
Transport and Storage	0.0	-1.3	0.6	-0.5
Communications	0.1	0.9	0.1	0.2
Financial Intermediation	1.2	0.3	-0.2	0.1
Real Estate	0.1	0.1	0.1	0.1
Owner Occupied Dwellings	0.0	0.2	0.2	0.0
Business Services	0.0	0.0	0.0	0.0
Public Administration and Defence	1.6	1.3	-1.5	0.5
Education	0.0	1.0	-1.0	0.2
Health	0.0	1.1	-0.4	0.1
Other Community, Social & Personal Services	0.0	0.0	0.0	-0.2
Less imputed bank service charges	-0.5	-1.0	0.0	-0.1
Plus taxes on products	-0.6	-0.3	0.9	1.0
less subsidies	-0.4	-0.9	0.6	0.4
GDP at market prices	0.0	3.2	-0.5	3.4

Sources: Data provided by the Kiribati authorities.

Table 4. Kiribati: Gross National Product, 2004–08

(In millions of Australian dollars at current prices)

	2004	2005	2006	2007	2008
GDP at current prices	135.3	138.3	142.0	152.0	159.7
Fishing license fees	28.9	25.0	25.8	25.4	32.2
Investment income, net	29.4	28.0	30.0	34.0	37.8
Seamen's remittances	10.0	12.2	16.9	12.5	12.2
GNP at current prices	186.7	199.9	210.0	221.5	238.1
(Percent change)	-0.8	7.1	5.1	5.5	7.5
Memorandum item					
GNP at constant 2006 prices	189.8	198.8	210.0	205.9	217.8
(Percent change)	-0.3	4.7	5.6	-2.0	5.8

Sources: Data provided by the Kiribati authorities; and Fund staff estimates.

Table 5. Kiribati: Copra Production by Island, 2004–08

(In metric tons)

	2004	2005	2006	2007	2008
Gilbert Islands	11,194	4,299	8,919	7,196	7,677
Makin	476	196	382	628	252
Butarit	317	105	246	285	168
Marakei	549	256	398	295	361
Abaiang	418	129	557	240	313
Tarawa	191	21	217	128	141
Maiana	536	243	544	179	431
Kuria	577	219	463	172	444
Aranuka	418	209	450	280	409
Abemama	1,149	593	713	2,253	930
Nonouti	1,145	296	1,018	468	794
Tabiteuea	1,221	430	902	936	1,198
Onotoa	393	168	754	192	276
Beru	878	175	357	268	533
Nikunau	995	396	474	654	865
Tamana	313	141	644	99	268
Arorae	479	166	332	119	294
Other areas	1,139	556	468	-	-
Line Islands	1,527	1,895	1,331	1,612	1,458
Kiritimati	409	32	284	805	1,169
Fanning	89	622	41	153	69
Washington	1,029	1,241	1,006	654	220
Orona	-	-	-	-	-
Total	12,721	6,194	10,250	8,808	9,135
Memorandum item					
Copra exports	5,353	2,740	1,909	...	...

Source: Data provided by the Kiribati authorities.

Table 6. Kiribati: Tarawa Retail Price Index, 2004–08

(Annual average percentage change)

	2004	2005	2006	2007	2008
Food	0.0	0.0	-4.0	5.7	16.6
Drinks	-8.9	-2.0	-1.2	3.9	8.6
Alcohol and tobacco	0.7	0.7	10.1	-5.4	11.5
Clothing	-4.8	4.7	-7.4	1.0	-0.9
Transportation	0.1	0.1	0.3	15.0	1.7
Utilities	-0.6	-0.4	4.4	4.2	15.3
Housing	-0.3	0.0	0.0	0.0	0.0
Education	-2.0	-1.0	0.2	0.4	0.4
Recreation	-0.5	-1.9	-0.1	-0.5	0.0
Household operations	4.3	-0.7	-5.2	-0.4	0.6
All items	-1.0	-0.3	-1.5	4.2	11.0
Memorandum item					
All items (end of period)	-1.9	-0.5	-0.2	3.7	18.6

Source: Data provided by the Kiribati authorities.

Table 7. Kiribati: Summary of Central Government Operations, 2004–08

	2004	2005	2006	2007	2008
(In millions of Australian dollars)					
Total revenue and grants	196.0	142.4	141.9	157.2	161.7
Revenue	64.3	59.6	60.0	61.5	68.6
Tax revenue	29.0	28.3	28.6	29.9	29.7
Nontax revenue	35.3	31.3	31.4	31.6	38.9
<i>Of which</i> : Fishing license fees	28.9	25.0	25.8	25.4	32.2
External grants	131.7	82.8	81.9	95.7	93.1
Total expenditure and net lending	227.9	163.6	163.9	181.5	183.0
Current expenditure	96.2	80.8	82.0	85.8	89.9
<i>Of which</i> : Personnel costs	37.5	37.5	41.5	41.5	43.3
Subsidies to public enterprises 1/	14.2	6.3	4.6	7.2	9.0
Other current expenditure	44.5	37.0	35.9	37.1	37.6
Development expenditure	131.7	82.8	81.9	95.7	93.1
Net lending	0.0	0.0	0.0	0.0	0.0
Overall balance	-31.9	-21.2	-22.0	-24.4	-21.3
Financing	31.9	21.2	22.0	24.4	21.3
Revenue Equalization and Reserve Fund	25.7	15.0	33.5	45.0	25.0
Consolidated Fund	3.9	10.6	-8.7	-20.5	-3.7
Development Fund	-16.1	0.4	6.5	4.3	0.0
STABEX Fund	0.3	0.0	0.0	0.0	0.0
Other sources	1.0	0.0	0.0	0.0	0.0
(In percent of GDP)					
Total revenue and grants	144.9	103.0	100.0	103.4	101.3
Revenue	47.5	43.1	42.3	40.4	43.0
Tax revenue	21.4	20.5	20.2	19.7	18.6
Nontax revenue	26.1	22.6	22.1	20.8	24.4
<i>Of which</i> : Fishing license fees	21.4	18.0	18.2	16.7	20.2
External grants	97.4	59.9	57.7	62.9	58.3
Total expenditure and net lending	168.5	118.3	115.5	119.4	114.6
Current expenditure	71.1	58.4	57.8	56.5	56.3
<i>Of which</i> : Wages and salaries	27.7	27.1	29.3	27.3	27.1
Subsidies to public enterprises 1/	10.5	4.5	3.2	4.8	5.6
Other current expenditure	32.9	26.8	25.3	24.4	23.6
Development expenditure	97.4	59.9	57.7	62.9	58.3
Net lending	0.0	0.0	0.0	0.0	0.0
Overall balance	-23.6	-15.3	-15.5	-16.0	-13.3
Financing	23.6	15.3	15.5	16.0	13.3
RERF	19.0	10.8	23.6	29.6	15.7
Consolidated Fund	2.8	7.7	-6.2	-13.5	-2.3
Development Fund	-11.9	0.3	4.6	2.8	0.0
STABEX Fund	0.2	0.0	0.0	0.0	0.0
Other sources	0.8	0.0	0.0	0.0	0.0
Memorandum items					
Current expenditure/GNP	51.5	40.4	39.1	38.8	37.8
RERF balance (in millions of Australian dollars; end of period)	589.1	646.8	659.6	637.3	561.6
RERF: Accrued income	21.6	21.0	22.4	30.0	34.2
Valuation changes	32.6	53.6	25.4	-5.5	-83.5
Government drawings	-25.7	-15.0	-33.5	-45.0	-25.0
Consolidated Fund balance (end of period)	-3.0	-13.6	-4.9	15.7	20.8
Development Fund balance (end of period)	22.6	22.2	15.7	11.4	11.4
STABEX Fund balance (end of period)	0.2	0.2	0.2	0.2	0.2
Local contribution to development expenditure	0.0	0.0	0.0	0.0	0.0
Development balance (in percent of GDP)	0.0	0.0	0.0	0.0	0.0
Current balance (in percent of GDP, exclud. grants)	-23.6	-15.3	-15.5	-16.0	-13.3
Nominal GDP at market prices	135.3	138.3	142.0	152.0	159.7
Nominal GNP	186.7	199.9	210.0	221.5	238.1

Sources: Data provided by the Kiribati authorities; and Fund staff estimates and projections.

1/ Includes subsidies to copra production.

Table 8. Kiribati: Central Government Revenue, 2004–08

	2004	2005	2006	2007	2008 Proj.
(In millions of Australian dollars)					
Tax revenue	29.0	28.3	28.9	29.9	29.7
Direct taxation	11.2	11.4	10.9	11.8	11.6
Company	5.5	5.3	4.2	4.6	4.5
Personal	5.7	6.1	6.7	7.2	7.1
Indirect taxation	17.8	16.9	18.0	18.1	18.2
Import duties	17.7	16.9	18.0	18.0	18.1
Hotel tax	0.1	0.0	0.0	0.1	0.1
Nontax revenue	35.3	31.3	31.4	31.6	38.9
Property income	29.4	25.9	27.0	27.2	33.2
Fishing license fees	28.9	25.0	25.8	25.4	32.2
Interest 1/	0.0	0.0	0.0	0.0	0.0
Dividends 1/	0.5	0.9	1.2	1.8	1.0
Other income 2/	5.9	5.4	4.4	4.4	5.7
Of which: NASDA fees 3/	1.9	1.7	1.7	1.0	1.6
Sales of investors passports	0.0	0.0	0.0	0.0	0.0
Entrepreneurial income	0.0	0.0	0.0	0.0	0.0
Total revenue	64.3	59.6	60.3	61.5	68.6
(In percent of GDP)					
Tax revenue	21.4	20.5	20.4	19.7	18.6
Direct taxation	8.3	8.2	7.7	7.8	7.2
Company	4.1	3.8	3.0	3.0	2.8
Personal	4.2	4.4	4.7	4.8	4.4
Indirect taxation	13.1	12.2	12.7	11.9	11.4
Import duties	13.1	12.2	12.7	11.8	11.4
Hotel tax	0.1	0.0	0.0	0.0	0.0
Nontax revenue	26.1	22.6	22.1	20.8	24.4
Property income	21.7	18.7	19.0	17.9	20.8
Fishing license fees	21.4	18.0	18.2	16.7	20.2
Interest 1/	0.0	0.0	0.0	0.0	0.0
Dividends 1/	0.3	0.7	0.8	1.2	0.6
Other income 2/	4.3	3.9	3.1	2.9	3.6
Of which: NASDA fees 3/	1.4	1.2	1.2	0.6	1.0
Sales of investors passports	0.0	0.0	0.0	0.0	0.0
Entrepreneurial income	0.0	0.0	0.0	1.0	0.0
Total revenue	47.5	43.1	42.5	40.4	43.0
(In percent of total revenue)					
Tax revenue	45.1	47.5	48.0	48.6	43.3
Of which: Import duties	27.5	28.3	29.8	29.3	26.4
Nontax revenue	54.9	52.5	52.0	51.4	56.7
Of which: Fishing license fees	45.0	41.9	42.8	41.3	46.9

Sources: Data provided by the Kiribati authorities; and Fund staff estimates.

1/ Excludes interest and dividends on the Revenue Equalization Reserve Fund. Includes incomes from sales of government shareholdings.

2/ Includes other fees and charges, and discrepancies between aggregates and distributed breakdown reported by the authorities.

3/ User fees paid by the Japanese space agency for the use of Christmas Island facilities to obtain meteorological information.

Table 9. Kiribati: Central Government Expenditure (Functional Classification), 2004–08 1/

	2004	2005	2006	2007	2008 proj.
(In millions of Australian dollars)					
Current expenditure	96.2	80.8	82.0	85.8	89.9
General public services	15.2	17.3	19.3	18.6	20.5
Office of the President	1.0	1.0	1.1	0.9	1.1
Foreign Affairs	0.7	0.8	1.1	0.7	1.1
Judiciary	1.2	1.3	1.4	1.4	1.4
Public Service Commission	0.1	0.1	0.2	0.2	0.2
Parliament	1.4	1.6	1.6	1.9	2.3
Attorney General	0.5	0.5	0.5	0.4	0.5
Audit	0.5	0.5	0.6	0.5	0.6
Home Affairs & Social Welfare	2.2	2.4	2.7	2.6	3.2
Finance	2.2	2.3	2.5	2.5	2.5
Public Order and Safety	5.4	6.9	7.7	7.5	7.7
Social services	33.1	36.0	38.8	38.1	38.7
Education	18.4	20.1	21.4	21.0	21.1
Health	12.6	13.3	14.8	14.6	14.9
Environment	2.1	2.6	2.7	2.5	2.7
Economic services	13.8	12.6	14.9	14.5	15.6
Natural resources	1.6	1.8	1.9	1.7	1.9
Commerce, industries, and tourism	1.3	1.1	1.1	1.2	1.1
Transportation and communications	3.1	3.0	3.4	3.3	3.4
Works and energy	2.7	2.3	2.8	2.7	2.7
Line and Phoenix	3.0	2.5	3.0	2.9	3.3
Labor, employment, and cooperatives	2.1	2.0	2.8	2.7	3.2
Other expenses 2/	34.1	14.8	9.0	14.7	15.1
(In percent of current expenditure)					
Memorandum items					
Education	19.2	24.9	26.0	24.5	23.5
Health	13.1	16.4	18.0	17.0	16.6
Education and health	32.2	41.3	44.0	41.5	40.1

Sources: Data provided by the Kiribati authorities; and Fund staff estimates.

1/ Includes supplementary budget appropriations.

2/ Includes discrepancy between aggregate numbers and distributed breakdown reported by the authorities.

Table 10. Kiribati: Central Government Expenditure (Economic Classification), 2004–08 1/

	2004	2005	2006	2007	2008 proj.
	(In millions of Australian dollars)				
Current expenditure	96.2	80.8	82.0	85.8	89.9
<i>Of which</i>					
Wages and salaries	37.5	37.5	41.5	41.5	43.3
Contributions to Provident Fund	2.9	3.9	4.8	1.8	2.6
Purchases of goods and services	22.7	26.0	23.8	12.8	12.7
Travel/transportation	6.3	7.6	6.6	7.0	6.8
Hire of vehicles and vessels	1.5	1.5	1.5	1.4	1.6
Utilities	3.1	2.2	2.4	2.3	2.1
Land rent	1.5	2.1	1.8	1.7	1.8
Maintenance and other 2/	10.4	12.7	11.5	0.5	0.5
Subsidies to public enterprises 3/	14.2	6.3	4.6	7.2	9.0
Net drawdowns from STABEX	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)				
Current expenditure	71.1	58.4	57.8	56.5	56.3
<i>Of which</i>					
Wages and salaries	27.7	27.1	29.3	27.3	27.1
Contributions to Provident Fund	2.1	2.8	3.4	1.2	1.6
Purchases of goods and services	16.8	18.8	16.7	8.4	7.9
Travel/transportation	4.7	5.5	4.7	4.6	4.2
Hire of vehicles and vessels	1.1	1.1	1.0	0.9	1.0
Utilities	2.3	1.6	1.7	1.5	1.3
Land rent	1.1	1.5	1.2	1.1	1.1
Maintenance and other	7.7	9.2	8.1	0.3	0.3
Subsidies to public enterprises	10.5	4.5	3.2	4.8	5.6
Net drawdowns from STABEX	0.0	0.0	0.0	0.0	0.0
Memorandum items					
Wages and salaries/current expenditure (In percent)	39.0	46.4	50.6	48.3	48.2

Sources: Data provided by the Kiribati authorities; and Fund staff estimates.

1/ Includes supplementary budget appropriations.

2/ Includes discrepancy between aggregate numbers and distributed breakdown reported by the authorities.

3/ Includes subsidies to copra production.

Table 11. Kiribati: Central Government Salary Structure, 2004–08 1/

Salary Range	2004	2005	2006	2007	2008
(Annual salary in Australian dollars, effective from January 1) 2/					
2	14,900	14,900	15,600	15,600	15,600
3	14,198	14,198	14,898	14,898	14,898
4	13,054	13,054	13,754	13,754	13,754
5	12,482	12,482	13,182	13,182	13,182
6	11,910	11,910	12,610	12,610	12,610
7	11,338	11,338	12,038	12,038	12,038
8	10,870	10,870	11,570	11,570	11,570
9	10,402	10,402	11,102	11,102	11,102
10	9,466	9,466	10,166	10,166	10,166
11	8,530	8,530	9,230	9,230	9,230
12	7,594	7,594	8,294	8,294	8,294
13	6,866	6,866	7,566	7,566	7,566
14	6,138	6,138	6,838	6,838	6,838
15	5,410	5,410	6,110	6,110	6,110
16	4,682	4,682	5,382	5,382	5,382
17	4,292	4,292	4,992	4,992	4,992
18	3,902	3,902	4,602	4,602	4,602
19	3,512	3,512	4,212	4,212	4,212
20	3,140	3,140	3,840	3,840	3,840
(Percentage change between periods)					
Memorandum items					
Highest paid	0.0	0.0	4.7	0.0	0.0
Lowest paid	0.0	0.0	19.9	0.0	0.0

Source: Data provided by the Kiribati authorities.

1/ Includes central government contributions to the Kiribati Provident Fund.

2/ Maximum of range.

Table 12. Kiribati: Government Employees, 2004–08

	2004	2005	2006	2007	2008
Total	4,291	4,291	4,345	4,345	4,345
General public services	1,227	1,227	1,264	1,264	1,264
Office of the President	62	62	63	63	63
Foreign Affairs	43	43	44	44	44
Judiciary	78	78	78	78	78
Public Service Commission	6	6	6	6	6
Parliament	52	52	51	51	51
Attorney General	25	25	25	25	25
Audit	53	53	53	53	53
Home Affairs	196	196	202	202	202
Finance	172	172	171	171	171
Public Order and Safety	540	540	571	571	571
Social services	2,205	2,205	2,258	2,258	2,258
Education	1,353	1,353	1,349	1,349	1,349
Health	661	661	719	719	719
Environment and social welfare	191	191	190	190	190
Economic services	859	859	823	823	823
Natural resources	136	136	115	115	115
Commerce, industries, and tourism	68	68	64	64	64
Transportation and communications	175	175	159	159	159
Works and energy	197	197	196	196	196
Line and Phoenix	181	181	185	185	185
Labor, employment, and cooperatives	102	102	104	104	104

Source: Data provided by the Kiribati authorities.

Table 13. Kiribati: Selected Central Government Budgetary Subsidies to Public Enterprises, 2004–08

(In thousands of Australian dollars)

	2004	2005	2006	2007	2008
Air Tungaru/Kiribati	243.5	4.3	...	...	120.0
Christmas Island Air Service Charter Subsidy	1,050.0	2,949.8	500.0	...	...
Public Utilities Board	480.0	480.0	480.0	480.0	980.0
Kiribati Housing Corporation	260.0	260.0	...	...	250.0
Other 1/	26.0	150.0	150.0	150.0	460.1
Total	2,060.0	3,844.1	1,130.0	630.0	1,810.1
(In percent of current expenditure)	2.1	4.8	1.4	0.7	2.0
(In percent of GDP)	1.5	2.8	0.8	0.4	1.1

Source: Data provided by the Kiribati authorities.

1/ Includes payments of debt service for public enterprises.

Table 14. Kiribati: Bank of Kiribati Balance Sheet, 2003–06 1/

(In millions of Australian dollars; end-September)

	2003	2004	2005	2006
Net foreign assets	53.5	42.7	18.4	7.7
Domestic credit	4.4	35.0	47.6	60.7
Cash	2.2	6.1	7.7	4.1
Other items, net	8.2	-10.4	-17.8	-13.7
Deposits	68.3	73.5	55.9	58.7
Demand	31.1	34.0	12.7	12.8
Savings	10.7	28.5	34.4	37.5
Time	26.4	11.0	8.8	8.4
Money supply (M2)	68.3	73.5	55.9	58.7

Sources: Data provided by the Authorities; Bank of Kiribati; and Fund staff estimates.

1/ Bank of Kiribati Limited is the sole commercial bank in Kiribati.

Table 15. Kiribati: Bank of Kiribati Interest Rates, 2003–06

(In percent per annum; end of period)

	2003	2004	2005	2006
Deposit rates				
Savings accounts	0.25	0.50	0.50	1.00
Island accounts 1/	1.75	1.75	1.50	1.50
Statement savings	1.50	1.50	2.50	2.50
Term deposits under \$A50,000 2/				
6 months	1.65	1.70	1.75	1.75
12 months	2.20	2.20	2.20	2.25
Term deposits over \$A50,000				
7 days	2.01	2.20	2.40	2.50
14 days	2.00	2.35	2.00	2.50
1 month	2.00	2.17	2.18	2.20
2 months	2.75	2.75	2.80	2.85
3 months	2.80	2.85	2.85	2.90
6 months	3.50	3.50	3.56	3.60
Loan rates				
Secured	8.50	8.50	8.00	8.00
Unsecured	10.10	10.00	11.00	11.00
Unauthorized overdraft rate	13.50	1.35	1.35	13.00
Memorandum item				
Australian Money market rate 3/	4.81	5.25	5.46	5.81

Sources: Data provided by the Kiribati authorities; and IMF, *International Financial Statistics*.

1/ Minimum deposit \$A100; no restrictions on withdrawals.

2/ Minimum deposit \$A500.

3/ Weighted average rate of short-term loans.

Table 16. Kiribati: Assets and Liabilities of the Kiribati Provident Fund, 2004–08

(In millions of Australian dollars; end of period)

	2004	2005	2006	2007	2008
Assets	83.1	94.4	106.6	103.3	84.0
Common stocks	0.1	0.1	0.1	0.1	0.1
Foreign investments	81.2	92.9	91.9	96.0	76.9
Foreign equities	40.8	46.4	45.8	47.7	37.7
Foreign government bonds 1/	40.3	46.4	46.1	48.3	39.2
Current assets	0.4	0.0	13.1	5.7	5.5
Bank of Kiribati deposits	0.2	-0.4	12.1	4.7	4.5
Other domestic assets	0.2	0.4	1.0	1.0	1.0
Fixed assets	1.5	1.5	1.5	1.5	1.5
Liabilities	83.1	94.4	106.6	103.3	84.0
Members' accounts	84.7	90.6	94.1	101.4	105.5
General reserves 2/	-2.2	3.2	12.4	1.8	-21.6
Current liabilities	0.6	0.6	0.1	0.1	0.1
Memorandum items					
Change in members' accounts	5.6	5.9	3.5	7.3	4.1
Contributions	7.8	8.5	9.4	9.5	9.3
Interest	5.0	5.8	6.1	7.1	5.1
Withdrawals	-7.2	-8.4	-12.0	-9.3	-10.3
Interest rate paid to members (In percent per annum)	7.0	7.0	7.5	7.5	5.0

Sources: Data provided by the Kiribati authorities.

1/ Book value, including reinvested interest income.

2/ Includes interest stabilization reserves, special death benefit reserves, and accumulated surpluses.

Table 17. Kiribati: Assets and Liabilities of Development Bank of Kiribati, 2004–08

(In millions of Australian dollars; end of period)

	2004	2005	2006	2007	2008
Assets	6.7	7.6	7.9	9.5	9.5
Loans and investments	6.4	7.0	7.2	8.7	9.2
Cash and bank balances	0.2	0.4	0.6	0.7	0.1
Other assets	0.1	0.2	0.1	0.1	0.2
Liabilities	6.7	7.6	7.9	9.5	9.5
Capital	3.8	3.8	3.8	4.0	4.1
Government investment	4.1	4.1	4.1	4.1	4.1
Government grants	0.1	0.1	0.1	0.1	0.1
Retained earnings	-0.4	-0.4	-0.4	-0.2	-0.1
Current liabilities	0.3	0.2	0.2	1.8	1.8
Other liabilities 1/	2.6	3.6	4.0	3.7	3.6

Source: Data provided by the Kiribati authorities.

1/ Includes Asian Development Bank loan and European Investment Bank long-term loan.

Table 18. Kiribati: Balance of Payments Summary, 2003–2008
(In millions of U.S. dollars)

	2003	2004	2005	2006	2007	2008
Current account balance	-16.9	-11.0	-20.2	-3.1	-1.3	-1.3
Trade balance	-49.5	-57.8	-73.6	-60.3	-66.5	-71.6
Exports, f.o.b.	3.6	3.1	5.3	3.2	3.9	4.8
Imports, f.o.b.	53.1	60.9	78.9	63.6	70.3	76.4
Balance on services	-18.8	-22.4	-33.0	-23.5	-33.0	-31.0
Credit	10.9	9.1	11.5	8.4	9.5	12.1
Debit	29.7	31.5	44.5	32.0	42.5	43.0
Balance on factor income 1/	36.0	37.9	47.1	51.3	58.3	61.9
Credit	43.4	48.4	49.0	53.8	62.4	65.1
Fishing license fees	19.6	21.3	19.1	19.4	21.3	22.3
Investment income	17.9	21.6	21.4	22.6	28.5	32.4
Seamen's remittances	5.8	7.4	9.3	12.7	10.4	10.4
Debit	7.4	10.5	1.9	2.5	4.2	3.2
Balance on current transfers	15.4	31.3	39.4	29.5	39.9	39.4
Credit	19.5	35.8	45.7	37.4	49.9	49.5
Of which : Government	19.0	35.3	45.1	36.8	49.2	48.8
Debit	4.1	4.5	6.4	7.9	10.1	10.1
Of which : Government	2.0	2.2	4.1	5.6	7.3	7.2
Financial and capital account balance	24.4	35.0	-2.5	3.2	0.6	7.1
Government	46.2	62.5	17.2	24.9	31.0	30.7
Capital transfers	46.2	61.8	18.2	24.9	31.0	30.7
Loans (net)	0.0	0.8	-0.9	0.0	0.0	0.0
Direct investment	0.4	0.5	0.6	0.6	0.3	0.3
Financial institutions	-22.1	-28.0	-20.3	-22.3	-30.7	-23.9
Errors and omissions	-14.8	-19.7	17.5	-7.9	0.2	5.2
Overall balance	-7.2	4.3	-5.2	-7.9	-0.4	11.1
Change in external assets (increase -) 2/	7.2	-4.3	5.2	7.9	0.4	-11.1
Revenue Equalization Reserve Fund	-9.0	4.5	-3.2	9.5	14.1	-6.7
Government funds 3/	16.3	-8.8	8.4	-1.7	-13.6	-4.4
Memorandum items						
Balance on goods and services (percent of GDP)	-78.8	-80.5	-100.9	-78.4	-78.0	-75.1
Current account balance (percent of GDP)	-19.5	-11.1	-19.1	-2.9	-1.0	-0.9
Current account balance excluding official grants (In percent of GDP)	-82.1	-108.1	-83.5	-64.8	-81.5	-80.9
Official external assets	427.8	474.3	481.0	530.6	585.9	411.5
(In years of imports)	5.2	5.1	3.9	5.6	5.2	3.4
Foreign reserve assets	15.0	25.1	15.6	18.5	35.0	31.0
(In months of imports of goods and services)	1.9	3.1	1.6	2.2	3.5	3.8
Other assets	412.8	449.2	465.5	512.1	550.9	380.5
External debt 4/	11.7	13.0	11.3	13.1	12.9	10.1
(In percent of GDP)	11.8	12.3	11.2	11.7	9.6	9.1
External debt service	1.1	0.7	1.2	0.4	2.2	1.7
(In percent of exports of goods and services)	6.5	5.2	7.6	2.9	15.4	12.3

Sources: Data provided by the Kiribati authorities; and Fund staff estimates and projections.

1/ Includes fishing license fees, which would be shown as current transfers under conventional international guidelines.

2/ Excludes valuation changes.

3/ Comprises the Consolidated Fund, Development Fund, and STABEX Fund.

4/ External debt at end-2002 is adjusted by \$A3.2 million reflecting forgiven debt.

Table 19. Kiribati: Composition of Exports, 2003–07

(Value in millions of Australian dollars; volume in metric tons;
unit value in Australian dollars per metric ton)

	2003	2004	2005	2006	2007
Total exports, f.o.b.	5.5	4.3	6.9	4.3	4.6
(In percent of GDP)	4.2	3.2	5.0	3.0	3.0
Domestic exports	3.7	3.1	4.0	...	...
Copra					
Value	2.1	1.6	2.3	...	...
Volume	7,134.0	5,353.0	8,833.0	...	...
Unit value	296.3	295.0	263.7	...	...
Fish					
Value	0.0	0.1	0.1	...	...
Volume	1.0	...	...	...	...
Unit value	12,000.0	...	...	...	...
Seaweed					
Value	0.4	0.4	0.3	...	...
Volume	467.0	408.0	400.0	...	...
Unit value	824.4	941.2	750.0	...	...
Shark fins					
Value	0.5	...	...	...	...
Volume	3	...	...	...	...
Unit value	156,333.3	...	...	...	...
Pet fish					
Value	0.3	...	...	...	...
Volume	...	...	...	...	...
Unit value	...	...	...	...	...
Others (value)	0.4	1.3	1.9	...	...
Reexports (value)	0.8	0.2	0.6	...	...
Errors and omissions	1.1	0.9	2.3	...	...

Sources: Data provided by the Kiribati authorities.

Table 20. Kiribati: Composition of Imports, 2003–07

(In millions of Australian dollars)

	2003	2004	2005	2006	2007
Total imports, f.o.b.	81.5	82.7	103.3	84.4	83.9
(In percent of GDP)	61.3	61.2	74.7	59.5	55.2
Food and live animals	24.2	26.3	30.2	...	...
Beverages and tobacco	7.8	7.9	8.5	...	...
Crude materials	1.4	1.5	1.4	...	...
Mineral fuels	10.4	9.9	16.5	...	...
Animal and vegetable oils and fats	0.8	0.7	0.6	...	...
Chemicals	4.1	2.8	4.2	...	...
Manufactured goods	11.2	8.5	11.6	...	...
Machinery and transportation equipment	14.1	16.6	21.7	...	...
Miscellaneous manufactured articles	6.3	6.2	4.8	...	...
Other	0.6	0.3	0.5	...	...

Sources: Data provided by the Kiribati authorities.

Table 21. Kiribati: Services and Income, 2003–07

(In millions of Australian dollars)

	2003	2004	2005	2006	2007
Balance on services	-28.9	-30.5	-43.2	-31.2	-39.3
(In percent of GDP)	-21.7	-22.5	-31.3	-22.0	-25.9
Credit	16.7	12.4	15.0	11.2	11.3
Transportation	3.3	3.4	5.1	3.1	1.2
Travel	4.7	3.2	4.0	3.4	4.8
Communication	2.5	2.6	2.7	2.7	2.7
Other	6.2	3.2	3.2	2.0	2.5
Debit	45.5	42.8	58.2	42.4	50.6
Transportation	23.7	22.8	32.4	23.8	27.3
Other	21.9	20.0	25.9	18.7	23.3
Balance on factor income 1/	55.2	51.4	61.6	68.1	69.5
(In percent of GDP)	41.5	38.0	44.6	47.9	45.7
Credit	66.5	65.7	64.1	71.4	74.5
Fishing license fees	30.1	28.9	25.0	25.8	25.4
Investment income	27.4	29.4	28.0	30.0	34.0
Seamen's remittances	8.9	10.0	12.2	16.9	12.5
Debit	11.3	14.3	2.5	3.4	5.0

Sources: Data provided by the Kiribati authorities.

1/ Includes fishing license fees, which would be shown as current transfers under conventional international guidelines.

Table 22. Kiribati: Tourism Arrivals, 2003–07

	2003	2004	2005	2006	2007
Business	1,574	1,284	1,758	1,020	1,994
Visiting friends and relatives	824	1,312	754	384	660
Holiday	240	95	261	157	334
Transit	1,043	275	87	243	393
Others	186	207	177	200	218
Total	3,867	3,172	3,037	2,004	2,599

Source: Data provided by the Kiribati authorities.

Table 23. Kiribati: External Grants by Principal Donors, 2003–07

(In millions of Australian dollars)

	2003	2004	2005	2006	2007
Multilateral donors	9.9	13.9	7.8	3.9	2.7
European Community	7.8	11.0	6.5	3.3	2.0
UNDP	1.2	1.6	1.1	0.6	0.6
WHO	0.9	1.4	0.3	0.1	0.2
Bilateral donors	45.3	45.8	39.1	52.5	70.7
Australia	12.6	11.2	11.2	9.0	7.7
China	14.6	7.6	0.0	0.0	0.0
Japan	11.6	12.0	10.2	9.0	10.7
New Zealand	3.9	4.6	3.8	3.6	3.4
USAID	2.5	1.5	1.5	2.5	2.5
Taiwan POC	0.0	8.8	12.5	14.1	10.1
Other donors 1/	13.3	7.9	8.8	14.3	36.3
Total grants	68.5	67.6	55.8	70.7	109.8

Source: Data provided by the Kiribati authorities.

1/ Including technical assistance grants from the Asian Development Bank.

Table 24. Kiribati: External Assets and Liabilities, 2004–08

(In millions of Australian dollars)

	2004	2005	2006	2007	2008
Total external assets	749.9	770.8	790.1	...	...
Official external assets	608.8	655.6	670.6	664.6	594.0
Revenue Equalization Reserve Fund	589.1	646.8	659.6	637.3	561.6
Government funds 1/	19.8	8.8	11.0	27.2	32.4
Other external assets	141.0	115.3	119.5	...	...
Bank of Kiribati	59.8	22.4	27.6	...	...
Kiribati Provident Fund	81.2	92.9	91.9	96.0	76.9
Kiribati Copra Cooperative Society	0.0	0.0	0.0	0.0	0.0
Total external debt	16.7	15.5	16.6	14.6	14.6
Memorandum items					
Revenue Equalization Reserve Fund					
Opening balance	562.6	589.1	646.8	659.6	637.3
Changes, net	26.5	57.8	12.8	-22.2	-75.7
Interest and dividends	21.6	21.0	22.4	30.0	34.2
Contributions from the government	0.0	0.0	0.0	0.0	0.0
Transfers to the budget	-25.7	-15.0	-33.5	-45.0	-25.0
Management fees	-2.0	-1.8	-1.6	-1.8	-1.4
Valuation and currency gains 2/	32.6	53.6	25.4	-5.5	-83.5
Closing balance	589.1	646.8	659.6	637.3	561.6

Sources: Data provided by the Kiribati authorities; and Fund staff estimates.

1/ Comprises the Consolidated, Development, and STABEX Funds.

2/ Includes accrued interest not received, unrealized capital gains, and the effects of exchange rate changes.