INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/99

KIRIBATI

May 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KIRIBATI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Kiribati, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 11, 2026, consideration of the staff report that concluded the Article IV consultation with Kiribati.
- **The Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 11, 2026, following discussions that ended on February 27, 2026, with the officials of Kiribati on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 21, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Kiribati.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR26/153

IMF Executive Board Concludes 2026 Article IV Consultation with Kiribati

FOR IMMEDIATE RELEASE

- Kiribati's recent GDP growth has exceeded that of other Pacific Island countries and poverty has declined significantly. Growth is projected to moderate to about 3.1 percent in 2026 but the outlook remains highly uncertain amid external shocks and persistent structural challenges.

- Fiscal policy can help mitigate the impact of the energy price shock on vulnerable households with temporary, targeted transfers, while allowing domestic fuel prices to gradually adjust. A sustained growth-friendly fiscal consolidation over the medium term is needed for long-term debt sustainability.

- Strengthening institutional capacity, by establishing a debt management framework, improving public financial management, revenue administration, and the quality of national statistics, is essential for continued growth and private sector development.

Washington, DC – May 15, 2026: On May 8, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Kiribati.[1]

Kiribati has experienced strong GDP growth and significant poverty reduction in recent years. Real GDP growth in 2025 is estimated at 4.3 percent, supported by consumption and public investment. Average inflation rose to 6.5 percent in 2025 following a needed one-off adjustment of domestic energy tariffs and, after beginning to recede, is under renewed pressure amid higher fuel and shipping costs triggered by the Middle East war. The authorities have pursued an ambitious development agenda despite external shocks and structural challenges and have substantially reduced poverty by increasing social benefits. Fiscal policy was broadly neutral in 2025 and external public debt declined to 8 percent of GDP. Nonetheless, despite the low public debt, Kiribati risk of debt distress is assessed to be high due to climate-related vulnerabilities and implicit contingent liabilities.

Real GDP growth is expected to moderate to around 3.1 percent in 2026 and to gradually decline to around 2 percent over the medium term. While the near-term outlook remains favorable, uncertainty is high. Risks, primarily from a prolonged war in the Middle East and associated trade disruptions, as well as from a sharp tightening in financing conditions, are tilted to the downside. In the IMF's April 2026 World Economic Outlook (WEO) reference scenario assuming a temporary energy shock, economic growth is expected to

[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.

continue to be driven by ongoing infrastructure projects and consumption, with social benefits supporting the vulnerable population. Inflation is projected to remain elevated in 2026 due to the war in the Middle East but subside over the medium term as Kiribati shifts to using more solar power for electricity generation. The fiscal deficit is expected to widen in 2026 with increased subsidies to manage the impact of higher oil prices.

Executive Board Assessment[2]

Executive Directors welcomed Kiribati's resilient economic growth, and the authorities' continued focus on improving human development outcomes that has supported an impressive decline in poverty since 2019. Directors emphasized that Kiribati is highly vulnerable to external shocks and risks remain tilted to the downside, including from a protracted war in the Middle East with persistently high commodity prices, trade disruptions, potential financial market volatility, and climate shocks. They stressed the need for continued prudent policies and reforms to strengthen resilience and safeguard macroeconomic stability, supported by capacity development as needed from the Fund and other development partners.

Directors agreed that a growth-friendly fiscal consolidation is essential over the medium term to rebuild buffers and safeguard debt sustainability while preserving priority spending. To achieve this, Directors concurred that Kiribati could gradually raise revenues and reduce tax expenditures in the fisheries sector and increase excise taxes. The fiscal response to the shock from the war should focus on protecting vulnerable households with targeted transfers while allowing domestic fuel prices to gradually adjust. Over the medium term, when cyclical conditions allow, the authorities could usefully focus on rationalizing recurrent spending on subsidies, improving efficiency and sustainability of social benefits and strengthening fiscal institutions. Directors agreed that adopting a balance-based withdrawal rule from the sovereign wealth fund would help preserve its real value, facilitate countercyclical fiscal policy and support medium-term climate adaptation investments.

Directors underscored the importance of continued institutional capacity building, including strengthening revenue administration, public financial management and debt management. They encouraged the authorities to monitor risks from contingent liabilities and ensure that borrowing by state-owned enterprises and joint ventures is consistent with development objectives and long-term debt sustainability.

Directors emphasized the importance of advancing structural reforms to support private sector development and diversification, strengthen human capital, and build climate-resilient infrastructure. They called for strengthening regulatory and supervisory institutions to safeguard financial stability and also encouraged continued reforms to improve governance, transparency, and the quality of national statistics, including through continued capacity building from the Fund.

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[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.

Table 1. Kiribati: Selected Economic Indicators, 2024–28

Per capita GDP (2024e): US$2,695.
Demographic: Population (2024e): 127,317; Life expectancy at birth (2022): 67.7.
Poverty in percent of population (2023-24): Below $2.15 a day: 0.04; Below the national poverty line: 5.5.
IMF quota: SDR 11.2 million.
Main export products: Crude coconut oil, frozen tuna, and copra.

	2024	2025	2026	2027	2028
		Est.		Proj.	
Real GDP (percent change)	4.6	4.3	3.1	2.4	2.2
Consumer prices (percent change, average)	2.5	6.5	4.5	3.1	2.5
Inflation (end of period)	2.9	6.3	3.3	2.5	2.5
Central government finance (in percent of GDP)					
Revenue and grants	72	74	100	79	81
Total domestic revenue	62	58	60	59	58
Of which: fishing revenue	40	38	39	38	38
External grants	10	15	40	20	22
Expenditures	86	88	116	94	93
Current	63	66	64	62	61
Development	23	23	52	32	32
Domestic recurrent balance 1/	-42	-45	-43	-41	-41
Recurrent fiscal balance (incl. budget support grants)	0	-1	-2	-2	-2
Overall balance 2/	-14	-14	-17	-15	-13
Financing	14	14	17	15	13
Of which: Revenue Equalization Reserve Fund (RERF)	15	15	13	7	6
Credit					
Credit to GDP (in percent of GDP)	12	13	…	…	…
RERF					
Closing balance (in millions of A$)	1600	1677	1708	1773	1855
Per capita value (in 2006 A$)	7786	7811	7642	7617	7655
Balance (in percent of (GDP)	308	310	300	299	301
Cash reserve buffer 3/					
Closing balance (in millions of A$)	264	263	240	240	240
Closing balance (in percent of GDP)	51	49	42	40	39
In excess of 3-months of current spending and LCDF (in millions of A$)	164	156	127	128	129
Balance of payments					
Current account including official transfers (in millions of US$)	-60	-66	-71	-70	-68
(In percent of GDP)	-17.4	-18.8	-17.7	-16.8	-15.7
External debt (in millions of US$) 4/	29	29	31	66	91
(In percent of GDP)	9	8	8	16	21
External debt service (in millions of US$)	2.2	2.2	2.2	2.2	2.5
(In percent of exports of goods and services)	0.6	0.6	0.6	0.5	0.6
Exchange rate (A$/US$ period average)	1.5	1.6	...	...	...
Real effective exchange rate (period average)	83	87	...	...	...
Memorandum items:					
Nominal GDP (in millions of A$)	520	542	569	593	616
Nominal GDP (in millions of US$)	343	349	401	417	431

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.
1/ Domestic recurrent balance excludes fishing revenue, grants, and development expenditure.
2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.
3/ Cash reserve buffer includes the government's operational account and cash reserve account.
4/ The coverage is public external debt only.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

April 21, 2026

KEY ISSUES

Context. Kiribati is pursuing an ambitious development agenda amid structural challenges due to its remoteness, limited landmass, and exposure to weather shocks. The government priorities are to accelerate growth, by maximizing returns from its vast ocean territory, and to enhance human development, by improving health, education, and access to infrastructure. Growth has been resilient, supported by consumption and public investment projects. The government is primarily funded by fishing license revenues which have declined as a share of GDP. Coupled with the recent expansion of social benefits and subsidies, this contributed to persistent fiscal and current account deficits, which might limit the ability to address new shocks and weigh on long-term development and debt sustainability.

Main Policy Recommendations.

- Implement a growth-friendly fiscal consolidation to support debt sustainability. Adopt a balance-based RERF withdrawal rule to allow access to the RERF independently of volatile returns and enable countercyclical fiscal policy.
- Raise fishing revenues, including from licensing of longline fishing vessels, and streamline tax exemptions. Increase excise tax on tobacco, alcohol and kava.
- Ensure incentives for Joint Venture (JV) entities and Special Economic Zones (SEZ) are well-targeted, time-bound and regularly reviewed.
- Review the adequacy and enhance efficiency of social spending, ensuring benefits achieve intended outcomes and avoid market distortions.
- Continue Public Financial Management (PFM) reforms to enhance the medium-term fiscal framework, fiscal discipline and investment planning.
- Establish a sound debt-management framework and strengthen capacity to assess borrowing decisions and monitor risks, including in SOEs and JVs.
- Accelerate establishing financial sector regulatory and supervisory institutions, operationalize related legislation, and set up regular financial sector reporting.
- Continue structural reforms to close infrastructure and human capital gaps.
- Continue to improve the quality and timeliness of statistics, supported by ongoing capacity development.

Approved By
Corinne Deléchat (APD) and Niamh Sheridan (SPR)

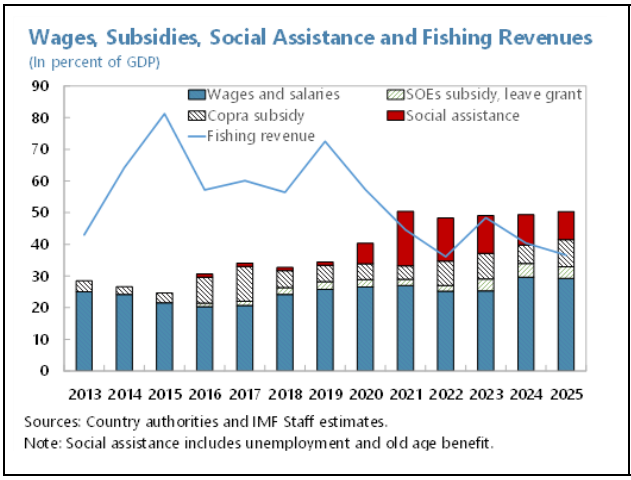
Discussions took place in Tarawa on February 17-27, 2026. The team comprised N. Novta (Mission Chief), X. Han, N. Wang (all APD), K. Ram (Pacific Islands Regional Resident Representative Office). J. Oh (OEDAP) attended some of the meetings. S. Wills and A. Guzman (all World Bank) attended most meetings. P. Sherpa (COM) coordinated media activities. I. Velasquez Fonseca and P. Wang (APD) and W. Basu (ITD) supported the mission. The mission met with the Honorable Vice President/Minister of Finance Teuea Toatu, other senior government officials, development partners, and private sector representatives.

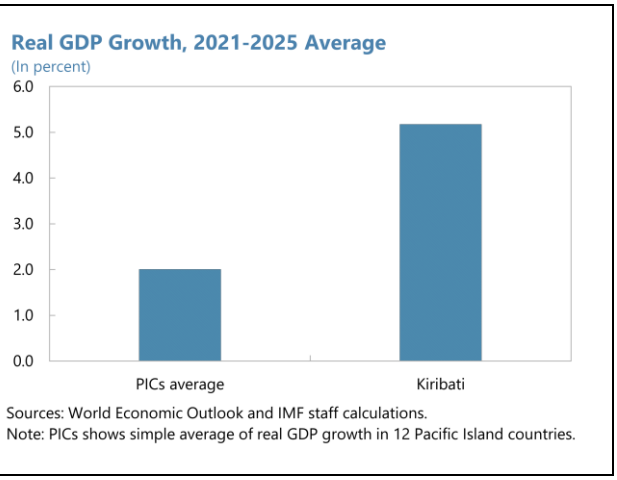
CONTENTS

ANNEXES

CONTEXT: INCREASING HUMAN DEVELOPMENT AND ACCELERATING GROWTH

1. The Kiribati authorities continue to pursue an ambitious development agenda amid substantial structural challenges. Kiribati is a low-income country, comprised of three archipelagos of small, remote islands. Its remoteness, limited land mass, and high exposure to tides and long-term sea level rise, contribute to low human development and large infrastructure gaps (see IMF, 2025, Annex I Country Engagement Strategy). The Kiribati authorities' long-term development plan (Kiribati Vision 2016-2036) is focused on improving human development and accelerating growth. A substantial expansion of broad social benefits in the last 5 years has helped reduce poverty, improve access to health, education, and infrastructure, and support copra farmers (Table 4).[1] Despite shocks, recent GDP growth exceeded that of other Pacific Island countries. To accelerate growth further, the authorities plan to increase domestic value-added in the fisheries sector and diversify exports.





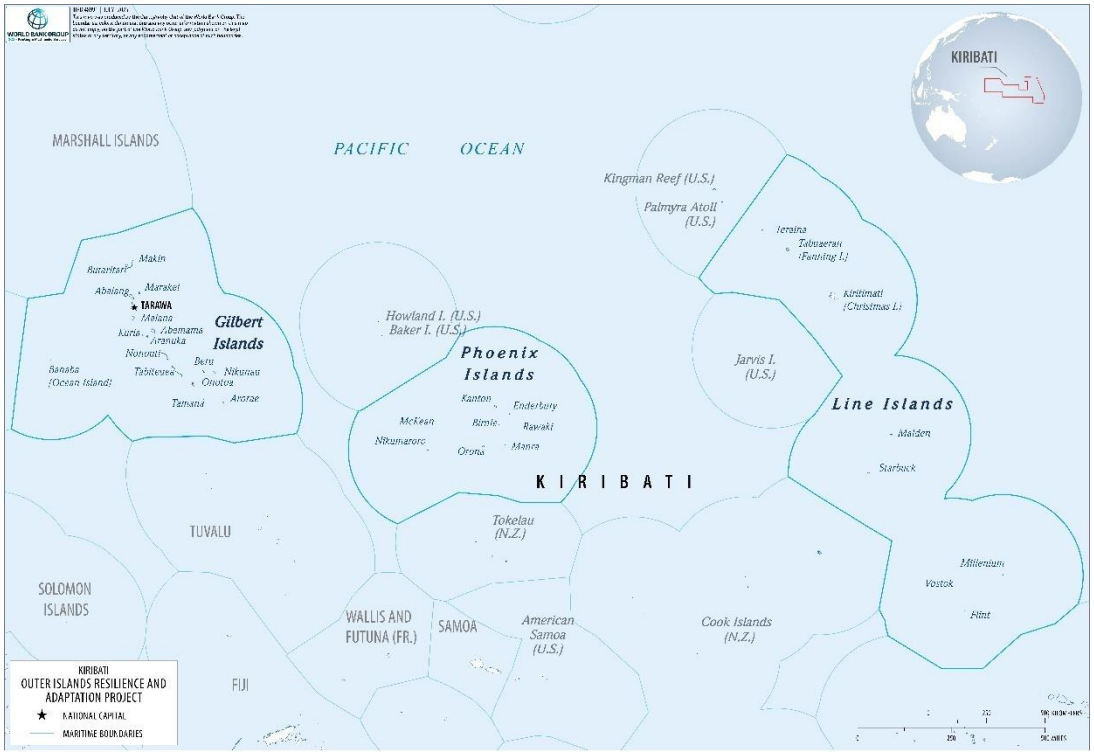
2. Kiribati's key natural resource is its vast section of the Pacific Ocean and fishing license fees are the primary source of government revenues.[2] While fishing activity in Kiribati Exclusive Economic Zones (EEZs) increased substantially since the opening of the Pheonix Islands Protected

[1] During 2021-2025, the government spent about 27 percent of GDP on salaries and an additional 21 percent of GDP on extensive subsidies and benefits to the rest of the population. These included social assistance benefits (unemployment, disability and old age benefits), copra subsidy for coconut farmers mostly in outer islands, as well as annual leave grants for employees of all VAT-registered businesses.

[2] Close to 60 percent of the global supply of tuna comes from the Western and Central Pacific Ocean, with over half from Exclusive Economic Zones (EEZs) of Pacific Island Countries (PICs) (Batty and Fernandes, 2018). Kiribati's three EEZs (Gilbert, Line and Phoenix Island groups) are the largest in the group. Kiribati's fish includes both lower-value tuna used for canning and premium-grade tuna used for sashimi. The canning tuna (skipjack) is caught in large volumes by purse-seine fishing vessels. The large, premium tuna (yellowfin, bigeye) is caught by longline fishing vessels. Over the long term, fishing revenue is under threat from climate change, due to rising ocean temperatures, acidification and shifting species distributions, and fishing revenues are also volatile, due to weather oscillations.

Areas (PIPA) in 2021, fishing revenue and the value of fishing exports have not increased.[3] Kiribati has established various joint venture entities (JVs), mostly with Chinese partners, to increase tuna catch by Kiribati flagged vessels, expand fish processing capacity, and increase higher value-added fish exports, e.g. frozen fish fillets. Private sector development is expected to follow, with an expansion of marine-related services and development of sustainable tourism. However, Kiribati has limited fiscal space to pursue these objectives and is already at high risk of debt distress due to projected climate adaptation needs. Deft policy making is needed to ensure that these new growth initiatives raise rather than erode revenues and that public spending on broad social benefits leaves sufficient room for large infrastructure and climate investment needs (see IMF, 2025).

Gilbert, Phoenix and Line Island Exclusive Economic Zones (EEZ) Map



Source: World Bank Group.

RECENT DEVELOPMENTS: RESILIENT GROWTH

3. Activity remained strong, generally supported by consumption, as well as ongoing large infrastructure and climate adaptation projects.[4] Real GDP grew at 4.6 percent in 2024,

[3] During 2021-2025, Kiribati fishing revenues on average comprised about 41 percent of GDP (67 percent of government revenue), a decline from around 62 percent of GDP during 2013-2019.

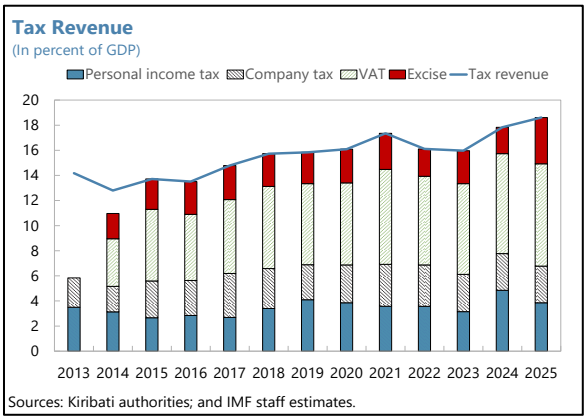
[4] Major ongoing projects include the domestically-financed Outer Island Infrastructure Program, amounting to AUD 44.9 million, the South Tarawa Sanitation Project, amounting to AUD 21 million sponsored by the World Bank, and the South Tarawa Water Supply Project, amounting to AUD 15 million sponsored by ADB.

primarily driven by service sector expansion. High import levels in 2025 indicate continued strong activity in services and construction, with 2025 real GDP growth estimated at 4.3 percent. The National Statistics Office revised real GDP growth for 2022 and 2023, from 4.6 to 5.0 percent in 2022 and from 2.7 to 3.3 percent in 2023, mainly reflecting stronger fisheries output. Nominal GDP growth was also revised up, starting in 2024.

4. Inflation rose to 6.5 percent in 2025, driven by the fuel and electricity tariff reforms. In January 2025, the government implemented a 50 percent increase in electricity tariffs and a 64 percent increase in fuel prices, after more than a decade of fixed prices. This price adjustment and future price flexibility are welcome, necessary steps to bring prices to cost-recovery levels in fuel and electricity state-owned enterprises (SOEs) and strengthen their financial management. Households have mostly adjusted to the higher price level, which was attenuated by the 40 percent public sector salary increase in 2024. Historically, inflation in Kiribati has been driven more by external than domestic factors, a trend which is expected to continue (Appendix III). While timely labor market data is unavailable, newly-released household survey data from 2023-24 indicate that labor market conditions have improved in recent years and private sector employment has expanded.

5. Fiscal policy was broadly neutral in 2025. The overall deficit[5] in 2025 was 14 percent of GDP, broadly unchanged from 2024, driven by the following components:

- **Domestic revenues fell due to declining nontax revenues, but were more than offset by higher budget support grants.** Fishing license fees declined from 40 percent of GDP in 2024 to 38 percent in 2025, below the pre-COVID average of 62 percent. Subdued fishing revenue growth may reflect ocean-temperature-driven shifts in fish stocks, but suboptimal licensing as the fisheries sector develops may also have played a role (see policy section). Increased budget support from donors more than offset the decline in fishing and other nontax revenue. Tax revenues increased slightly from 18 percent of GDP in 2024 to 19 percent in 2025, driven by higher excise tax collection.



- **Current expenditures increased in 2025 due to the copra subsidy increase.** Total current expenditure reached 66 percent of GDP in 2025, up from 63 percent in 2024. This was driven by the copra subsidy, which increased from 6 to 9 percent of GDP, despite slight declines in SOE subsidies and unemployment benefits. To manage expenditures, the government announced a

[5] The overall fiscal balance is calculated treating withdrawals from the Kiribati sovereign wealth fund (the Revenue Equalization and Reserve Fund, RERF) as a financing item.

change in copra policy, so that the SOE in charge of copra processing shares part of the cost of copra.[6] Development expenditure remained stable at 23 percent of GDP in 2025, similar to 2024.

6. The sovereign wealth fund (RERF) continued to grow. The RERF overcame financial market uncertainty in early 2025 and posted an annual return of 10 percent, though the RERF balance was just short of the authorities' end-2025 target of AUD 1.7 billion. The authorities withdrew AUD 80 million in 2025 and plan to withdraw AUD 75 million in 2026 (about 13 percent of GDP) to finance the outer islands roads and causeways.

7. Kiribati's public debt declined in 2025. External public debt declined from 9 percent of GDP in 2024 to 8 percent of GDP at end-2025. Domestic public and publicly guaranteed debt was 0.1 percent of GDP in 2025, consisting of a guaranteed SOE loan. New guarantees for SOEs in 2026 would increase domestic public and publicly guaranteed debt to 0.7 percent of GDP, issued to support borrowing by Kiribati Housing Corporation (to build public sector employees' housing), the Kiribati Coconut Development Limited, and the Kiribati National Shipping Line (both to buy cargo vessels). Joint Venture entities with minority government ownership disclosed external debt of about 190 percent of GDP accumulated since 2019, for which the authorities report no explicit guarantees.[7] Public and publicly guaranteed debt is assessed as sustainable, but the risk of debt distress is high due to climate-related vulnerabilities and implicit contingent liabilities including those arising from JV debt.

8. The external position is assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies (Appendix I). The current account deficit is estimated at 19 percent of GDP in 2025, rising from 17 percent of GDP in 2024, mainly driven by higher goods imports and lower fishing license fees, partially offset by an increase in grants. The REER has appreciated by 4.2 percent in 2025, reflecting infrastructure and human capital gaps, and contributing to continuously weak export competitiveness. Despite consecutive current account deficits since 2022, the NIIP remains highly positive and stable, buoyed by favorable global asset valuations, and the reserves level is assessed to be adequate.[8]

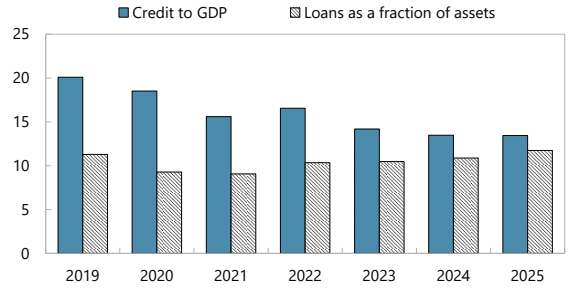
[6] The subsidy is used to pay above-market prices for dried coconuts (i.e. copra) that farmers sell directly to the government for further processing. The subsidy is often seen as form of social benefit for farmers on outer islands. Under a new policy announced in the 2026 Budget, the Kiribati Coconut Development Limited (KCDL), the SOE processing the subsidized copra, would pay AUD1/kg of copra (approximately the market price), while the Government of Kiribati would pay the additional AUD3/kg of copra, allowing the farmers to continue to sell all production at the unchanged price of AUD4/kg.

[7] For further details see the Debt Sustainability Analysis. Implicit contingent liabilities are potential future financial obligations that are not contractually binding but might be assumed by the government, if needed to protect an important project, industry, or to support the local population. For more on contingent liabilities see Bova and others (2016); on risks to the government from SOEs, joint ventures and public-private partnerships see IMF (2020).

[8] The reserve assets reported for 2024 amount to AUD 1,782 million (approximately USD 1,173 million), comprising an RERF balance of AUD 1,600 million—up from AUD 1,389 million in 2023 and projected to reach AUD 1,694 million in 2025—and a cash balance of AUD 182 million.

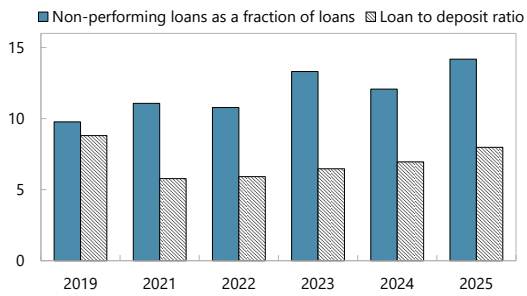
9. The financial system is broadly sound, with low systemic risks, notwithstanding supervisory challenges. Credit-to-GDP has declined gradually since 2019, while nonperforming loans have increased modestly but remain low relative to total assets. Systemic risks are assessed to be low given that the largest financial institution—Australia and New Zealand Banking Group (ANZ)—is subject to regulation by the Australian Prudential Regulation Authority. In addition, the Australian government's 2025 Pacific Banking Guarantee Bill supports ANZ's Pacific operations and, by extension, overall financial stability in Kiribati. Shortcomings in Kiribati's supervisory architecture and data reporting limit the ability to comprehensively monitor and assess risks.

Financial Sector Credit
(In percent)



Sources: Country authorities; and IMF staff calculations.
Note: Banking sector data included in the chart are from ANZ Kiribati, Development Bank of Kiribati (DBK) and Kiribati Provident Fund (KPF). Data for 2025 are estimates.

Financial Soundness Indicators
(In percent)



Sources: Country authorities; and IMF staffcalculations.
Note: NPL ratio includes ANZ Kiribati and Development Bank of Kiribati (DBK); LDR includes ANZ and Kiribati Provident Fund (KPF). Data for 2025 are estimates.

OUTLOOK AND RISKS

10. The near-term outlook remains favorable, although highly uncertain. While the war in the Middle East is expected to be temporary, the baseline outlook assumes that global commodity prices will increase by about 21 percent in 2026, and only gradually decrease over the medium term. The conflict would also increase shipping costs and thus raise overall import prices for Kiribati. Specifically:

- **Real GDP growth is expected to moderate to 3.1 percent in 2026,** with economic activity expected to continue to be driven largely by public consumption and ongoing infrastructure projects. Over the medium term, growth is projected to slow, converging to potential growth of around 2 percent, due to limited productivity and population growth (see IMF, 2023 Selected Issues Paper).

- **Inflation is projected to moderate to 4.5 percent in 2026.** While the effects of the domestic energy price reforms in 2025 have started to dissipate, inflation is projected to remain elevated owing to higher import prices triggered by the war in the Middle East. Projections in 2027 onwards assume passthrough of global oil prices to domestic fuel prices, but the impact on electricity prices is expected to be mitigated as the near completion of the solar farm allows

Kiribati to shift from primarily using diesel to solar power for electricity generation.[9] By the end of the medium term, inflation is projected to decline to about 1.8 percent, in line with major trading partners.

- **The current account deficit is projected to narrow** to 17.7 percent of GDP in 2026. Imports were elevated in 2025 owing to a large one-off construction project and are projected to moderate slightly in 2026 despite higher oil prices. Over the medium term, the current account deficit is projected to remain stable at around 15 percent of GDP, reflecting the large imports needs associated with ongoing and planned infrastructure projects.

- **The fiscal deficit is expected to widen** to about 17 percent of GDP in 2026, reflecting an increase in domestically-financed development expenditure and a subsidy to temporarily offset the burden of higher oil prices for end consumers.[10] Elevated fiscal deficits of around 15 percent of GDP driven by high social spending and declining fishing revenues are expected to continue over the medium term, in contrast to fiscal surpluses during 2013-19.

11. The balance of risks is tilted to the downside (Appendix II).

- **Downside risks.** Among external risks, a protracted war in the Middle East, an escalation of geopolitical tensions, a prolonged increase in commodity prices and greater volatility, trade disruptions that raise shipping and import prices and increased financial market volatility could all threaten fiscal and external sustainability through their effects on the import bill, RERF interest revenues, remittances, and growth. Climate-related natural disasters remain a constant threat to the economy. Weather shocks, or lower global demand, could reduce fishing license revenues. A decline in international aid is an additional risk. Among domestic risks, reliance on RERF withdrawals based on annual returns can hamper economic management and risk depleting the sovereign wealth fund in the long run.

- **Upside risks.** A quick de-escalation of the war in the Middle East, positive supply-side surprises (e.g., oil production shocks), or productivity gains from AI could revive global growth, boost RERF returns, remittances, and fishing revenues. Stronger domestic structural policies could help raise productivity and growth, and could include investment in infrastructure, human capital, or economic diversification.

12. In a downside scenario of a protracted war in the Middle East, Kiribati's growth and public investment could fall substantially amid elevated commodity prices, shipping disruptions, tighter global financial conditions and a sharp correction in financial markets. As

[9] In 2024, fuel imports amounted to about 14 percent of GDP.

[10] Tax revenue is expected to remain stable in 2026. The implementation of the Income Tax Act (2023) and the VAT (Amendment) Act (2025) is expected to enhance tax administration and broaden tax base. VAT will transition from FOB basis to CIF basis in 2026. A new bill that would increase excise taxes on kava (not previously subject to excise), tobacco, and alcohol to finance health spending is expected to take effect in 2026. Revenues from the excise tax on kava will be earmarked for health spending.

a direct impact of the Middle East war, commodity prices have increased and trade has been disrupted. Continued higher import costs would lift inflation, supply disruptions could delay construction projects and raise costs, while reduced real incomes could weigh on domestic services demand. A potential global financial market correction would lower RERF returns and, under the current withdrawal rule, constrain RERF-financed infrastructure spending. Lower external demand could reduce fishing revenue, forcing additional fiscal consolidation and also weighing on growth. The contingent policy response may include a temporary increase in social benefits to protect the most vulnerable households as domestic fuel prices adjust to international costs. Adopting a balance-based RERF withdrawal rule embedded in a medium-term fiscal framework would allow effective use of countercyclical fiscal policy, while protecting climate adaptation investment.

Authorities' Views

13. The authorities broadly agreed with staff's assessment of the outlook and risks. They highlighted that growth had been consistently strong in recent years and that public debt had declined. The authorities concurred with staff's assessment of downside risks, including heightened global financial market volatility and a risk-off shock, commodity price volatility, and exchange rate movements that could weaken RERF returns, reduce fishing-license revenues, and lead to fiscal and external pressures. They planned to delay some government activities to offset lower revenues should such risks materialize.

POLICIES: SUPPORTING PEOPLE, PROMOTING DEVELOPMENT, BUILDING CAPACITY

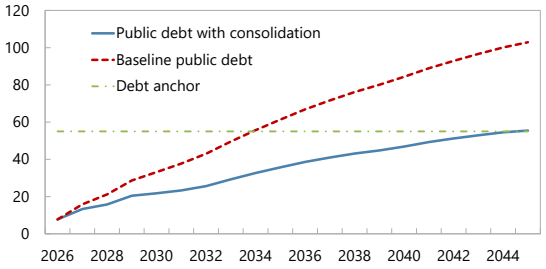
A. Building a Fiscal Framework Tailored for Kiribati's Policy Priorities

14. The government has multiple priorities—extensive social benefits, climate-resilient infrastructure and accelerating growth of domestic fisheries—and only limited fiscal space. Given the need for significant future borrowing to adapt to rising sea levels, Kiribati is already assessed to be at high risk of debt distress. Fiscal balances have deteriorated relative to the pre-COVID period, necessitating RERF withdrawals to finance needed development spending while other revenues cover current expenditures. In this context, to ensure access to the RERF even when annual returns are low and to safeguard its long-term value, Kiribati should shift to a balance-based RERF withdrawal rule (see IMF, 2025).

15. Amid fiscal pressures, a sustained growth-friendly fiscal consolidation should begin promptly. A consolidation of 2.5-3 percent of GDP over 2027-2029 and 3.5 percent of GDP over 2030-2045 (see Text Table 1), would accommodate the authorities' spending priorities while anchoring public debt at around 55 percent of GDP by 2045. If executed, the 2026 budget would achieve greater revenue gains than the recommended measures in the 2025 Article IV consultation,

reflecting higher projected fishing revenue and higher VAT collection.[11] However, the budget offsets these gains in 2026 by higher spending on roads and causeways in outer islands, resulting in a slightly larger 2026 deficit than recommended in the 2025 Article IV consultation. Sustaining revenue gains, while limiting supplementary spending amid higher commodity prices, will be critical.

Public Debt Paths
(In percent of GDP)



Source: IMF staff estimates
Note: With an anchor of 55 percent for the public debt to GDP ratio, all debt burden indicators would most likely remain below their respective indicative thresholds and benchmark over the 20-year projection horizon.

16. The next subsections focus on policy options to achieve the recommended fiscal consolidation over the medium- to long term. The Kiribati government could reduce tax expenditures[12] and gradually raise revenues from the fisheries sector (Section B), rationalize recurrent spending on subsidies and broadly-defined social benefits (Section C) and sustain long-term growth through strengthened fiscal institutions and overall capacity development (Section D).

Text Table 1. Recommended Fiscal Consolidation
(In percent of GDP)

	2026 Proj., (Last Article IV) 1/	2026 Proj. (Last Article IV with Revised GDP)	2026 2/	2027	2028	2029	2030	2031-2045 Average
Baseline Fiscal Balance	-16.8	-15.5	-16.7	-15.3	-12.6	-14.7	-14.5	-15.7
Recommended Fiscal Balance	-14.8	-13.7	--	-12.8	-9.6	-11.7	-11.0	-12.2
Consolidation from (1) and (2)	2.0	1.8	2.3	2.5	3.0	3.0	3.5	3.5
(1) Contribution from selected revenue mobilization								
Total	1.0	0.9	3.2	1.5	1.7	1.7	1.8	1.7
Enhanced Fishing Revenue	0.5	0.5	2.4	1.0	1.2	1.2	1.3	1.2
Excise Tax	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4
VAT Reform	0.1	0.1	0.6	0.1	0.1	0.1	0.2	0.2
(2) Contribution from streamlining of selected subsides								
Total	1.0	0.9	-0.9	1.0	1.3	1.3	1.7	1.8
Copra Subsides	0.8	0.7	0.0	0.8	1.0	1.0	1.2	1.3
SOE Subsidies	0.2	0.2	-0.9	0.2	0.3	0.3	0.5	0.5

Source: IMF staff estimates.
1/ Based on the recommended consolidation scenario in Kiribati 2025 Article IV Consultation Staff Report. 2/ Differences between the current baseline projections for 2026 and the baseline projections for 2026 in the Kiribati 2025 Article IV Consultation Staff Report, in percent of revised 2026 GDP. The current baseline projection for 2026 is based on Kiribati 2026 Budget except for SOE subsidies, which are higher in staff's baseline than the Budget to account for temporary government absorption of commodity price pressures due to the conflict in the Middle East.

[11] The 2026 Budget also envisaged a larger-than-recommended reduction in SOE subsidies, which staff no longer projects in the baseline due to increases in commodity prices related to the war in the Middle East. Given the solar farm, which will reduce the need for fuel-based electricity generation, staff projects that SOE subsidies from 2027 onward will remain consistent with the authorities' medium-term budget.

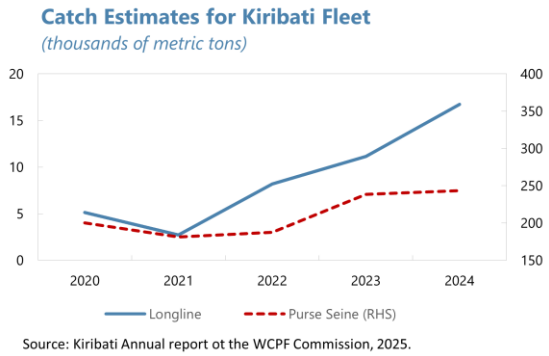
[12] Tax expenditures are deviations from a benchmark tax system—such as tax exemptions, credits or preferential rates—that act as implicit government spending to support specific taxpayers. For more information on reporting and evaluating tax expenditures, see IMF (2019) and Beer and others (2022).

Authorities' Views

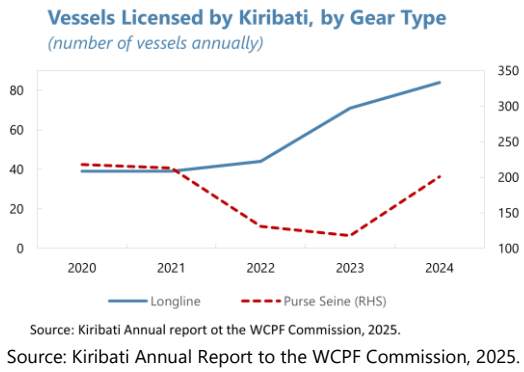
17. The authorities highlighted their strong commitment to fiscal responsibility and long-term debt sustainability and their success in maintaining a balanced budget, treating RERF withdrawals as revenues. They concurred that social assistance provision, infrastructure investment, and fisheries sector development are critical to achieving Kiribati's long-term development objectives. They highlighted ongoing work to streamline subsidies and noted that recent tax reforms have supported revenue mobilization. They highlighted their progress with the outer island roads and causeway project, successfully financed by RERF withdrawals, and implemented while also reducing external debt and expanding social benefits.

B. Raising Revenue from Fisheries while Increasing Domestic Value Added and Attracting FDI

18. Fisheries is a priority sector in the Kiribati 20-year Vision Plan and has recently seen a substantial increase in activity. Recent developments include: doubling longline vessel licensing and tripling associated tuna catch since 2021 (text charts); new JV investment of over AUD 300 million (about AUD 160 million as FDI), primarily to build new Kiribati flagged fishing vessels[13]; plans for a Special Economic Zone (SEZ) on Kiritimati Island; and measures to increase fisheries employment, establish new value-added products such as frozen fish fillets and loins, aquaculture, sea cucumbers, and pilot canning facilities (MFMRD 100 day priorities, MFMRD 2024 Report).



Source: Kiribati Annual Report to the WCPF Commission, 2025.



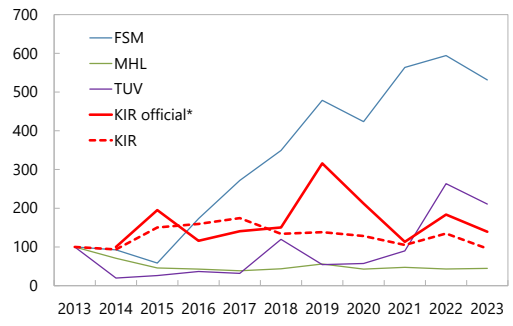
Source: Kiribati Annual Report to the WCPF Commission, 2025.

19. Despite these efforts, official statistics suggest that diversification and value of Kiribati's fish exports have not improved over time (text chart). Based on both official statistics of Kiribati and partner reported data, the value of Kiribati fish exports has declined between 2015 and

[13] Two JVs with substantial investment are Kiribati Tuna Fish Limited (KTFL) founded in 2019, and Kiribati Blue Pacific Limited (KBPL), founded in 2023. KTFL has built 5 purse seine fishing vessels (based on Western and Central Pacific Fisheries Commission records), with plans for a total of 6, while KBPL has built 4 purse seine vessels, with another 12 expected (2 each year), and several longline vessels. A single purse seine vessel can catch at least 10 times more fish per day than a longline vessel, but longline catch can be 10 to 20 times higher in value per ton (FAO).

2023. Official data from 2024 indicate an increase in the volume of fish exports but a decline in the value of fish exports. In terms of diversification, both the number of export product categories and the number of export destinations declined since 2015 in Kiribati but remained broadly stable for other PICs. This raises concern about the success of government efforts to export or about the quality of official export data which could be improved though capacity development.

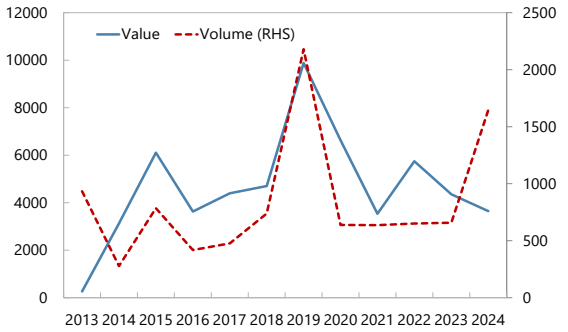
Fish Exports Index, 2013=100



Sources: CEPII BACI dataset, Kiribati National Statistics Office (NSO) and IMF staff calculations.
Note: In CEPII BACI, H2 is equal to 3 for fisheries categories and is used for export calculations. KIR official* presents fish exports as reported by NSO and starts at 100 in 2014.

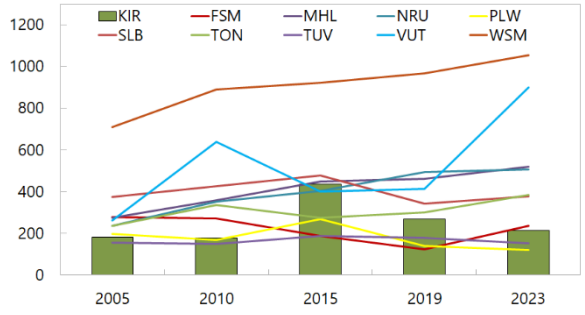
Kiribati National Statistics Office: Fish Exports

(LHS: 1,000 AUD; RHS: metric tons)



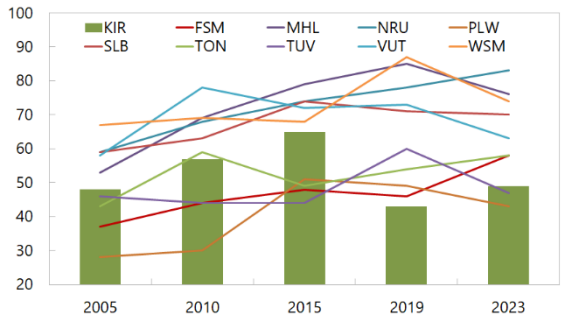
Source: NSO of Kiribati.

Number of Export Product Categories



Sources: CEPII BACI dataset; IMF staff estimates.
Note: The figures are calcualted using HS6 classification. Data for 2019 are used in place of 2020 to avoid distortions related to the COVID-19 pandemic.

Number of Export Destination Countries



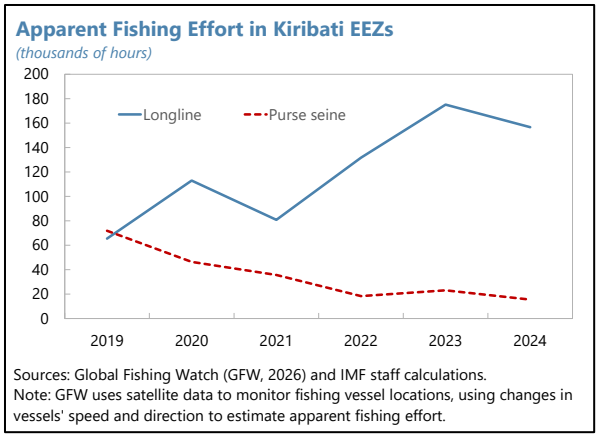
Sources: CEPII BACI dataset; IMF staff estimates.
Note: The figures are calcualted using HS6 classification. Data for 2019 are used in place of 2020 to avoid distortions related to the COVID-19 pandemic.

20. Current domestic licensing policies may have limited growth in fishing revenue. Purse seine Vessel Day Scheme (VDS) is a robust regional licensing system, which provides about 90 percent of Kiribati fishing revenues (MFMRD, 2024). However, the number of purse seine vessels licensed in Kiribati has stagnated in recent years, with reports of unsold VDS days and moderately declining purse seine fishing effort. In contrast, longline fishing effort in Kiribati more than doubled since 2019, but with longline licenses sold at affordable prices to local JVs selling to Kiribati's fish processing plant, longline license revenue has been limited.[14] While Kiribati's large EEZs ensure that fishing license revenues remain the highest among Pacific peers, fishing revenue growth has lagged

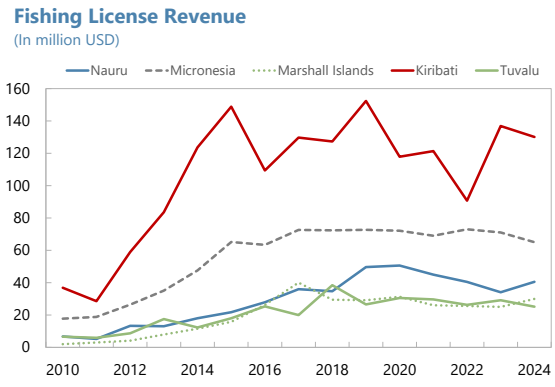
[14] To fish in Kiribati's EEZs, both foreign and domestic fishing vessels must purchase fishing licenses. Fishing activities are regulated through access agreements and license conditions specific to each gear (e.g. purse seine or longline). Domestic vessels and charter vessels have exceptional arrangements with the Government of Kiribati such as access

(continued)

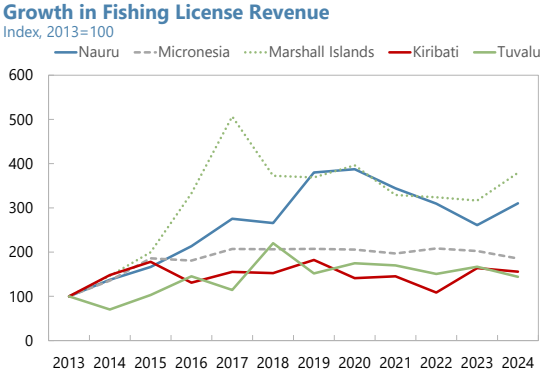
since 2013 compared to peers (text chart). Capacity development to design a fisheries tax regime that balances revenue objectives with fisheries sector development and fish stock sustainability may help.



Sources: Global Fishing Watch (GFW, 2026) and IMF staff calculations.
Note: GFW uses satellite data to monitor fishing vessel locations, using changes in vessels' speed and direction to estimate apparent fishing effort.



Sources: Country authorities and IMF staff calculations.



Sources: Country authorities and IMF staff calculations.

21. Tax exemptions for Joint Venture entities have likely resulted in substantial foregone revenue. Foregone revenues from JVs stem from 10-year tax holidays, with exemptions for both VAT and corporate tax, non-transparent dividend arrangements between the JVs and the Kiribati Government, and preferential pricing of fishing licenses. Lack of JV entities' reporting to the Tax Commission precludes estimation of JV-related tax expenditures but international experience suggests they are likely substantial.[15] Regular financial reporting of JVs and greater transparency around foregone revenues could help increase revenue collection while continuing to support industry development and diversification, in line with government priorities.

to the domestic fishing zone. The recent increase in longline fishing effort is driven by vessels owned locally or chartered by JVs. Kiribati Fish Limited (KFL) is a JV focused on processing and exporting premium-grade large tuna since 2010. As of 2024, KFL employed about 200 workers, broadly stable since 2015. Other JVs employ few, if any, local workers. Data on employment in crewing and seafaring is not available. For more details, see Kiribati Annual Report to the WCPF Commission (2025) and Batty and Fernandes (2018).

[15] Tax expenditures are deviations from a benchmark tax system—such as tax exemptions, credits or preferential rates—that act as implicit government spending to support specific taxpayers. For more information on reporting and evaluating tax expenditures and their use in fiscal management, see IMF (20219) and Beer and others (2022). Experience from other countries indicates that broad tax exemptions often lead to large fiscal costs with limited diversification benefits (Deléchat et al., 2024).

22. Well-designed incentives for JVs and SEZs can attract FDI and promote diversification. To maximize the effectiveness and efficiency of JVs and SEZs, incentives should be well-targeted, time-bound, regularly reviewed. Cost-based incentives and targeted measures—such as near-zero tariffs only on imported production inputs, VAT refunds through suspension mechanisms, and accelerated tax depreciation for qualifying investment—are recommended.[16] Any new tax incentives should be guided by a transparent rules-based mechanism rather than decided on a case-by-case basis.

Authorities' Views

23. The authorities broadly agreed with staff on the importance of improving the quality of fish export data, strengthening fisheries revenue, and attracting foreign direct investment. They reiterated that fisheries remain a critical pillar of the economy and highlighted record-high fishing license revenues in nominal terms in recent years. They acknowledged concerns regarding the quality of fish export data but noted that fish product exports are gradually increasing with opportunities to improve diversification over time. They acknowledged the need for enhanced interagency communication to clarify JV dividend arrangements, improve transparency regarding JV tax holidays and measuring associated revenue losses for Kiribati.

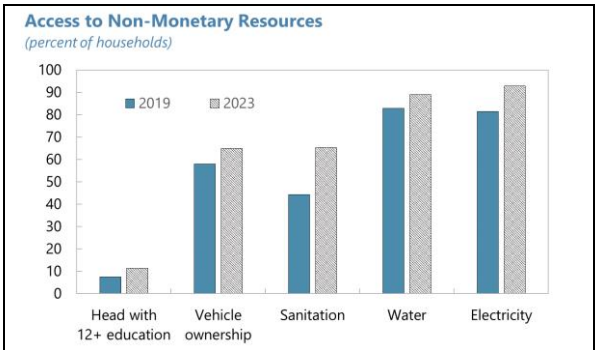
24. The authorities maintained that Kiribati holds the highest allocation of fishing days among Pacific Island peers and that fishing license revenue growth since 2013 has outperformed peers. They emphasized that Kiribati's current domestic licensing policies, as governed by the PNA Vessel Day Scheme, are robust and can support continued growth in fishing revenue with ongoing improvements. They outlined plans to implement the Vessel Day Scheme (VDS) for longline vessels, while noting difficulties in monitoring these vessels. They expressed interest in technical assistance to help further raise fishing revenues.

25. The authorities indicated that tax holidays are a strategic economic instrument for attracting foreign direct investment in Kiribati. They acknowledged high costs and operational challenges associated with establishing businesses in Kiribati. They viewed tax holidays as limited short-term revenue deferral intended to facilitate long-term investment commitment, business expansion and increased taxes after the holiday period. The authorities estimate that the economic value generated by projects receiving tax holidays has already offset the short-term revenue losses. They also announced plans for special economic zone (SEZ) regulations with cost-based tax incentives, with the locations of the SEZs being finalized. They acknowledged the need to regularly review incentives for SEZs and joint ventures to safeguard revenues. The authorities underscored the importance of continued engagement with development partners to support capacity development and advance these reforms.

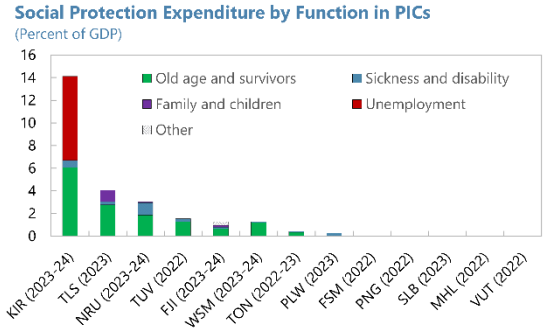
[16]Aliu, Flurim, Mario Mansour, and Christophe Waerzeggers, Forthcoming, "Special Economic Zones: What Are They, and How Governments Should Tax Them?" IMF How-to-Note series.

C. The Public Expenditure Challenge: Adequacy and Efficiency of Broad Social Benefits

26. Social benefits have increased substantially since 2020, boosting household incomes and supporting a remarkable reduction in poverty. Poverty fell from about 22 percent in 2019 to 5.5 percent in 2024, lifting around 19,000 people (close to 15 percent of the population) out of poverty, while the Gini coefficient fell from 28 to about 25 (NSO, 2025).[17] These gains reflect higher consumption growth among lower-income households, supported by expanded social assistance (unemployment, disability and old age benefits) and broader social spending, including copra subsidies and leave grants for all employees in VAT-registered businesses. Living standards have also improved, with greater access to education, sanitation, running water and electricity, and higher vehicle ownership.



Sources: Kiribati Household Income and Expenditure Surveys and IMF staff calculations.
Note: On eduction, chart shows percent of households whose head has at least some vocational or tertiary education. Most vehicles owned are bicycles or motorcycles.



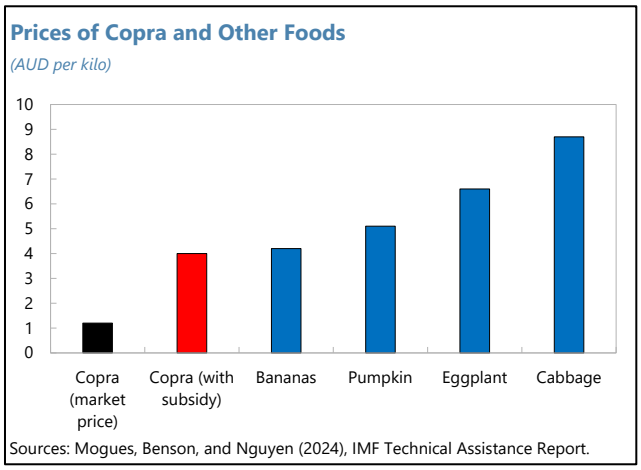
Sources: Partnership for Social Protection (August, 2024), World Economic Outlook, and IMF staff calculations.
Note: Category "other" includes housing benefits and social exclusion benefits.

27. Amid overall progress in social protection, efficiency of social spending in achieving desired outcomes could be increased. Spending is efficient if human development targets—such as reduced poverty, education and improved access to basic infrastructure—are achieved with the least amount of spending. To achieve this, benefits should not lead to market distortions, support spending with negative externalities, or be directed to high-income households. Currently, among the Pacific Island Countries, Kiribati spends the highest share of GDP and GNI[18] on social assistance, in addition to copra subsidies. Regular review of adequacy and efficiency of social benefits is needed to identify and help address any distortions, externalities or potentially wasteful spending.

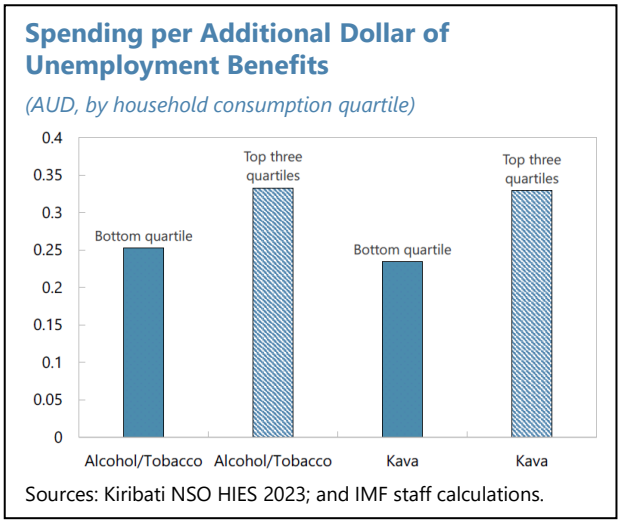
[17] Analysis is based on the latest two rounds of the Household Income and Expenditure Survey in Kiribati, performed in 2019/20 and 2023/24 by the Kiribati National Statistics Office and the Pacific Community.

[18] For social spending as a share of GNI, see the accompanying Selected Issue Paper and Partnership for Social Protection (2024).

28. The copra subsidy should be reformed and other SOE subsidies reduced. The current copra subsidy, which sets copra prices well above market levels, distorts agricultural production, discourages production of local food and ripe coconuts, and disproportionately benefits higher-income rural households (IMF, 2024; World Bank 2024). Reforms should align copra prices with market levels while protecting vulnerable households through other types of social assistance. Reducing other SOE subsidies, including for domestic transport, would further limit market distortions, with compensatory measures for low-income households as needed.



29. The adequacy and efficiency of social benefits should be reviewed, with greater use of excise taxes to address negative externalities. In 2023/24, nearly 95 percent of the population lived in a household receiving unemployment benefits. Broad coverage of non-poor households suggests that poverty reduction could have been achieved at lower cost. Staff analysis indicates that higher unemployment benefits are associated with increased spending on tobacco, alcohol, and kava, especially among richer households (see accompanying Selected Issues Paper). Raising excises on alcohol and tobacco and introducing an excise on kava, a widely used psychoactive plant, would help curb consumption while generating revenue to offset related public health costs.



Authorities' Views

30. The authorities emphasized that the increase in social protection spending has contributed to a 75 percent reduction in poverty between 2019 and 2023. They underscored the importance of social assistance in supporting household welfare and resilience, particularly for vulnerable groups. At the same time, they recognized the need for continued efforts to clarify the purpose of social protection programs focused on advancing human development goals, through the implementation of programs that are universal, life-cycle focused, complementary, non-conditional, and designed to support the people of Kiribati to benefit equitably from development and live healthy and productive lives.

31. The authorities highlighted ongoing efforts to improve efficiency and integrity of social protection provision. These include the development of a Social Protection Policy, the rollout of a management information system to strengthen case management and administration, and the expansion of digital payments for social assistance benefits through M-PAiSA, a mobile money wallet operated by Vodafone Fiji, and ANZ. They acknowledged continued efforts to strengthen and reform implementation systems, despite persistent challenges related to the limited availability of national identification cards in outer islands, data gaps from key stakeholder ministries, and service delivery constraints driven by infrastructure limitations in outer islands. While these challenges complicate beneficiary verification processes and extend the time required to transition to digital payments—particularly for opening bank accounts—the authorities emphasized that addressing them is critical to continuous improvement of program quality.

D. Building Institutional Capacity for Sustained Growth

32. Kiribati should continue to build institutional capacity and to implement fiscal structural reforms. These reforms would support the recommended growth-friendly fiscal consolidation and long-term debt sustainability and should include the following:

- **Continued improvement of Public Financial Management (PFM) to increase efficiency of spending and promote fiscal discipline.** Progress in core PFM functions is needed to support effective operation of a medium-term fiscal framework (MTFF), which would align multi-year fiscal targets with policy objectives and better integrate fiscal risks. Incorporating RERF withdrawals into the MTFF would support countercyclical fiscal policy and improve long-term investment planning, including for climate-related infrastructure, while safeguarding fiscal sustainability (see also IMF 2025, Annex IV). Kiribati's PFM capacity appears to lag that of Pacific Island peers, based on the last PEFA assessment.

- **Review of tax policy regime in fisheries and strengthening of revenue administration.** The introduction of the VAT Act is a major milestone. Near-term priorities include fully replacing the legacy revenue management system and advancing digitalization. Over the medium term, efforts should focus on strengthening monitoring of foregone revenues from tax holidays to JVs, improving large-taxpayer compliance, introducing risk-based audits, enhancing taxpayer services, and continuing to broaden the tax base.

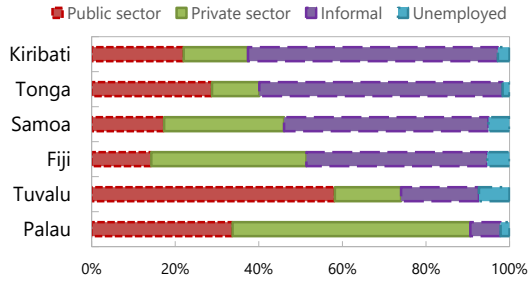
Core PFM Functions
to support an effective operation of an MTFF
- ✓ Credible annual budget
- ✓ Effective execution of payments and collection of revenues
- ✓ Reliable, frequent and timely in-year reporting
- ✓ Accurate final accounts
- ✓ Fiscal and budget transparency

- **Introduction of a public debt management framework.** Despite declining public debt, debt of JV entities has increased which can increase implicit contingent liability risks. JVs contracted about US$670 million in debt since 2019 to build 22 purse-seine fishing vessels and renovate a

hotel in Tarawa.[19] Strengthening monitoring and transparency of JV debt, like SOE debt, is essential. Building capacity to analyze and manage new debt and assess sources of risk is needed to ensure that new borrowing is consistent with development objectives and debt sustainability. The RERF should not be used as collateral for borrowing, and public investment should continue to be supported primarily through grants and highly concessional financing.

Labor Force Composition of Selected PICs

(Percent of labor force with age > 15)



Sources: ILO and IMF staff calculations.
Note: The data vintages used are Kiribati (2023), Fiji (2024), Palau (2023), Samoa (2022), Tonga (2023), and Tuvalu (2022).

33. Kiribati is gradually building institutional capacity for financial sector regulation and supervision, but the sector remains underdeveloped. The system comprises a single foreign commercial bank (ANZ), a state-owned development bank and a provident fund, as well as smaller institutions like state-owned insurance and home loans, credit unions and private micro money lenders, with no credit bureau. Immediate priorities include building supervisory capacity through staff recruitment and training, establishing regular reporting, payments regulation, and implementing a bank licensing framework, consistent with the KFSA's longer-term objective of evolving into a dollarized central bank.

Building Monetary and Central Banking Institutions

	Short run Basic Operational Priorities	Medium-to-long run Priorities for exiting fragility
Regulation	Establish prudential rules, reporting on capital adequacy, credit, market, and liquidity risks, including for AML/CFT. Set up a licensing framework for banks, risk measurement and management practices. Build robust governance.	Modernize regulatory framework through a medium-term strategy. Sequencing of regulatory reforms should be adjusted to low, but gradually improving, administrative capacity.
Supervision	Set up and formalize the supervisory function, assess prudential reports, build basic elements of the supervisory toolkit.	Move from compliance-based to risk-based supervision. Strengthen legal framework; improve risk reporting, assessment, and monitoring; actions.

Source: IMF (2023) Staff Guidance Note on the Implementation of the IMF Strategy for Fragile and Conflict-Affected States.

34. Continued structural reforms will further support private sector development, enhance competitiveness, and help diversify exports. Private sector employment rose from about 30 to 40 percent of formal employment during 2019–23. Policies should continue to foster private sector growth, including through improved financial literacy and access to credit for micro and small

[19] For more details see the Debt Sustainability Analysis.

enterprises, improvements in the business environment (e.g. strengthening property rights, reducing business startup costs), and childcare support to raise female labor force participation. Ongoing infrastructure investment to improve connectivity, utilities, and reduce transport costs remains essential (see Country Engagement Strategy, IMF, 2025).

35. Strengthening institutional capacity and governance is also critical for private sector development. International experience suggests that special economic zones often entail revenue losses, with benefits contingent on strong governance and administrative capacity. Among low-income countries, only those with strong fiscal policy management see sustained FDI gains following SEZ approval (IMF, forthcoming).[20] Hence, durable improvements in revenue administration and public financial management are needed for development of fisheries and tourism to succeed. Given capacity constraints, reforms should be sequenced, prioritizing macro-fiscal credibility through a strong medium-term fiscal framework, transparent financial reporting, and improved governance of SOEs and joint ventures, followed by measures to strengthen tax compliance, customs efficiency, and dispute resolution.

Authorities' Views

36. The authorities agreed with staff on the importance of building institutional capacity for inclusive growth and fiscal sustainability, with a particular focus on public financial management. They emphasized ongoing efforts to strengthen procurement, to move towards climate and gender budget tagging and program-based budgeting integrated in the financial management information system (IFMIS), and to develop an asset management policy to strengthen infrastructure governance. They reiterated their commitment to growing the RERF, strengthening RERF governance, and safeguarding its long-term sustainability. Over the medium term, the expressed interest in advancing work toward a medium-term fiscal framework (MTFF) that better integrates RERF withdrawals and fiscal risks, with support from development partners.

37. The authorities acknowledged the need for greater interagency transparency and engagement in relation to debt financing arrangements undertaken by Kiribati's JVs. They maintained that the Government of Kiribati has not participated in any loan or debt financing arrangement for JVs and thus indicated that, in their view, the US$670 million in debt by JVs does not constitute a contingent liability for the government. They acknowledged that greater transparency is needed even in instances where the Government is not directly involved in loans, and emphasized that any future Government involvement in JV loan arrangements would be subject to Cabinet and Parliamentary approval.

38. The authorities highlighted progress in strengthening oversight, governance, and reporting of state-owned enterprises. They are working to standardize financial reporting of SOEs, broaden the coverage of the SOE monitoring unit to include JVs, and improve inter-agency information sharing. They also acknowledged the importance of establishing a sound

[20] See Macroeconomic Development and Prospects for Low Income Countries, 2026 (SPR, FAD).

debt-management framework to strengthen capacity to assess borrowing decisions and monitor risks. Despite significant challenges due to limited staffing and fragmented reporting from SOEs and JVs, the authorities are working to enhance debt management by introducing a loan accountability agreement signed by the SOEs.

39. The authorities noted continued progress in strengthening revenue administration and financial sector regulation and supervision. They are advancing legislative revenue reforms, including Value Added Tax amendments, Income Tax Act regulations and Revenue Administration Act updates, and upgrading the revenue management system. They emphasized ongoing efforts to advance payments regulation and operationalize the Kiribati Financial Supervisory Authority. They reiterated their commitment to continued engagement with development partners to support capacity development and institutional strengthening over the medium term.

E. Data Adequacy and Capacity Development Needs

40. The quality of national statistics has significantly improved over time, but data provided to the Fund have shortcomings that somewhat hamper surveillance (Appendix IV). Activities of Joint Venture entities have implications for GDP, trade, capital flows and debt statistics, underscoring the need to establish regular reporting procedures to improve coverage.[21] Preliminary progress has been made in reporting FDI of JVs, which will be incorporated in future BOP revisions. Due to capacity constraints, as KFSA is not yet fully operational, monetary statistics are unavailable and financial data are limited. Regular mandatory reporting of existing financial sector data to the Fund should be implemented promptly. Further improvements in real, external, and government finance statistics are needed, as detailed in the Data Issues Annex.

41. Capacity development needs to be tailored with local limitations in mind. Further technical assistance in public financial management, revenue administration, debt management, and financial sector reporting and supervision is needed to strengthen government institutions. However, limited number of technical staff, reliance on expatriate advisors, and infrastructure limitations (poor or no internet connection, power outages) can hamper progress with capacity development. The Fund collaborates closely with the authorities and development partners to ensure a coordinated capacity development effort.

Authorities' Views

42. The authorities reiterated their commitment to continuing to improve the quality of macroeconomic statistics and welcome ongoing Fund CD support. They acknowledged the Data Adequacy Assessment and the need to improve data coverage, timeliness and quality of statistics for

[21] The value of tuna catch in Kiribati waters was over 50 percent of GDP in 2024 (USD 189 million, FFA, 2025), compared with fish exports of only AUD 3.6 million reported by the official statistics. The contribution of fisheries to GDP reflects only Kiribati Fish Limited and Central Pacific Producers Ltd. JV-related FDI, estimated at about AUD 160 million, is not captured in GDP statistics. JV-related borrowing is substantial (see Debt Sustainability Analysis).

macroeconomic assessment and policy making. The authorities noted the need for improved inter-agency coordination to strengthen data collection and reporting. They expressed willingness to continue enhancing national account statistics, CPI, financial sector, and debt statistics with ongoing support from the Pacific Financial Technical Assistance Center (PFTAC). The authorities agreed to liaise with stakeholders to improve reporting of Joint Ventures' activities and include them in official statistics.

STAFF APPRAISAL

43. Kiribati has experienced strong GDP growth and significant poverty reduction in recent years. The government continues to pursue an ambitious development agenda despite shocks and significant structural challenges related to remoteness, limited land mass, and climate vulnerability. Growth has remained resilient in 2025, supported by consumption, large infrastructure projects, and expanded social spending, while inflation pressures—stemming from necessary domestic energy price reforms—are expected to moderate. Fiscal policy was broadly neutral in 2025, as declining fishing revenues and higher copra subsidies were offset by increased budget support from donors. While public debt declined and remains low, the risk of debt distress is assessed to be high primarily due to climate-related vulnerabilities and implicit contingent liabilities. Kiribati's external position in 2025 was assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies.

44. Risks are tilted to the downside. External risks include a protracted war in the Middle East, along with persistently high commodity prices, trade disruptions, financial market volatility, and climate shocks. In a downside scenario of a protracted war in the Middle East, Kiribati's growth and public investment could fall substantially. Higher commodity prices and overall import costs would lift inflation and dampen demand for domestic services amid lower real incomes; trade disruptions would delay construction projects. Policies should protect vulnerable households with targeted transfers while allowing domestic fuel prices to gradually adjust. Adopting a balance-based RERF withdrawal rule and integrating it into a medium-term fiscal framework would allow effective use of countercyclical fiscal policy, while safeguarding climate adaptation investment.

45. A sustained, growth-friendly fiscal consolidation is needed for long-term debt sustainability. The fiscal position has weakened compared to pre-COVID and is supported by RERF withdrawals to finance needed development spending. To achieve the recommended fiscal consolidation, Kiribati could gradually raise revenues from the fisheries sector and reduce tax expenditures, and strengthen fiscal institutions. If cyclical conditions allow, Kiribati could also rationalize recurrent spending on subsidies and broadly-defined social benefits. Withdrawing 3-5 percent of the overall balance of the RERF annually would safeguard the fund's long-term value and ensure RERF access during periods of weak returns.

46. Fishing revenues remain the backbone of government finances and efforts are needed to curb their decline as a share of GDP. While volatile, nominal fishing license revenues have been

broadly stagnant since 2015 and declined as percent of GDP. While the purse seine Vessel Day Scheme remains a robust regional framework, unsold days and an apparent decline in fishing effort point to potential implementation challenges. Longline activity has expanded rapidly in recent years, yet revenues from longline licensing remain limited, likely due to preferential arrangements for joint ventures. International experience suggests that tax expenditures related to fisheries joint venture entities are likely substantial, due to tax holidays and exemptions. Designing a fisheries tax regime that balances revenue objectives with fisheries sector development and sustainability could help raise revenues over time.

47. Expanded social benefits have contributed to a sharp decline in poverty, but efficiency of social spending could be improved. Broad coverage of non-poor households suggests that similar poverty outcomes could have been achieved at lower fiscal cost. The copra subsidy should be reformed to avoid discouraging food crop production and disproportionately benefiting higher-income households. Regularly reviewing the efficiency of social assistance, reducing SOE and copra subsidies that introduce market distortions, while safeguarding support for vulnerable groups during global shocks, would strengthen fiscal sustainability.

48. Strengthening institutional capacity and fiscal structural reforms are essential to support growth-friendly consolidation and long-term debt sustainability. Priorities include improving public financial management to underpin an effective medium-term fiscal framework (MTFF), integrating RERF withdrawals into the MTFF, strengthening revenue administration, and fisheries tax policy. Continued structural reforms are essential to support private sector development, competitiveness, and export diversification. Priorities include improving access to finance, strengthening the business environment, and investing in infrastructure. Strong governance and fiscal management are critical to ensure that special economic zones deliver FDI gains and support sustained growth.

49. A public debt management framework is needed to manage fiscal risks. Greater transparency and monitoring of joint-venture debt are needed to manage fiscal risks from implicit contingent liabilities. The priority is to build capacity to analyze and manage new debt and assess sources of risk to ensure that new borrowing is consistent with development objectives and debt sustainability. The RERF should not be used as collateral for borrowing, and public investment should continue to be supported primarily through grants and highly concessional financing.

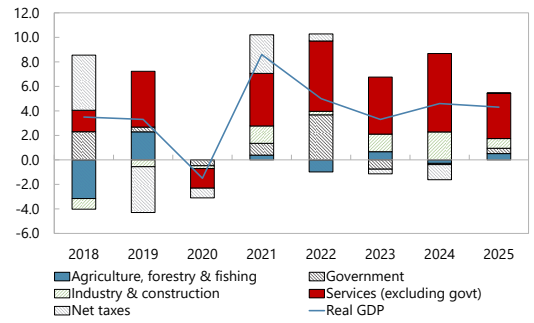
50. Continued capacity building is important to improve the coverage and quality of statistics. Ongoing improvements in real, external, and fiscal statistics are welcome. Activities of Joint Venture entities are underreported and should be reflected in GDP, trade, capital flows and debt statistics. With the creation of the KFSA, mandatory reporting of financial sector data to the Fund should be implemented promptly. Capacity development efforts will continue to be carefully tailored to local constraints.

51. It is recommended that the next Article IV consultation take place on a standard 12-month cycle.

Figure 1. Kiribati: Recent Developments

Growth has been resilient in 2025, largely driven by the service sector…

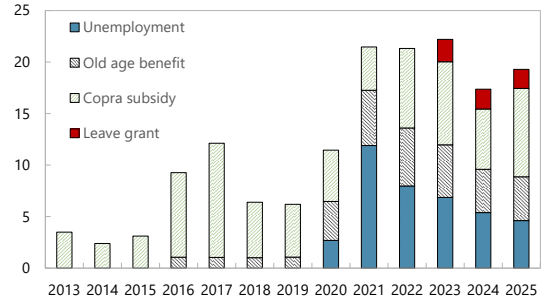
Contribution to Growth by Economic Activity
(In percent)



Source: Kiribati Authorities and IMF Staff Estimates

… and supported by continued generous social benefits, well above PIC average.

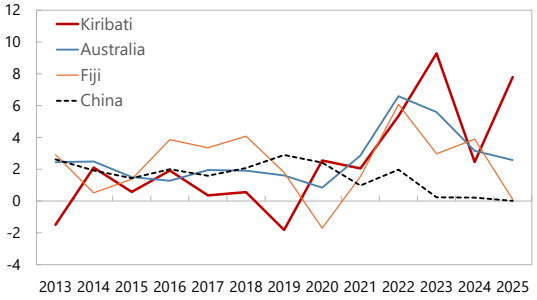
Subsidies and Social Assistance
(In percent of GDP)



Sources: Country authorities and IMF Staff estimates.
Note: Social assistance includes unemployment and old age benefit.

Inflation is correlated with trading partners' inflation, but increased in 2025 due to energy price reform…

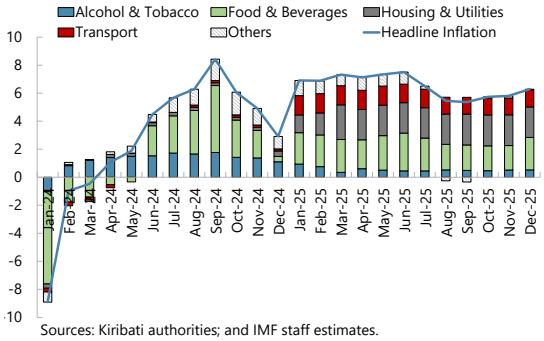
Inflation in Kiribati and Main Trading Partners
(In percent)



Sources: Kiribati authorities; and IMF staff estimates.

… which is reflected in higher contributions from housing and utilities, as well as transport price inflation.

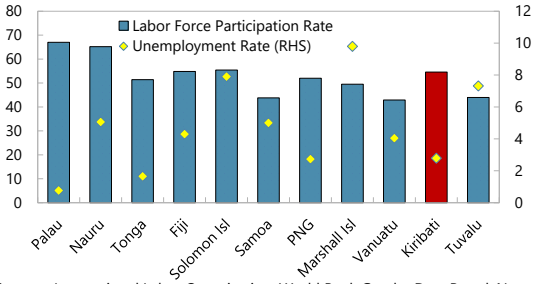
Contribution to Inflation
(In percent, year-on-year)



Sources: Kiribati authorities; and IMF staff estimates.

Labor force participation and unemployment are comparable to peers…

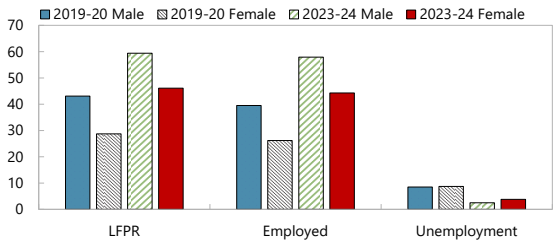
Labor Force Participation and Unemployment Rates
(In percent)



Sources: International Labor Organization; World Bank Gender Data Portal; Nauru Bureau of Statistics; and IMF staff estimates.
Note: Data refer to 2023, except for Solomon Islands (2019); Palau (2020); Nauru & Marshall Islands (2021); Samoa & Tuvalu (2022) and Fiji (2024).

… thanks to recent labor market improvements across the board.

Labor Market Indicators by Gender and Year
(In percent)

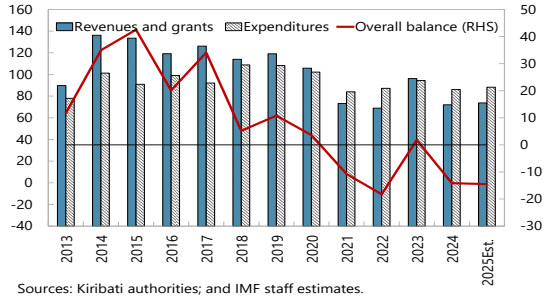


Source: Labor in Kiribati based on 2019/20 HIES; Kiribati Labor Market Monograoph 2023/24 HIES report.
Note: LFPR stands for labor force participation rate. LFPR is in percent of the working age population (15-65). Employment and unemployment are in percent of the labor force.

Figure 2. Kiribati: Fiscal Developments

The fiscal balance recorded substantial deficits consecutively in 2024 and 2025…

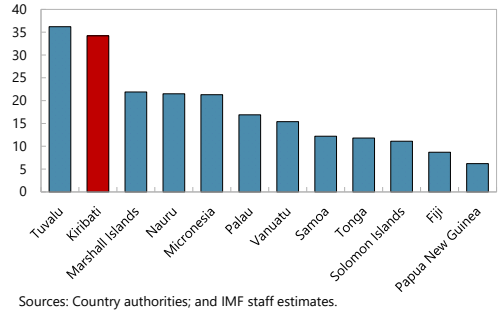
Revenues, Expenditures, and Overall Balance
(In percent of GDP)



Sources: Kiribati authorities; and IMF staff estimates.

… following a civil service wage increase in 2024.

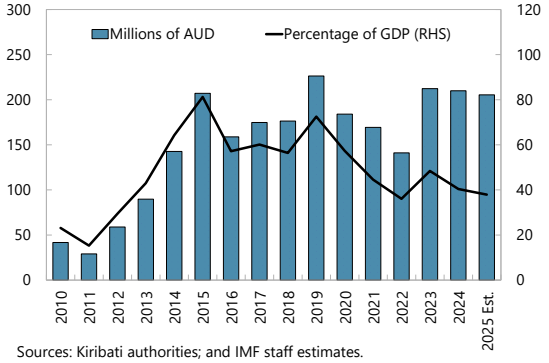
Civil Service Wage Bill, FY2024
(In percent of GDP)



Sources: Country authorities; and IMF staff estimates.

Fishing revenue has been broadly stable in nominal terms but lagged GDP growth.

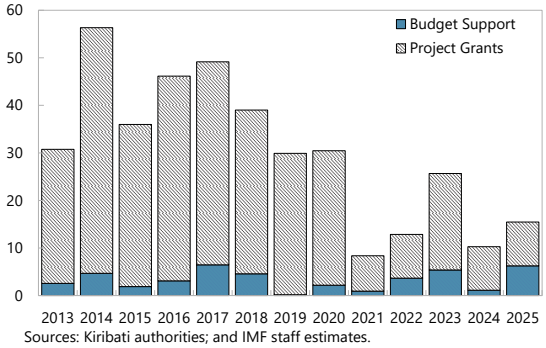
Fishing Revenue



Sources: Kiribati authorities; and IMF staff estimates.

Budget support increased in 2025, while project grants remained below pre-COVID levels.

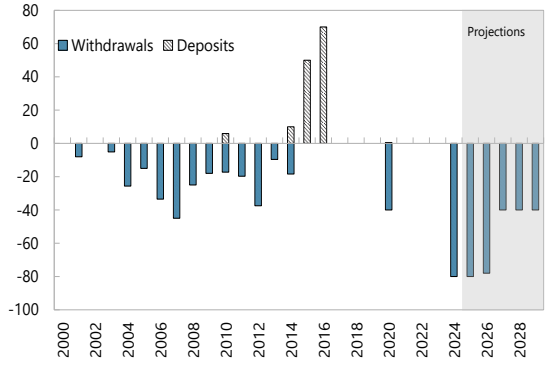
Budget Support and Project Grants
(In percent of GDP)



Sources: Kiribati authorities; and IMF staff estimates.

RERF withdrawals were made in 2024-2025 and are expected to continue to finance infrastructure projects…

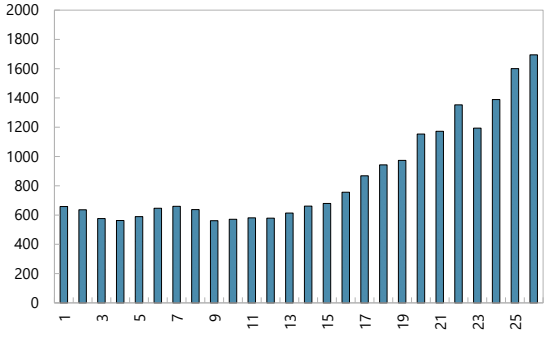
RERF Deposits and Withdrawals
(In AUD million)



Sources: Kiribati authorities; and IMF staff estimates.

… amid strong RERF returns driven by global asset valuation.

RERF Balance
(In AUD million)

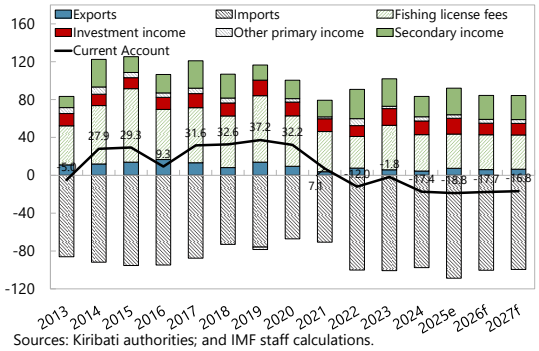


Sources: Kiribati authorities; and IMF staff estimates.

Figure 3. Kiribati: External Sector Developments

The current account balance has deteriorated and is expected to remain elevated...

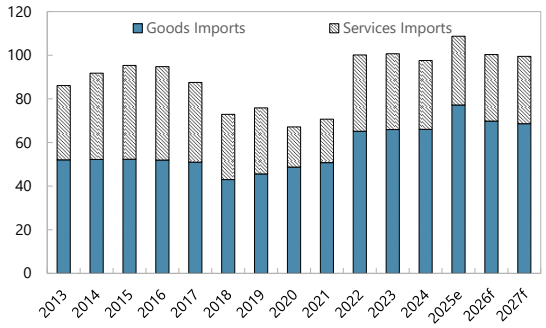
Current Account
(Percent of GDP)



Sources: Kiribati authorities; and IMF staff calculations.

...due to persistently high imports since 2022 amid declining fishing revenue.

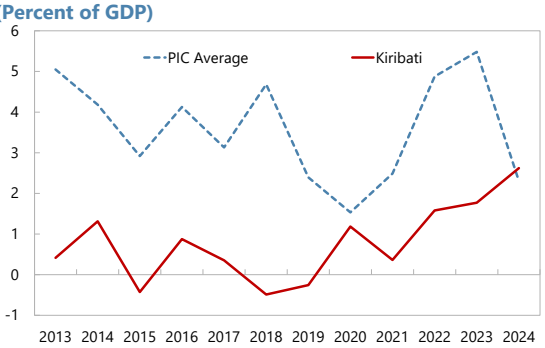
Imports
(Percent of GDP)



Sources: Kiribati authorities; and IMF staff calculations.

Based on official statistics, FDI inflow has picked up but remains weak.

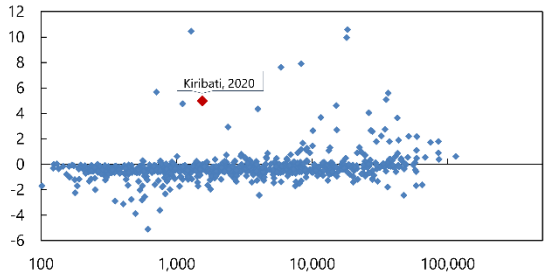
FDI Net Inflow
(Percent of GDP)



Sources: Kiribati authorities; and IMF staff calculations.

Kiribati's net foreign asset position is high because of the sizeable RERF.

Kiribati's Net Foreign Assets in Global Context
(NFA/GDP, USD GDP per capita /1)

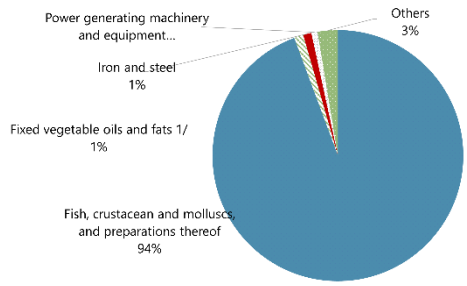


Sources: Lane and Milesi-Ferretti (2022), World Bank, and IMF staff calculations.

1/ Datapoint represents 10-year average Net Foreign Asset (NFA) position vs average GPD per capita in the same period. Data spans all IMF member countries up to 2022 and stretches back to 1970 for some countries.

Exports are highly concentrated in primary products...

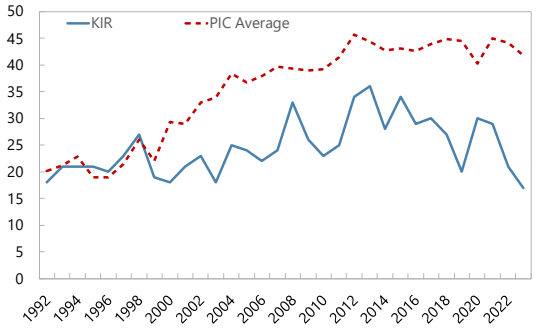
Export Share by Product, 2023



Sources: Atlas of Economic Complexity; and IMF staff calculations.
Notes: Products are at SITC level 2.
1/ Transport equipment other than road vehicles.

... and the number of trading partners is yet to increase.

Number of Export Markets



Sources: Atlas of Economic Complexity and IMF staff calculations.

Table 1. Kiribati: Selected Economic Indicators, 2022–31

Per capita GDP (2024e): US$2,695.
Demographic: Population (2024e): 127,317; Life expectancy at birth (2022): 67.7.
Poverty in percent of population (2023-24): Below $2.15 a day: 0.04; Below the national poverty line: 5.5.
IMF quota: SDR 11.2 million.
Main export products: Crude coconut oil, frozen tuna, and copra.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Est.			Proj.			
Real GDP (percent change)	5.0	3.3	4.6	4.3	3.1	2.4	2.2	2.2	2.1	2.1
Consumer prices (percent change, average)	5.3	9.3	2.5	6.5	4.5	3.1	2.5	2.0	2.0	1.8
Inflation (end of period)	16.2	-2.1	2.9	6.3	3.3	2.5	2.5	2.0	2.0	1.8
Central government finance (in percent of GDP)										
Revenue and grants	69	96	72	74	100	79	81	79	78	77
Total domestic revenue	56	71	62	58	60	59	58	58	58	58
Of which: fishing revenue	36	48	40	38	39	38	38	37	37	37
External grants	13	26	10	15	40	20	22	21	20	19
Expenditures	87	94	86	88	116	94	93	93	92	91
Current	67	67	63	66	64	62	61	61	61	62
Development	21	27	23	23	52	32	32	32	31	29
Domestic recurrent balance 1/	-47	-45	-42	-45	-43	-41	-41	-41	-40	-41
Recurrent fiscal balance (incl. budget support grants)	-7	9	0	-1	-2	-2	-2	-2	-2	-3
Overall balance 2/	-18	2	-14	-14	-17	-15	-13	-15	-15	-15
Financing	18	-2	14	14	17	15	13	15	15	15
Of which: Revenue Equalization Reserve Fund (RERF)	0	0	15	15	13	7	6	6	9	9
Credit										
Credit to GDP (in percent of GDP)	16	14	12	13	...	...	...	...	...	...
RERF										
Closing balance (in millions of A$)	1194	1389	1600	1677	1708	1773	1855	1951	2035	2123
Per capita value (in 2006 A$)	6530	7078	7786	7811	7642	7617	7655	7736	7752	7770
Balance (in percent of (GDP)	305	317	308	310	300	299	301	304	305	306
Cash reserve buffer 3/										
Closing balance (in millions of A$)	200	221	264	263	240	240	240	240	240	240
Closing balance (in percent of GDP)	51	50	51	49	42	40	39	37	36	35
In excess of 3-months of current spending and LCDF (in millions of A$)	124	140	164	156	127	128	129	126	118	113
Balance of payments										
Current account including official transfers (in millions of US$)	-33	-5	-60	-66	-71	-70	-68	-68	-69	-71
(In percent of GDP)	-12.0	-1.8	-17.4	-18.8	-17.7	-16.8	-15.7	-15.2	-14.8	-14.8
External debt (in millions of US$) 4/	43	33	29	29	31	66	91	128	154	181
(In percent of GDP)	16	11	9	8	8	16	21	29	33	38
External debt service (in millions of US$)	2.3	2.3	2.2	2.2	2.2	2.2	2.5	2.7	3.1	3.3
(In percent of exports of goods and services)	0.8	0.8	0.6	0.6	0.6	0.5	0.6	0.6	0.7	0.7
Exchange rate (A$/US$ period average)	1.4	1.5	1.5	1.6	...	...	...	...	...	...
Real effective exchange rate (period average)	79	81	83	87	...	...	...	...	...	...
Memorandum items:										
Nominal GDP (in millions of A$)	391	439	520	542	569	593	616	642	668	693
Nominal GDP (in millions of US$)	272	292	343	349	401	417	431	447	465	483

Sources: Kiribati authorities; World Bank; and IMF staff estimates and projections.
1/ Domestic recurrent balance excludes fishing revenue, grants, and development expenditure.
2/ Overall balance in the table is different from official budget because withdrawals from the RERF are classified as financing.
3/ Cash reserve buffer includes the government's operational account and cash reserve account.
4/ The coverage is public external debt only.

Table 2a. Kiribati: Summary of Central Government Operations, 2022–31

(In millions of Australian Dollars)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Est.			Proj.			
Total revenue and grants	270	422	374	399	566	468	497	504	519	531
Revenue	219	309	321	316	339	349	359	371	385	401
Tax revenue	63	70	93	101	105	109	113	119	124	128
Personal income tax	14	14	25	21	22	23	24	25	26	27
Company tax	13	13	15	16	22	22	23	24	25	26
VAT	28	32	41	44	45	47	48	51	53	55
Excise	9	12	11	20	16	17	18	19	19	20
Nontax revenue	156	239	228	215	234	240	246	252	261	272
Of which: fishing revenue	141	212	210	205	221	227	233	239	245	256
Of which: fishing license fees	140	211	208	203	218	224	230	236	243	253
Project grants	36	89	48	50	210	112	131	126	127	123
Budget support grants	14	24	6	34	17	7	7	7	7	7
Total expenditure	341	414	448	478	662	559	574	598	616	633
Current expenditure	261	294	328	356	366	368	377	393	409	432
Wages and salaries	98	111	154	159	162	166	168	171	175	178
Subsidies and grants	120	138	141	156	145	139	140	146	152	157
Of which: copra subsidy	30	35	30	47	30	30	30	31	32	33
Of which: SOE subsidy	7	7	12	7	15	7	7	7	8	8
Of which: unemployment benefit	31	30	28	25	23	23	23	23	23	23
Of which: senior citizen benefit	22	22	22	23	22	23	23	24	25	26
Of which: leave grants for private sector	...	10	10	10	9	10	10	10	11	11
Other current expenditure	42	44	33	40	42	44	46	48	50	58
Interest payment	1	1	1	1	1	1	1	1	2	2
Contingency and maintenance rel. to climate change adaptation	...	...	...	0	15	19	23	27	31	36
Infrastructure maintenance	...	...	...	0	13	13	14	14	15	15
Other climate change adaptation costs	...	...	...	0	3	6	9	13	17	21
Development expenditure	80	120	119	122	296	190	197	205	207	201
Of which: local contribution to development fund (LCDF)	44	31	72	72	86	78	67	63	80	78
Domestic recurrent balance 1/	-182	-197	-218	-245	-247	-246	-251	-260	-269	-287
Recurrent fiscal balance (excl. grants)	-41	16	-8	-40	-27	-20	-18	-22	-24	-31
Recurrent fiscal balance (incl. budget support grants)	-27	39	-2	-6	-10	-12	-11	-14	-17	-24
Overall fiscal balance 2/	-71	8	-74	-79	-95	-90	-77	-94	-97	-102
Financing	71	-8	74	79	95	90	77	94	97	102
Domestic financing	74	-5	76	81	98	40	40	40	59	61
Revenue Equalization Reserve Fund (RERF)	0	0	80	80	75	40	40	40	59	61
Cash reserve buffer	74	-5	-4	1	23	0	0	0	0	0
External financing (net)	-3	-3	-3	-3	-3	50	37	54	39	41
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth including RERF (in millions of A$) 3/	1330	1560	1818	1897	1904	1919	1964	2008	2054	2101
Net financial worth incl. RERF	340	356	350	350	335	324	319	313	308	303
Net financial worth excluding RERF (in millions of A$)	137	171	218	220	196	146	110	56	19	-22
Net financial worth excl. RERF	35	39	42	41	34	25	18	9	3	-3
RERF balance	305	317	308	310	300	299	301	304	305	306
RERF real per capita value (in 2006 A$)	6530	7078	7786	7811	7642	7617	7655	7736	7752	7770
Cash reserve buffer 4/	51	50	51	49	42	40	39	37	36	35
Cash reserve buffer in excess of 3-months of current spending and LCDF	32	32	32	29	22	22	21	20	18	16
Overall fiscal balance (authorities' definition, in millions of A$) 5/	-71	8	6	1	-20	-50	-37	-54	-39	-41
Public debt (in millions of A$)	64	50	46	43	44	94	130	184	221	262
Public debt 6/	16	11	9	8	8	16	21	29	33	38
Nominal GDP (in millions of A$)	391	439	520	542	569	593	616	642	668	693

Sources: Kiribati authorities; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and capital expenditure.

2/ Overall fiscal balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Balance of the RERF, cash reserves account minus public debt.

4/ Cash reserve buffer includes the government's operational account and cash reserve account.

5/ Withdrawals from the RERF are classified as revenue.

6/ In this table, the coverage of public sector debt is the central government and Kiribati Provident Fund(KPF).

Table 2b. Kiribati: Summary of Central Government Operations, 2022-31

(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Est.			Proj.			
Total revenue and grants	69	96	72	74	100	79	81	79	78	77
Revenue	56	71	62	58	60	59	58	58	58	58
Tax revenue	16	16	18	19	18	18	18	19	19	19
Personal income tax	4	3	5	4	4	4	4	4	4	4
Company tax	3	3	3	3	4	4	4	4	4	4
VAT	7	7	8	8	8	8	8	8	8	8
Excise	2	3	2	4	3	3	3	3	3	3
Nontax revenue	40	55	44	40	41	40	40	39	39	39
Of which: fishing revenue	36	48	40	38	39	38	38	37	37	37
Of which: fishing license fees	36	48	40	37	38	38	37	37	36	36
Project grants	9	20	9	9	37	19	21	20	19	18
Budget support grants	4	5	1	6	3	1	1	1	1	1
Total expenditure	87	94	86	88	116	94	93	93	92	91
Current expenditure	67	67	63	66	64	62	61	61	61	62
Wages and salaries	25	25	30	29	29	28	27	27	26	26
Subsidies and grants	31	31	27	29	26	23	23	23	23	23
Of which: copra subsidy	8	8	6	9	5	5	5	5	5	5
Of which: SOE subsidy	2	2	2	1	3	1	1	1	1	1
Of which: unemployment benefit	8	7	5	5	4	4	4	4	3	3
Of which: senior citizen benefit	6	5	4	4	4	4	4	4	4	4
Of which: leave grants for private sector	0	2	2	2	2	2	2	2	2	2
Other current expenditure	11	10	6	7	7	7	7	7	7	8
Interest payment	0	0	0	0	0	0	0	0	0	0
Contingency and maintenance rel. to climate change adaptation	0	0	0	0	3	3	4	4	5	5
Infrastructure maintenance	0	0	0	0	2	2	2	2	2	2
Other climate change adaptation costs	0	0	0	0	1	1	2	2	3	3
Development expenditure	21	27	23	23	52	32	32	32	31	29
Of which: local contribution to development fund (LCDF)	11	7	14	13	15	13	11	10	12	11
Domestic recurrent balance 1/	-47	-45	-42	-45	-43	-41	-41	-41	-40	-41
Recurrent fiscal balance (excl. grants)	-11	4	-1	-7	-5	-3	-3	-3	-4	-5
Recurrent fiscal balance (incl. budget support grants)	-7	9	0	-1	-2	-2	-2	-2	-2	-3
Overall fiscal balance 2/	-18	2	-14	-14	-17	-15	-13	-15	-15	-15
Financing	18	-2	14	14	17	15	13	15	15	15
Domestic financing	19	-1	15	15	17	7	6	6	9	9
Revenue Equalization Reserve Fund (RERF)	0	0	15	15	13	7	6	6	9	9
Cash reserve buffer	19	-1	-1	0	4	0	0	0	0	0
External financing (net)	-1	-1	-1	0	0	9	6	8	6	6
Memorandum items (in percent of GDP unless otherwise noted):										
Net financial worth including RERF (in millions of A$) 3/	1330	1560	1818	1897	1904	1919	1964	2008	2054	2101
Net financial worth incl. RERF	340	356	350	350	335	324	319	313	308	303
Net financial worth excluding RERF (in millions of A$)	137	171	218	220	196	146	110	56	19	-22
Net financial worth excl. RERF	35	39	42	41	34	25	18	9	3	-3
RERF balance	305	317	308	310	300	299	301	304	305	306
RERF real per capita value (in 2006 A$)	6530	7078	7786	7811	7642	7617	7655	7736	7752	7770
Cash reserve buffer 4/	51	50	51	49	42	40	39	37	36	35
Cash reserve buffer in excess of 3-months of current spending and LCDF	32	32	32	29	22	22	21	20	18	16
Overall fiscal balance (authorities' definition) 5/	-18	2	1	0	-4	-9	-6	-8	-6	-6
Public debt 6/	16	11	9	8	8	16	21	29	33	38
Nominal GDP (in millions of A$)	391	439	520	542	569	593	616	642	668	693

Sources: Kiribati authorities; and IMF staff estimates and projections.

1/ Domestic recurrent balance excludes fishing revenue, grants, and development expenditure.

2/ Overall fiscal balance in the table is different from official budget because withdrawals from the RERF are classified as financing.

3/ Balances of the RERF, cash reserve buffer accounts minus public debt.

4/ Cash reserve buffer includes the government's operational account and cash reserve account.

5/ Withdrawals from the RERF are classified as revenue.

6/ In this table, the coverage of public sector debt is the central government and Kiribati Provident Fund(KPF).

Table 3a. Kiribati: Balance of Payments, 2022–31
(In millions of Australian Dollars)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Est.			Proj.			
Current account	-47	-8	-90	-102	-101	-99	-97	-97	-99	-102
Balance on goods	-242	-277	-330	-391	-375	-381	-390	-400	-416	-433
Goods, credit (exports)	12	12	13	27	23	26	29	33	35	37
Goods, debit (imports)	255	289	343	418	397	407	420	434	451	470
Balance on services	-120	-139	-153	-158	-162	-171	-179	-187	-194	-201
Services, credit (exports)	17	14	11	13	12	12	13	14	15	16
Services, debit (imports)	137	152	164	171	174	183	192	200	210	217
Balance on goods and services	-362	-416	-484	-549	-537	-552	-569	-587	-610	-634
Balance on primary income	194	281	282	295	292	302	318	329	354	359
Primary income, credit	204	294	298	306	302	311	329	339	365	368
of which: Fishing license fees	130	206	210	196	209	215	220	226	233	243
of which: Investment income	45	78	75	91	70	73	84	87	106	98
Income from RERF	33	59	48	69	60	58	57	54	57	59
of which: Remittances (COE)	29	10	13	20	23	24	25	26	27	28
Primary income, debit	10	13	16	11	10	9	10	10	11	10
Balance on secondary income	121	127	112	152	144	151	154	161	157	172
Secondary income, credit	122	129	115	156	148	155	158	165	161	177
General Government, credit	111	122	106	141	147	154	157	162	159	174
Secondary income, debit	2	2	4	4	4	4	4	4	4	4
Capital account	41	49	46	45	55	63	63	63	55	58
Capital transfers	41	49	46	45	55	63	63	63	55	58
General Government, Credit	42	51	49	52	57	65	66	65	58	61
General Government, Debit	2	2	3	8	2	2	3	3	3	3
Financial account	20	-54	-56	22	29	3	7	5	14	17
Direct investment, net	-6	-8	-12	-6	-11	-12	-12	-13	-13	-14
Direct investment, assets	0	0	0	0	0	0	0	0	0	0
Direct investment, liabilities	6	8	12	6	11	12	12	13	13	14
Portfolio investment, net	7	5	2	6	9	9	9	10	10	10
Portfolio Investment, assets	7	5	2	6	9	9	9	10	10	10
Portfolio Investment, liabilities	0	0	0	0	0	0	0	0	0	0
Other investment, net	19	-51	-46	22	32	6	10	8	17	20
Other investment, assets	28	3	-44	15	16	17	17	18	19	20
Other investment, liabilities	9	55	3	-7	-15	10	8	10	2	-1
Loans, liabilities	-3	-3	-3	3	-3	50	37	54	39	41
Net Errors and Omissions	66	-32	-13	-1	0	0	0	0	0	0
Reserve Assets	40	62	-1	-80	-75	-40	-40	-40	-59	-61
Net International Investment Position	1475	1664	1914	2069	...	...	...	...	...	...

Sources: Kiribati authorities; and IMF staff estimates and projections.

Table 3b. Kiribati: Balance of Payments, 2022–31

(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Est.			Proj.			
Current account	-12.0	-1.8	-17.4	-18.8	-17.7	-16.8	-15.7	-15.2	-14.9	-14.8
Balance on goods	-62.0	-63.2	-63.6	-72.2	-65.8	-64.3	-63.4	-62.4	-62.2	-62.5
Goods, credit (exports)	3.2	2.8	2.5	4.9	4.0	4.3	4.8	5.2	5.3	5.3
Goods, debit (imports)	65.2	65.9	66.0	77.2	69.8	68.6	68.1	67.6	67.5	67.8
Balance on services	-30.6	-31.7	-29.5	-29.1	-28.5	-28.7	-29.0	-29.1	-29.1	-28.9
Services, credit (exports)	4.4	3.1	2.0	2.5	2.1	2.1	2.1	2.1	2.3	2.3
Services, debit (imports)	35.0	34.8	31.5	31.5	30.5	30.8	31.1	31.2	31.4	31.2
Balance on goods and services	-92.5	-94.8	-93.1	-101.3	-94.3	-93.0	-92.3	-91.5	-91.3	-91.4
Balance on primary income	49.7	64.0	54.2	54.5	51.3	50.9	51.7	51.2	53.0	51.7
Primary income, credit	52.3	67.0	57.3	56.5	53.0	52.4	53.3	52.8	54.6	53.1
of which: Fishing license fees	33.4	46.9	40.4	36.1	36.7	36.2	35.8	35.3	34.9	35.0
of which: Investment income	11.5	17.7	14.5	16.7	12.3	12.2	13.6	13.6	15.8	14.1
Income from RERF	8.6	13.4	9.3	12.7	10.6	9.8	9.2	8.4	8.5	8.5
of which: Remittances (COE)	7.4	2.4	2.4	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Primary income, debit	2.6	3.0	3.1	2.0	1.7	1.6	1.7	1.6	1.6	1.4
Balance on secondary income	30.8	29.0	21.5	28.1	25.4	25.4	25.0	25.1	23.4	24.9
Secondary income, credit	31.2	29.4	22.2	28.8	26.1	26.1	25.6	25.7	24.1	25.5
General Government, credit	28.3	27.8	20.3	26.0	25.9	25.9	25.5	25.3	23.8	25.1
Secondary income, debit	0.4	0.4	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Capital account	10.4	11.1	8.8	8.2	9.6	10.5	10.3	9.8	8.2	8.4
Capital transfers	10.4	11.1	8.8	8.2	9.6	10.5	10.3	9.8	8.2	8.4
General Government, Credit	10.9	11.7	9.4	9.7	10.0	11.0	10.7	10.2	8.6	8.8
General Government, Debit	0.5	0.6	0.6	1.4	0.4	0.4	0.4	0.4	0.4	0.4
Financial account	5.2	-12.2	-10.8	4.0	5.1	0.5	1.1	0.8	2.1	2.4
Direct investment, net	-1.6	-1.7	-2.3	-1.2	-2.0	-2.1	-2.0	-2.0	-2.0	-2.0
Direct investment, assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment, liabilities	1.6	1.8	2.4	1.2	2.0	2.1	2.0	2.0	2.0	2.0
Portfolio investment, net	1.8	1.2	0.4	1.1	1.5	1.5	1.5	1.5	1.5	1.5
Portfolio Investment, assets	1.8	1.2	0.4	1.1	1.5	1.5	1.5	1.5	1.5	1.5
Portfolio Investment, liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	4.9	-11.7	-8.9	4.1	5.6	1.1	1.6	1.3	2.6	2.9
Other investment, assets	7.2	0.8	-8.4	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Other investment, liabilities	2.3	12.5	0.5	-1.3	-2.7	1.8	1.2	1.5	0.2	-0.1
Loans, liabilities	-0.7	-0.6	-0.5	0.5	-0.5	8.5	6.1	8.4	5.8	5.9
Net Errors and Omissions	17.0	-7.4	-2.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Assets	10.2	14.2	-0.3	-14.8	-13.2	-6.7	-6.5	-6.2	-8.8	-8.8
Net International Investment Position	377.2	379.4	368.1	381.8	...	...	...	...	...	...

Sources: Kiribati authorities; and IMF staff estimates and projections.

Table 4. Kiribati: Sustainable Development Goals Monitoring

Goals	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Poverty											
Income share held by lowest 20%							9.5				
Poverty gap at $1.90 a day (2011 PPP) (%)							1.0				
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)							6.1				
Poverty headcount ratio at national poverty lines (% of population)							21.9	21.9			5.5
Hunger											
Prevalence of overweight, weight for height (% of children under 5)						2.1					
Prevalence of stunting, height for age (% of children under 5)						15.2					
Prevalence of undernourishment (% of population)	3.3	3.1	2.9	2.9	3.0	3.2	3.5	3.8	3.8	3.7	
Prevalence of underweight, weight for age (% of children under 5)						6.9					
Prevalence of wasting, weight for height (% of children under 5)						3.5					
Good Health and Well-being											
Births attended by skilled health staff (% of total)							91.9				
Mortality rate, under-5 (per 1,000 live births)	58.0	58.4	58.9	59.5	59.9	59.8	59.3	58.6	57.6	56.5	55.1
Mortality rate, neonatal (per 1,000 live births)	23.4	23.5	23.6	23.7	23.8	23.9	23.7	23.4	23.1	22.7	22.4
Demand for family planning satisfied by modern methods (% of married women with demand for family planning)											
Adolescent fertility rate (births per 1,000 women ages 15-19)	50.5	49.8	49.5	49.6	49.7	49.7	49.0	47.9	46.4	45.0	44.0
Smoking prevalence, males (% of adults)			60.8					54.7	53.7	52.5	
Source data assessment of statistical capacity (scale 0 - 100)	20.0	20.0	20.0	20.0	20.0	20.0	20.0	30.0			
Gender Equality											
Proportion of seats held by women in national parliaments (%)	8.7	8.7	8.7	6.5	6.5	6.5	6.5	8.9	6.7	6.7	6.7
Women who were first married by age 15 (% of women ages 20-24)							2.4				
Women who were first married by age 18 (% of women ages 20-24)							18.4				
Clean Water and Sanitation											
People using at least basic drinking water services (% of population)	70.1	70.8	71.4	72.0	72.6	73.2	73.7	74.3	74.9	75.694	
People using at least basic sanitation services (% of population)	41.8	42.2	42.6	43.0	43.4	43.7	44.0	44.3	44.5	45.182	
Affordable and Clean Energy											
Access to electricity (% of population)	78.8	83.4	90.6	92.6	85.7	87.5	89.3	91.0	92.8	94.4	95.9
Access to clean fuels and technologies for cooking (% of population)	4.7	5.5	6.3	7.2	8.2	9.3	10.5	11.8	13.3	14.8	
Decent Work and Economic Growth											
Unemployment rate (% of total labor force) 1/			9.3				8.6	11.0			2.8
Employment to Population Ratio (% of population) 1/			46.9				39.6	47.7			61.8
Peace, Justice and Strong Institutions											
Corruption Perception Index (worst 0-100 best)	-	-	-	-	-	-	-	-	-	-	
Global Partnerships for the Sustainable Development											
Individuals using the Internet (% of population)	11.5	12.3	14.9	19.4	25.3	33.0	39.6				88.0

Source: World Bank's World Development Indicators

1/ Data is the national estimate.

Annex I. External Sector Assessment

Overall Assessment: *The external position of Kiribati in 2025 was substantially weaker than the level implied by fundamentals and desirable policies, reflecting large macroeconomic imbalances originating fundamentally in the public sector and a real exchange rate overvaluation. Compensating factors include the large and positive NIIP and an adequate level of international reserves.*

Potential Policy Responses: *Policies should focus on fiscal consolidation, including scaling back recurrent spending, integrating the RERF into a medium-term fiscal framework with a balance-based RERF withdrawal rule to allow use of countercyclical fiscal policy, and preserving the long-term sustainability of the RERF. Structural reforms aimed at closing infrastructure and human capital gaps, promoting private sector development, and diversifying the export base could enhance Kiribati's competitiveness and improve its export capacity.*

Foreign Assets and Liabilities: Position and Trajectory

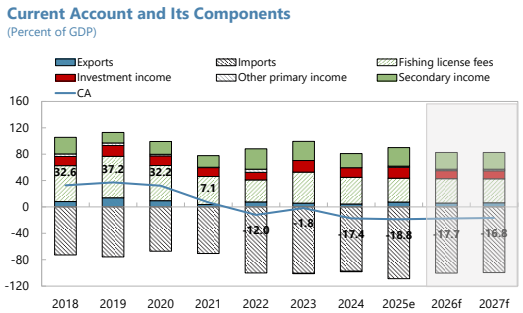
Background. NIIP is estimated to have increased slightly to 382 percent of GDP at end-2025, from 368 percent of GDP at end-2024, driven by higher foreign assets, reflecting valuation gains offset by a decline in cash reserve balances. The RERF, with a balance of 310 percent of GDP at end-2025, makes up the lion's share of the NIIP.

Assessment. Kiribati is a net creditor, and its NIIP is projected to remain above 300 percent of GDP over the medium term, despite expected large current account (CA) deficit. Main risks to the NIIP include volatile global asset valuation and widening current account deficits due to a decline of fishing revenue and the deterioration of the fiscal balance.

2025 (Est.; % GDP)	NIIP: 381.8	Gross Assets: 415.2	Debt Assets: 13.4	Gross Liab.: 33.4	Debt Liab.: 16.4

Current Account

Background. Kiribati has historically had substantial current account (CA) surpluses, supported by fishing license revenue, external grants, and investment income of foreign asset holdings. However, it shifted to consecutive current account deficits since 2022, partly due to freight cost, but, more importantly, by macroeconomic imbalances originating in the public sector, and, more recently, also in the private sector. This trend continues operating in 2025, worsening the CA deficit to an estimated 18.8 percent of GDP. Over the medium term, the CA deficit is projected to remain broadly stable at around 14–15 percent of GDP, reflecting persistent fiscal deficits and strong import demand.



Sources: Country authorities; and IMF staff calculations.

Assessment. Using the CA model and the REER model of the EBA-Lite 3.0 methodology, the external position in 2025 is assessed to be significantly weaker than the level implied by fundamentals and desirable policies. The EBA-Lite CA model results indicate a negative gap of 19.0 percent of GDP in 2025, consistent with an estimated cyclically adjusted CA deficit of 18.3 percent of GDP and a model-based CA norm of 0.7 percent of GDP. The negative CA gap is explained by the policy gap, which is largely driven by the difference between the cyclically-adjusted overall fiscal deficit[1] (14.5 percent of GDP; not including RERF withdrawals) and its desirable level (a cyclically-adjusted overall deficit of 9.4 percent of GDP). The EBA-Lite REER model results indicate a negative gap of 19.1 percent of GDP in 2025. Overall, the idiosyncratic features of Kiribati, particularly, the volatile fishing license fees and external grants, and data limitations, imply a substantial degree of uncertainty around this assessment. Risks to the external sector outlook include protracted declines in fishing license revenue, upswings in global commodity prices (especially for food and fuel), and uncertainty in global financial markets that affects the return of the RERF.

Kiribati: EBA-lite Model Results, 2025

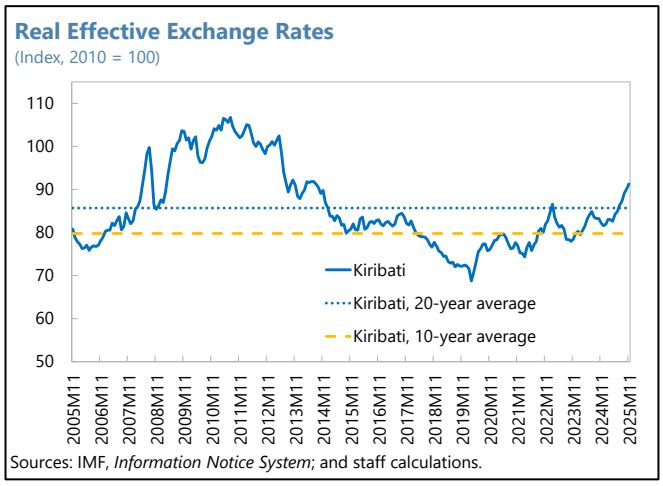
	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-18.8**	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	**-18.3**	
CA Norm (from model) 3/	**0.7**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**0.7**	
CA Gap	**-19.0**	**-19.1**
o/w Relative policy gap	-8.6	
Elasticity	-0.3	
REER Gap (in percent)	**72.1**	**72.7**

1/ Based on the EBA-lite 3.0 methodology
2/ No additional adjustment is applied.
3/ Cyclically adjusted, including multilateral consistency adjustments.

1 Kiribati does not have a cyclically adjusted fiscal balance; the overall fiscal balance is used as a proxy.

Real Exchange Rate

Background. The Australian dollar is the legal tender of Kiribati. The annual average REER, at 85.8, appreciated 4.2 percent in 2025 and was 7.3 percent above its 10-year average and approximately at its 20-year average, reflecting structural productivity constraints, such as large infrastructure and human capital gaps, and persistent fiscal pressures.

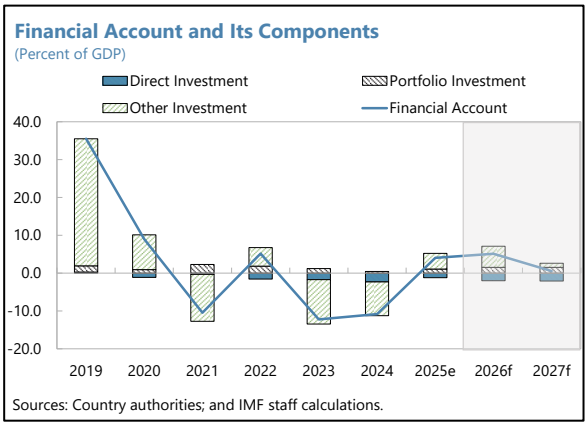


Sources: IMF, *Information Notice System*; and staff calculations.

Assessment. Based on the EBA-Lite CA model, the estimated CA gap and the CA-REER elasticity (-0.3) imply that Kiribati's REER is overvalued by 72.1 percent. Based on the EBA-Lite REER model, the estimated REER gap suggests that the REER is overvalued by 72.7 percent. It should be noted, however, that the REER gap does not automatically indicate the need for an exchange rate adjustment. In addition, there is uncertainty surrounding this quantitative assessment given the idiosyncrasies of the economy and the data limitations.

Capital and Financial Accounts: Flows and Policy Measures

Background. Kiribati's capital and financial account flows are mainly driven by project-related capital grants and other investment transactions. The capital account is estimated at 8.2 percent of GDP in 2025, a decrease from 8.8 percent of GDP in 2024, driven by higher government capital transfer outflows, despite strong capital transfers from development partners. The net financial account transactions are estimated at 4.0 percent of GDP in 2025, indicating a reversal from net inflows in 2024. This was mostly driven by other investment transactions—largely outflows related to currency and deposits. Net foreign direct investment inflows are estimated to be positive but small in 2025.



Sources: Country authorities; and IMF staff calculations.

Assessment. Capital inflows are highly dependent on development partner support. To leverage this support and safeguard long-term external sustainability, Kiribati should implement prudent fiscal policies, improve cash management, avoid external non-concessional borrowing, continue close engagement with development partners, and improve domestic capacity for project execution.

FX Intervention and Reserves Level
Background. Kiribati does not have a monetary authority and uses the Australian dollar as legal tender. Despite an estimated reserve asset decumulation of 15 percent of GDP in 2025 due to the CA deficit, official international reserves are estimated to be 321.3 percent of GDP in 2025. This reserve level would provide around 23 months' import coverage and is around 419 times the stock of short-term debt by residual maturity in 2025. **Assessment.** Kiribati's international reserves are assessed to be adequate for precautionary purposes. However, its long-term sustainability depends on preserving the value of the RERF. In the face of volatile fishing revenue, vulnerabilities to natural hazards, and significant investment needs to develop the economy, Kiribati should implement prudent fiscal policies, diversify revenue sources, and foster private sector-driven growth.

Annex II. Risk Assessment Matrix[1]

Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
Domestic Risks			
Heavy Reliance on fishing revenue. Fishing license fees, the main source of government revenues, are volatile, vulnerable to fishing cycle and changing weather conditions.	**High**	**High**: A prolonged period of low fishing activity will endanger long-run fiscal sustainability. The cash reserve buffer can mitigate the shock if the decline is temporary.	Continue to strengthen revenues by phasing out tax exemptions, exploring additional avenues of tax collection, and improving tax administration. Scale back recurrent spending.
Volatile withdrawals from the sovereign wealth fund. Withdrawal rules that are based on a percentage of nominal returns can increase volatility of total revenue and spending and exposure to global financial volatility.	**High**	**High**: The withdrawal rule based on nominal returns could amplify growing procyclicality and complicate fiscal and economic management.	Revise the withdrawal rule of the sovereign wealth fund to support growth-friendly, countercyclical fiscal policy.
External Risks			
Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	**High**	**High**: Increase in imports prices and shipping costs caused by trade disruptions could push up inflation and affect fiscal and external sustainability. Financial market volatility due to trade policy uncertainty could negatively affect the returns and valuation of the RERF.	Maintain prudent fiscal policy through scaling back recurrent spending and mobilizing revenues and explore other sustainable revenue sources. If needed, provide targeted support to vulnerable households.
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	**High**	**High:** Intensified conflicts, including a protracted war in the Middle East, could increase global financial market volatility, negatively affecting the returns and valuation of the RERF. Higher global energy and food prices, together with disruptions to shipping routes, would worsen Kiribati's terms of trade and drive up inflation, and could threaten fiscal and external sustainability.	Continue to strengthen public finance and safeguard sustainability of the RERF. In the long term, expand the export base and boost export competitiveness. If needed, provide time-bound measures to smooth food and fuel price increases, complemented by targeted support to vulnerable households negatively affected by higher or volatile commodity prices, while allowing domestic prices to adjust if shocks persist.
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	**High**	**High:** An increase in global commodity prices, especially for food and fuel, could increase domestic inflation pressure and worsen current account balance given Kiribati's high reliance on commodity imports.	Provide targeted support to vulnerable households.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risk	Relative Likelihood	Expected Impact	Policy Recommendation
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	**High**	**Medium**: Asset price corrections and financial market movements could affect valuation and return of the RERF, resulting in volatility in fiscal space under the current withdrawal rule.	Reform and implement a withdrawal rule to safeguard the sustainability of the RERF. Rationalize fiscal expenditures and diversify revenue sources.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	**High**	**Medium**: Higher global interest rates and tighter external financing conditions could constrain Kiribati's access to concessional financing and external grants. This could weaken fiscal balances, reduce buffers, and increase reliance on RERF withdrawals.	Safeguard fiscal sustainability by strengthening the fiscal framework, including implementing a balance-based RERF withdrawal rule to limit procyclicality while preserving buffers. Maintain prudent fiscal policy by prioritizing essential spending, improving social assistance targeting, and strengthening domestic revenue mobilization. Establish a sound debt-management framework and strengthen capacity to assess borrowing decisions and monitor risks, including in SOEs and Joint Ventures.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability	**Medium**	**High:** Regarded as one of the world's most remote and climate-vulnerable countries, Kiribati is regularly impacted by droughts, floods, and storm surges. The long run threat of rising sea levels is existential and will likely be felt through increased frequency and severity of storm surges and exceptional tides.	Maintain a strong cash reserve buffer. Build resilience and adaptation to the impacts of climate change. Leverage technologies and donor support for land protection. Diversify revenues beyond the fisheries sector.

Annex III. Drivers of Inflation in Kiribati[1]

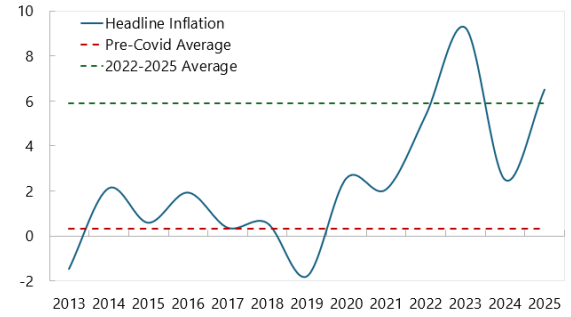
Inflation dynamics in Kiribati are largely driven by external factors, particularly supply shocks, and to a lesser extent oil price shocks. Domestic factors, including rising fiscal and domestic demand pressures, play a smaller role but their importance has grown in recent years. In addition, Kiribati also has an elevated price level relative to other low-income countries. This is largely due to geographic remoteness, and associated sensitivity to freight costs and global trade disruptions. Kiribati's heavy dependence on imports persistently keeps the price level elevated and perpetuates the importance of external factors in driving changes in the price level.

1. Compared to the pre-COVID period (2013–2019), inflation during 2022–2025 has been significantly higher, averaging 5.9 percent versus 0.3 percent previously. Historically, imported food prices have been the main driver of inflation. In 2025, the increase in inflation was driven primarily by the fuel and electricity tariff reforms, reflected in higher transport and utilities prices. This impact is expected to be one-off.

2. Kiribati domestic prices are highly sensitive to external conditions, as Kiribati relies heavily on imports for both consumption and investment. Inflation in Kiribati has closely tracked inflation in its major trading partners—China, Australia, and Fiji—over time. This co-movement reflects strong trade linkages and high import dependence, underscoring the importance of global factors in shaping domestic inflation dynamics. The depreciation of the Australian dollar (Kiribati's legal tender) against the U.S. dollar from an average of 1.27 during 2013–2019 to 1.50 during 2022–2025 may have also contributed to recent inflation increases in Kiribati.

Inflation

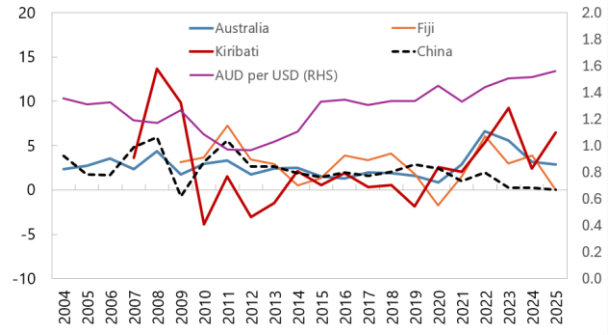
(In percent, year-on-year)



Sources: Kiribati authorities and IMF staff estimates

Inflation in Kiribati and Main Import Partners

(In percent, year-on-year)



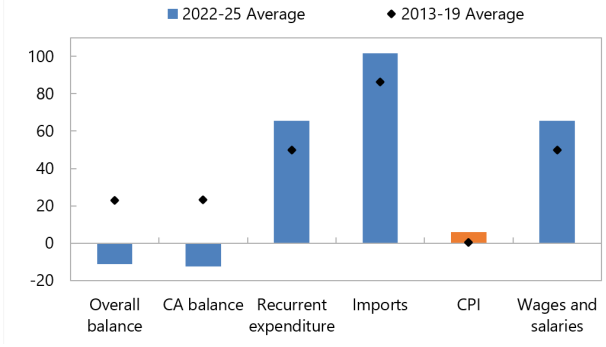
Sources: Kiribati authorities and IMF staff estimates.

[1] Prepared by Xuehui Han.

3. Domestic conditions can also play a role. This recent increase in inflation occurred against the backdrop of: (1) higher fiscal spending and (2) elevated imports and current account deficits, during 2022–2025, compared with 2013–2019. Imports have increased from 86 percent of GDP in 2013-2019 to 100 percent of GDP in 2022-2025.

Domestic Conditions: Higher Inflation, Lager Fiscal and Current Account Deficits

(Percent of GDP)



4. To decompose the impact of external and internal shocks on Kiribati inflation, the following analysis employs a Bayesian Structural VAR. Seven structural shocks are modeled in the analysis: external shocks—global demand, global supply, oil prices, and movements in the AUD/USD exchange rate—and domestic shocks—domestic supply, domestic demand, and fiscal policy. Because Kiribati uses the Australian dollar as legal tender, movements in the AUD/USD exchange rate are classified as external factors. A Bayesian vector autoregression (BVAR) with sign restrictions is employed to identify the contributions of these shocks to variations in Kiribati's headline inflation.

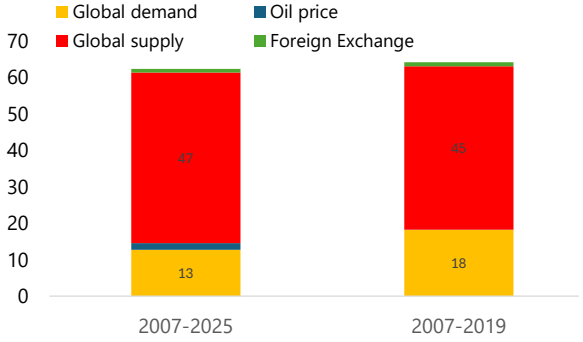
5. External factors, particularly supply shocks, are the dominant drivers of inflation in Kiribati. Global shocks account for 62.4 percent of the variation in domestic inflation over the full sample (2007–2025), only slightly below the 64.2 percent share estimated for the pre-COVID period (up to 2019Q4). This share is substantially larger than what is typically found in the literature. For example, Global Economic Prospects (World Bank, 2023) reports that global shocks explain around 33 percent of domestic inflation variation in advanced economies and about 14 percent in Emerging Market and Development Economies (EMDEs). Within global shocks, supply shocks explain nearly half of the variation (47 percent), contrasting with the literature, which finds global demand as the main component. Kiribati therefore exhibits an unusually high degree of pass-through from global conditions to domestic inflation, with global supply shocks dominating—reflecting strong external linkages and high import dependence.

6. The analysis has clear implications for Kiribati's exposure to global shocks, such as the ongoing war in the Middle East. Historically, increases in global oil and other commodity prices only had a limited direct impact on food and transport prices owing to domestic prices controls, though pass-through from oil prices and the exchange rate has increased compared to the pre-COVID period. However, broader trade disruptions and global supply shocks can significantly raise shipping and logistics costs and, consequently, raise overall import prices. Given Kiribati's high import dependence and sensitivity to freight costs, a protracted war in the Middle East could result in a sizable increase in domestic inflation.

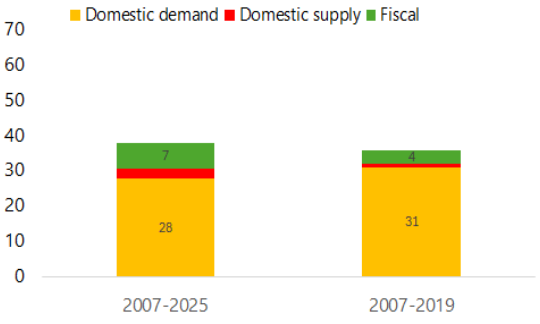
7. Among domestic factors, fiscal shocks have recently contributed more to inflation variation than during the pre-COVID period. Their share has increased to 7 percent in 2007-2025 from 4 percent in 2007-2019, partly reflecting the inflationary impact of procyclical fiscal policy in

the post-COVID period. Among domestic shocks, domestic demand remains the largest contributor at around 28 percent, down from 31 percent before COVID.

Contributions of External Shocks to Domestic Inflation *(Percent)*



Contributions of Domestic Shocks to Domestic Inflation *(Percent)*



Sources: Kiribati authorities; and IMF staff estimates.

Note: Contributions of the shocks are estimated using a Bayesian vector autoregression (BVAR) with sign restrictions. The model includes seven quarterly variables: global real GDP growth, global oil prices, global headline inflation, Kiribati's real GDP growth, Kiribati's headline inflation, Kiribati's overall fiscal balance, and changes in the AUD/USD exchange rate. Identification follows a set of sign restrictions imposed on the structural impact matrix that maps structural shocks to the reduced-form innovations. Global demand shocks are restricted to raise global growth, oil prices, and global inflation; oil-price shocks raise all three global variables; and global supply shocks raise global growth but lower global inflation. Domestic demand shocks increase domestic growth, domestic inflation, and the fiscal balance through better tax base, whereas domestic supply shocks increase domestic growth but reduce domestic inflation while improving the fiscal balance through higher revenue driven by better output. The one-off fuel and electricity tariff reform in 2025 would be captured by domestic supply shock. Fiscal shocks correspond to expansionary policies (a deterioration in the fiscal balance), and exchange-rate shocks correspond to a depreciation. The VAR is estimated with two lags. Impulse responses and forecast-error variance decompositions are computed over a four-quarter horizon to quantify the contribution of each structural shock to macroeconomic fluctuations in Kiribati. Global real GDP growth and global inflation are extracted as latent common factors estimated through a dynamic factor model applied to Kiribati's ten largest trading partners—Thailand, China, Australia, Fiji, Japan, New Zealand, the Philippines, the United Arab Emirates, the United States, and Indonesia. The factors are obtained by estimating a Bayesian state-space model in which country-specific growth (or inflation) rates load on a single AR(1) global factor. The posterior mean of the latent factor is used as the measure of global real GDP growth (or global inflation), with uncertainty summarized through one-standard-deviation credible bands.

8. Drivers of food, transport, and restaurant price inflation are varied.[2]

- **Food Inflation.** Lagged inflation in China is a statistically significant predictor. A 1 percent increase in Chinese inflation is associated with a 2.39 percent rise in Kiribati's food inflation in the next quarter.

- **Transport Inflation.** Contemporaneous inflation in Australia is a statistically significant predictor, as higher activity and demand in Australia fuels increased travel to and from Kiribati and raises

[2] In case of all three—food, transport and restaurant inflation—own lagged values are a statistically significant predictors.

passenger flight prices. A 1 percent increase in Australian inflation is associated with a 1.87 percent rise in Kiribati's transport inflation.

- **Restaurant Inflation.** Drivers are more diverse, including external drivers such as global food price, global oil price and exchange rate, as well as internal drivers such as GDP growth and overall balance.) Regarding the fiscal balance, a contraction of 1 percent of GDP in the overall balance is associated with lower restaurant inflation by 0.05 percent after three quarters.

	Food Inflation	Transport Inflation	Restaurant Inflation
External drivers			
Australia inflation		√	
China inflation	√		
Global food price			√
Global oil price			√
Exchange rate			√
Internal drivers			
GDP growth			√
Overall balance			√
Adjusted R^2	0.72	0.26	0.7
Observations	70	70	67

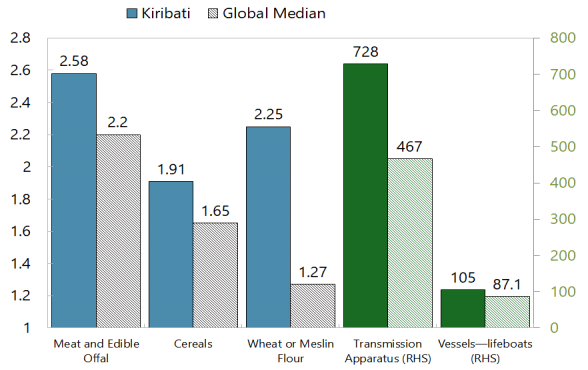
Sources: Kiribati authorities; and IMF staff estimates.
Note: Year-on-year quarterly inflation data from 2007 to 2025 are used for the OLS regression analysis. Explanatory variables include contemporaneous and lagged terms, as well as own inflation autoregressive terms (lags t–1). Checks (√) indicate variables with statistically significant coefficient estimates. Full regression results are available on request. The random forest analysis yields broadly consistent

9. The absolute price level in Kiribati, in addition to the inflation dynamics discussed above, remains a major concern. The cost of living is relatively high compared to other Pacific Island countries, reflecting the country's extreme remoteness and heavy reliance on imports. Elevated freight costs—amplified by global shipping disruptions during and after the pandemic—have significantly raised import prices. Empirical evidence shows that spikes in global shipping costs have a lasting impact on domestic prices, particularly in small island economies where imports account for a large share of consumption and investment (Carrière-Swallow et al., 2022). Similar patterns were observed in Tuvalu, where inflation surged during periods of elevated freight costs (IMF, 2025). The ongoing war in the Middle East could lead to similar effects in Kiribati in the near term.

10. Kiribati faces higher unit prices for the same imported goods compared to countries across the world, despite its low per capita income relative to the global median. For example, the unit price of meat and edible offal averages about USD 2,580 per ton for Kiribati, compared to a global median of USD 2,200—around 17 percent higher. Other key imports with elevated unit prices include cereals, wheat or meslin flour, transmission apparatus, and vessels.

Unit Import Price for Selected Products

(1,000 USD per Ton)



Sources: CEPII BACI dataset and IMF staff estimates.
Note: The latest available of 2023 data is used.

11. Inflation in Kiribati is shaped by structurally high price levels and outsize importance of global forces in driving changes in prices. Global shocks—especially global supply disturbances—explain most of the variation in domestic inflation. Fiscal and domestic demand pressures have played a smaller but rising role in the post-COVID period. The 2025 fuel and electricity tariff reforms temporarily lifted transport and utilities prices, but the impact is assessed to be one-off. Component-level evidence confirms differentiated external linkages, particularly the sensitivity of food prices to Chinese inflation and transport prices to Australian inflation. Heavy dependence on imports both contributes to a structurally high price level due to freight costs and the dominant role of external factors in driving inflation. These findings underscore the need to monitor global developments closely, and maintain prudent fiscal policy to mitigate domestic sources of inflation.

12. Targeted import diversification toward lower-cost suppliers, as suggested by international experience (Acalin, 2026)[3], even when affecting a small share of import categories, can help contain import costs and potentially mitigate inflationary pressures in highly import-dependent small island economies such as Kiribati. To be effective, such strategies need to be well targeted and supported by complementary measures, including improvements in logistics, customs procedures, and domestic competition, which are critical to ensuring that lower import costs are passed through to consumer prices.

[3] Acalin (2026), Tackling the Cost of Living in The Bahamas: A Trade Diversification Perspective, IMF Working Paper, forthcoming.

References

Carrière-Swallow, Y., Deb, P., Furceri, D., Jiménez, D., and Ostry, J. D. (2022). *Shipping Costs and Inflation*, IMF Working Paper No. 2022/061. International Monetary Fund.

International Monetary Fund. (2025). *Tuvalu: 2025 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Tuvalu* (IMF Country Report No. 2025/257). International Monetary Fund.

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Appendix. Technical Details for Annex III

BSVAR:

$$y_t = A_1 y_{t-1} + A_2 y_{t-2} + u_t$$

Where y_t includes seven quarterly variables: global real GDP growth, global oil prices, global headline inflation, Kiribati's real GDP growth, Kiribati's headline inflation, Kiribati's overall fiscal balance, and changes in the AUD/USD exchange rate. And u_t are reduced-form innovations with covariance matrix Σ_u.

The reduced-form shocks u_t are related to structural shocks ε_t via

$$u_t = B\varepsilon_t,$$

where:

- ε_t is a vector of orthogonal structural shocks,
- the columns of B give impact responses,
- identification is achieved through sign restrictions imposed on the impact period as below.

$$\begin{bmatrix} u_t^{Y,global} \\ u_t^{OilPrice} \\ u_t^{\pi,global} \\ u_t^{Y,domestic} \\ u_t^{\pi,domestic} \\ u_t^{\text{Overall Balance}} \\ u_t^{ExchangeRate} \end{bmatrix} = \begin{bmatrix} + & - & + & 0 & 0 & 0 & 0 \\ + & + & + & 0 & 0 & 0 & 0 \\ + & + & - & 0 & 0 & 0 & 0 \\ * & * & * & + & + & + & * \\ * & * & * & + & - & + & * \\ * & * & * & * & * & - & * \\ * & * & * & * & * & * & + \end{bmatrix} \begin{bmatrix} \varepsilon_t^{GlobalDemand} \\ \varepsilon_t^{OilPrice} \\ \varepsilon_t^{GlobalSupply} \\ \varepsilon_t^{DomesticDemand} \\ \varepsilon_t^{DomesticSupply} \\ \varepsilon_t^{\text{fiscal Policy}} \\ \varepsilon_t^{ExchangeRate} \end{bmatrix}$$

Annex IV. Data Issues

Annex IV. Table 1. Kiribati: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	C	C	NA	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	D	B	NA		
Granularity 3/	B		B	B	NA		
			C		NA		
Consistency			D	C		C	
Frequency and Timeliness	B	A	C	C	NA		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. **National Accounts.** National Accounts have improved in recent years with production and expenditure data published annually. Planned TA Mission with IMF TA could help further improve real sector data, including the coverage of join venture entities. **Prices**. The National Statistics Office provides monthly CPI data with a lag of about 2 months. With PFTAC/STA TA support, the CPI was rebased to 2023=100, with new expenditure weights developed using the 2019-2020 HIES, sample outlets were increased to 23 from 3. However, geographical coverage needs to be further improved to included outer islands (planned for the next rebase). **GFS**. There is potential to enhance the quality of fiscal data by: (i) improving coverage of debt reporting (public guarantees, joint venture entities, public-private partnerships); (ii) enhancing the coverage of net investment in non-financial assets in the GFS to encompass all investments, including those supported by development partners, ensuring consistency with development expenditure in the Development Budget, (iii) improving the consistency between fiscal balance and financing (changes in cash reserve and RERF balances), and (iv) reporting detailed capital expenditure implementation outturns in the Development Budget. Reconciling grants in the BoP with those in the Fiscal, through improved recording and inclusion of estimates for in-kind grants, is needed for enhancing inter-sectoral consistency. **External.** BOP and IIP statistics are available with broadly adequate coverage and granularity. However, external sector statistics are published with a year's lag, which, along with sizeable historical revisions and errors and omissions including incomplete coverage of joint venture activities, hampers assessment of the external balance and inter-sectoral consistency. **Monetary and Financial**. Adequacy of authorities' data provision for surveillance cannot be assessed, given that a central bank does not exist and the Kiribati Financial Supervisory Authority is not yet fully operational. Data from ANZ, Development Bank and Provident Fund are used for estimates of financial sector credit and financial soundness.

Changes since the last Article IV consultation. Kiribati National Statistics Office (KNSO) has compiled Quarterly External Debt Statistics (QEDS) for 2024. Coordinated Direct Investment Survey (CDIS) data for 2024 has been compiled and submitted. BOP and international investment position (IIP) were compiled for 2024. The Direct Investment database has been created using financial statements and other administrative data from direct investment enterprises (DIEs) in Kiribati.

Corrective actions and capacity development priorities. On national accounts, the key recommended actions include collecting financial statements from all SOEs and large joint venture entities and incorporating them in GDP to improve GDP coverage. On prices, over the medium term, it is recommended to develop and report the producer price index. Kiribati will receive technical assistance in May 2026 to update its CPI basket and weights, using data from the 2023/24 household income and expenditure survey. On GFS, key recommended actions are to improve the coverage of debt reporting (e.g. include joint venture entities), improve reporting of net investment in non-financial assets by including investment supported by development partners, and improve the consistency between fiscal balance and financing sources. On external, the key recommendation is to incorporate activities of large joint venture entities in external sector accounts, including following up on progress in reflecting recently collected JV information in FDI statistics, and ensure timely transmission of all data to KNSO. On Monetary and Financial sector data, the Kiribati Financial Supervisory Authority needs to be fully operational and build its capacity in regulatory and supervisory functions. In addition, strengthening the institutional arrangements underlying the data gaps—particularly by improving inter-agency information sharing and coordination—would further enhance data quality.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. The withdrawal of RERF has been treated as below-the-line financing, whereas the authorities have classified it as above-the-line. Certain subsidies and grants are treated as development expenditure by the authorities, while staff treats them as recurrent expenditure.

Other data gaps. Compilation and publication of regular labor market data, including seasonal workers, is needed for surveillance.

Annex IV. Table 2. Kiribati: Data Standards Initiatives

Kiribati participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in March 2004 but is yet to disseminate the data recommended under the e-GDDS.

Annex IV. Table 3. Kiribati: Table of Common Indicators Required for Surveillance

As of April 20, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Expected Frequency[8,9]	Kiribati[10]	Expected Timeliness[8,9]	Kiribati[10]
Exchange Rates	24-Apr-26	25-Apr-26	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	...	...	...	...	M	...	1M	...
Reserve/Base Money	...	...	...	...	M	...	2M	...
Broad Money	...	...	...	...	M	...	1Q	...
Central Bank Balance Sheet	...	...	...	...	M	...	2M	...
Consolidated Balance Sheet of the Banking System	...	...	...	...	M	...	1Q	...
Banks' Financial Soundness Indicators	...	...	...	...	Q	...	1Q	...
Residential Real Estate Prices[2]	...	...	...	...	Q	...	1Q	...
Total Assets of Other Depository Corporations[3]	...	...	...	...	M	...	1Q	...
Total Credit from Other Depository Corporations[3]	...	...	...	...	M	...	1Q	...
Sectoral Breakdown of Credit from Other Depository Corporations[3]	...	...	...	...	M	...	1Q	...
Currency Breakdown (domestic vs. foreign currency) of Other Depository Corporations' Total Assets and Credit Indicators (total and sectoral breakdowns)[3]	...	...	...	...	M	...	1Q	...
Interest Rates[4]	...	...	...	...	M	D	...	1D
Consumer Price Index	Dec-2025	Feb-26	Q	Q	M	M	2M	...
Revenue, Expenditure, Balance and Composition of Financing[5]–General Government[6]	2025	Jan-26	A	A	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[5]–Central Government	2025	Jan-26	A	A	Q	A	1Q	8M
Stocks of Central Government and Central Government-Guaranteed Debt[7]	2025	Jan-26	A	A	Q	...	2Q	...
Total Stock of General Government Debt[6]	2025	Jan-26	A	A	...	...	...	...
External Current Account Balance	Q4/2025	Feb-26	Q	Q	Q	A,Q	1Q	12M
Exports and Imports of Goods and Services	Q4/2025	Feb-26	Q	Q	M	A	12W	8M
GDP/GNP	2024	Dec-25	A	A	Q	A	1Q	1Y
Gross External Debt	2024	Dec-26	A	A	Q	...	2Q	...
International Investment Position	Q4/2025	Feb-26	Q	Q	A	...	3Q	...

[1] Includes net market value of derivative positions.

[2] Required only from Members with Systemically Important Financial Sectors.

[3] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

[4] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[5] Foreign, domestic bank, and domestic nonbank financing.

[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[7] Including currency and maturity composition.

[8] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[9] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[10] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex V. Implementation of Main Recommendations of the 2025 Article IV Consultation

2025 Article IV Consultation Recommendations	Actions Since the 2025 Article IV Consultation
Fiscal policy	
Initiate a credible medium-term fiscal consolidation create space for priority climate adaptation and infrastructure investment, while ensuring debt sustainability.	The 2026 budget includes measures broadly in line with staff recommendations, and if fully executed, would achieve larger gains than recommended. However, these gains are offset by higher spending on climate-resilient roads and causeways on outer islands, resulting in slightly larger overall fiscal deficit for 2026 than recommended in the 2025 Article IV consultation. The medium-term budget follows similar trends.
Integrate Revenue Equalization Reserve Fund (RERF) withdrawals and deposits into a medium-term fiscal framework, enabling countercyclical fiscal policy and smoother development spending.	The authorities noted that the RERF returns are volatile and view the RERF as a key source of revenue for development and fiscal stability. They reaffirmed their interest in receiving technical assistance to strengthen the medium-term fiscal framework and possibly integrate RERF deposits and withdrawals into the medium-term fiscal framework.
Amend the RERF withdrawal rule to a balance-based framework (with caps relative to the RERF balance) to preserve the fund's long-term value while ensuring access during periods of low returns.	The authorities expressed their continued commitment to preserving the real value of the RERF and are currently working on drafting a sovereign wealth fund bill, aiming to pass the bill by 2028.
Strengthen domestic revenue mobilization, through additional measures including increasing excise taxation, enhancing fishing revenue, and gradually reducing SOE and other tax exemptions.	The authorities recognized the need to strengthen domestic revenue mobilization. They noted higher excise tax collection in 2025 and efforts to increase income tax compliance and VAT registrations. While the VAT (Amendment) Act requires SOEs to pay VAT, exemptions provided under separate SOE-specific legislations create legal inconsistencies, and the authorities are working to resolve them. They plan to introduce excise tax on kava to establish a public health fund. The Special Economic Zone (SEZ) on Kiritimati Island has been approved by Cabinet, with designated SEZ areas to be identified. The Revenue Administration Act is under review, and the Revenue Management System is being upgraded with donor support and TA.
Financial Sector Policy	
Operationalize financial sector regulatory and supervisory institutions, including making the Kiribati Financial Supervisory Authority fully functional.	KFSA has recruited two additional staff and is recruiting one more. One of 40 planned regulations has been completed, with two additional regulations under preparation, including the Payment Systems regulation planned for approval and

2025 Article IV Consultation Recommendations	Actions Since the 2025 Article IV Consultation
	implementation by 2028. Accounting and reporting standards, data-reporting templates, and supervisory IT systems are not yet in place.
Structural Policies	
Rationalize recurrent expenditure, including subsidies (copra, SOEs) and the public wage bill, while protecting well targeted social spending	The authorities reported ongoing progress with the Copra Act and discussions on introducing quantity caps, particularly in the Line Islands. They also noted efforts to contain Community Service Obligations (CSO) payments, supported by recent tariff adjustments for public utilities.
Strengthen Public Financial Management (PFM) to improve budget credibility, cash management, transparency, expenditure control, and increase efficiency of public spending and investment.	The authorities remain committed to improving the PFM to improve fiscal sustainability and transparency. They are progressing with the Integrated Financial Management Information System (IFMIS) adoption and working towards reporting of all State-owned entities (SOEs) and Joint Venture entities (JVs). They reaffirmed the interest in receiving TA to strengthen the medium-term fiscal framework.
Establish a debt management framework with strong governance, transparency, and accountability, and develop capacity to analyze new borrowing and assess sources of risk	Authorities are committed to strengthening debt management capacity. They introduced a loan accountability agreement with all SOEs in 2025. They acknowledged the need to report JV debt.
Capacity Development and Data issues	
Continue to improve the quality, coverage, and timeliness of macroeconomic and fiscal statistics, particularly national accounts, government finance statistics, and external sector data.	The authorities are continuing to receive technical assistance from the IMF Statistics Department and PFTAC to improve institutional capacity and enhance the quality of data, including for national accounts, government finance statistics, external and financial sector data.
Improve JV reporting, which can have implications for GDP, trade, capital flows and debt statistics	The authorities acknowledged the need for enhanced inter-agency coordination and liaising with stakeholders with respect to collecting information on Joint Ventures. Initial progress has been made on reporting of 1) FDI of JVs, which should be included in the next compilation of BOP statistics, 2) debt of JVs.

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 21, 2026

Prepared By

Asia and Pacific Department
(In Consultation with other Departments)

CONTENTS

FUND RELATIONS

As of April 30, 2026

Membership Status: Joined June 3, 1986; accepted Article VIII.

General Resources Account:

	SDR Million	Percent Quota
Quota	11.20	100.00
Fund holdings of currency	9.80	87.51
Reserve tranche position	1.41	12.58

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	16.06	100.00
Holdings	14.71	91.58

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Overdue Obligations and Projected Payments to Fund[1]

(SDR Million; based on present holdings of SDRs)

	Forthcoming				
	2026	2027	2028	2029	2030
Principal					
Charges/Interest	0.03	0.04	0.04	0.04	0.04
Total	0.03	0.04	0.04	0.04	0.04

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangements: The de jure and de facto exchange rate arrangements are classified as no separate legal tender. The Australian dollar circulates as legal tender. There is no central monetary institution, and the authorities do not buy or sell foreign exchange. Kiribati has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Article IV Consultation: Kiribati is on a 12-month consultation cycle. The previous Article IV consultation was concluded virtually on May 19, 2025, reflecting discussions that took place during April 22–30, 2025.

Technical Assistance (TA): Experts from PFTAC and IMF headquarters provided support for capacity development in strengthening compilation and dissemination of real sector, external sector, and government finance statistics; strengthening revenue administration management and governance arrangement; improving law and effective PFM institutions; developing and strengthening the supervision of the financial system; and assessing food and nutrition security strategies.

Resident Representative: The Regional Resident Representative office for Pacific Island Countries is based in Suva, Fiji and was opened in September 2010. The office covers 12 IMF member countries in the Pacific, including Kiribati. Mr. Giovanni Ganelli is the current Resident Representative since April 2026.

Technical Assistance Activities

IMF Capacity Development		
Provided by:	**Topic:**	**Period:**
PFTAC	Financial Sector Supervision	April 2021
PFTAC	Government Finance Statistics	April – June 2021
PFTAC/FAD	Pacific Island Countries – Third Review of Tax Reforms	May 2021
PFTAC	Real Sector Statistics – Update and Rebase National Accounts	October 2021
PFTAC	Revenue Administration	November – December 2021
PFTAC	Public Financial Management – Update PFMA	May – October 2022
PFTAC	Financial Sector Supervision – Establishing Financial Supervisory Authority	May – July 2022
PFTAC	Revenue Administration	July – August 2022
PFTAC	Statistics – Consumer Price Index	October – November 2022
PFTAC	Revenue Administration – Strengthen Core Tax Functions	October – November 2022
PFTAC	Real Sector Statistics	October - December 2022
PFTAC	Macro-Fiscal Modelling for Budget Preparation	January 2023
PFTAC	Government Finance Statistics	January – February 2023
PFTAC	Revenue Administration	February – March 2023
PFTAC	Public Financial Management- Develop PFM Roadmap	March 2023
CDOT	External Sector Statistics	April 2023
PFTAC	Statistics – Consumer Price Index	May 2023
PFTAC	Macroeconomic Programming Analysis	May – June 2023
PFTAC	Revenue Administration	May – June 2023
PFTAC	Public Financial Management – Guidance on Reviewing and Finalizing PFMA	June 2023
PFTAC	Revenue Administration – Review Reform Progress	July 2023
PFTAC	Revenue Administration – Strengthening Tax Audit	September – October 2023

IMF Capacity Development		
Provided by:	**Topic:**	**Period:**
PFTAC	Real Sector Statistics – Updating National Accounts	November 2023
PFTAC	Revenue Administration – Tax Policy Reform Phase II	January – February 2024
PFTAC	Government Finance Statistics	January - February 2024
PFTAC	Public Financial Management – Strengthen Budget Execution reporting	March 2024
PFTAC	Debt Management	April 2024
PFTAC	FADEP- Expenditure Policy (Copra Subsidy)	April – May 2024
PFTAC	Macroeconomic Programming Analysis/Macro-Fiscal Modelling Training	May – June 2024
PFTAC	Revenue Administration	August 2024
CDOT	External Sector Statistics	August 2024
PFTAC	Macroeconomic Programming Analysis – VAT Modelling	August – September 2024
PFTAC	Public Financial Management – Improve Asset and Liability Management	August – September 2024
PFTAC	Real Sector Statistics- Update GDP 2023	September 2024
PFTAC	Government Finance Statistics – Developing Balance sheet Statistics	January 2025
PFTAC	Finalize PFM Act	February 2025
PFTAC	Debt Management – Improving Institutional Structure for Debt Management	February 2025
FAD	Beyond the Coconut Tree: Aligning Copra Subsidy Reforms with Food and Nutrition Security	April - May 2025
PFTAC	Revenue Administration – Supporting Taxpayer Compliance	May – June 2025
PFTAC	Real Sector Statistics – Compile GDP estimates for 2024.	September -October 2025
IMF/COT	External Sector Statistics - Strengthening the quarterly compilation and reporting framework for BOP and IIP statistics	October –November 2025
PFTAC	Government Finance Statistics and Public sector Debt Statistics	January 2026

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank Group:
  http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KI
- Asian Development Bank:
  https://www.adb.org/countries/kiribati/main
- Pacific Financial Technical Assistance Center (PFTAC):
  https://www.pftac.org/content/PFTAC/en1/capacity-development/countries-wp1.html

INTERNATIONAL MONETARY FUND

KIRIBATI

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 21, 2026

Approved By
Corinne Deléchat, Niamh Sheridan (all IMF), Manuela Francisco, and Lalita Moorty (all IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Kiribati: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of Judgment	Yes. The projection horizon was extended to 20 years to capture the impact of climate change on debt dynamics.

Kiribati debt remains sustainable but at high risk of debt distress, unchanged from the 2025 Article IV Debt Sustainability Analysis. While the mechanical signals indicate moderate risks of debt distress, judgment was applied to extend the projection horizon to 20 years to adequately capture climate-related vulnerabilities that can lead to large and persistent breaches of the indicative threshold/benchmark with high probability.[2] Under the baseline scenario, the present value of public and publicly guaranteed (PPG) external debt-to-GDP and overall PPG debt-to-GDP ratios are expected to breach their respective indicative threshold/benchmark starting in 2038 and 2044. Stress tests confirm vulnerability to contingent liabilities and growth shocks. Despite the high risk of debt distress, Kiribati's debt is assessed to be sustainable due to several mitigating factors: (1) grant-only status for financing from multilateral development banks; (2) availability of cash buffers and sovereign wealth fund withdrawals that can finance deficits; and (3) in the baseline, the breaches occur only in the long term. Continued access to highly concessional financing to support the country's large development needs is needed to contain the risk of debt distress.

[1] This DSA has been prepared jointly by the IMF and World Bank, in line with the *Guidance Note of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018*.

[2] The composite indicator based on the October 2025 World Economic Outlook (WEO) and 2024 World Bank Country Policy and Institutional Assessment (CPIA) data, which was published in July 2025, is estimated at 2.73, corresponding to a medium Debt Carrying Capacity.

PUBLIC DEBT COVERAGE

1. The coverage of Kiribati's public sector debt is the central government, central government guaranteed debt, and social security fund (Text Table 1).[3] The DSA is conducted on a residency basis. Debt coverage is broadly appropriate, although the timeliness of balance sheet information for state-owned enterprises (SOEs) and lack of data on joint venture companies, including with minority state ownership, are limiting factors. Recent and planned technical assistance by the Fund and the World Bank's Sustainable Development Financing Policy (SDFP) aims to improve government financial statistics (GFS) data availability and coverage by implementing an integrated financial management information system (IFMIS) and improve fiscal and debt reporting. SOE reporting practices have continued to improve. This DSA relies on 2023 SOE financial statements, though 16 out of 18 SOEs have submitted their 2024 financial statements to the SOE Monitoring and Advisory Unit (SOEMAU) with an aim to complete auditing by the end of 2026.

Text Table 1. Public Sector Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

Text Table 2. Combined Contingent Liability Shock

1	**The country's coverage of public debt**	See Text Table 1		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	55.0	Joint venture loans net of estimated collateral value.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	10.3	Total liabilities of the SOEs.
4	PPP	35 percent of PPP stock	0.0	There is no PPP in Kiribati.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		70.3	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. The combined contingent liability stress test accounts for implicit liabilities and a potential financial market shock (Text Table 2). The test incorporates contingent liabilities amounting to 70.3 percent of GDP, which comprises 10.3 percent of GDP covering all liabilities of all SOEs at end-2023,[4]

[3] Existing and projected government guarantees on SOE borrowings from the Kiribati Provident Fund, the social security fund, are not netted out in consolidation.

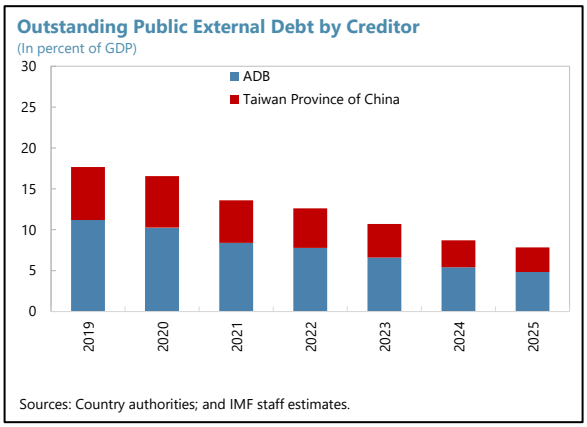
[4] There are 18 SOEs in Kiribati, operating across a wide range of industries such as utilities, transportation, housing, and financial services. The newest SOE, the Tourism Authority of Kiribati (established in 2018), has not produced financial statements yet. The liabilities of the 17 SOEs accounted for 10.3 percent of GDP in 2023, as reported in the 2026 Recurrent Budget. It is assumed that the contingent liability to the government related to the SOEs includes all the SOE non-guaranteed liabilities.

55 percent of GDP of non-guaranteed debt of two joint venture companies with minority government ownership,[5] and a standard 5 percent of GDP cost to the government of a financial crisis.

BACKGROUND ON DEBT

3. Kiribati, with close to 130,000 people, spreads over 33 remote islands and a vast section of the Pacific Ocean. Its geography raises the cost of delivering public services and contributes to infrastructure gaps. A narrow production and export base (mainly related to tuna fishing and copra) makes the country highly dependent on fishing license revenues and support from development partners for infrastructure investment. Kiribati has a sovereign wealth fund, the Revenue Equalization Reserve Fund (RERF), which was established in 1956 in order to allow both current and future generations to benefit from Kiribati's natural wealth. The RERF's balance was about AUD 1.68 billion (310 percent of GDP) at end-2025.

4. Kiribati's public and publicly guaranteed (PPG) debt, at 8.0 percent of GDP at end-2025, is composed of external debt and government guarantees. The Government of Kiribati currently has only two external creditors: the Asian Development Bank (ADB), and Taiwan Province of China. The combined outstanding external debt has been declining steadily and stood at AUD 42.6 million (about 7.8 percent of GDP) at end-2025 (Text Table 3 and text chart). All existing external debt is on concessional terms, and no new external debt has been incurred since 2014. The Government of Kiribati (GoK) has committed to a policy of no new non-concessional external borrowing under the World Bank's Sustainable Development Finance Policy (SDFP). In terms of domestic debt, the government has guaranteed the loans that the Kiribati Provident Fund (KPF) provided to Development Bank of Kiribati (DBK). Domestic debt is estimated to have declined to AUD 0.62 million (0.1 percent of GDP) at end-2025 and the related fiscal risk is limited. In 2025, GoK announced planned new guarantees for SOEs' planned borrowing (0.7 percent of GDP in total) that are now expected in the baseline in 2026.[6] GoK



[5] Kiribati Tuna Fish Limited (49 percent owned by the Government of Kiribati (GoK)) reportedly contracted a 120 million USD loan in 2019, while Kiribati Blue Pacific Limited (40 percent owned by GoK) contracted two 160 million USD loans in 2023 and 2025, to build a total of 22 purse seine fishing vessels. In addition, Kiribati Blue Pacific Limited contracted a 230 million USD loan in 2025 for land reclamation and renovation of a 3-star hotel on leased land in Tarawa. Contingent liabilities from JVs are calculated taking into account vessel collateral value and GoK ownership share in these JVs.

[6] Kiribati Housing Corporation plans to borrow 1.6 million AUD from Kiribati Provident Fund (KPF) to build housing for public servants. Kiribati Coconut Development Limited plans to borrow 2.1 million AUD from KPF to purchase a shipping vessel and a few smaller equipment items. Kiribati National Shipping Line plans to borrow 0.8 million AUD from Kiribati Development Bank. Guarantees for these loans were provisionally approved by the Parliament in November 2025.

should strengthen the debt management framework, including the issuance of government guarantees, to ensure fiscal risks remain limited.[7]

Text Table 3. Public External Debt Balance as of End 2025	
Creditor	Balance
Asian Development Bank	AUD 26,315,866
International Cooperation and Development Fund, Taiwan Province of China	AUD 16,270,334
Source: Country authorities.	

BACKGROUND ON MACROECONOMIC FORECASTS

5. Economic activity continued to grow robustly in 2025. The economy expanded consistently since 2021, and real GDP growth was estimated at 4.3 percent in 2025, primarily driven by public spending and infrastructure projects. Average headline inflation rose from 2.5 percent in 2024 to 6.5 percent in 2025, reflecting fuel and electricity price reforms to align with market prices. Relative to the 2025 Article IV debt sustainability analysis (DSA), macro-fiscal developments in 2025 are broadly unchanged, with a fiscal deficit of 14.5 percent of GDP.

6. The following medium-term macroeconomic assumptions are used for the baseline scenario (Text Table 4):

- **Real GDP** growth is projected at 2.4 percent on average in 2025–35, decelerating towards 2 percent in the long-term, in line with past analysis, and similar to the 2025 DSA.[8] The gradual deceleration of economic growth reflects a mix of drivers, including population growth of about 1.6 percent (broadly in line with the United Nations' World Population Prospects), the potential impact of climate-related events, and some improvement in total factor productivity (TFP) growth due to better infrastructure and connectivity.[9] Risks to the growth outlook are tilted to the downside. A protracted conflict in the Middle East, an escalation of geopolitical tensions, a prolonged increase in commodity prices and greater volatility, trade disruptions that raise shipping and import prices, and increased financial market volatility could all threaten fiscal and external sustainability through their effects on inflation, the import bill, RERF returns,

[7] To strengthen the debt management framework, the authorities should clarify the purposes of borrowing or issuing guarantees, align them with the medium-term fiscal strategy and strategic investment priorities, and require detailed annual reporting, including from SOEs and JVs. The Debt Advisory Committee should require a comprehensive financial analysis of all new borrowing proposals. All borrowing or guarantee proposals are first submitted to the Debt Advisory Committee, who assess and submit a short report to the Minister of Finance, after which proposals go to the Cabinet and President for final approval.

[8] IMF Selected Issues Paper, 2023, "Unlocking Growth Potential in Kiribati: Taking Stock of Structural Reforms", IMF Country Report No. 23/226.

[9] Diversification efforts continue despite challenges. They include expanding port capacity for connectivity and export competitiveness, advancing internet connectivity via an undersea internet cable, operating a second SOE-owned copra mill in Kiritimati, and acquiring new Kiribati-flagged fishing vessels. Further diversification could be pursued through the development of niche tourism markets (such as that of fishing expeditions and cruise ships) and increasing participation in the fishing value chain.

remittances, and growth. Climate-related natural disasters remain a constant threat to the economy. Weather shocks, or lower global demand, could reduce fishing license revenues.

- **Inflation** is projected to average 2.7 percent in 2025–35, higher than in the 2025 DSA due to near-term global commodity price pressures. Inflation is expected to gradually converge to slightly below 2 percent over the medium term, in line with the trend of global commodity prices and inflation of Kiribati's main trading partners, as in the 2025 DSA. [10]

Text Table 4. Baseline Macroeconomic Assumptions
(In percent of GDP, unless otherwise noted)

Current DSA	2023	2024	2025	2026	2027	2028	2029	2030	2031	2014-24 Historical average	2025-35 Average	2036-45 Average
Real GDP growth (in percent)	3.3	4.6	4.3	3.1	2.4	2.2	2.2	2.1	2.1	4.6	2.4	2.1
Inflation, average (change in percent)	9.3	2.5	6.5	4.5	3.1	2.5	2.0	2.0	1.8	2.3	2.7	1.8
Current account balance	-1.8	-17.4	-18.8	-17.7	-16.8	-15.7	-15.2	-14.8	-14.8	16.3	-15.6	-14.4
Overall fiscal balance	1.8	-14.1	-14.5	-16.7	-15.3	-12.6	-14.7	-14.5	-14.7	10.0	-15.3	-15.6
Previous DSA												
Real GDP growth (in percent)	2.7	5.3	3.9	3.2	2.5	2.2	2.1	2.1	2.1			
Inflation, average (change in percent)	9.3	2.5	7.8	3.5	3.0	2.5	2.0	2.0	1.8			
Current account balance	-1.8	-2.0	-0.6	-0.9	-1.2	-1.4	-1.6	-1.6	-1.4			
Overall fiscal balance	0.1	-22.0	-15.0	-16.6	-15.0	-13.4	-15.1	-15.2	-17.7			

Sources: Country authorities; and IMF staff estimates.
Note: GDP was rebased from 2006 to 2019 in late 2023, resulting in higher GDP (e.g., the nominal GDP in 2021 is 27 percent higher under the new base).

- **Total revenue and grants** are expected to increase in 2026 relative to 2025, due to a temporary spike in external grants, followed by a gradual decline over the medium term.
    - ***Fishing revenue*** was at AUD 205.4 million in 2025 (38 percent of GDP, a decrease of 2 percentage points from 2024, and a decrease of 2 percent in nominal terms). Fishing revenue is projected to grow along with the economy and Australian CPI over the medium term, broadly in line with the authorities' budget projections. Staff project that fishing revenue as a ratio of GDP would remain around 36 percent of GDP in 2026–35. This assumption is subject to considerable uncertainty, given unpredictability in weather conditions and fish migratory patterns. Changes in ocean temperature are expected to affect the size and distribution of global fish populations, with potential negative implications for fish supplies and fishing revenues in Kiribati.
    - ***Tax revenue*** is generally low with a 2013-2023 average of about 15 percent of GDP. It increased to 18 percent of GDP in 2024 on the back of strong personal income tax and VAT collection, and edged up to 19 percent of GDP in 2025 bolstered by excise tax collection. Tax revenue is projected to remain at around 18-19 percent over the medium term thanks to the Income Tax Act (2023), and the amendments to the Value-Added Tax Act. The World Bank's

[10] Inflation in Kiribati is mostly driven by global supply factors (see Annex III in the Kiribati 2026 Article IV Staff Report). The passthrough of the electricity tariff and fuel price hikes in 2025 has turned out faster than expected.

Sustainable Development Finance Policy (SDFP) and technical assistance from the IMF's Pacific Financial Technical Assistance Center (PFTAC) have supported reforms of the VAT regime, which are expected to durably increase medium-term revenues.

- ***External grants***, including project-based grants and budget support,[11] are estimated to have increased to 15 percent of GDP in 2025 from 10 percent of GDP in 2024. They are expected to increase to around 28 percent of GDP on average in 2026–28[12], mostly due to the financial cycle of development partners and implementation of delayed projects, and then to gradually decline to an annual average of about 20 percent of GDP in 2029-31. External grant projections are lower than the 2025 DSA to align with the projections in the 2026 Budget. External grants from 2027 onward would mainly consist of project grants, with budget support assumed at only 1 percent of GDP. The high reliance on grants for development financing highlights the need for the authorities to continue to seek grant support from bilateral development partners and international financial institutions.

- **Total fiscal expenditures** increased in 2025 and are projected to remain elevated relative to historical averages, though lower than in the 2025 DSA due to lower grant-financed project expenditure.

  - **Recurrent spending** has increased since 2020 due to a series of initiatives: introduction of the unemployment support scheme (covering 93 percent of households in 2023), increases in senior citizens' benefits in 2020, doubling of the copra subsidy in 2022, introduction of leave grants for private sector employees in 2023,[13] and an increase in public sector wages in 2024. Climate change-related maintenance and contingency expenditures are assumed to reach around 6 percent of GDP in 2033 and to remain at that level thereafter.[14] Recurrent spending increased to 66 percent of GDP in 2025 from 63 percent of GDP in 2024, due to the copra subsidy increase. Fuel price increases due to the Middle East conflict are expected to be temporarily absorbed by the government in 2026 through higher SOE subsidies.

[11] Budget support is provided by development partners including the ADB, Australia, the European Union (EU), New Zealand, and the World Bank.

[12] The 40 percent of GDP grants in 2026 includes 3 percent of GDP in budget support and 37 percent of GDP in project grants. The budget support is firmly committed by development partners, while the project grants reflect the Development Budget 2026. While the budgeted increase in project grants is substantial, it is broadly in line with the pre-COVID average of 38 percent of GDP, with a standard deviation of 8.5 percent. Moreover, even if the project grants do not materialize, there will be no impact on the deficit, as the corresponding development expenditure will not be executed. The volatility of grants in general, and a decline in international aid potentially due to increased geopolitical tensions, is a risk.

[13] Leave grants are grants that the authorities provide to private sector employees of the VAT-registered companies for their home leaves. It is designed to encourage individuals to join the private sector, incentivize companies to register for VAT, and subsidize transport costs to the outer islands.

[14] In the baseline, the DSA assumes climate adaptation that only achieves low resilience to climate-related natural disasters, with up to 6 percent of GDP borne by the budget, while the rest would need to be financed by development partners. Climate Change and Disaster Management (World Bank, 2016) estimates that the cost of coastal protection and infrastructure adaptation due to rainfall and temperature increases for Kiribati could amount to additional 12 percent of GDP annually by 2040.

Overall, recurrent spending is projected to gradually decline from 64 percent of GDP in 2026 to 62 percent of GDP in 2031 thanks to a budgeted freeze on wages and salaries through 2028, along with modest streamlining of SOE subsidies and unemployment benefits, and joint financing of copra subsidies with Kiribati Coconut Development Limited, an SOE.[15] The planned reduction of recurrent spending is welcome. However, if economic growth falters, countercyclical fiscal policy consistent with the authorities' medium-term fiscal strategy should be used to support households (see 2025 Article IV Staff Report). In 2027-2031, recurrent spending is projected to stay broadly stable at around 62 percent of GDP, still elevated relative to a 2013-2023 average of about 56 percent of GDP.

- **Development expenditure** was stable at 23 percent of GDP in 2025 compared with 2024. Development expenditure is expected to temporarily increase to 52 percent of GDP in 2026 as large donor-funded infrastructure projects, including those delayed from previous years, are implemented. While execution of donor-funded projects is subject to capacity constraints and can be volatile, these fluctuations have no net impact on the fiscal balance. Over the medium term, development expenditure is expected to gradually decline, in line with the projection of external project grants that is partly offset by an increase in local contribution to development expenditure.[16]

- **The overall fiscal balance remained at -14 percent of GDP in 2025 and is expected to be in deficit over the medium term, broadly in line with the 2025 DSA.** With the increase in recurrent spending, the overall fiscal balance (accounting for RERF withdrawals as a financing item) has turned to a deficit of 18, 14, and 14 percent of GDP in 2022, 2024 and 2025, respectively, with a surplus of 2 percent of GDP in 2023, thanks to a temporary increase in fishing revenue and grants. Over 2025-35, broadly stable revenues along with slightly lower but still elevated recurrent spending are expected to lead to continued fiscal deficits, averaging around 15 percent of GDP. In the baseline, the authorities do not pursue significant consolidation over the medium term. Additional growth-friendly consolidation could include increasing excise taxes on tobacco products, alcoholic beverages, and sugary drinks, introducing excise taxes on kava, and further rationalizing the copra and SOE subsidies.

- **Financing of fiscal deficits is assumed to be covered by cash reserves, RERF withdrawals, and external loans, similar to the 2025 DSA** (Text Table 5).

  - **Cash reserves** are estimated to have decreased to 49 percent of GDP at end-2025 from 51 percent of GDP at end of 2024, partly to finance the fiscal deficit in 2025. In the baseline, staff assumes no use of cash reserves for deficit financing after 2026 to prevent them from

[15] Given elevated demand for copra subsidies in recent years, staring in 2026, the state-owned Kiribati Coconut Development Ltd. (KCDL) will contribute 25 percent of the financing for copra subsidies. KCDL has been receiving copra for free from the government, the latter buying copra domestically at prices higher than the global levels.

[16] Major projects are expected to be completed over the medium term, including infrastructure projects such as the domestically funded Outer Island Infrastructure Program, amounting to AUD 44.9 million, the South Tarawa Sanitation Project, amounting to AUD 21 million sponsored by the World Bank, and the South Tarawa Water Supply Project, amounting to AUD 15 million sponsored by ADB.

being depleted in the long run and to keep them above the government's fiscal responsibility ratio of three months of recurrent spending and the local contribution to the Development Fund.

Text Table 5. Baseline Assumptions on Financing
(In percent of GDP)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2025-35 Average	2036-45 Average
Overall Deficit	2	-14	-14	-17	-15	-13	-15	-15	-15	-15	-16
Financing Needs (net)	-2	14	14	17	15	13	15	15	15	15	16
of which: Cash reserves	-1	-1	0	4	0	0	0	0	0	0	0
RERF withdrawals	0	15	15	13	7	6	6	9	9	9	8
External financing (net)	-1	-1	0	0	9	6	8	6	6	6	7
Balance											
Cash reserves	50	51	49	42	40	39	37	36	35	37	24
excess over the threshold 1/	*32*	*32*	*29*	*22*	*22*	*21*	*20*	*18*	*16*	*18*	*7*
RERF	317	308	310	300	299	301	304	305	306	306	330
Public debt	11	9	8	8	16	21	29	33	38	33	86

Sources: Country authorities; and IMF staff estimates.

1/ Cash reserves is required to maintain at least 3 months of recurrent spending and the Local Contribution to Development Fund.

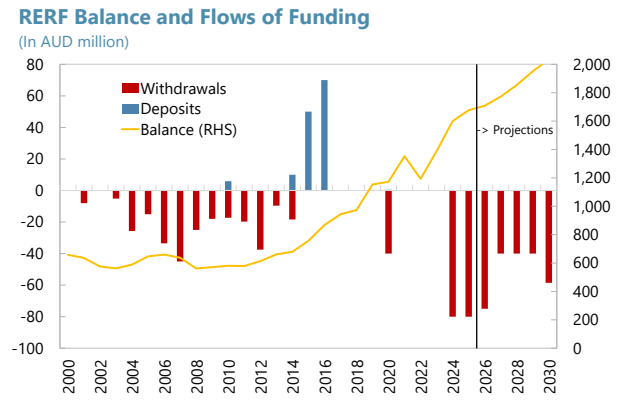
- **Withdrawals from the RERF** are projected to provide an average of 9 percent of GDP in financing over 2025-35, broadly in line with the medium-term budget, even though positive withdrawals may not be permissible in each year. Between 2020 and 2024, RERF withdrawals were permitted only when real returns were in excess of 5 percent and only to finance development projects.[17] In 2024 the RERF withdrawal threshold was lowered to 2 percent of nominal returns, which could enable extremely large withdrawals in years with high RERF returns, and no withdrawal in years with low RERF returns. AUD 80 million (15 percent of GDP) was withdrawn in both 2024 and 2025, with another AUD 75 million projected for 2026, and AUD 40 million budgeted annually for 2027-2029 (about 6-7 percent of GDP).[18]

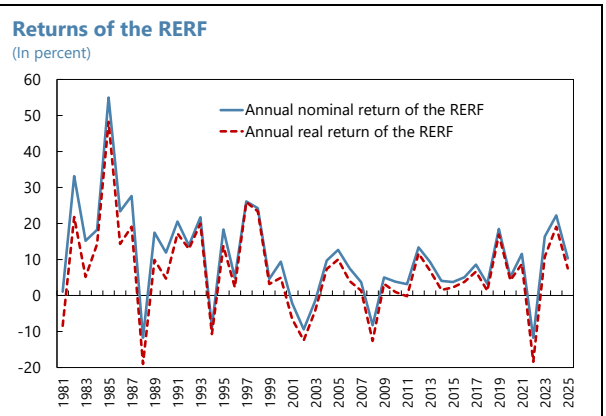
[17] The authorities introduced the rule-based withdrawal policy in September 2020, with support from the World Bank. The real return is calculated based on the inflation rate in Australia.

[18] While recent RERF withdrawals have been used responsibly, the revision of the RERF withdrawal rule raised serious concerns about future fiscal discipline and elevated the risk of a gradual depletion of the RERF if maximum permitted withdrawals were made in each year. The adoption of the two-pronged alternative RERF withdrawal rule is strongly advised. First, use the withdrawals to finance high-quality development spending, complementing efforts by development partners. Second, set a cap of around 3 to 5 percent of the RERF balance on annual withdrawals, to keep the real per capita value of the RERF approximately constant. The balance-based rule would avoid the possibility of zero withdrawals in years when RERF returns are low, and it would protect RERF's long-term value. In particular, withdrawals of about 6-7 percent of GDP currently planned in the medium-term budget would be permissible under the recommended balance-based withdrawal rule. Staff analysis suggests that even annual withdrawals up to 15-16 percent of GDP (around 5 percent of RERF balance) could likely be sustained, if needed during periods of shortfall in other revenues, without jeopardizing long-term RERF sustainability, assuming RERF

(continued)

- **External loans** are projected to become a more important source of financing over the medium term. Given the need to preserve cash reserves, and to avoid a sharp decline in financial net worth, external financing will be critical. External financing under the baseline scenario is assumed at highly concessional terms, in line with the World Bank's Sustainable Development Finance Policy.





- **The current account is estimated to remain in deficit in 2025, and is projected to stay well below the historical average over the medium term.** After historically high current account surpluses, with a 2013-2023 average of 23.7 percent of GDP, the current account balance turned to deficits since 2022. It is estimated to be –19 percent of GDP in 2025, driven by large capital goods imports, and lower than projected in the 2025 DSA. Over the medium term, the current account is expected to remain in deficit at around 14-15 percent of GDP.

- **Kiribati's current debt portfolio is mainly composed of external debt.** The baseline scenario includes planned new guarantees for SOE debt (0.7 percent of GDP) in 2026 and assumes no other new central government domestic debt over the short, medium, and long terms. External financing under the baseline scenario is assumed at highly concessional terms. The DSA also follows the LIC-DSA's assumption that future financing is on credit rather than grant terms, and all future borrowing is assumed to be on concessional terms in line with the World Bank's SDFP.

7. The baseline scenario explicitly reflects the long-term impact of climate change and natural disasters. This is in line with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF", given Kiribati's susceptibility to natural disasters. Compared with the non-disaster potential growth rate, Kiribati's long term GDP growth projections in the baseline are adjusted downward by 0.1 ppt. The current account is projected to decline by an additional 1 ppt of GDP on average in the long run due to natural disasters. The primary balance is projected to decline annually by an

returns, which averaged about 8 percent during 2011-2024, follow historical patterns. The RERF benchmark portfolio initially consisted of 50 percent Australian Government bonds and 50 percent in unhedged global equities, although the equity weight has increased recently given high equity returns. For more information see Appendix IV in IMF 2025 and Annex V in IMF 2024. Risks to RERF sustainability increase if maximum withdrawals are made repeatedly under a return-based rule, with very large returns (e.g. more than 50 percent) of GDP happening in some years. In addition, the RERF withdrawal rule should be subject to more legislative scrutiny, such as parliamentary approval.

additional 0.3 ppt of GDP on average in the long run due to lower fishing revenue driven by changes in seawater temperature.[19] In addition, the baseline scenario includes 6 percent of GDP for climate adaptation spending over the medium term. No major disasters are assumed under the baseline scenario over the medium term.

8. The realism tools suggest that the projections are reasonable (Figures 3–4). The position of the left end of the 3-year adjustment in the primary balance reflects the volatile nature of fishing revenue and infrastructure projects underway. The downward revision of the debt path compared to the 2018 DSA reflects the assumption of new borrowing starting in 2019 in 2018 DSA, whereas no new public borrowing has occurred since 2014. Both public and private investment rates remain consistent for the projection period when compared to the previous DSA conducted in 2025. The large contributions of residuals to debt creation in PPG external debt reflect the fact that Kiribati uses its cash reserves and RERF withdrawals (when available) to finance deficits while accumulating assets and cash buffers in times of a fiscal surplus.[20]

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

9. The debt carrying capacity remains "medium" as in the last DSA (Text Table 6). Kiribati's current composite indicator (CI) score is 2.73, calculated based on the October 2025 WEO and the 2024 CPIA (published in July 2025). The current CI score implies medium debt-carrying capacity. Based on the CI score, the relevant indicative thresholds for PPG external debt are 40 percent for the present value (PV) of the debt to GDP ratio, 180 percent for the PV of the debt to exports ratio, 15 percent for the debt service to exports ratio, and 18 percent for the debt service to revenue ratio. The benchmark for the PV of the total public debt-to-GDP ratio for medium debt carrying capacity is 55 percent (Text Table 7).

Text Table 6. Composite Indicator Rating

Country	Kiribati
Country Code	**826**
Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.732	Medium 2.750	Medium 2.761

[19] Under the RCP 8.5 scenario, representing a high-emissions pathway, which projects a global average temperature increase of roughly 4.3°C by the year 2100, relative to pre-industrial levels, and a likely range of 0.84 meters (0.61–1.10 meters) of global sea level rise.

[20] In the projected 5 years, prolonged fiscal deficits would explain the increase in public debt, as deficits are financed by RERF withdrawals (negative contribution of residuals in the PPG external debt).

Text Table 6. Composite Indicator Rating (Concluded)

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.905	1.12	41%
Real growth rate (in percent)	2.719	3.344	0.09	3%
Import coverage of reserves (in percent)	4.052	57.963	2.35	86%
Import coverage of reserves^2 (in percent)	-3.990	33.597	-1.34	-49%
Remittances (in percent)	2.022	5.167	0.10	4%
World economic growth (in percent)	13.520	3.035	0.41	15%
CI Score			2.73	100%
CI rating			Medium	

Text Table 7. Debt Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

10. In addition to the six standardized stress tests, the analysis incorporates two tailored stress tests based on contingent liabilities and natural disasters shocks. Kiribati's low-lying atolls are vulnerable to rising sea levels, storm surges, coastal erosion, and saltwater intrusion, as well as drought, loss of groundwater, and natural disasters. Economic activities related to agriculture and fishing can be negatively affected by extreme weather. The natural disaster tailored stress test assumes that a one-off natural disaster in the second year of the projection period leads to additional external borrowing of 10 percent of GDP and cuts real GDP growth and exports growth by 4.6 and 12 percentage points, respectively, in line with Kiribati-specific impacts from severe natural disasters.[21] The combined contingent liabilities stress test is described in paragraph 2 above.

[21] See the "The Economic Impact of Natural Disasters in Pacific Island Countries: Adaptation and Preparedness" by Lee and others (2018).

DEBT SUSTAINABILITY ANALYSIS

11. Risks to debt sustainability in Kiribati remain high. While Kiribati's mechanical risk rating based on a ten-year horizon is moderate for both external and overall PPG debt, judgment was applied to extend the projection horizon to 20 years to adequately capture climate-related vulnerabilities. Baseline breaches in years 11-20 are used to arrive at the bottom-line risk assessment, as these breaches are expected to be large and persistent and to occur with a high probability.[22] Stress tests point to vulnerabilities to contingent liabilities, exports, and growth shocks.

A. External Debt Sustainability Analysis

12. Under the baseline scenario, Kiribati's PPG external debt trajectory is projected to breach the indicative threshold in the long run. The PV of the PPG external debt-to-GDP ratio is expected to increase and breach the indicative threshold (40 percent) in 2038 under the baseline scenario (Figure 1), two years later than in the 2025 DSA. As the bulk of the projected external debt, including new debt, is on concessional terms according to the World Bank's SDFP cap on non-concessional borrowing, debt service will remain relatively contained.

13. Stress tests confirm the vulnerability of PPG external debt dynamics to contingent liabilities and exports shocks, as well as to other macroeconomic shocks. Under the most extreme test scenario (contingent liabilities), the PV of the PPG external debt-to-GDP ratio will breach its threshold starting from 2027 (Figure 1), three years earlier than under the most extreme stress test (exports) in the 2025 DSA. The PV of PPG external debt-to-GDP ratio is also vulnerable to shocks emanating from primary balance and exports, breaching its threshold starting from 2032, two years later than in the 2025 DSA.[23] The PV of PPG external debt-to-exports ratio will breach its indicative threshold in 2034 under the exports shock. Other stress test scenarios, including other flows (current transfers and FDI) and the natural disaster scenarios, illustrate the vulnerability of debt trajectory to external and climate-related shocks (Table 3).

B. Public Debt Sustainability Analysis

14. Public debt follows the same dynamics as the external debt, given limited domestic debt. The volatility of fishing revenue and contingent liabilities emanating from the government-managed pension fund,[24] SOEs and joint venture companies pose risks. Under the baseline scenario, the PV of the

[22] See Kiribati: Selected Issues (2025) and The Pacific Atoll Countries : Country Climate and Development Report (2024). In addition to weather shocks, Kiribati is vulnerable to the long-run threat of sea-level rise, and the associated adaptation costs could be much higher than assumed in the baseline, depending on the adaptation and relocation strategies.

[23] For the purposes of the DSA, the exports data include fishing license fees, which would be counted as "primary income" under conventional balance-of-payments definitions.

[24] As provided under the Provident Fund Act 1977, the Government of Kiribati currently explicitly guarantees any obligations that are unable to be met by the pension Fund (Kiribati Provident Fund).

total public debt-to-GDP ratio will breach the indicative benchmark (55 percent) starting from 2044 (Figure 2), one year later than the 2025 DSA.

15. The most extreme shock scenario indicates an earlier breach of the debt benchmark than the baseline. The most extreme stress test scenario of growth shock[25] predicts that the PV of the total public debt-to-GDP ratio is expected to breach the benchmark (55 percent) starting from 2034 (Figure 2), two years later than the 2025 DSA. The combined contingent liabilities shock and the tailored natural disaster shock could cause the PV of the total PPG debt-to-GDP ratio to breach the benchmark from 2034 and 2037, respectively (Table 4).

RISK RATING AND VULNERABILITIES

16. The DSA indicates that Kiribati's risk of external debt distress remains high. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio is expected to increase over time and breach the indicative threshold starting from 2038, two years later than the 2025 DSA. The risk of external debt distress is therefore assessed as high. PPG external debt is vulnerable to contingent liabilities and exports shocks.

17. The DSA suggests that the overall risk of debt distress is also high. The PV of overall PPG debt-to-GDP ratio is projected to increase over time and breach the indicative benchmark starting from 2044, one year later than the 2025 DSA. This increase reflects the high recurrent spending and investment needs, and declining grant commitments over the long term. Given this and the high risk of external debt distress, the overall risk of debt distress is also assessed as high. Overall PPG debt is vulnerable to the growth shock.

18. Despite the high risk of debt distress, Kiribati's debt is assessed to be sustainable thanks to several mitigating factors. The PV of the PPG external debt- and overall PPG debt-to-GDP ratios will breach their indicative threshold/benchmark only in the long term. While its budget depends on volatile fishing revenue, the country currently benefits from grant-only status for multilateral development banks' (MDBs) financing and will likely maintain long-term access to highly concessional financing. The government has large cash buffers which can be drawn on to finance deficits in the near term, and it has resources in the RERF. However, these liquidity buffers could be depleted at a more rapid pace in case of insufficient access to external loans amid continued fiscal deficits.

19. Given Kiribati's high risk of debt distress, it is critical to manage the fiscal framework prudently and continue to benefit from external grants. The introduction and increases of several social benefits since 2020, the civil service wage increase in 2024, and the copra subsidy increase in 2025 have raised fiscal pressure. However, zero planned external borrowing in 2026 and upward revisions to nominal GDP have contributed to indicative threshold/benchmark being generally breached slightly later than in the 2025 DSA (under the baseline scenario). Existing vulnerabilities could be further exacerbated by contingent

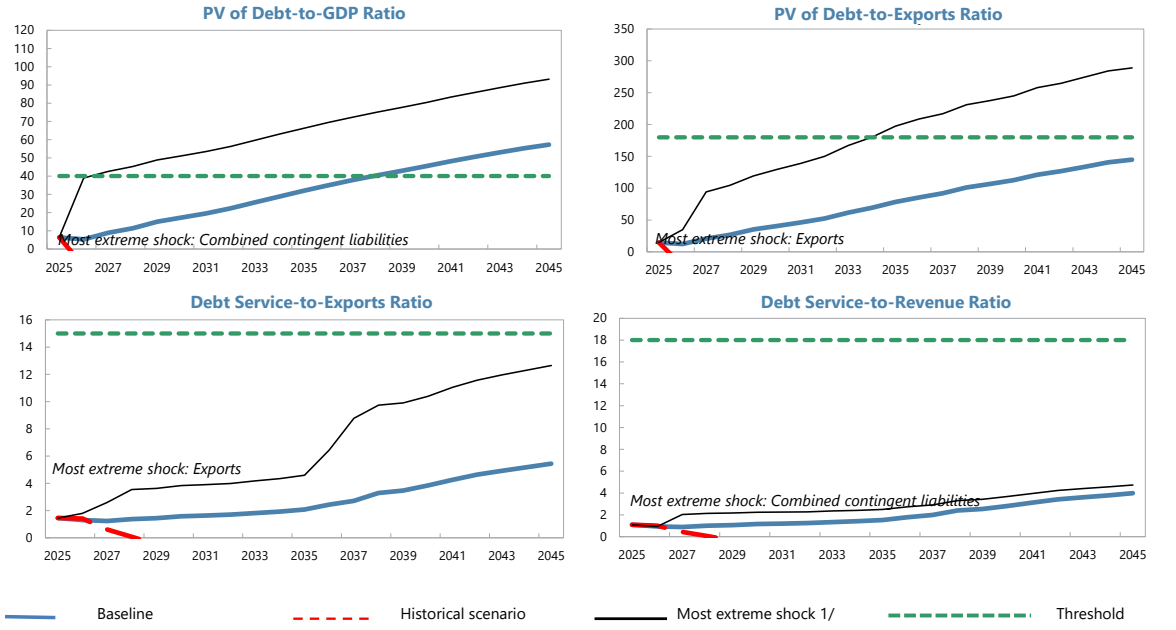
[25] Real GDP growth is set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation, whichever is lower for the second and third years of the projection period.

liabilities and natural disasters. Initiating a gradual growth-friendly fiscal consolidation effort through streamlining recurrent spending and mobilizing tax revenue would help reduce fiscal risks. RERF withdrawals should not increase the risk of depletion of the sovereign wealth fund. Further progress in structural and fiscal reforms such as strengthening the fiscal policy framework, improving the targeting and efficiency of the social safety nets, improving public financial management, putting RERF withdrawals under legislative scrutiny, and putting SOEs on a commercial and sustainable footing are all needed to safeguard medium- and long-term fiscal sustainability. Containing the risk of debt distress also requires continuation of grants to support the country's large development needs.

Authorities' Views

20. The authorities broadly agree with the DSA assessment. They reiterated the importance of preserving debt sustainability and maintaining a balanced budget (treating RERF withdrawals as revenue). They are committed to mobilizing revenues, streamlining subsidies, and monitoring fiscal risks related to SOEs and JVs. They plan to broaden the coverage of the SOE Monitoring and Advisory Unit to include JVs and are working to improve inter-agency information sharing. They welcomed technical assistance to build capacity to analyze new borrowing and improve debt management. The authorities will continue to seek grants from bilateral development partners and international financial institutions to maintain debt at a prudent level. They also reaffirmed their commitment to no new non-concessional external borrowing policies.

Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2025–2045



Customization of Default Settings

	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	Yes
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*

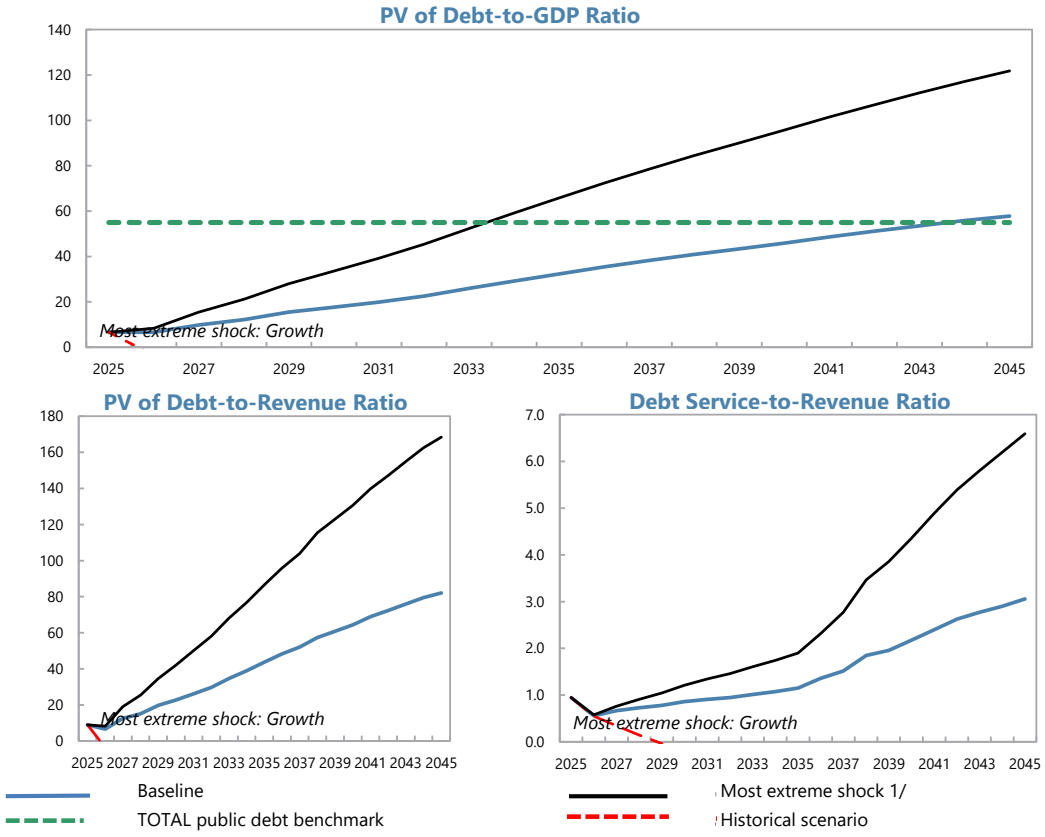
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	36	36
Avg. grace period	9	9

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Kiribati: Indicators of Public Debt Under Alternative Scenarios, 2025–2045



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	92%	100%
Domestic medium and long-term	8%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
Avg. maturity (incl. grace period)	36	36
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	-1.9%	5.0%
Avg. maturity (incl. grace period)	1	5
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

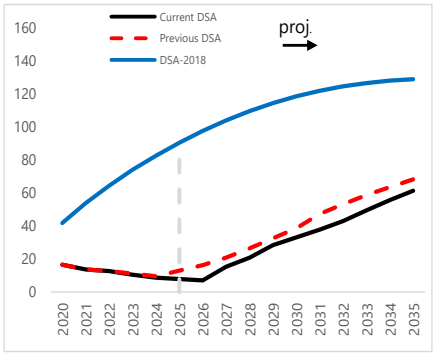
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

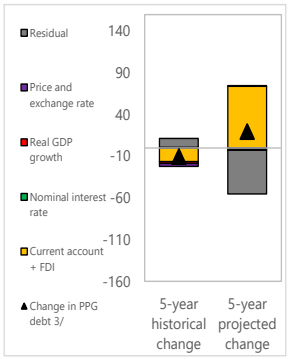
Figure 3. Kiribati: Drivers of Debt Dynamics—Baseline Scenario

External Debt

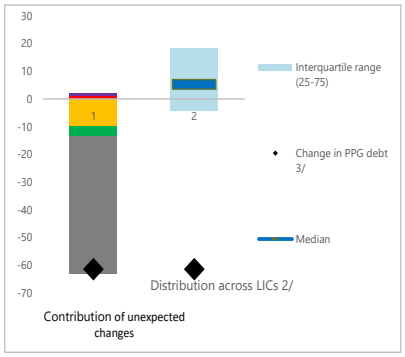
Gross Nominal PPG External Debt



Debt-Creating Flows

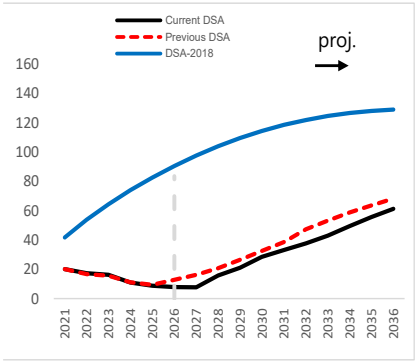


Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

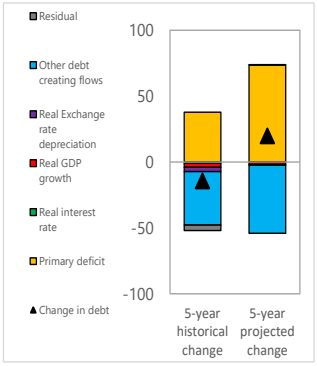


Public Debt

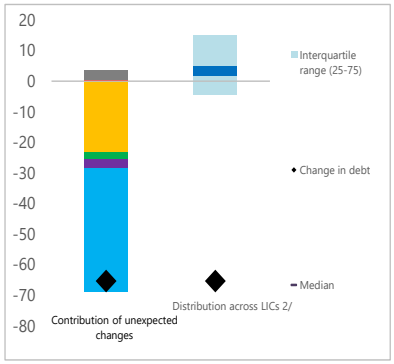
Gross Nominal Public Debt (In percent of GDP, DSA Vintages



Debt-Creating Flows (In percent of GDP)



Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



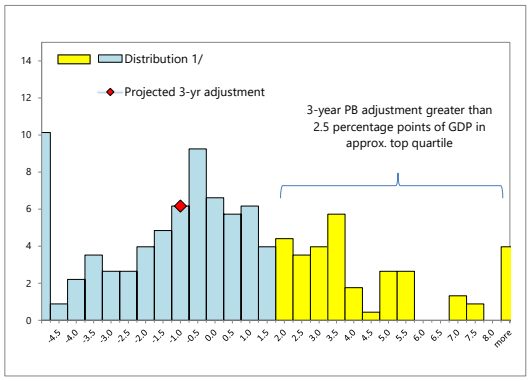
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

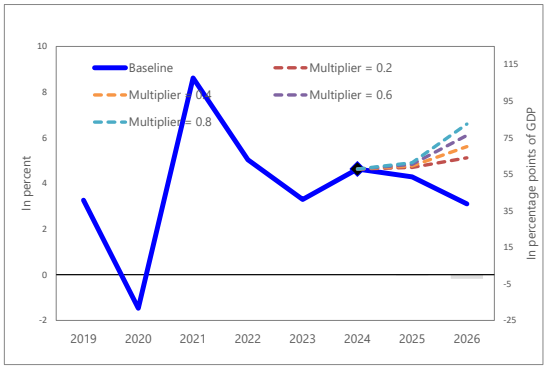
Figure 4. Kiribati: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



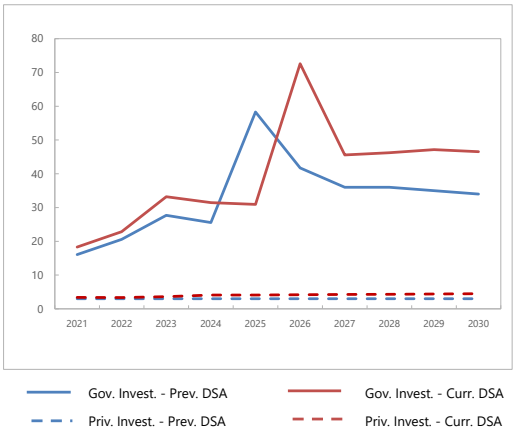
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

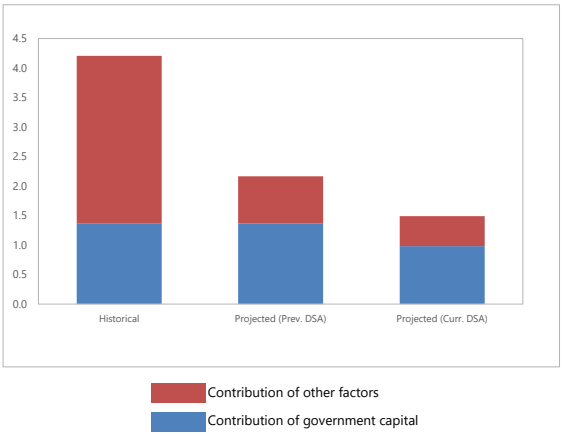
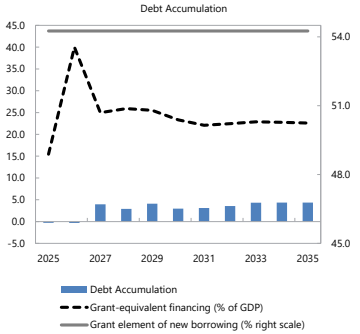


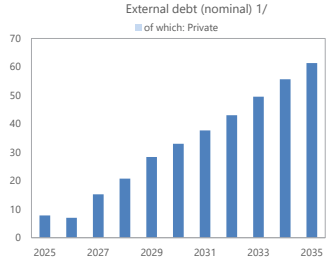
Table 1. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2022–2045

(In percent of GDP, unless otherwise indicated)

	Actual			Projections											Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2045	Historical	Projections
External debt (nominal) 1/	**12.6**	**10.4**	**8.6**	**7.8**	**7.0**	**15.2**	**20.7**	**28.3**	**33.0**	**37.7**	**43.0**	**49.5**	**55.7**	**61.4**	**102.9**	**13.9**	**32.7**
of which: public and publicly guaranteed (PPG)	**12.6**	**10.4**	**8.6**	**7.8**	**7.0**	**15.2**	**20.7**	**28.3**	**33.0**	**37.7**	**43.0**	**49.5**	**55.7**	**61.4**	**102.9**	**13.9**	**32.7**
Change in external debt	-1.0	-2.2	-1.8	-0.8	-0.8	8.2	5.5	7.6	4.7	4.7	5.3	6.5	6.1	5.7	2.8		
Identified net debt-creating flows	**11.1**	**-0.9**	**13.4**	**17.2**	**15.5**	**14.5**	**13.4**	**12.8**	**12.3**	**12.0**	**11.7**	**11.6**	**11.5**	**11.3**	**10.2**	**-15.7**	**13.1**
Non-interest current account deficit	**11.8**	**1.6**	**17.2**	**18.6**	**17.6**	**16.7**	**15.5**	**15.0**	**14.5**	**14.3**	**14.1**	**14.0**	**14.0**	**13.9**	**13.2**	**-15.3**	**15.3**
Deficit in balance of goods and services	59.2	47.9	52.6	65.2	57.6	56.8	56.6	56.2	56.3	56.1	55.8	56.6	56.5	57.4	59.0	**24.5**	**57.4**
Exports	40.9	52.8	44.9	43.5	42.8	42.6	42.6	42.6	42.3	42.4	42.5	41.6	41.7	40.9	39.6		
Imports	100.1	100.7	97.6	108.7	100.3	99.5	99.2	98.8	98.6	98.4	98.2	98.2	98.3	98.3	98.5		
Net current transfers (negative = inflow)	-30.8	-29.0	-21.5	-28.1	-25.4	-25.4	-25.0	-25.1	-23.4	-24.7	-24.7	-24.6	-24.8	-24.8	-24.8	**-22.6**	**-25.1**
of which: official	-12.9	-25.7	-10.3	-15.5	-40.0	-20.1	-22.4	-20.7	-20.0	-18.7	-18.7	-18.3	-18.3	-18.3	-16.3		
Other current account flows (negative = net inflow)	-16.6	-17.3	-13.9	-18.5	-14.6	-14.8	-16.1	-16.2	-18.4	-17.0	-16.9	-18.0	-17.7	-18.8	-21.0	**-17.1**	**-17.0**
Net FDI (Negative = Inflow)	**-1.6**	**-1.7**	**-2.3**	**-1.2**	**-2.0**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-0.7**	**-1.9**
Endogenous Debt Dynamics 2/	**0.9**	**-0.7**	**-1.4**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.2**	**-0.3**	**-0.3**	**-0.4**	**-0.5**	**-0.5**	**-0.6**	**-1.0**		
Contribution from nominal interest rate	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.9		
Contribution from real GDP growth	-0.7	-0.4	-0.4	-0.4	-0.2	-0.2	-0.3	-0.4	-0.6	-0.7	-0.8	-0.9	-1.0	-1.1	-2.0		
Contribution from price and exchange rate changes	1.4	-0.5	-1.2	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**-12.1**	**-1.3**	**-15.3**	**-18.0**	**-16.3**	**-6.3**	**-7.9**	**-5.2**	**-7.6**	**-7.3**	**-6.4**	**-5.1**	**-5.4**	**-5.6**	**-7.4**	**14.3**	**-8.3**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability Indicators																	
PV of PPG external debt-to-GDP ratio	**...**	**...**	**6.8**	**6.4**	**5.3**	**8.9**	**11.4**	**14.9**	**17.2**	**19.6**	**22.3**	**25.6**	**28.8**	**32.0**	**57.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**15.1**	**14.6**	**12.3**	**20.8**	**26.7**	**35.1**	**40.7**	**46.2**	**52.5**	**61.6**	**69.1**	**78.3**	**144.8**		
PPG debt service-to-exports ratio	**2.1**	**1.5**	**1.4**	**1.5**	**1.3**	**1.2**	**1.4**	**1.4**	**1.6**	**1.6**	**1.7**	**1.8**	**1.9**	**2.1**	**5.4**		
PPG debt service-to-revenue ratio	**1.5**	**1.1**	**1.0**	**1.1**	**0.9**	**0.9**	**1.0**	**1.1**	**1.2**	**1.2**	**1.3**	**1.3**	**1.4**	**1.5**	**4.0**		
Gross external financing need (Million of U.S. dollars)	38.6	12.0	69.3	71.5	80.6	80.4	78.0	78.6	79.9	82.2	84.3	87.3	90.8	93.9	141.2		
Key Macroeconomic Assumptions																	
Real GDP growth (in percent)	5.0	3.3	4.6	4.3	3.1	2.4	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	**4.9**	**2.4**
GDP deflator in US dollar terms (change in percent)	-9.5	3.9	12.5	-2.4	11.3	1.6	1.3	1.5	1.9	1.7	1.7	1.7	1.7	1.7	1.7	**1.1**	**2.1**
Effective interest rate (percent) 4/	1.3	1.4	1.4	1.4	1.5	1.4	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	**1.2**	**1.2**
Growth of exports of G&S (US dollar terms, in percent)	-15.8	38.4	0.2	-1.4	12.7	3.7	3.5	3.5	3.4	4.0	4.0	1.7	4.2	1.7	4.3	**1.9**	**3.7**
Growth of imports of G&S (US dollar terms, in percent)	34.7	7.9	14.0	13.4	5.9	3.2	3.2	3.3	3.9	3.6	3.6	3.9	3.9	3.9	3.8	**7.4**	**4.7**
Grant element of new public sector borrowing (in percent)	...	...	...	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	**...**	**54.3**
Government revenues (excluding grants, in percent of GDP)	56.1	70.5	61.7	58.3	59.5	58.8	58.3	57.8	57.5	57.4	57.4	56.5	56.6	55.6	54.2	**74.7**	**57.6**
Aid flows (in Million of US dollars) 5/	34.9	74.9	35.3	54.0	160.3	121.2	124.5	132.1	121.6	120.4	128.7	139.2	143.5	147.4	194.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	15.5	40.0	25.0	25.9	25.5	23.3	22.1	22.5	22.9	22.8	22.6	20.4	**...**	**24.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	100.0	100.0	86.0	89.7	86.3	89.3	88.6	87.5	85.6	85.8	86.1	85.5	**...**	**89.5**
Nominal GDP (Million of US dollars)	272	292	343	349	401	417	431	447	465	483	502	521	541	562	816		
Nominal dollar GDP growth	-4.9	7.3	17.7	1.8	14.7	4.1	3.4	3.7	4.0	3.8	3.8	3.8	3.9	3.8	3.8	**6.0**	**4.6**
Memorandum Items:																	
PV of external debt 7/	...	...	6.8	6.4	5.3	8.9	11.4	14.9	17.2	19.6	22.3	25.6	28.8	32.0	57.3		
In percent of exports	...	...	15.1	14.6	12.3	20.8	26.7	35.1	40.7	46.2	52.5	61.6	69.1	78.3	144.8		
Total external debt service-to-exports ratio	2.1	1.5	1.4	1.5	1.3	1.2	1.4	1.4	1.6	1.6	1.7	1.8	1.9	2.1	5.4		
PV of PPG external debt (in Million of US dollars)			23.3	22.2	21.1	37.0	49.1	66.8	80.1	94.5	111.7	133.4	156.1	179.6	467.3		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.3	-0.3	4.0	2.9	4.1	3.0	3.1	3.6	4.3	4.4	4.4	4.1		
Non-interest current account deficit that stabilizes debt ratio	12.8	3.8	19.1	19.4	18.4	8.4	10.0	7.4	9.9	9.6	8.8	7.5	7.9	8.2	10.4		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

The large residual in Table 1 is attributable to several factors: quality of balance of payments data, accumulation of assets in the RERF, and the partial utilization assumption regarding IDA/ADB commitments (these enter the DSA in full, but development expenditures as reflected in the overall balance are not utilizing these funds in full).

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

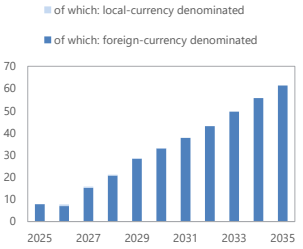
Table 2. Kiribati: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–2045

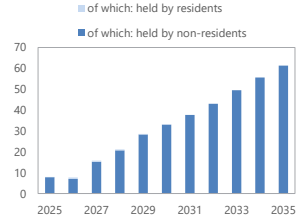
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public Sector Debt 1/	**16.2**	**11.0**	**8.8**	**8.0**	**7.7**	**15.8**	**21.2**	**28.6**	**33.2**	**61.4**	**102.9**	**16.7**	**32.9**
Of Which: External Debt	**12.6**	**10.4**	**8.6**	**7.8**	**7.0**	**15.2**	**20.7**	**28.3**	**33.0**	**61.4**	**102.9**	**13.9**	**32.7**
Change in public sector debt	-1.1	-5.2	-2.2	-0.8	-0.2	8.1	5.4	7.5	4.5	5.7	2.8		
Identified Debt-Creating Flows	**-0.2**	**-2.4**	**-1.5**	**-0.9**	**-0.7**	**8.3**	**5.6**	**7.8**	**4.9**	**6.1**	**3.7**	**-1.4**	**5.0**
Primary Deficit	**18.2**	**-1.8**	**14.1**	**14.5**	**16.7**	**15.3**	**12.6**	**14.7**	**14.5**	**16.6**	**14.3**	**-7.6**	**15.2**
Revenue and grants	68.9	96.2	72.0	73.7	99.5	79.0	80.7	78.5	77.5	73.9	70.4	**103.7**	**78.6**
of which: grants	12.9	25.7	10.3	15.5	40.0	20.1	22.4	20.7	20.0	18.3	16.3		
Primary (noninterest) expenditure	87.2	94.4	86.1	88.2	116.3	94.2	93.2	93.2	92.0	90.5	84.8	**96.1**	**93.8**
Automatic Debt Dynamics	**0.5**	**-1.8**	**-1.0**	**-0.4**	**-0.3**	**-0.2**	**-0.4**	**-0.6**	**-0.8**	**-1.6**	**-2.9**		
Contribution from interest rate/growth differential	-0.8	-0.8	-0.6	-0.4	-0.3	-0.2	-0.4	-0.6	-0.8	-1.6	-2.9		
of which: contribution from average real interest rate	0.1	-0.3	-0.1	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.5	-0.9		
of which: contribution from real GDP growth	-0.8	-0.5	-0.5	-0.4	-0.2	-0.2	-0.3	-0.4	-0.6	-1.1	-2.0		
Contribution from real exchange rate depreciation	1.2	-1.0	-0.4	...	...	...	...	...	...	...	...		
Other Identified Debt-Creating Flows	**-18.9**	**1.2**	**-14.7**	**-15.0**	**-17.2**	**-6.7**	**-6.5**	**-6.2**	**-8.7**	**-8.9**	**-7.8**	**12.9**	**-9.4**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	-18.9	1.2	-14.7	-15.0	-17.2	-6.7	-6.5	-6.2	-8.7	-8.9	-7.8		
Residual	**-0.9**	**-2.8**	**-0.7**	**0.0**	**0.5**	**-0.2**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.9**	**-0.6**	**-0.2**
ustainability Indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**7.2**	**6.6**	**6.6**	**9.9**	**12.2**	**15.5**	**17.7**	**32.3**	**57.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**9.9**	**8.9**	**6.7**	**12.5**	**15.1**	**19.8**	**22.8**	**43.8**	**82.0**		
Debt service-to-revenue and grants ratio 3/	**1.2**	**3.5**	**1.3**	**0.9**	**0.6**	**0.7**	**0.7**	**0.8**	**0.9**	**1.2**	**3.1**		
Gross financing need 4/	0.2	2.8	0.4	0.2	0.1	9.0	6.7	9.0	6.4	8.5	8.7		
ey Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	5.0	3.3	4.6	4.3	3.1	2.4	2.2	2.2	2.1	2.1	2.1	**4.9**	**2.4**
Average nominal interest rate on external debt (in percent)	1.3	1.4	1.4	1.5	1.5	1.5	1.2	1.1	1.1	1.0	1.0	**1.3**	**1.2**
Average real interest rate on domestic debt (in percent)	4.9	...	...	...	...	...	...	...	...	...	...	**...**	**...**
Real exchange rate depreciation (in percent, + indicates depreciation)	9.6	-8.1	-4.3	...	...	...	...	...	...	...	...	**-0.3**	**...**
Inflation rate (GDP deflator, in percent)	-2.1	8.6	13.3	-0.1	1.9	1.8	1.7	2.0	2.1	1.7	1.7	**4.1**	**1.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	9.1	11.9	-4.5	6.8	35.9	-17.0	1.1	2.1	0.8	1.6	1.6	**3.8**	**3.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	19.3	3.4	16.4	15.3	17.0	7.2	7.2	7.2	10.0	11.0	11.6	**13.0**	**10.5**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: See Text Table 1 . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Kiribati: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–2045

(In percent)

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
PV of debt-to GDP ratio																					
Baseline	6	5	9	11	15	17	20	22	26	29	32	35	38	**40**	**43**	**45**	**48**	**51**	**53**	**55**	**57**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	6	-9	-20	-32	-41	-52	-62	-72	-80	-89	-98	-105	-112	-119	-125	-131	-136	-140	-144	-148	-151
B. Bound Tests																					
B1. Real GDP growth	6	6	10	13	17	19	22	25	29	32	36	39	**42**	**45**	**48**	**51**	**54**	**56**	**59**	**62**	**64**
B2. Primary balance	6	15	28	31	34	37	39	**42**	**45**	**48**	**52**	**54**	**57**	**59**	**61**	**63**	**65**	**67**	**69**	**71**	**73**
B3. Exports	6	12	26	29	33	35	38	**41**	**45**	**48**	**52**	**55**	**57**	**60**	**61**	**64**	**66**	**68**	**70**	**72**	**74**
B4. Other flows 3/	6	10	19	22	25	27	30	33	36	39	**42**	**45**	**47**	**50**	**52**	**54**	**56**	**58**	**60**	**62**	**63**
B5. Depreciation	6	6	3	6	11	13	16	20	24	28	32	35	39	**43**	**46**	**50**	**53**	**57**	**60**	**63**	**66**
B6. Combination of B1-B5	6	15	20	23	27	30	32	35	39	**43**	**46**	**49**	**52**	**55**	**57**	**59**	**62**	**64**	**67**	**69**	**71**
C. Tailored Tests																					
C1. Combined contingent liabilities	6	39	**43**	**45**	**49**	**51**	**54**	**56**	**60**	**63**	**66**	**69**	**72**	**75**	**78**	**80**	**83**	**86**	**89**	**91**	**93**
C2. Natural disaster	6	12	17	21	26	29	33	37	**42**	**47**	**51**	**56**	**60**	**64**	**68**	**72**	**76**	**80**	**84**	**87**	**91**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio																					
Baseline	15	12	21	27	35	41	46	52	62	69	78	85	92	101	107	113	121	127	134	140	145
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	15	-22	-48	-74	-97	-122	-146	-169	-193	-213	-239	-257	-273	-297	-311	-324	-341	-350	-363	-376	-383
B. Bound Tests																					
B1. Real GDP growth	15	12	21	27	35	41	46	52	62	69	78	85	92	101	107	113	121	127	134	140	145
B2. Primary balance	15	35	66	72	81	86	92	98	108	116	126	133	138	147	151	156	164	169	175	**181**	**185**
B3. Exports	15	35	94	105	119	129	139	150	167	**180**	**197**	**209**	**217**	**231**	**238**	**245**	**258**	**265**	**275**	**284**	**289**
B4. Other flows 3/	15	24	45	51	59	65	70	77	86	94	104	110	115	124	128	133	141	145	151	157	160
B5. Depreciation	15	12	6	12	20	26	31	38	46	54	63	70	77	87	93	100	109	115	123	130	135
B6. Combination of B1-B5	15	38	42	66	78	86	93	102	115	126	139	148	155	167	173	180	**191**	**197**	**205**	**214**	**218**
C. Tailored Tests																					
C1. Combined contingent liabilities	15	91	100	106	115	121	126	133	144	151	162	169	176	**188**	**193**	**199**	**209**	**215**	**223**	**231**	**236**
C2. Natural disaster	15	29	42	52	65	74	84	94	108	120	134	146	156	171	**180**	**190**	**204**	**214**	**226**	**238**	**246**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio																					
Baseline	1	1	1	1	1	2	2	2	2	2	2	2	3	3	3	4	4	5	5	5	5
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	1	1	1	0	0	-1	-1	-2	-2	-3	-3	-5	-6	-8	-9	-10	-12	-13	-14	-15	-16
B. Bound Tests																					
B1. Real GDP growth	1	1	1	1	1	2	2	2	2	2	2	2	3	3	3	4	4	5	5	5	5
B2. Primary balance	1	1	2	2	2	2	2	3	3	3	3	4	6	6	7	7	7	7	8	8	8
B3. Exports	1	2	3	4	4	4	4	4	4	4	5	6	9	10	10	10	11	12	12	12	13
B4. Other flows 3/	1	1	1	2	2	2	2	2	2	2	2	3	4	5	5	5	6	6	6	7	7
B5. Depreciation	1	1	1	1	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5
B6. Combination of B1-B5	1	2	2	2	3	3	3	3	3	3	3	5	6	7	7	7	8	8	8	9	9
C. Tailored Tests																					
C1. Combined contingent liabilities	1	1	3	3	3	3	3	3	3	3	3	4	4	5	5	5	5	6	6	6	6
C2. Natural disaster	1	1	2	2	2	2	2	2	3	3	3	4	4	5	5	5	6	6	7	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio																					
Baseline	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3	4	4	4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	1	1	0	0	0	-1	-1	-1	-2	-2	-2	-3	-5	-6	-7	-8	-9	-9	-10	-11	-12
B. Bound Tests																					
B1. Real GDP growth	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3	4	4	4	4
B2. Primary balance	1	1	1	2	2	2	2	2	2	2	2	3	4	5	5	5	5	6	6	6	6
B3. Exports	1	1	1	2	2	2	2	2	2	2	2	3	4	5	5	5	5	5	6	6	6
B4. Other flows 3/	1	1	1	1	1	1	2	2	2	2	2	3	3	4	4	4	4	4	5	5	5
B5. Depreciation	1	1	1	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	4	4	4
B6. Combination of B1-B5	1	1	1	1	2	2	2	2	2	2	2	3	3	4	4	4	5	5	5	5	5
C. Tailored Tests																					
C1. Combined contingent liabilities	1	1	2	2	2	2	2	2	2	2	3	3	3	3	3	4	4	4	4	5	5
C2. Natural disaster	1	1	1	1	1	1	2	2	2	2	2	2	3	3	3	3	4	4	4	5	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Kiribati: Sensitivity Analysis for Key Indicators of Public Debt, 2025–2045

(In percent)

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
PV of Debt-to-GDP Ratio																					
Baseline	7	7	10	12	16	18	20	23	26	29	32	35	38	41	43	46	49	51	54	**56**	**58**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	7	-4	-10	-16	-21	-28	-34	-39	-44	-48	-53	-57	-60	-63	-66	-68	-70	-72	-73	-74	-75
B. Bound Tests																					
B1. Real GDP growth	7	8	16	21	28	34	39	45	52	**59**	**66**	**72**	**79**	**84**	**90**	**96**	**101**	**107**	**112**	**117**	**122**
B2. Primary balance	7	15	27	29	32	34	37	40	43	46	50	53	**55**	**57**	**59**	**62**	**64**	**66**	**68**	**70**	**72**
B3. Exports	7	13	25	27	30	32	34	37	41	44	47	50	52	54	**56**	**58**	**60**	**62**	**63**	**65**	**66**
B4. Other flows 3/	7	12	21	23	26	28	30	33	36	40	43	46	48	50	52	54	**56**	**59**	**60**	**62**	**64**
B5. Depreciation	7	8	7	7	7	6	6	6	6	6	6	6	6	7	7	7	7	8	8	8	8
B6. Combination of B1-B5	7	17	19	10	13	15	18	20	24	27	30	33	36	39	41	44	47	49	52	54	**56**
C. Tailored Tests																					
C1. Combined contingent liabilities	7	36	37	39	43	45	48	51	54	**58**	**61**	**65**	**68**	**71**	**73**	**76**	**79**	**82**	**85**	**88**	**90**
C2. Natural disaster	7	12	17	20	25	28	32	36	41	46	50	55	**59**	**63**	**67**	**71**	**75**	**79**	**83**	**87**	**90**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio																					
Baseline	9	7	13	15	20	23	26	30	35	39	44	48	52	57	61	64	69	72	76	79	82
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	9	(4)	(12)	(20)	(28)	(37)	(47)	(55)	(64)	(71)	(79)	(85)	(91)	(99)	(104)	(108)	(113)	(116)	(120)	(123)	(125)
B. Bound Tests																					
B1. Real GDP growth	9	8	19	25	35	42	50	58	68	77	87	96	104	115	123	131	140	147	155	162	168
B2. Primary balance	9	15	34	36	41	44	48	52	58	62	67	72	75	81	83	86	91	94	97	100	102
B3. Exports	9	13	31	33	38	42	45	49	54	59	64	68	71	76	78	81	84	87	90	93	94
B4. Other flows 3/	9	12	26	28	33	36	40	43	49	53	58	62	65	70	73	76	80	83	86	89	91
B5. Depreciation	9	8	10	9	9	8	8	8	8	8	8	9	9	9	10	10	11	11	11	12	12
B6. Combination of B1-B5	9	17	24	12	17	20	23	27	32	36	41	46	49	55	58	62	66	70	74	77	80
C. Tailored Tests																					
C1. Combined contingent liabilities	9	36	47	49	54	58	63	66	72	77	83	88	92	99	103	107	113	116	121	125	128
C2. Natural disaster	9	12	21	25	31	36	42	47	54	61	67	74	80	88	93	99	106	111	117	123	127
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3	3
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	1	1	0	0	(0)	(0)	(0)	(1)	(1)	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(4)	(5)	(5)
B. Bound Tests																					
B1. Real GDP growth	1	1	1	1	1	1	1	1	2	2	2	2	3	3	4	4	5	5	6	6	7
B2. Primary balance	1	1	1	1	1	1	1	1	1	2	2	2	3	4	4	4	4	4	4	4	5
B3. Exports	1	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	4	4	4	4	4
B4. Other flows 3/	1	1	1	1	1	1	1	1	1	1	1	2	2	3	3	3	3	3	4	4	4
B5. Depreciation	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	3	3	3	3
C. Tailored Tests																					
C1. Combined contingent liabilities	1	1	2	2	2	2	2	2	2	2	2	2	2	3	3	3	3	3	3	4	4
C2. Natural disaster	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3	3	4	4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

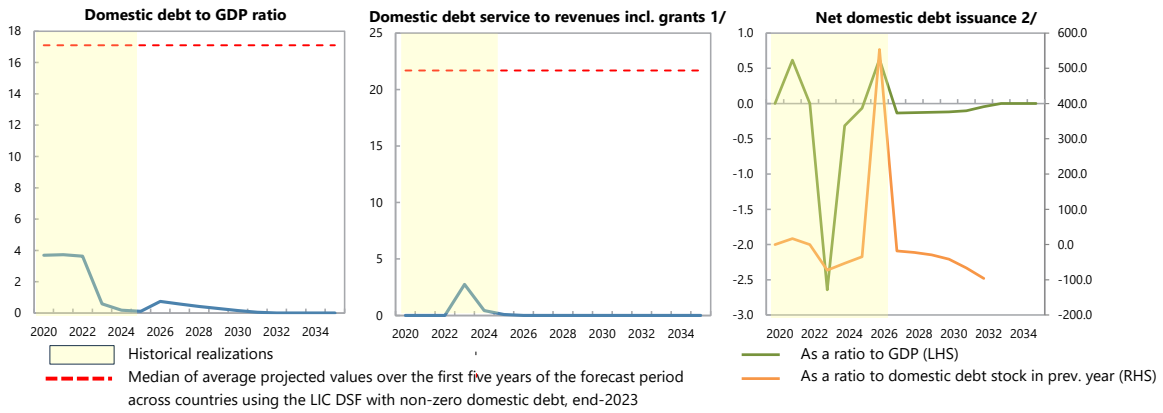
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 5. Kiribati: Domestic Public and Publicly Guaranteed Debt Indicators, 2025–2035



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	100%
Short-term	0%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	8.1%
Avg. maturity (incl. grace period)	6
Avg. grace period	0
Domestic short-term debt	
Avg. real interest rate	0.0%

Sources: Country authorities; and staff estimates and projections.

1/ Domestic PPG debt in the projection period consists solely of government guarantees for the loans by SOEs. 2/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year. The large negative net issuance in 2022 reflects the repayment (AUD 11.6mn) of a called government guarantee for Air Kiribati Ltd.'s loan for a new aircraft.

Statement by Mr. Mark Blackmore, Alternate Executive Director, and Mr. Jae Woo Oh, Senior Advisor to Executive Director

May 11, 2026

On behalf of the Kiribati authorities, we thank Ms. Natalija Novta and her team for the candid and constructive discussions during the 2026 Article IV consultation. The authorities highly value their continued engagement with staff and appreciate the Fund's CD support. They broadly concur with staff's assessment of the economic outlook and policy recommendations.

Recent Developments and Outlook

Kiribati's economy remains resilient. Reflecting stronger-than-expected fisheries output, real GDP growth for 2022 and 2023 was revised upward from 4.6 percent to 5.0 percent and from 2.7 percent to 3.3 percent, respectively. Growth remained robust at 4.6 percent in 2024, supported by higher public sector wages and services growth. Staff estimate that real GDP growth was 4.3 percent in 2025, reflecting continued strength in consumption and construction.

Inflation rose to 6.5 percent in 2025, driven by fuel price and electricity tariff reforms. The authorities note that these cost-reflective pricing reforms, while contributing to short-term price pressures, were necessary to strengthen the financial sustainability of SOEs. Staff project inflation will moderate to around 4.5 percent in 2026 as the impact of tariff reforms dissipate, although import prices are expected to remain elevated due to the conflict in the Middle East.

Kiribati's reserve position is assessed as adequate. The Revenue Equalization Reserve Fund (RERF), Kiribati's sovereign wealth fund, continued to perform well, posting an annual return of 10 percent in 2025, with its balance reaching about 310 percent of GDP at end-2025. The current account deficit widened to 19 percent of GDP in 2025, reflecting higher imports related to large infrastructure projects, but is projected to narrow slightly in 2026.

The outlook remains subject to significant risks. As a small island economy highly dependent on imports of food and fuel, Kiribati is vulnerable to global shocks and climate-related events. The authorities are particularly concerned that a protracted conflict in the Middle East could raise inflation, disrupt supply chains, and weigh on real incomes. Should downside risks materialize, they plan to delay some government activities to offset lower revenues.

The authorities emphasize that fisheries remain a critical and resilient pillar of the economy. They note that Kiribati holds the highest allocation of fishing days among Pacific Island peers and fishing license revenue growth since 2013 has outperformed peers. Total fishing revenue reached AUD 205 million in 2025, declining slightly from 40 percent of GDP in 2024 to 38 percent in 2025, but exceeding the authorities' projection by AUD 18.9 million. The authorities view this as

reflecting favorable conditions under the PNA Vessel Day Scheme (VDS), sustained regional cooperation, and continued demand for access to Kiribati's Exclusive Economic Zone. At the same time, they remain mindful that fishing revenue is inherently volatile and sensitive to global market conditions, exchange rate movements, climate variability, and tuna stock migration.

Fiscal Policy

Fiscal policy was broadly neutral in 2025, supported by donor grants and strong tax revenue, with the overall deficit broadly unchanged from 2024 at about 14 percent of GDP. Staff assess that the 2026 budget includes measures broadly aligned with the recommended fiscal consolidation. Public and publicly guaranteed debt declined to 8.0 percent of GDP at end-2025; most debt is external and on concessional terms, and no new external debt has been contracted since 2014. The authorities reaffirm their commitment to avoiding new non-concessional external borrowing.

The authorities reiterated their commitment to fiscal responsibility and debt sustainability. Given limited fiscal space, they recognize the need to mobilize domestic revenue through tax reforms and higher fisheries revenue, while strengthening fiscal discipline. Under staff's baseline, debt remains sustainable, although the risk of debt distress is high over the 20-year projection horizon due to climate-related vulnerabilities. Cash reserves, estimated at about 49 percent of GDP at end-2025, and the availability of RERF withdrawals provide important mitigating factors.

The authorities expect recent tax reforms to help broaden the tax base. Amendments to the Income Tax Act and VAT Act, together with strengthened tax administration, are expected to support revenue mobilization. Staff project tax revenue to remain around 18–19 percent of GDP over the medium term, above the 2013–23 average of about 15 percent. A new bill to increase excise taxes on tobacco and alcohol and introduce an excise tax on kava is expected to take effect this year.

They are also pursuing higher fisheries revenue through new Kiribati-flagged vessels financed by Joint Venture entities (JVs), plans for a Special Economic Zone (SEZ), and investments in facilities for higher value-added fish products. They also plan to implement the VDS for longline vessels and improve fish export data through stronger interagency communication.

Given Kiribati's high costs and challenging environment for attracting FDI, the authorities stress the long-term value of tax holidays and planned SEZ regulations with cost-based tax incentives. They view tax concessions as limited short-term revenue deferrals and consider that projects receiving tax holidays have already generated offsetting economic value. At the same time, they recognize the need to clarify JV dividend arrangements, regularly review SEZ and JV incentives, and strengthen monitoring of potential revenue losses. They would welcome continued engagement with the Fund and other development partners in these areas.

On the copra price support scheme, the 2026 budget includes a cost-sharing arrangement with the relevant SOE to contain spending pressures from the copra subsidy. Discussions are ongoing on a permanent cost-sharing agreement, with careful consideration of its longer-term budgetary impact.

Enhancing the medium-term fiscal framework remains a key priority. The authorities are focused on prudent expenditure management, medium-term revenue smoothing, avoiding the use of windfall gains to finance recurrent spending, and maintaining RERF sustainability. With PFTAC support, they are taking steps to integrate recurrent and development spending within the MTFF to help ensure fiscally sustainable investment decisions aligned with national priorities. Further efforts will focus on improving cash management, strengthening fisheries revenue risk assessment, and incorporating conservative revenue assumptions into medium-term budgeting. The authorities are interested in advancing work on the MTFF that better integrates RERF withdrawals and fiscal risks. Given the volatility of RERF returns, their guiding principle is to preserve the RERF's real long-term value while allowing sustainable withdrawals to support the annual budget.

Institutional reforms are also advancing, with a focus on procurement, revenue administration, and infrastructure governance. The authorities are upgrading the legacy revenue management system and developing an asset management policy. Electricity tariff adjustments were implemented in 2025 to move gradually toward cost recovery, while fuel prices were adjusted to better reflect international prices. Both are subject to periodic review under the National Energy Policy framework. The authorities will also continue efforts to enhance SOE commercial sustainability by aligning tariffs more closely with market-based pricing and shifting Community Service Obligation payments from loss coverage toward market-price compensation.

The authorities continue to build debt management capacity. This includes the introduction of loan accountability agreements with SOEs. These agreements set out the conditions governing government guarantees, with requirements for prior debt sustainability assessments, explicit Board accountability, and quarterly reporting on outstanding balances, covenant compliance, repayment performance, and associated fiscal risks. The SOE Act, passed in August 2025, further strengthens SOE governance, accountability, reporting, and financial sustainability.

The authorities clarify that the government has no legally binding obligation in relation to JV debt and, in their view, such debt does not constitute a government contingent liability. To date, the Government of Kiribati has not participated in any loan or debt financing for the vessels or hotel investment associated with the JVs referenced in the staff report. At the same time, they agree that monitoring and transparency should be strengthened, even where the government is not directly involved in borrowing. Any future government involvement in JV loan arrangements would be subject to Cabinet and Parliamentary approval. The authorities will continue efforts to

broaden the coverage of the SOE Monitoring and Advisory Unit to include JVs and to improve interagency information sharing.

Structural Policies

The government is advancing ambitious reforms to strengthen resilience and support long-term growth. This vision is reflected in the Kiribati 20-Year Vision, which aims to promote sustainable and inclusive development by leveraging the country's natural, human, and cultural resources. Priorities include expanding private sector employment and investment, diversifying exports, improving infrastructure, empowering outer-island communities, strengthening education and health services, enhancing institutions and governance, and responding to climate change.

Inclusive growth through social protection remains a key government priority. The authorities emphasize that social protection programs should be universal, life-cycle focused, complementary, and unconditional. They stress that expanded social benefits contributed to a 75 percent reduction in poverty between 2019 and 2023, while supporting household welfare and resilience, particularly among vulnerable groups. Service delivery is being improved through a management information system and expanded digital payments, although implementation constraints in the outer islands remain significant. At the same time, the authorities recognize the need to keep social programs focused on human development and continue improving their efficiency. They consider the Fund's analysis useful for strengthening the evidence base for better-targeted support.

Progress is also being made in closing infrastructure gaps and improving the business climate. Several major projects are underway, including outer-island, airport, and port improvements; transport and connectivity upgrades; renewable energy and climate-resilient investments; and school and health facilities, largely financed by concessional financing and donor grants. The authorities plan to convene a Development Partner Forum later this year to strengthen strategic dialogue and better align projects with national priorities. Efforts to expand financial access and strengthen financial sector regulation will continue, including by making the Kiribati Financial Supervisory Authority fully operational.

Kiribati is among the countries most vulnerable to climate change. Annual adaptation costs to contain climate-related economic losses are estimated at 25 percent of GDP, the highest among Pacific Island countries. Developing a clear adaptation plan, investing in resilience, and mobilizing finance are therefore critical. However, bilateral support and MDB financing cover only a fraction of Kiribati's estimated needs. Building capacity to directly access climate finance will be an important but difficult medium-term task.

Capacity Development

The authorities remain committed to strengthening CD coordination with the Fund and development partners. Progress has been made in macro-fiscal forecasting, debt management, revenue administration, PFM, and macroeconomic statistics. The authorities see further technical assistance needs in strengthening the MTFF, supporting fisheries revenue mobilization, enhancing fiscal risk assessment, including for SOEs and JVs, strengthening project appraisal and public investment management, and improving financial sector reporting and supervision. They will also continue efforts to improve statistical quality through stronger interagency coordination and continued PFTAC support, including improved reporting of JV activities.