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GRAY/21/1083

April 22, 2021

**Statement by Mr. Bhalla and Ms. Indraratna on Kiribati
(Preliminary)
Executive Board Meeting
April 26, 2021**

1. We thank staff for the comprehensive reports and Mr. Huh and Mr. Yoo for the insightful buff statement. We broadly concur with the staff assessment and recommendations and highlight some issues for emphasis.
2. Prior to the pandemic, the Kiribati economy had robust growth, underpinned by public spending financed by fishing revenue and donor funded infrastructure investment. However, the COVID-19 pandemic has had a significant impact on the economy as stringent domestic containment measures and lower external demand for fisheries exports have resulted in a contraction to economic growth in 2020, creating financing gaps in the balance of payments and the government budget. Notwithstanding the pandemic, Kiribati remains challenged in terms of geographical and structural impediments to growth due to its remote location, infrastructure gap and susceptibility to climate change and its low rank in the Human Development Index.
3. **We welcome the swift response of the authorities to the COVID-19 pandemic but stress the need to develop buffers to support debt sustainability in the medium term.** We commend the pre-emptive containment measures that have enabled the country to be COVID free up to date. We take positive note of the efforts taken by the authorities to mitigate the adverse social and economic effects of the pandemic to protect lives and livelihoods. We note positively the economic relief package, which includes unemployment income support and stimulus for both private firms and SOEs and financial aid for cargo deliveries. We observe that about 60 percent of the relief package has been disbursed as at end February 2021 and urge the authorities to implement the remaining disbursements expeditiously. While we see the need for supportive fiscal measures until the recovery is firmly in place, once the recovery gains traction, it would be important to maintain fiscal discipline and adequate buffers

given the dependence of Kiribati on donor grants and volatile revenue sources. In this context, expenditure rationalization, revenue mobilization and improved public financial management would be important while ensuring the commercial viability of SOEs will also strengthen public finances.

4. **Structural reforms are of paramount importance to mitigate the long-term consequences of the pandemic.** Economic diversification and value addition to current production processes would help Kiribati weather shocks in the future. We appreciate the recent enactment of several bills to ease business registration and address insolvency issues for firms as such measures would improve the business environment. However, to encourage diversification, we concur with the staff view that steps should be taken to address structural bottlenecks to improve transportation and telecommunication services, enhance training opportunities and remove market distortions. We welcome the new banking act that is expected to allow entry of commercial banks into Kiribati which would increase competition and reduce the cost of borrowing. We also note positively the broader financial sector act aimed at formulating a regulatory and supervisory framework for all other financial institutions and concur with the staff view that an independent supervisor of financial institutions be established to ensure effective implementation of the new framework.
5. With these remarks, we wish the Kiribati authorities success in their future endeavours.