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**Statement by Mr. Huh and Mr. Yoo on Kiribati
Executive Board Meeting
April 26, 2021**

On behalf of the Kiribati authorities, we would like to thank Ms. Sarwat Jahan and her team for the constructive policy dialogue and for their excellent work. We also thank the World Bank (WB) for allowing the use of the WB office in Tarawa during the virtual mission, which provided quality connection.

The authorities highly value the continuous engagement with IMF staff and largely agree with staff's assessment on the economic outlook and policy recommendations. They also expressed their appreciation for capacity building support and requested a number of technical assistances during the Article IV mission.

Kiribati consists of 33 small islands spread over an area of the Pacific Ocean roughly the size of India, with its population of about 116,000. Geographic dispersion and remoteness contribute to the high cost of infrastructure and public service delivery. The main sources of income are fishing licenses, remittances from seafarers, and copra. Kiribati will be one of the first countries affected by rising sea levels.

The COVID Impact, Responses, and Outlook

At the beginning of the global pandemic, as with many Pacific island countries (PICs), the authorities took preemptive containment measures, including border closure, that successfully prevented a domestic outbreak. Kiribati has been COVID-free so far with the lives of ordinary people being effectively the same as before the pandemic. The authorities are very keen on remaining COVID-free and aim to inoculate the entire adult population this year.¹

The pandemic and containment measures inevitably caused an economic contraction with GDP expected to decline by 0.5 percent in 2020. However, the impact was relatively less severe than in other PICs, due to appropriate fiscal support and lower reliance on tourism. The Kiribati government introduced an economic relief package of AUD\$13.5 million in 2020, equivalent to about 5 percent of

¹ The authorities have secured the first batch of vaccines procured through COVAX to cover 20 percent of the population.

GDP, which included unemployment benefits for the first time, credit support for affected firms, and financial aid for cargo deliveries. While the authorities have made every effort to support the economy, they are mindful of the need for setting up a careful application and verification process to ensure that supporting measures are well targeted. This is a process that requires some time given limited capacity constraints and geographical challenges.

The authorities expect that economic recovery will be gradual in 2021, but with great uncertainty primarily associated with the path of the pandemic and the vaccine rollout both at home and abroad. Therefore, the authorities agree with staff that targeted fiscal support should remain in place until the recovery is firmly entrenched, especially if restrictions on movement continue to postpone normalization of employment opportunities.

Prudent Fiscal Framework

The authorities are committed to prudent and sustainable fiscal management, alongside necessary investments in development and social programs. Last year, the authorities introduced explicit rules to withdraw from the Revenue Equalization and Reserve Fund (RERF), one of Kiribati's most important assets with the amount of over 400 percent of GDP. The rules limit withdrawals to development purposes and aim to provide benefits to both present and future generations. And the authorities reaffirm that they will not seek new debt but rather grants from bilateral donors and international financial institutions to contain fiscal risk. In their view, a pre-approval requirement from the Parliament serves well as a safeguard against incurring new debt. The authorities see merit in formulating a sustainable medium-term fiscal framework to promote fiscal discipline. On copra subsidy, the government sees it as playing an important role in redistributing income and meeting basic needs for households in the outer islands.

The authorities agree with staff on the importance of greater revenue mobilization. They are exploring several ways to raise revenues, including broadening the tax base and collecting dividends from state-owned enterprises (SOEs), and thus appreciate staff analysis on how to boost government revenues. On climate, the authorities concur with the need to incorporate the climate adaptation costs in the budget. They have created a Climate Finance Unit as the focal point of the government to coordinate climate-related financing, including access to multilateral climate financing. It is noteworthy that they found big challenges such as complexity of requirements and lengthy process, that require significant resources where capacity is already limited.

Private Sector Development

The private sector can be an engine of economic growth and development for Kiribati. Significant progress has been made with SOE reforms over recent years, including strengthening the commercial mandate of SOEs and further divestment and outsourcing of SOE activities. The authorities are committed to continuing to review and reform the operations of SOEs to improve their effectiveness and efficiency. Economic diversification and improvement of the business environment are listed on the government's top agenda. These include enhancing complementary fishing activities such as transshipment, aquaculture, and more processing facilities, and investing in renewable energy, including building the ocean thermal energy conversion plants, to name a few. They also expect that

the completion of the submarine fiber-optic cables linking Kiribati to the global submarine cable network will help improve the environment for conducting business.

Lack of proper financing for productive investment has been a major hindrance to private sector development. The authorities are currently developing two separate acts on the financial sector with the aim to foster competition, facilitate access to credit, and reduce the cost of borrowing. They have requested for the IMF to peer review the final draft of these two acts to ensure that the new legislation is based on international best practice, while being tailored to Kiribati's specific characteristics. In addition, they are working on the development of a financial regulatory and supervisory framework.

The authorities recognize well that improving governance is crucial to private sector development by boosting public trust. In this vein, the Customs Act (2019) and the Public Procurement Act (2019) were enacted. Kiribati hosted the region's first conference on anti-corruption was in February 2020 with the adoption of 'Teieniwa Vision' that is outlined in Annex VI in the staff report. The authorities are fully committed to fighting corruption and addressing governance deficiencies.