CENTRAL PACIFIC ISLANDS

Table 1	2020
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.11
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1671
Nauru	8867
Tuvalu	4663

Sources: WDI, World Bank staff estimates.

Growth rates in Kiribati, Nauru and Tuvalu remain far below pre-pandemic levels. While Tuvalu and Nauru remain COVID-free, the fast spread of COVID-19 in Kiribati in January 2022 highlighted the need to reinforce preparedness. Higher commodity prices, exacerbated by the Ukraine-Russia war, will add to inflationary pressures and hold back growth. A narrow economic base and vulnerability to climate change are key challenges for growth and poverty reduction in the Central Pacific.

Key conditions and challenges

Until the emergence of the highly transmissible Omicron variant, the Central Pacific countries had been spared from severe health impacts due to the pandemic. However, in January 2022 an outbreak took hold in Kiribati's capital, with the virus managing to evade the strict quarantine protocols for inbound travelers. Nauru and Tuvalu remain COVID-free thus far, but may have to grapple with the rapid spread of the virus as they reopen their borders. In the long term, the Central Pacific faces major development challenges due to extreme vulnerability to climate change, small size, remoteness, heavily reliance on external grants, near-total dependence on imports for foods and fuel, and limited sources of revenue. All three countries have invested in trust funds in order to stabilize volatile revenues and provide long-term development financing, but fiscal sustainability remains an important challenge.

In recent years, **Kiribati**'s growing revenues from fisheries have allowed the government to rapidly increase public spending to tackle the country's high rates of poverty and deprivation. However, with the available fiscal space now exhausted, Kiribati will now need to focus on the quality of public spending – rather than the quantity – in order to achieve further development gains. According to a 2019 survey, 21.9 percent of the population were below the national poverty line, and high shares of the population were deprived of non-monetary needs, such as access to clean water, sanitation, and electricity.

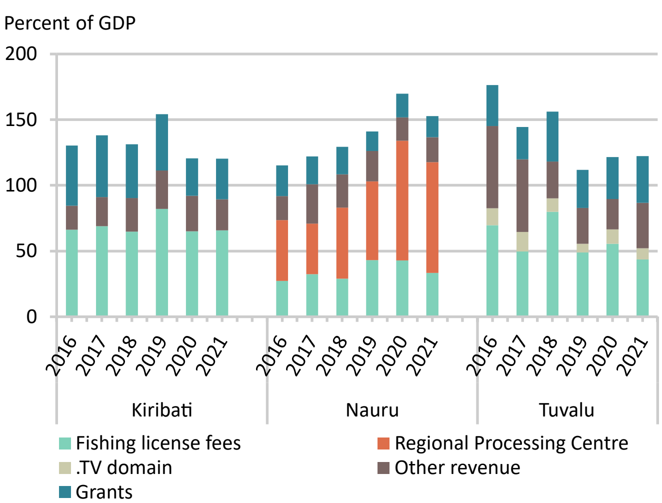
Nauru faces the challenge of adjusting to reduced fiscal revenues and finding new sources of economic growth and jobs over the medium term. Economic growth, employment and public revenues have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum seekers, phosphate mining and fishing. However, phosphate resources have now been fully exploited, and the RPC is now transitioning to a new 'enduring capability' arrangement with Australia, which will see the facility continue to operate on a significantly reduced scale.

In **Tuvalu**, fishing license fees are projected to decline as the El Nino cycle wanes. Strengthening public financial management is a priority, in particular reining in the elevated fiscal costs of overseas health care and improving procurement procedures to ensure more cost-effective capital spending. Though no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line.

Recent developments

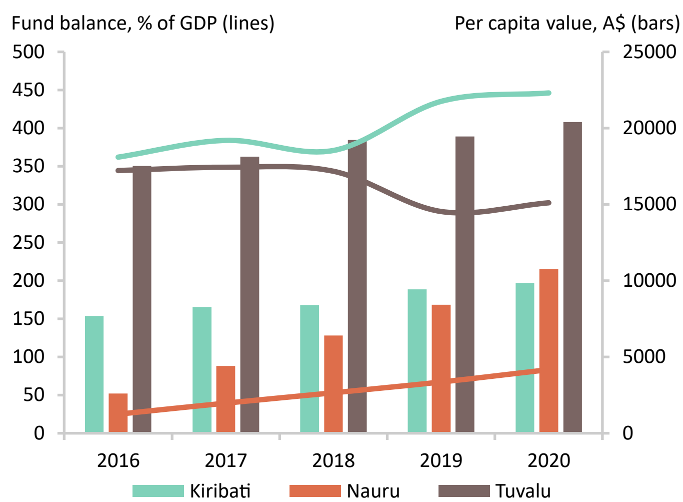
Kiribati experienced a modest economic recovery in 2021, with estimated 1.5 percent growth. COVID-19 border closures had resulted in a 0.5 percent contraction

FIGURE 1 Central Pacific Islands / Sources of revenue, 2016-2021



Sources: Country authorities, and World Bank and IMF staff estimates and projections. Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years.

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



Sources: Country authorities, and World Bank and IMF staff estimates and projections. Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years. The Nauru Trust Fund was established in 2016.

in 2020, with major disruption to business travel, development projects, and fresh fish exports. However, increased public spending on social benefits in 2021 outweighed the ongoing effects of the border measures, and supported a modest return to growth. This included a new unemployment benefit for all 18–60-year-olds without a formal job. This is expected to help reduce poverty given that more than three quarters of Kiribati's adult population are eligible to receive support, but the broad coverage of the program dilutes the benefits to the Bottom 40. At an annual cost of 12 percent of GDP, the benefit has also introduced significant fiscal pressures. Nonetheless, a 14.5 percent of GDP drawdown from the sovereign wealth fund limited the 2021 fiscal deficit to an estimated at 3.7 percent of GDP. As of end 2021, the value of the sovereign wealth fund stood at 490 percent of GDP.

In **Nauru**, growth is projected to have reached 1.5 percent in FY21, with stronger than expected activity related to the RPC and a major port redevelopment project helping to offset the effects of border closures. In FY21, the fiscal cost of COVID-19 amounted to 5 percent of GDP, including funding for the vaccine rollout and subsidies to maintain vital air and sea freight links. However, with better-than-expected revenues from the RPC, Nauru was still able to achieve an estimated surplus of 11 percent of GDP. With this surplus and a drawdown on cash reserves, Nauru made a contribution worth 19 percent of GDP to its Intergenerational Trust Fund in FY21, bringing the fund balance to 109 percent of GDP. Meanwhile, in the first two quarters of FY22, RPC activity continued to exceed expectations. This, along with strong fisheries revenue receipts, has generated a fiscal surplus for the year to-date.

In **Tuvalu**, the pandemic impacted travel and trade but the country avoided a recession. The economy grew an estimated 2.5 percent in 2021, supported by the infrastructure projects linked to the airport and school reconstruction. Buoyant fishing license revenues, the country's main source of revenue, rose to an estimated 56 percent of GDP in 2020, much higher than expected. The fiscal deficit is expected to widen to 7 percent of GDP in 2021 due to a 20 percent fall in fishing license fees and an increase in expenditures, including additional COVID related spending and planned air service investment. The total stock of sovereign wealth funds for Tuvalu, comprising the Tuvalu Trust Fund (TTF), the Consolidated Investment Fund (CIF), and the Tuvalu Survival Fund (TSF), is around 292 percent of GDP at end-2021.

Outlook

In **Kiribati**, moderate growth of about 1.8 percent is projected in 2022. Although a lockdown in the first quarter has subdued activity, supportive fiscal policy measures and the expected gradual return of international construction projects from the second half of 2022 will help to safeguard the recovery. After a slow start, the double dose vaccination rate has now reached 77 percent of adults (as of 3 March 2022), opening up the possibility that quarantine measures could be relaxed later this year. Meanwhile, inflationary pressures are expected to build in 2022, in line with international trends in food and fuel prices. The fiscal deficit is expected to reach 6.0 percent of GDP in 2022, after accounting for budget support grants and a 7.8 percent of GDP drawdown on the sovereign wealth fund. Kiribati's ample cash reserves mean that projected deficits can be sustainably financed over the medium term, but further expenditure growth would put this assessment at risk. The authorities' fiscal anchors on sovereign wealth fund drawdowns and maintaining adequate cash reserves provide important sustainability safeguards.

In **Nauru**, 96 percent of eligible adults are fully vaccinated, and the government is now launching a vaccine campaign for under-18s. The highly successful vaccination campaign has allowed for the gradual return of international travel, with quarantine requirements now removed for vaccinated travelers from Australia. Nonetheless, modest growth of only around 1 percent is expected in FY22, due to the expected wind-down of RPC activity in the second half of the year. However, a return to more robust growth of around 2.5 percent in FY23 and the medium term is projected, once the new port infrastructure comes online. Although the RPC wind-down will place growing pressure on government finances over the medium term, a balanced budget is projected for FY22. This is due to off-budget RPC income from previous years being recognized as revenues, cushioning the impact of the RPC wind-down, as well as strong fisheries revenue performance.

Tuvalu, with nearly 90 percent of adults fully vaccinated, is considering options for a gradual reopening of the borders with key countries, such as Fiji (the main hub for Tuvalu). Growth is therefore projected to rebound to 3.5 percent in 2022 and to climb steadily to 4 percent by 2024. The fiscal deficit will reach 2.9 percent of GDP in 2022 as expenditures fall back closer to pre-COVID levels while revenues are projected to fall by over 10 percent of GDP. Fishing license fees are expected to fall to 41.5 percent of GDP in 2022 from 43.5 percent in 2021. On the other hand, tuna transshipment in Funafuti, reinstated in February 2022 after a two-year ban due to COVID-19, is expected to bring additional revenues amounting to 2 percent of GDP. Over the medium-term, the fiscal deficit is projected to remain below 3 percent of GDP.

Risks to the Central Pacific outlook are substantial and include the unpredictability of the pandemic; volatility in revenue flows, including budget support from development partners; and the ever-present threat of climate-related natural disasters.

TABLE 2 Central Pacific Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021f	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Kiribati	-0.5	-0.5	1.5	1.8	2.5	2.3
Nauru	1.0	0.7	1.5	0.9	2.6	2.4
Tuvalu	13.9	1.0	2.5	3.5	3.8	4.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]						
Kiribati	16.2	17.8	17.6	17.4	17.2	16.8

Sources: World Bank and IMF. e = estimate; f = forecast.
Note: Country authorities and World Bank and IMF staff estimates. Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.