



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

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June 25, 2014

Mr. Malie Lototele
Economist (Structural Reform)
South Pacific Sub-Regional Office
Asian Development Bank
Suva, Fiji

Dear Mr. Lototele:

Thank you for the Asian Development's Bank request for an assessment letter for the Kiribati program that will be discussed by the Bank's board. The Press Release for the 2014 Article IV report, issued on May 23, 2014, can be used for this purpose.

Sincerely,

A handwritten signature in black ink, appearing to be "S. Dodzin".

Sergei Dodzin
IMF Mission Chief for Kiribati
Asia and Pacific Department

Attachment

cc: SPR



INTERNATIONAL MONETARY FUND



Press Release No. 14/242
FOR IMMEDIATE RELEASE
May 23, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Kiribati

On May 16, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with [Kiribati](#).¹

Kiribati sustained its growth for three consecutive years and grew close to 3 percent in 2013, supported by donor projects and private sector activity. Inflation remained subdued, underpinned by moderate commodity prices, but it is projected to pick up to 2.5 percent in 2014 on account of increased expenditures related to major donor-funded infrastructure projects.

The current account balance deteriorated slightly in line with the trade balance and higher project imports, while benefiting from exceptionally high fishing license revenue. The overall external balance thus recorded a substantial surplus equivalent to nearly 22 percent of GDP and reflected in the replenishment of the Revenue Equalization Reserve Fund (RERF).

The high fishing license revenues in 2013 also resulted in an overall budget surplus of 10 percent of GDP despite a substantial increase of capital expenditure. Tax revenue continued to lag, however, as underperforming state-owned enterprises (SOEs) and tax compliance issues contained government's tax collections. The value added tax was introduced on April 1, 2014, as planned.

The Government continues to implement its reform program with the support of development partners. Key reforms to public financial management, tax systems, SOEs and the private sector are ongoing, in line with the IMF advice. Significant progress has been made in SOE reform. In addition work is underway to implement the recently-approved fisheries policy and improve cash and debt management. Based on this reform progress, the World Bank has provided budget support for 2014 and further donor budget support is envisaged based on the continued progress of the reform agenda.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Although the formal financial sector lending remains limited, household and private business credit has risen briskly, as reliance of public sector on commercial borrowing was reduced. Non-performing loan ratios in the Development Bank of Kiribati remained relatively high.

Executive Board Assessment²

Executive Directors commended recent progress in sustaining growth and the authorities' concerted efforts to increase fiscal revenues, replenish the sovereign wealth fund, and reform state-owned enterprises in the context of the reform program supported by the international community. Directors observed that Kiribati faces significant challenges stemming from scale diseconomies, remoteness, undiversified product and export bases, and vulnerability to exogenous—including climatic—shocks. They recommended continuing fiscal consolidation efforts and a deepening of structural reforms aimed at strengthening resilience and improving the prospects for sustainable, job-rich growth through private sector development and enhanced external competitiveness.

Directors considered the stabilization of the Revenue Equalization Reserve Fund (RERF) in real per capita terms an appropriate fiscal anchor. While welcoming the recent introduction of new value added and excise tax systems, they noted that a further strengthening of budget performance would be needed should fishing license fees fall below recent high levels, and that any additional fishing license receipts above the current conservative baseline should be saved to replenish the RERF. They also noted that enhancing tax administration would improve revenue prospects.

Looking ahead, Directors recommended strengthening public financial management in order to help rebuild fiscal buffers, including through better operational efficiency of the copra subsidy scheme and the Public Utilities Board. While welcoming recent state-owned enterprise (SOE) reforms, Directors advised the continued curtailment of fiscal risks through the privatization or commercialization of SOEs, where feasible, recognizing that some SOEs fulfilling key social mandates would continue to require government involvement. They also encouraged the adoption of centralized debt management guidelines, and continued avoidance of non-concessional borrowing.

Directors recommended bolstering financial stability through stricter adherence to operational and lending standards and risk management practices. They encouraged the authorities to reduce non-performing loans and improve the financial positions of the development bank and the Kiribati Provident Fund.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors supported lifting Kiribati's growth prospects and reducing high unemployment through improved global integration and the creation of an enabling environment for private sector investment. The business climate and competitiveness could be strengthened through the streamlining of business approval and registration processes, better public service delivery, and enhanced access to finance through improved property rights and investor protections. Directors also recommended the creation of additional opportunities for seasonal employment abroad through strengthened regional cooperation and appropriate education and skills training. They encouraged the development of the marine sector, including onshore marine processing, and welcomed planned fisheries' infrastructure development on Christmas Island.

Directors also encouraged the authorities to continue improving the quality and timeliness of the country's economic and financial statistics.

Kiribati: Selected Economic Indicators, 2009–15

	2009	2010	2011	2012	2013	2014	2015
				Est.		Proj.	
Nominal GDP (2011): US\$172.7 million	GDP per capita (2011): US\$1,670						
Nominal GNI (2011): US\$236.1 million	Population (2011): 103,365						
Main export products: fish and copra	Quota: SDR 5.6 million						
Real GDP (percent change)	-0.7	-0.5	2.7	2.8	2.9	3.0	2.7
Real GNI (percent change)	-4.0	-1.3	-2.4	15.3	13.2	-15.2	2.3
Consumer prices (percent change, average)	9.8	-3.9	1.5	-3.0	-1.5	2.5	2.5
Consumer prices (percent change, end of period)	-1.3	-1.9	-0.8	-3.9	0.8	2.5	2.5
Central government finance (percent of GDP)							
Revenue and grants	70.9	72.5	62.0	90.4	112.9	83.9	84.1
Total domestic revenue 1/	42.7	47.8	37.0	54.0	69.9	39.1	40.9
Grants	28.1	24.7	25.0	36.4	43.0	44.8	43.2
Expenditure and net lending	82.8	85.2	83.2	97.2	102.6	109.7	104.5
Current	54.7	58.0	58.0	61.0	59.8	61.7	56.7
<i>Of which: wages and salaries</i>	24.7	27.0	27.4	28.3	29.7	28.8	27.9
Development	28.1	27.1	25.2	36.2	42.8	48.0	47.8
Current balance 2/	-12.0	-10.2	-21.0	-6.9	10.1	-22.6	-15.8
Overall balance	-12.0	-12.7	-21.2	-6.7	10.3	-25.8	-20.4
Financing	12.0	12.7	21.2	6.7	-10.3	25.8	20.4
Revenue Equalization and Reserve Fund (RERF)	11.1	10.5	11.8	22.2	-10.1	14.5	13.2
Other	0.9	2.1	9.5	-15.4	-0.2	11.3	7.1
RERF							
Closing balance (in millions of US\$)	512	576	586	607	600	587	580
Closing balance (in millions of A\$)	571	581	579	581	668	666	668
Per capita value (in 2006 A\$)	5,209	5,040	4,759	4,592	5,058	4,837	4,643
Balance of payments (in millions of US\$)	-	-					
Current account including official transfers	-29.6	-25.4	-55.7	-46.1	-46.5	-87.8	-90.9
(In percent of GDP)	-23.3	-16.9	-32.2	-26.3	-27.4	-53.4	-53.4
External debt (in millions of US\$)	14.3	18.4	14.2	14.1	13.6	18.7	26.4
(In percent of GDP)	9.8	11.3	8.4	8.0	8.6	11.4	15.6
External debt service (in millions of US\$)	1.0	0.6	0.6	0.6	0.5	0.5	0.6
(In percent of exports of goods and services)	4.8	3.2	2.8	3.0	3.0	3.1	3.2
Exchange rate (A\$/US\$ period average) 3/	1.3	1.1	1.0	1.0	1.0
Real effective exchange rate (period average) 4/	130.5	132.5	138.0	134.2	126.1
Memorandum item:							
Nominal GDP (in millions of Australian dollars)	162.8	164.1	167.3	169.0	175.4	185.1	194.9
Nominal GDP (in millions of US dollars)	127.0	150.9	172.7	175.1	169.8	164.3	170.3

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

1/ Assumes conservative path for fishing license fees in 2014 and onwards. Higher fishing license fees at the level of A\$60 million would imply a current deficit of 13 percent of GDP in 2014.

2/ Current balance excludes grants and development expenditure.

3/ The Australian dollar circulates as legal tender.

4/ Index, 2005=100.