KIRIBATI

JOINT WORLD BANK–IMF DEBT SUSTAINABILITY ANALYSIS

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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	No

The 2023 Debt Sustainability Analysis (DSA) indicates the risk rating of debt distress for Kiribati remains high but is sustainable.[1] High recurrent spending amid a decline in fishing revenues has led to large fiscal deficits in 2021–22. Maintaining existing social protection spending and introducing new leave grants for private sector employees in the 2023 budget will cause the fiscal balance to remain in deficit over the medium term, a departure from a surplus prior to the pandemic. As a result, the ratio of the present value (PV) of the public and publicly guaranteed (PPG) external debt-to-GDP is expected to breach the indicative threshold starting in 2030 under the baseline scenario. Moreover, the PV of the total public debt-to-GDP ratio is expected to breach the indicative benchmark starting in 2032 under the baseline scenario. Stress tests confirm the vulnerability of the debt position to plausible shocks. Despite high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable as its vulnerability to debt distress is mitigated by several factors: (i) the country currently benefits from its grant-only status for financing from the multilateral development banks (MDBs) and it is likely to maintain access to highly concessional financing over the long term; (ii) the government has large cash buffers which can be drawn on to finance deficits in the near term; and (iii) the breaches occur only in the long term and only for the PV of the debt-to-GDP ratios, while all the other ratios are expected to remain well below their indicative thresholds. Consequently, Kiribati's debt trajectory is assessed to be sustainable.

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[1] Kiribati's Composite Indicator (CI) index is 2.70 calculated based on the October 2022 World Economic Outlook (WEO) and the 2021 Country Policy and Institutional Assessment (CPIA), indicating "medium" debt-carrying capacity.

Although Kiribati does not currently face debt servicing risks thanks to the high cash buffers, risks from unfavorable weather conditions or a downturn in global financial markets (which would reduce the value of Kiribati's sovereign wealth fund) call for greater fiscal prudence. Fiscal consolidation will be necessary to reduce fiscal risks by scaling back recurrent spending and mobilizing higher revenue. Further progress in structural and fiscal reforms, such as formulating a sustainable medium-term fiscal framework, improving public financial management, and placing state-owned enterprises (SOEs) on a commercial and sustainable footing, is also needed to improve debt trajectories and safeguard medium-and long-run fiscal sustainability. Containing the risk of debt distress also requires continuation of grants to support the country's large development needs.

PUBLIC DEBT COVERAGE

1.   The coverage of Kiribati's public sector debt is the central government, central government-guaranteed debts and social security fund (Text Table 1)**.** The DSA is conducted on residency basis. Data availability limits the debt coverage, especially the lack of information on a regularly updated balance sheet for the SOEs. Recent and planned technical assistance aim to improve data availability and coverage over time by reviewing the government financial statistics and greater data collection of the SOEs. Supported by the World Bank's FY2023 Sustainable Development Financing Policy (SDFP), the authorities published a Fiscal Reporting Policy in 2022, setting out new standards for regular public reporting on revenue, expenditure, public debt, and the performances of the SOEs and Revenue Equalization Reserve Fund (RERF).

Text Table 1. Kiribati: 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	

2.   A stress test for the combined contingent liability accounts for implicit liabilities and a potential financial market shock (Text Table 2). This stress test reflects the possible consequences for the path of public debt of a shock that requires the government to cover some contingent liabilities—including liabilities which are incurred only after the assumed shock. The test incorporates continent liabilities amounting to 7 percent of GDP, which comprises 2 percent of GDP of non-guaranteed SOE debt and a standard 5 percent of GDP cost to the government of a financial crisis.

Text Table 2. Kiribati: Combined Contingent Liability Shock

		Default	Used for the analysis
1	**The country's coverage of public debt**	The central government plus social security, gove	
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0
4	PPP	35 percent of PPP stock	0.0
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)		7.0

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%.

BACKGROUND ON DEBT

3. **Kiribati is a small state in the Pacific and one of the most remote countries in the world**. Its geography raises the cost of public service delivery, contributing to infrastructure gaps. Impediments such as a narrow production and export base (mainly related to tuna fishing and copra) make the country highly dependent on revenues from selling fishing licenses under various fisheries agreements and donor support for infrastructure investment. Kiribati has a sovereign wealth fund, the RERF, which was established in 1956. The RERF's balance was about AUD1.2 billion (close to 370 percent of GDP) at end-2022.

4. **Kiribati's PPG debt, at 21 percent of GDP at end-2021, is composed of external debt and government guarantees**. The external debt has slightly declined in recent years, as Kiribati has not incurred new external debt since 2014 on the back of strong fishing revenues. The fiscal deficit in 2021 was financed by cash reserves and a withdrawal of AUD40 million from the RERF. Kiribati has only PPG external debt from the Asian Development Bank (ADB) and Taiwan, China. The combined outstanding debt from these two stood at AUD52.0 million (about 17.1 percent of GDP) at end-2021 (Text Table 3 and text chart), estimated to decline to AUD49.3 million (about 15.2 percent of GDP) at end-2022. In terms of domestic debt, the government has guaranteed the loans that the Kiribati Provident Fund (KPF) has provided to two SOEs (Air Kiribati Limited and Development Bank of Kiribati) in the total amount of AUD11.8 million (3.9 percent of GDP at end-2021).

Kiribati: Outstanding Public External Debt by Creditor
(In percent of GDP)

Sources: Country authorities; and IMF staff estimates.

Text Table 3. Kiribati: Public External Debt Balance as of End-2021

Creditor	Balance
Asian Development Bank (ADB)	AUD 31,930,760
International Cooperation and Development Fund, Taiwan, China	AUD 19,788,244
Source: Country authorities.	

BACKGROUND ON MACRO FORECASTS

5.   The first COVID outbreak hit Kiribati in early 2022. After two years of strict travel restrictions and border closures, Kiribati resumed commercial flights in January 2022 which unfortunately brought the first positive case of COVID 19. More than half of the passengers tested positive for the virus, leading to a domestic outbreak. A state of emergency was declared in January 2022, and new lockdown restrictions were imposed which severely limited mobility, including labor and port activity. International borders were finally reopened in August 2022. After a slow start, vaccination rates have picked up with over 90 percent of the population currently inoculated.

6.   The economy continued to expand after the removal of all COVID-19 restrictions in the second half of 2022. Due to supportive fiscal policies, the economy recovered strongly in 2021 with real GDP growing 7.9 percent from a contraction of 1.4 percent in 2020. However, the COVID-19 lockdown restrictions imposed during the first half of 2022 limited mobility and further delayed large infrastructure projects. The removal of these restrictions and subsequent border reopening in August 2022 have boosted growth, supported by a pickup of private consumption. However, a severe drought affected the agricultural sector, and real GDP growth in 2022 is estimated to have slowed to 1.2 percent.

7.   Inflation has picked up since the border reopening. Inflationary pressures that arose in 2020H2-2021 due to supply disruptions peaked in late 2021 but have significantly intensified since August 2022. Headline inflation jumped to 16.2 percent (y-o-y) in December 2022 from 2.5 percent in December 2021 (averaging 5.3 percent in 2022), mainly due to a recovery in domestic demand, supply shortages, and elevated commodity and freight prices. An acceleration in the prices of food and non-alcoholic beverages (mainly sugar) accounted for close to 70 percent of the rise in inflation.

8.   Key assumptions over the medium term reflect the updated data provided by the authorities and estimated by staff (Text Table 4). The economy is expected to gain momentum in 2023, with the long-term growth trend largely in line with the last DSA analysis conducted in 2021. The followings are the key macroeconomic assumptions used for the baseline scenario:

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2011-21 Historical average	2022-32 Average
Current DSA											
Real GDP growth (in percent)	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	2.6	2.1
Inflation, average (change in percent)	2.6	2.1	5.3	8.6	4.5	2.1	1.9	1.8	1.8	0.5	3.0
Current account balance	40.0	8.9	-4.0	8.4	10.3	11.7	12.3	6.3	6.5	21.5	6.8
Overall fiscal balance	4.4	-11.2	-19.8	-11.9	-12.2	-11.4	-10.5	-14.8	-15.4	13.8	-15.1
Previous DSA											
Real GDP growth (in percent)	-0.5	1.8	2.5	2.3	2.1	2.0	2.0	1.8	1.8		
Inflation, average (change in percent)	1.8	2.0	1.8	1.9	1.8	1.6	1.5	1.4	1.3		
Current account balance	6.9	10.7	11.2	11.6	11.8	12.3	12.2	12.4	13.1		
Overall fiscal balance	-3.1	-11.6	-17.0	-15.2	-12.5	-11.4	-10.7	-11.2	-11.9		
Sources: Country authorities; and IMF staff estimates.											

- **Real GDP** growth is projected at 2.1 percent on average in 2022–32, consistent with Kiribati's long-term GDP growth and staff's analysis based on a long-term growth model.[2] Real GDP is projected at 2.5 percent in 2023, as economic activities return to a more normal state with the resumption of large infrastructure projects and improved weather conditions. Economic growth is estimated to stay around 2.1 percent over the long run, mainly reflecting the envisaged moderation of population growth, a slight improvement in total factor productivity with higher human capital growth, and the potential impact of climate change-related events (further details on the impact of climate change are incorporated in the analysis below). Annual population growth is estimated to average about 1.5 percent over the projection period (broadly in line with the United Nations' World Population Prospects). The risks to the projections are mainly on the downside. External risks include an intensification of Russia's invasion of Ukraine, commodity price volatility, and an abrupt global slowdown—all of which could have spillover effects on Kiribati. Deepening geo-economic fragmentation could adversely impact inflation through supply disruptions. Prolonged global financial market volatility could affect the expected returns on the RERF and the Kiribati Provident Fund (KPF), putting pressure on public resources. Climate change remains a constant risk that could further threaten fishing revenues and adversely impact economic growth, with the frequency and severity of climate events aggravated by time.

- **Climate change and natural disasters**. In line with the 2016 IMF Board Paper on "Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF,"[3] staff's analysis of the baseline scenario explicitly reflects their impact in the long run given Kiribati's susceptibility to natural disasters and climate change.[4] Compared with the non-disaster potential growth rate, Kiribati's long-term growth projections are adjusted downward by 0.1 percentage point (ppt) in 2027–2042. Similarly, the current account balance is projected to further decline by 1 ppt of GDP on average in the long run to take into account the impact of natural disasters and climate change. No major disasters are assumed under the baseline scenario in the medium term.

- **Inflation** is projected to average 3.0 percent in 2022–32. Inflation is projected to increase to 8.6 percent in 2023, due to the low base effect in the first half of 2022, and the delayed pass-through of normalizing global prices before declining to 4.5 percent in 2024. In the medium to long term, consumer price increases are expected to hover around 1.8 percent, in line with major trading partners' inflation and international food and fuel price dynamics, given that the bulk of Kiribati's consumer basket comprises imported items. However, the forecast is subjected to sizeable uncertainty, especially given the recent high inflation observed in many countries largely due to high food and energy prices.

- **Fiscal revenue continued to decline in 2022 due to both lower revenue and grants.**

  o *Fishing revenues* are reported at AUD142 million (44 percent of GDP, a drop of 11 ppts of GDP from 2021) in 2022, marking three consecutive years of decline from the

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[2] See the Selected Issues Paper on "Unlocking the Growth Potential in Kiribati: Taking Stock of Structural Reforms", which is published together with the 2023 Kiribati Article IV Staff Report.

[3] Available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Small-States-Resilience-to-Natural-Disasters-and-Climate-Change-Role-for-the-IMF-PP5079.

[4] The baseline scenario is premised on a business-as-usual scenario for emissions and increase in world temperature.

all-time high in 2019 (at 85 percent of GDP). Staff project that while a mild recovery is expected in 2023-26, fishing revenues as a ratio of GDP would decrease mildly and average about 48 percent of GDP in 2022–32. This assumption is subject to considerable uncertainties, given unpredictability in weather conditions and migratory patterns of fish.[5]

- o   ***External grants***, including project-based grants and budget support, increased to 25 percent of GDP in 2022 from 19 percent of GDP in 2021 and is expected to further increase to 32 percent of GDP on average in 2023–26 due to higher committed grants.[6] External grants are assumed to gradually decline in the long term and average about 23 percent of GDP in 2027–32. As some budget grants have not been committed after 2026, budget support is assumed at 2 percent of GDP from 2027, a decline of 3 ppts of GDP compared to the 2026 level.[7] External grants from 2027 onward would mainly constitute of project grants, which are used exclusively for development financing. The high reliance on grants highlights the need for the authorities to continue to seek grant support from bilateral donors and international financial institutions.

- • **Fiscal expenditure** in 2022 is estimated to be similar to the level in 2021.

  - o   Kiribati's **recurrent spending** has increased and remained elevated since 2020, largely due to an introduction of the unemployment support scheme (covering 70 percent of Kiribati's working age population) in 2020, the increases in the wage bill and senior citizen's benefits in 2021, and a doubling of the copra subsidy in 2022. The 2023 budget introduced leave grants to private sector employees.[8] Climate change-related maintenance and contingency expenditures are assumed to gradually reach around 6 percent of GDP in 2030 and remain at that level thereafter.[9] Without a concrete plan of consolidation, the recurrent spending is expected to remain high around 79 percent of GDP in 2023 before stabilizing around 77 percent of GDP over the medium term.

  - o   **Development expenditure** slightly increased to 28 percent of GDP in 2022, 2 ppts higher than the 2021 level. Development expenditure is expected to further increase

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[5] The fiscal implication of the opening of the Phoenix Islands Protected Area (PIPA) on fishing revenues is not included under the baseline scenario given the uncertainties.

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

[7] In line with the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, the DSA includes firmly committed grants.

[8] 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.

[9] This assumption is informed by estimates from the literature. See Climate Change and Disaster Management (The World Bank, 2016), which estimates that the additional cost of coastal protection and infrastructure adaptation due to rainfall and temperature increases for Kiribati could amount to 12 percent of GDP annually by 2040. The DSA assumes that half of the costs will be borne by the budget, while the rest would need to be financed by development partners.

to 35 percent of GDP in 2023 as large infrastructure projects are resumed and could reach as high as 38 percent of GDP before gradually declining due to the completion of major pipeline projects.

- **The fiscal position** is expected to remain in deficit if no reforms are made to scale back the fiscal supports introduced recently. With COVID-related spending and the introduction of unemployment benefits in 2020, increases of the wage bills, senior citizen's benefits, and unemployment benefit in 2021, and the doubling of the copra subsidy in 2022, and the decline in fishing revenues, the overall fiscal surplus declined from 13 percent of GDP in 2019 to 4 percent of GDP in 2020, and has turned to a deficit of 11 percent of GDP in 2021 and 20 percent of GDP in 2022. With higher income from a projected recovery in fishing revenues and committed external grants, the fiscal deficit is expected to narrow to 12 percent of GDP in 2023. As staff do not assume there will be significant fiscal consolidation but a moderate improvement in tax revenues associated with improvement in tax administration (including those introduced under the new Income Tax Bill), fiscal deficits are envisaged to remain elevated and hover around 15 percent of GDP over the medium and long term under the baseline scenario. However, fiscal deficits could be reduced relative to the baseline scenario if the authorities further mobilize revenue, consolidate recurrent spending, and improve the targeting and efficiency of the social safety net (including successful implementation of the reform agenda of the newly established Social Protection Unit within the Ministry of Women, Youth, Sport and Social Affairs). Climate change could further impact the fiscal balance due to affected fishing revenues and higher climate change-related expenditure as discussed above.

- **Financing** of fiscal deficits is assumed to be covered by cash reserves, external loans, and a withdrawal of RERF resources (Text Table 5).

  o **Cash reserves** decline to 61 percent of GDP at end-2022 from 71 percent of GDP at end of 2021 to help finance the fiscal deficit. Cash reserves would remain the main financing sources in 2023 while staff assumes a prudent rule of using cash reserves to finance deficits to prevent them from being depleted in the long run. More specifically, under the baseline scenario, staff assumes cash reserves will be used at a conservative pace of 1 percent of GDP each year in 2024–28 to finance fiscal deficits and no tapping starting from 2029, which would ensure cash reserves to (barely) meet the requirement of at least three months of government spending by the end of the projection period in 2042, in line with the government's fiscal responsibility ratio.

  o **External loans** will become more important in the medium term due to shrinking cash reserves. With a lack of domestic financing source and given the need to preserve cash reserves and the volatility of the RERF returns, external financing will have to be resorted to financing deficits if need arises. External financing under the baseline scenario is assumed at highly concessional terms.

o However, withdrawals from the **RERF** could help keep projected debt accumulation moderate. The RERF balance has significantly increased from 2015 (helped by the contribution from the budget and positive returns) before declining in 2022 due to the decline in global equity and bond valuations (text chart). In order to protect the long-run sustainability of the

Kiribati: RERF Balance and Flows of Funding
(In AUD million)
Sources: Country authorities; and IMF staff estimates.
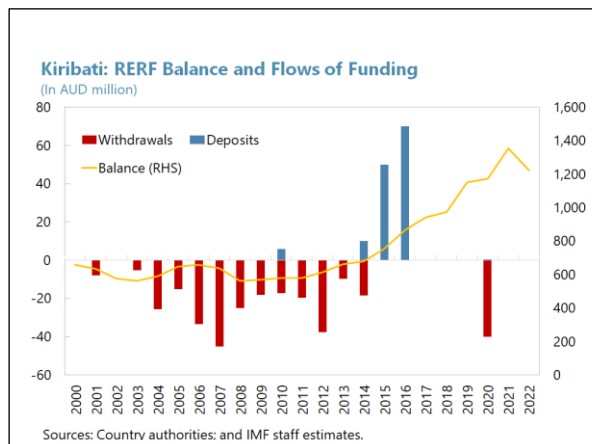
fund, the authorities have implemented a rule that only returns in excess of 5 percent (in real terms) can be withdrawn, and these withdrawals can only be used for development spending.[10] The RERF could be depleted at a more rapid pace should sufficient access to external loans not be found and fiscal deficits continue to be elevated.

• **Kiribati's current account** is estimated to have registered a deficit of about 4 percent of GDP in 2022, a switch from a surplus of 8.9 percent of GDP in 2021, due to disappointing fishing revenues and higher import values which resulted from an increase in both the quantity (the increased domestic demand from the border reopening and the resumption of port activities) and price (elevated energy and food import prices due to the Russia's invasion of Ukraine). The current account is projected to turn to a surplus in 2023, supported by a mild recovery in fishing revenues, higher committed grants, and the expected drop in global commodity prices from the historical high levels in 2022. From 2027 onward, the current account surplus is expected to decline due to a lower secondary income under the assumption of excluding uncommitted budget support. The current account surplus is expected to stay at about 7 percent of GDP on average in 2022–32.

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[10] The rule-based withdrawal policy was introduced in September 2020 with support from the World Bank. Despite withdrawals, the nominal balance of the RERF is expected to remain above the AUD1 billion target articulated in the authorities' fiscal strategy. Under the baseline scenario, the RERF is assumed to generate enough returns to finance a deficit equivalent to 2 percent of GDP every year starting from 2028 before increasing to 3 percent of GDP from 2035. The nominal return of the RERF is assumed to be 8.5 percent on average over the medium and long term, in line with the historical data. This assumption, however, is subject to high uncertainty due to global financial market volatility.

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

	2020 Actual	2021 Prel.	2022	2023	2024	2025 Proj.	2026	2027	2028	2022-32 Average
Overall Deficit	4	-11	-20	-12	-12	-11	-10	-15	-15	-15
Financing Needs (net)	-4	11	20	12	12	11	10	15	15	15
of which: Cash reserves	-19	12	21	6	1	1	1	1	1	3
RERF withdrawals	15	0	0	6	0	0	0	0	2	2
External financing (net)	-1	-1	-1	-1	11	10	9	14	12	11
Balance										
Cash reserves	108	71	61	49	45	42	39	37	34	39
excess over the threshold 1/	*47*	*85*	*47*	*38*	*26*	*22*	*20*	*17*	*14*	*19*
RERF	454	447	370	311	313	323	334	350	365	363
Public external debt	21	17	15	13	23	33	41	53	63	57

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.

- **Kiribati's current debt portfolio** is mainly composed of external debt. The baseline and alternative scenarios do not assume any domestic debt in the short, medium, and long terms.

9. **The realism tools suggest that the projections are reasonable** (Figures 3–4)**.** The primary balance is expected to deteriorate in 2021–22, largely due to an increase of recurrent spending including subsidies and grants. The primary balance is projected to remain in deficit under no fiscal reform assumption, albeit slightly improve from 2023 onwards on the back of the recovery of fishing revenues. Both public and private investment rates remain almost the same for the projection period when compared to the previous DSA in 2021. The large contributions of residuals to debt creation in both external and public debts reflect the fact that Kiribati uses its cash reserves and the RERF withdrawal (when available) to finance deficits while accumulating cash buffers in time of a fiscal surplus.[11]

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

10. **The debt-carrying capacity has remained "medium" as in the last DSA** (Text Table 6)**.** Kiribati's current composite indicator (CI) score is 2.70, calculated based on the October 2022 WEO and the 2021 CPIA (published in July 2022). The CI reading puts the country in the medium debt-carrying capacity classification.[12] The relevant indicative thresholds for this category are 40 percent for the PV of the

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[11] In the past 5 years, large fishing revenues and associated fiscal and current account surpluses contained the PPG external debt and public debt, while a part of the surplus was accumulated as cash reserves or contributed to the RERF (shown as positive residuals). In the projected 5 years, prolonged fiscal deficits would explain the increase in public debt, as deficits are financed by deposit withdrawal (negative contribution of residuals in the public debt) and increased external financing despite running current account surpluses (positive contribution of residuals in the PPG external debt).

[12] It is worth noting that the CI has components that might not best reflect the characteristics of Kiribati's economy. For instance, the calculation does not include the primary income from fishing revenues.

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. These thresholds are applicable to the PPG external debt. 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. Kiribati: 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	Medium	Medium
	2.70	2.74	2.77

Text Table 7. Kiribati: Debt Thresholds

APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		**TOTAL public debt benchmark**	
		PV of total public debt in percent of GDP	55
PV of debt in % of			
Exports	180		
GDP	40		
Debt service in % of			
Exports	15		
Revenue	18		

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11.   Given that Kiribati is vulnerable to climate changes, a tailored stress test for natural disaster shock was conducted. Climate change challenges pose significant downside risks. Kiribati's low-lying atolls are vulnerable to rising sea levels that will lead to coastal erosion. Kiribati is also subject to other climate change challenges, including but not limited to drought, loss of groundwater, and higher incidences of natural disasters. Economic activities related to agriculture and tourism can be negatively affected. The costs of mitigating the adverse effects of climate change can partially be met by Kiribati's operating budget. However, capital projects require continued support from development partners. The near-term risk of a one-off extreme natural disaster is incorporated in the DSA analysis through a tailored stress test assuming that a one-off extreme natural disaster in the second year of the projection period

would cut the real GDP growth and exports by 1.5 and 3.5 ppts, respectively.[13] This scenario aims to capture the possibility that the costs from natural disasters may exceed those already incorporated in staff's macroeconomic framework.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

12.   Under the baseline scenario, Kiribati's external debt trajectory is projected to breach the indicative threshold in the long run.[14] The PV of the PPG external debt-to-GDP ratio is expected to increase and breach the indicative threshold (40 percent) in 2030 (Figure 1). 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. However, the debt service-to-exports ratio will gradually increase over the projection period due to continued debt accumulation.

13.   Stress tests confirm the vulnerability of debt dynamics to export market developments as well as to macroeconomic shocks. Under the extreme test scenarios, the PV of the PPG external debt-to-GDP ratio will breach its threshold starting from 2026 (Figure 1). The ratio of the PV of the PPG external debt-to-exports is vulnerable to shocks emanating from exports, breaching its threshold starting from 2030.[15] The other stress test scenarios, including the severe natural disaster scenario and the contingent liabilities test, illustrate the vulnerability of debt trajectory to the external and potential domestic shocks (Table 3).

PUBLIC DEBT SUSTAINABILITY ANALYSIS

14.   Public debt follows the same dynamics as the external debt, given that the limited domestic debt is the government guarantees to the SOE loans. While the historical fiscal surpluses were largely driven by strong fishing revenues, the moderation of the fishing revenues and contingent liabilities emanating from the government-managed pension fund[16] and SOEs pose risks and underscore the importance of placing SOEs on a commercial and sustainable footing, formulating a sustainable medium-term fiscal framework, improving the fiscal position, and supporting private sector development. Under the baseline scenario, the PV of the total public debt-to-GDP ratio will breach the indicative benchmark (55 percent) starting from 2031 (Figure 2).

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[13] See the "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries," available at https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf.

[14] 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).

[15] 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.

[16] 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 KPF.

15. **The extreme shock scenario indicates an earlier breach of the debt benchmark**. The most extreme stress test scenario of one standard deviation shock[17] to growth predicts that the PV of the total public debt-to-GDP ratio is expected to breach the benchmark (55 percent) starting from 2027 (Figure 2). The tailored natural disaster shock and combined contingent liabilities could cause the PV of the total public debt-to-GDP ratio to breach the benchmark from 2030 and 2031, respectively, illustrating the vulnerability of the debt trajectory to shocks (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 the PPG external debt-to-GDP ratio is expected to increase over time and breach the indicative threshold starting from 2030. The debt service-to-export ratio, however, will remain relatively contained albeit gradually increase over the projection period as the bulk of the projected external debt is on concessional terms.

17. **The DSA suggests that the overall risk of debt distress is also high**. The PV of the public debt-to-GDP ratio is projected to increase over time and breach the indicative benchmark starting from 2031. This increase reflects the high recurrent spending and investment needs, and declining grant commitments over the long term. It 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. The debt trajectory is also vulnerable to growth, primary balance, and export shocks.

18. **Despite high risk of debt distress, Kiribati's debt trajectory is assessed to be sustainable as its vulnerability to debt distress is mitigated by several factors**. The PV of the PPG external debt-to-GDP ratio and the PV of the total public-debt-to-GDP ratio will breach their indicative threshold/benchmark in the long term. While its budget depends on volatile fishing revenues, the country currently benefits from its grant-only status for the MDB financing and will likely maintain access to highly concessional financing in the long term. 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 should sufficient access to external loans not be found and fiscal deficits continue to be elevated. It is important to maintain adequate cash buffers of at least three months of government spending, in line with the government's fiscal responsibility ratio.

19. **Given Kiribati's high risk of debt distress, it will be critical that Kiribati manages its fiscal framework prudently and continues to benefit from external grants**. No regular access to debt financing implies that large liquidity buffers could be vulnerable to depletion if fiscal deficits stay elevated. Hence, meeting the significant public spending needs to fill the infrastructure gap and reaching the development goals depends on employing the available fiscal resources in a prudent manner and securing grant support from development partners. The introduction and increases of several social benefits and grants since 2020 have worsened Kiribati's fiscal stance. Furthermore, vulnerabilities could be exacerbated by climate change and contingent liabilities. Fiscal consolidation will be necessary to reduce fiscal risks by further mobilizing revenue (including phasing out SOE tax exemptions), consolidating recurrent spending

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[17] 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.

(including rationalizing the copra subsidy), and improving the targeting and efficiency of the social safety net (including successful implementation of the reform agenda of the newly established Social Protection Unit). Further progress in structural and fiscal reforms (such as formulating a sustainable medium-term fiscal framework, improving public financial management, and putting SOEs on a commercial and sustainable footing) is also needed to improve debt trajectories and safeguard 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 express their commitment to maintain fiscal discipline and note that they will continue with the current plan of contracting no new debt in the short to medium term. While the authorities acknowledge the importance of fiscal consolidation, they have concerns that reducing social protection spending will have adverse impact on economic growth and living standards. They expect the PIPA reopening will help generate additional fishing revenues and improve fiscal balance. The authorities affirm that they will continue to seek grants from bilateral donors and international financial institutions with a view to keep debt at a prudent level. In this context, they also recognize the need to comply with the non-concessional borrowing policies for securing grant support from the ADB and the World Bank.

Figure 1. Kiribati: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–2032

PV of Debt-to-GDP Ratio

Most extreme shock: Exports

PV of Debt-to-Exports Ratio

Most extreme shock: Exports

Debt Service-to-Exports

Most extreme shock: Exports

Debt Service-to-Revenue Ratio

Most extreme shock: Exports

| Baseline | Historical scenario | Most extreme shock 1/ | Threshold |
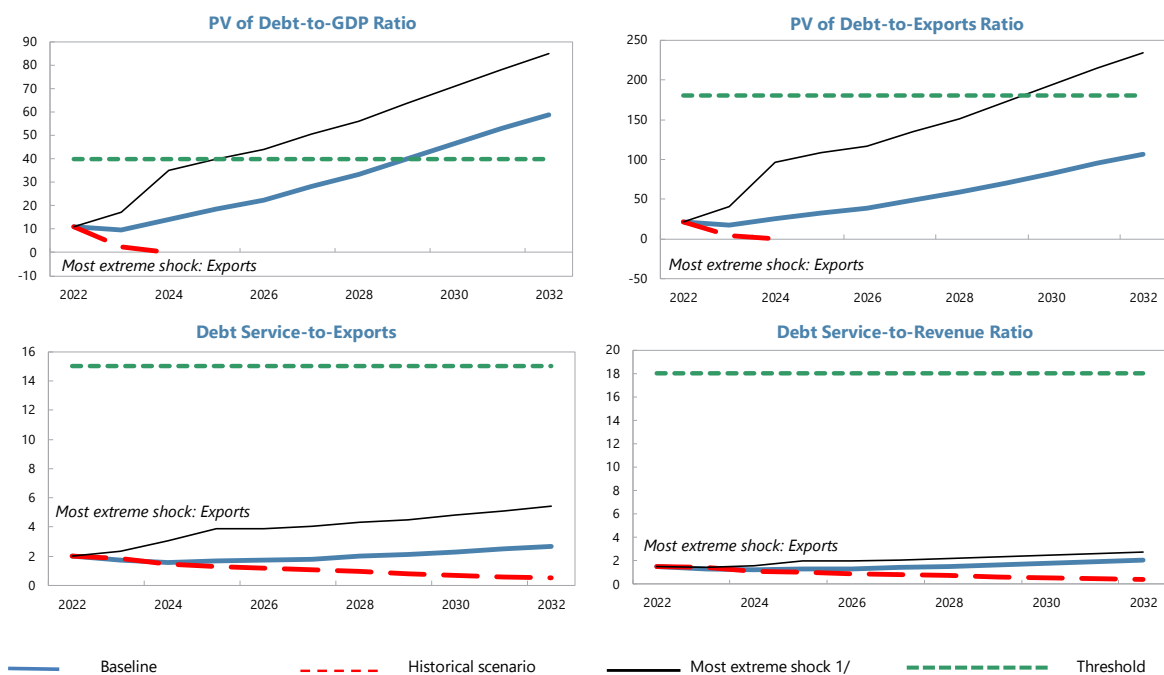
Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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 2032. 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, 2022–2032
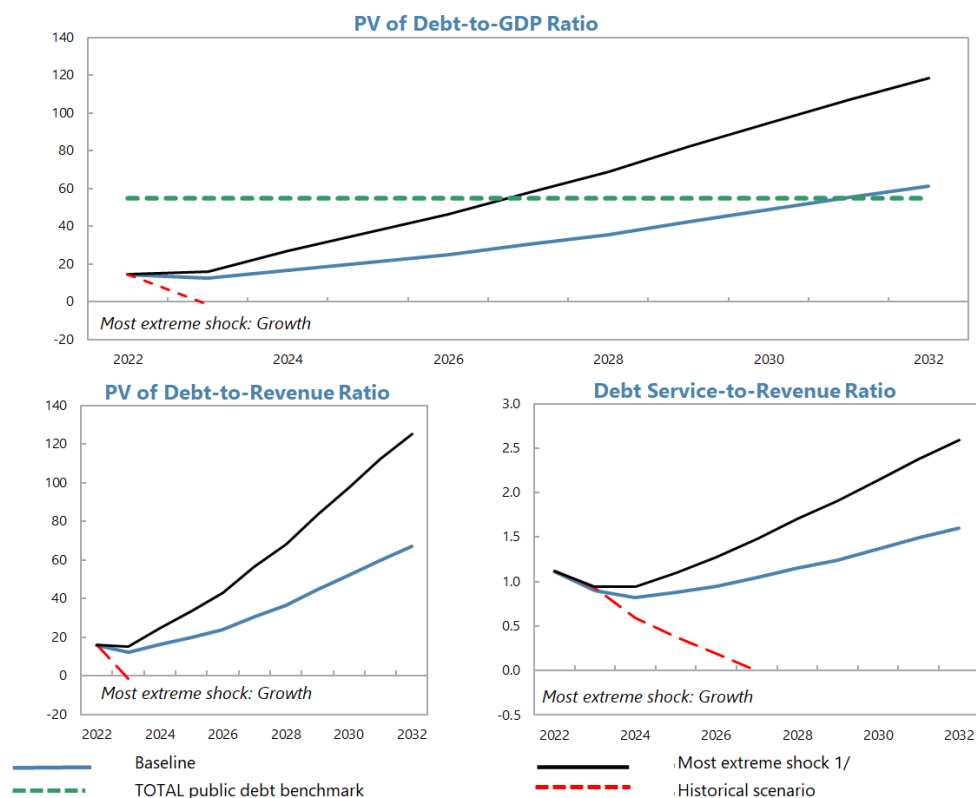
PV of Debt-to-GDP Ratio

Most extreme shock: Growth

PV of Debt-to-Revenue Ratio

Most extreme shock: Growth

Debt Service-to-Revenue Ratio

Most extreme shock: Growth

Baseline

Most extreme shock 1/

TOTAL public debt benchmark

Historical scenario

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	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	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
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 2032. 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

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.
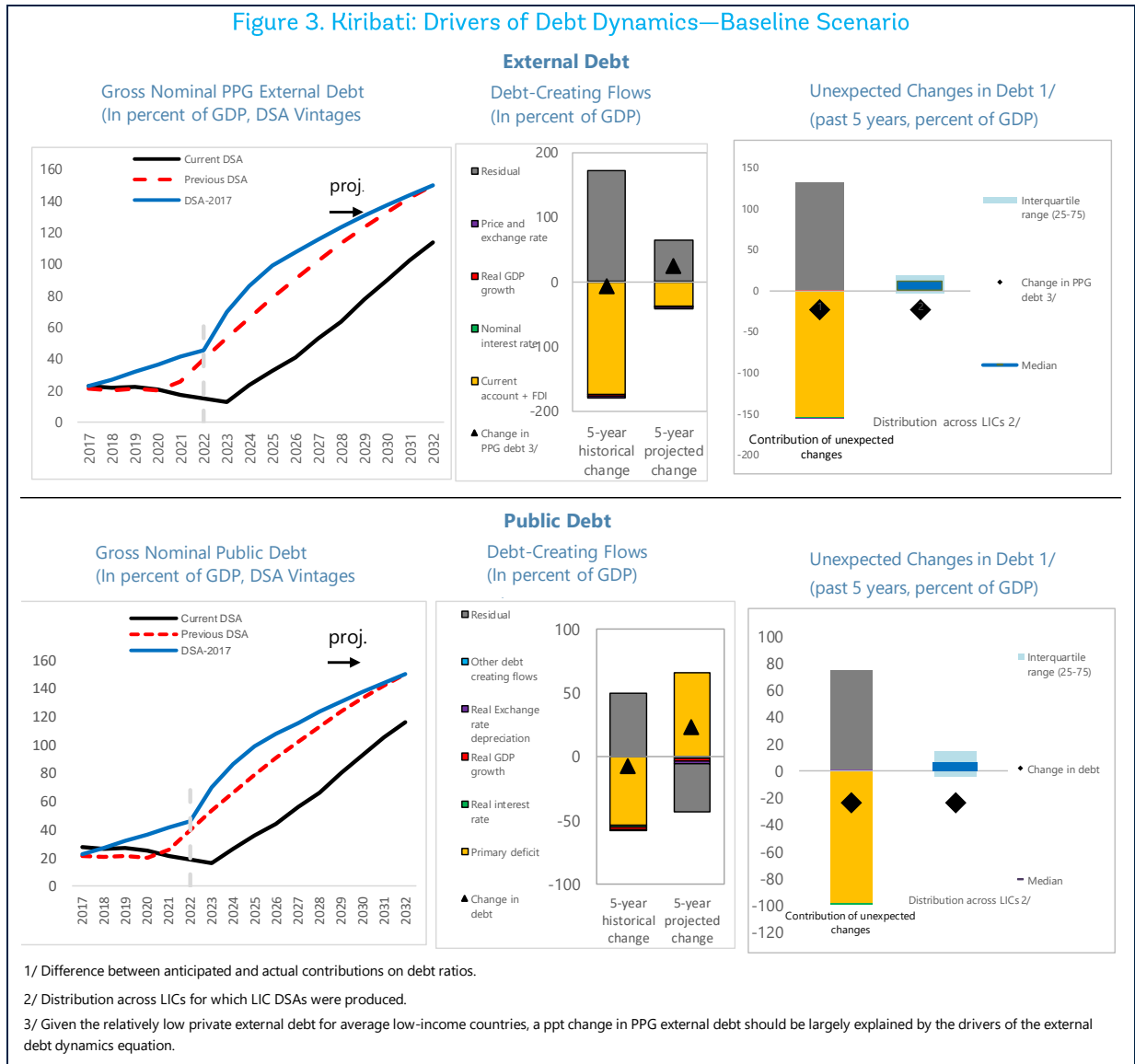
Figure 4. Kiribati: Realism Tools

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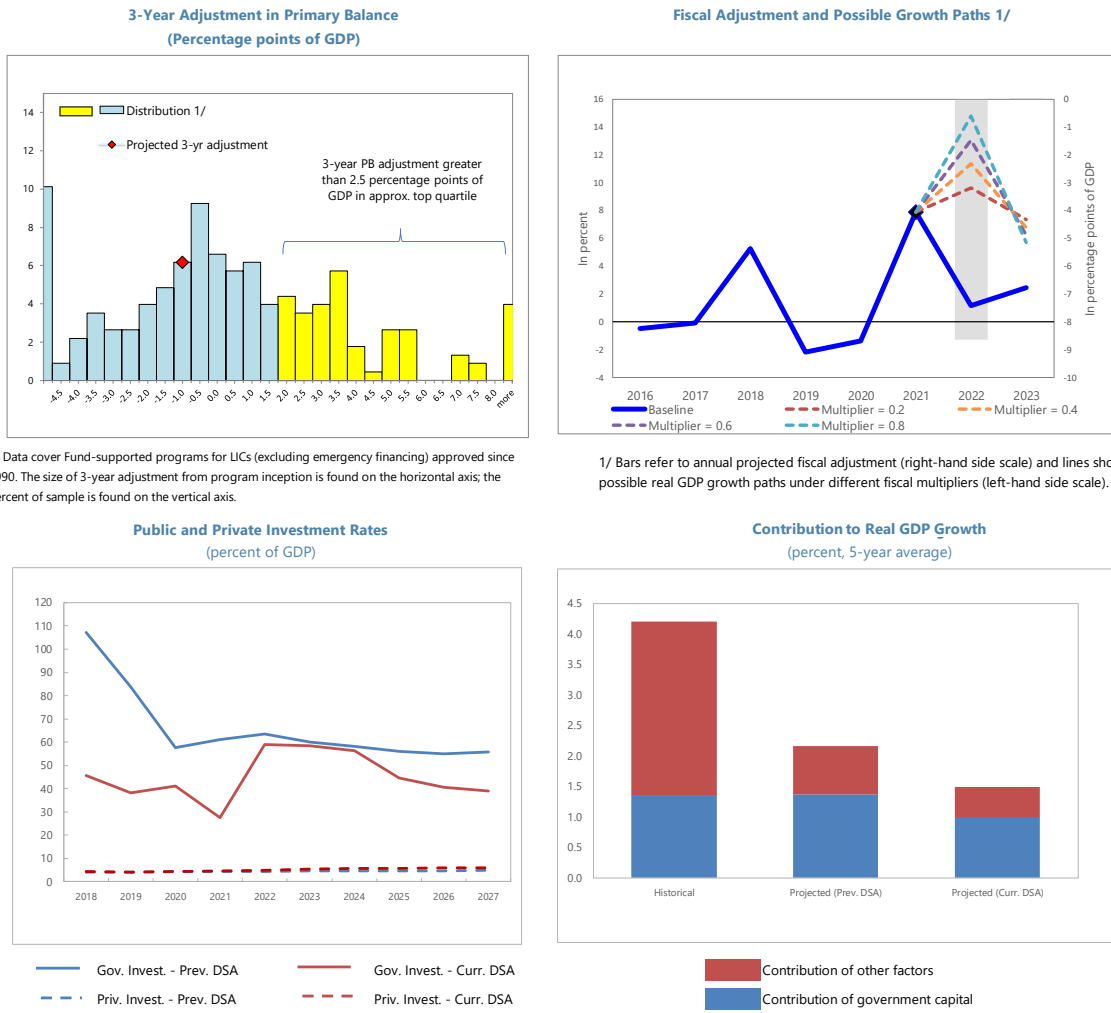
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

Sources: Country authorities; and staff estimates and projections.

Table 1. Kiribati: External Debt Sustainability Framework, Baseline Scenario, 2019–2042
(In percent of GDP, unless otherwise indicated)

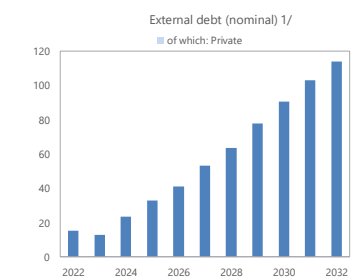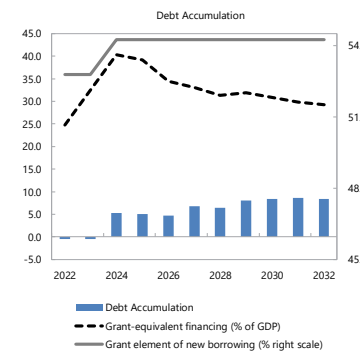|	Actual			Projections												Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2042	Historical	Projections
External Debt (Nominal) 1/	**22.4**	**20.6**	**17.1**	**15.2**	**13.0**	**23.4**	**32.8**	**41.0**	**53.1**	**63.5**	**77.6**	**90.5**	**102.8**	**113.8**	**175.3**	**12.8**	**57.0**
Of Which: Public and Publicly Guaranteed (PPG)	*22.4*	*20.6*	*17.1*	*15.2*	*13.0*	*23.4*	*32.8*	*41.0*	*53.1*	*63.5*	*77.6*	*90.5*	*102.8*	*113.8*	*175.3*	*12.8*	*57.0*
Change in external debt	0.8	-1.8	-3.5	-1.9	-2.2	10.4	9.4	8.2	12.1	10.4	14.1	12.8	12.4	11.0	3.4		
Identified Net Debt-Creating Flows	**-47.3**	**-38.9**	**-13.0**	**4.2**	**-8.0**	**-10.0**	**-11.7**	**-12.3**	**-6.5**	**-7.0**	**-7.5**	**-6.9**	**-6.4**	**-6.6**	**-9.7**	**-35.6**	**-7.2**
Non-Interest Current Account Deficit	*-49.8*	*-40.3*	*-9.1*	*3.8*	*-8.6*	*-10.5*	*-12.0*	*-12.6*	*-6.7*	*-7.0*	*-7.4*	*-6.6*	*-6.1*	*-6.1*	*-8.9*	*-24.8*	*-7.3*
Deficit in balance of goods and services	-1.0	5.5	30.7	44.6	34.6	32.2	33.0	31.7	32.2	32.8	33.2	34.2	35.1	36.2	48.7	20.2	34.5
Exports	102.0	78.0	58.0	51.5	53.8	55.1	55.9	57.5	57.0	56.5	56.2	55.8	55.5	55.2	52.0		
Imports	100.9	83.5	88.7	96.1	88.5	87.3	88.9	89.2	89.2	89.3	89.3	90.0	90.6	91.4	100.7		
Net current transfers (negative = inflow)	-21.2	-24.3	-22.0	-19.0	-24.0	-23.5	-24.5	-22.6	-15.8	-15.1	-14.4	-13.7	-13.0	-13.0	-12.7	-24.6	-18.0
of which: official	-37.0	-37.9	-19.0	-24.8	-32.5	-33.9	-33.1	-29.0	-25.3	-24.2	-23.2	-22.1	-21.0	-21.0	-20.5		
Other current account flows (negative = net inflow)	-27.5	-21.5	-17.8	-21.8	-19.2	-19.2	-20.4	-21.8	-23.1	-24.8	-26.2	-27.1	-28.2	-29.3	-44.9	-20.4	-23.7
Net FDI (Negative = Inflow)	**-0.4**	**1.4**	**0.4**	**0.5**	**0.8**	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**	**0.2**	**0.6**
Endogenous Debt Dynamics 2/	**2.9**	**0.0**	**-4.2**	**0.0**	**-0.1**	**-0.1**	**-0.3**	**-0.3**	**-0.4**	**-0.5**	**-0.6**	**-0.8**	**-1.0**	**-1.1**	**-1.4**		
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.8	0.9	1.0	1.6		
Contribution from real GDP growth	0.5	0.3	-1.3	-0.2	-0.3	-0.3	-0.5	-0.7	-0.8	-1.1	-1.3	-1.6	-1.8	-2.1	-3.0		
Contribution from price and exchange rate changes	2.1	-0.7	-3.2	…	…	…	…	…	…	…	…	…	…	…	…		
Residual 3/	**48.1**	**37.1**	**9.4**	**-6.1**	**5.8**	**20.5**	**21.1**	**20.6**	**18.6**	**17.4**	**21.6**	**19.7**	**18.8**	**17.6**	**13.2**	**34.3**	**16.0**
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	-0.4		
Sustainability Indicators																	
PV of PPG external debt-to-GDP ratio	…	…	11.4	11.1	9.6	14.1	18.4	22.3	28.0	33.2	39.7	46.2	52.7	58.8	97.5		
PV of PPG external debt-to-exports ratio	…	…	19.6	21.6	17.9	25.6	33.0	38.8	49.2	58.7	70.6	82.8	95.0	106.6	187.5		
PPG debt service-to-exports ratio	0.8	1.3	1.6	2.0	1.7	1.6	1.7	1.7	1.8	2.0	2.1	2.3	2.5	2.7	8.9		
PPG debt service-to-revenue ratio	0.8	1.1	1.1	1.5	1.3	1.2	1.3	1.3	1.4	1.5	1.6	1.8	1.9	2.1	6.8		
Gross external financing need (Million of U.S. dollars)	-86.5	-67.5	-17.7	11.7	-17.2	-23.9	-28.6	-31.3	-15.1	-16.3	-18.1	-15.8	-14.1	-14.4	-19.3		
Key Macroeconomic Assumptions																	
Real GDP growth (in percent)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	1.8	2.7	2.1
GDP deflator in US dollar terms (change in percent)	-8.7	3.0	18.4	-2.7	8.1	3.6	1.3	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	0.0	2.1
Effective interest rate (percent) 4/	1.2	1.4	1.5	1.3	1.4	1.4	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.2	1.1
Growth of exports of G&S (US dollar terms, in percent)	22.2	-22.3		-12.7	15.8	8.5	5.2	6.9	3.1	3.0	3.2	3.3	3.3	3.3	3.0	11.6	3.9
Growth of imports of G&S (US dollar terms, in percent)	3.9	-16.0	35.8	6.6	2.0	4.7	5.5	4.3	4.0	4.1	3.9	4.7	4.7	4.8	4.6	3.3	4.5
Grant element of new public sector borrowing (in percent)	…	…	…	52.8	52.8	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	…	54.0
Government revenues (excluding grants, in percent of GDP)	110.3	93.7	81.4	66.6	69.9	71.3	72.1	74.3	73.5	73.1	71.9	71.6	71.2	70.7	68.0	86.3	71.5
Aid flows (in Million of US dollars) 5/	64.9	67.5	43.1	55.5	80.7	120.5	120.6	111.0	116.7	114.1	124.7	126.7	128.0	129.6	169.4		
Grant-equivalent financing (in percent of GDP) 6/	…	…	…	24.8	32.5	40.3	39.1	34.5	33.1	31.3	31.9	30.9	29.8	29.3	27.3	…	32.5
Grant-equivalent financing (in percent of external financing) 6/	…	…	…	100.0	100.0	88.1	88.5	88.1	83.5	84.0	81.3	80.6	80.1	80.7	82.8	…	86.8
Nominal GDP (Million of US dollars)	175	178	228	224	248	263	273	284	295	306	318	331	344	357	515		
Nominal dollar GDP growth	-10.7	1.6	27.7	-1.6	10.8	6.0	3.6	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.6	2.8	4.2
Memorandum Items:																	
PV of external debt 7/	…	…	11.4	11.1	9.6	14.1	18.4	22.3	28.0	33.2	39.7	46.2	52.7	58.8	97.5		
In percent of exports	…	…	19.6	21.6	17.9	25.6	33.0	38.8	49.2	58.7	70.6	82.8	95.0	106.6	187.5		
Total external debt service-to-exports ratio	0.8	1.3	1.6	2.0	1.7	1.6	1.7	1.7	1.8	2.0	2.1	2.3	2.5	2.7	8.9		
PV of PPG external debt (in Million of US dollars)			25.9	24.9	23.9	37.1	50.3	63.2	82.6	101.5	126.2	152.8	181.2	210.0	502.2		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.4	-0.5	5.3	5.0	4.7	6.8	6.4	8.1	8.4	8.6	8.4	5.8		
Non-interest current account deficit that stabilizes debt ratio	-50.6	-38.5	-5.6	5.6	-6.4	-20.9	-21.4	-20.9	-18.8	-17.4	-21.6	-19.5	-18.4	-17.1	-12.3		

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

Debt Accumulation

- Debt Accumulation
- Grant-equivalent financing (% of GDP)
- Grant element of new borrowing (% right scale)

External debt (nominal) 1/

- of which: Private

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ 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, Ɛ=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).
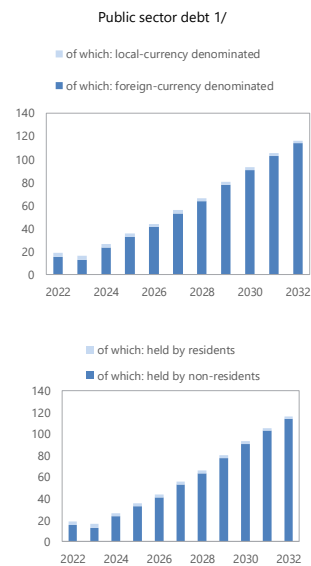
7/ Assumes that PV of private sector debt is equivalent to its face value.

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, 2019–2042
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public Sector Debt 1/	**27.1**	**25.2**	**21.0**	**18.9**	**16.3**	**26.5**	**35.8**	**43.9**	**55.8**	**116.1**	**176.9**	**15.5**	**59.8**
Of Which: External Debt	**22.4**	**20.6**	**17.1**	**15.2**	**13.0**	**23.4**	**32.8**	**41.0**	**53.1**	**113.8**	**175.3**	**12.8**	**57.0**
Change in public sector debt	1.0	-1.9	-4.2	-2.1	-2.6	10.2	9.3	8.1	12.0	10.9	3.4		
Identified Debt-Creating Flows	**-11.0**	**-6.6**	**8.6**	**19.4**	**11.2**	**11.7**	**10.7**	**9.6**	**13.7**	**13.8**	**7.8**	**-11.4**	**13.6**
Primary Deficit	**-13.4**	**-4.4**	**11.2**	**19.8**	**11.9**	**12.2**	**11.5**	**10.6**	**15.0**	**16.9**	**12.4**	**-17.1**	**15.1**
Revenue and grants	147.3	131.6	100.4	91.4	102.4	105.2	105.2	103.2	98.9	91.7	88.6	128.9	97.9
of which: grants	37.0	37.9	19.0	24.8	32.5	33.9	33.1	29.0	25.3	21.0	20.5		
Primary (noninterest) expenditure	133.9	127.1	111.6	111.2	114.3	117.4	116.7	113.8	113.8	108.6	100.9	111.9	113.0
Automatic Debt Dynamics	**2.4**	**-2.2**	**-2.6**	**-0.4**	**-0.7**	**-0.5**	**-0.8**	**-1.0**	**-1.3**	**-3.1**	**-4.6**		
Contribution from interest rate/growth differential	0.4	0.3	-2.1	-0.4	-0.7	-0.5	-0.8	-1.0	-1.3	-3.1	-4.6		
of which: contribution from average real interest rate	-0.1	-0.1	-0.3	-0.2	-0.3	-0.2	-0.2	-0.3	-0.4	-0.9	-1.5		
of which: contribution from real GDP growth	0.6	0.4	-1.8	-0.2	-0.5	-0.4	-0.6	-0.7	-0.9	-2.2	-3.1		
Contribution from real exchange rate depreciation	1.9	-2.5	-0.5	...	...	...	...	...	...	...	...		
Other Identified Debt-Creating Flows	**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**
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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**12.0**	**4.7**	**-12.8**	**-21.5**	**-13.8**	**-1.5**	**-1.4**	**-1.4**	**-1.7**	**-2.9**	**-4.4**	**9.9**	**-5.0**
Sustainability Indicators													
PV of public debt-to-GDP ratio 2/	...	...	15.9	14.4	12.6	16.9	21.0	24.8	30.4	61.3	99.4		
PV of public debt-to-revenue and grants ratio	...	...	15.8	15.8	12.3	16.1	20.0	24.0	30.7	66.8	112.2		
Debt service-to-revenue and grants ratio 3/	0.6	0.8	0.9	1.1	0.9	0.8	0.9	1.0	1.0	1.6	5.2		
Gross financing need 4/	-12.5	-3.4	12.1	20.9	12.8	13.1	12.4	11.6	16.0	18.4	17.0		
Key Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	-2.1	-1.4	7.9	1.2	2.5	2.4	2.3	2.1	2.1	2.1	1.8	2.7	2.1
Average nominal interest rate on external debt (in percent)	1.2	1.4	1.4	1.3	1.3	1.3	1.2	1.1	1.1	1.0	1.0	1.2	1.1
Average real interest rate on domestic debt (in percent)	4.9	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	8.8	-11.0	-2.4	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	-1.8	3.7	8.7	5.3	8.4	4.4	1.3	1.8	1.8	1.8	1.8	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	1.2	-6.4	-5.3	0.8	5.3	5.2	1.6	-0.4	2.1	0.8	1.5	5.9	1.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-14.4	-2.5	15.4	21.9	14.5	2.0	2.2	2.4	3.0	6.0	9.0	-0.5	6.5
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		
				0.43	0.73	0.53	0.75	1.00	1.29	3.11	4.62		

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

Public sector debt 1/

□ of which: local-currency denominated
■ of which: foreign-currency denominated

■ of which: held by residents
■ of which: held by non-residents

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, government-guaranteed debt . 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, 2022–2032
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	11	10	14	18	22	28	33	40	**46**	**53**	**59**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	11	2	0	-2	-4	-8	-11	-14	-16	-19	-23
B. Bound Tests											
B1. Real GDP growth	11	10	16	21	26	32	38	**45**	**53**	**60**	**67**
B2. Primary balance	11	19	33	38	**42**	**47**	**52**	**59**	**66**	**72**	**78**
B3. Exports	11	17	35	40	**44**	**50**	**56**	**63**	**71**	**78**	**85**
B4. Other flows 3/	11	13	21	26	29	35	**40**	**47**	**53**	**60**	**66**
B5. Depreciation	11	12	13	18	23	30	36	**45**	**53**	**61**	**68**
B6. Combination of B1-B5	11	17	24	28	33	39	**45**	**52**	**59**	**67**	**73**
C. Tailored Tests											
C1. Combined contingent liabilities	11	13	17	22	26	31	36	**43**	**50**	**56**	**62**
C2. Natural disaster	11	15	20	25	29	36	**41**	**49**	**56**	**63**	**70**
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.
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.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	22	18	26	33	39	49	59	71	83	95	107
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	22	4	0	-4	-8	-13	-20	-25	-29	-35	-42
B. Bound Tests											
B1. Real GDP growth	22	18	26	33	39	49	59	71	83	95	107
B2. Primary balance	22	36	60	67	72	83	93	105	117	130	142
B3. Exports	22	41	97	109	117	135	151	172	**193**	**214**	**234**
B4. Other flows 3/	22	25	39	46	51	62	71	83	96	108	120
B5. Depreciation	22	18	19	26	32	43	52	64	76	88	100
B6. Combination of B1-B5	22	35	38	59	66	79	91	107	123	138	153
C. Tailored Tests											
C1. Combined contingent liabilities	22	24	32	39	45	55	64	76	89	101	113
C2. Natural disaster	22	28	37	45	52	64	75	88	101	115	128
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.
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.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	2	2	2	2	2	2	2	2	2	2	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	2	1	1	1	1	1	1	1	1	0
B. Bound Tests											
B1. Real GDP growth	2	2	2	2	2	2	2	2	2	2	3
B2. Primary balance	2	2	2	2	2	2	3	3	3	3	3
B3. Exports	2	2	3	4	4	4	4	5	5	5	5
B4. Other flows 3/	2	2	2	2	2	2	2	2	3	3	3
B5. Depreciation	2	2	2	2	2	2	2	2	2	2	3
B6. Combination of B1-B5	2	2	2	2	2	3	3	3	3	3	4
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	2	2	2	2	2	2	2	3	3
C2. Natural disaster	2	2	2	2	2	2	2	2	3	3	3
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.
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.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	2	1	1	1	1	1	2	2	2	2	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	1	1	1	1	1	1	1	1	0	0
B. Bound Tests											
B1. Real GDP growth	2	1	1	1	2	2	2	2	2	2	2
B2. Primary balance	2	1	1	2	2	2	2	2	2	2	3
B3. Exports	2	1	2	2	2	2	2	2	2	3	3
B4. Other flows 3/	2	1	1	1	2	2	2	2	2	2	2
B5. Depreciation	2	2	1	1	2	2	2	2	2	2	2
B6. Combination of B1-B5	2	1	2	2	2	2	2	2	2	2	3
C. Tailored Tests											
C1. Combined contingent liabilities	2	1	1	1	1	1	2	2	2	2	2
C2. Natural disaster	2	1	1	1	1	2	2	2	2	2	2
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.
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.
Threshold	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, 2022–2032
(In percent)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
						Projections 1/					
PV of Debt-to-GDP Ratio											
Baseline	14	13	17	21	25	30	35	42	49	**55**	**61**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	14	-2	-12	-21	-31	-40	-51	-61	-70	-78	-87
B. Bound Tests											
B1. Real GDP growth	14	16	27	37	46	**58**	**69**	**82**	**94**	**107**	**118**
B2. Primary balance	14	23	37	41	45	50	**55**	**63**	**69**	**76**	**82**
B3. Exports	14	19	34	38	42	48	53	**60**	**66**	**73**	**79**
B4. Other flows 3/	14	16	24	28	32	37	42	50	**56**	**62**	**68**
B5. Depreciation	14	14	14	14	13	14	14	16	17	19	21
B6. Combination of B1-B5	14	23	27	22	25	31	36	43	49	**56**	**62**
C. Tailored Tests											
C1. Combined contingent liabilities	14	16	20	24	28	34	39	46	52	**59**	**65**
C2. Natural disaster	14	18	23	28	32	38	44	52	**59**	**66**	**72**
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.
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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	16	12	16	20	24	31	36	45	52	60	67
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	16	(1)	(11)	(20)	(30)	(41)	(52)	(64)	(75)	(86)	(97)
B. Bound Tests											
B1. Real GDP growth	16	15	24	33	43	56	68	83	97	112	125
B2. Primary balance	16	22	35	39	43	51	57	66	74	82	89
B3. Exports	16	19	32	36	41	48	54	63	71	79	86
B4. Other flows 3/	16	16	23	27	31	38	44	52	60	68	75
B5. Depreciation	16	14	13	13	13	14	15	17	19	21	23
B6. Combination of B1-B5	16	22	26	21	25	31	37	45	53	61	67
C. Tailored Tests											
C1. Combined contingent liabilities	16	16	19	23	27	34	40	48	56	64	71
C2. Natural disaster	16	18	22	26	31	39	45	54	63	71	79
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.
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.
Debt Service-to-Revenue Ratio											
Baseline	1	1	1	1	1	1	1	1	1	1	2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	1	1	1	0	0	(0)	(0)	(0)	(1)	(1)	(1)
B. Bound Tests											
B1. Real GDP growth	1	1	1	1	1	1	2	2	2	2	3
B2. Primary balance	1	1	1	1	1	1	2	2	2	2	2
B3. Exports	1	1	1	1	1	1	1	2	2	2	2
B4. Other flows 3/	1	1	1	1	1	1	1	1	2	2	2
B5. Depreciation	1	1	1	1	1	1	1	1	1	1	2
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	1	1	2
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	1	1	1	1	1	1	1	2	2
C2. Natural disaster	1	1	1	1	1	1	1	1	2	2	2
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.
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.

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.