

SPEECH

DELIVERED ON 22nd NOVEMBER 2018 ON THE FIRST READING OF 2019 BUDGET

BY

**THE HONOURABLE DR TEUEA TOATU MP
MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT
REPUBLIC OF KIRIBATI**

INTRODUCTION

Honourable Speaker, it is my great pleasure to present to this House the 2019 Budget, the third budget in a row of this government under the leadership of His Excellency Beretitenti Taneti Maamau.

The importance of the government budget to the nation cannot be over-emphasized. As with the previous budgets, the 2019 Budget is a policy statement—an articulation of the Government's commitment to address our country's development challenges through the implementation of KV20

As Honourable members may recall, in December last year, I stood before the House and presented the 2018 Budget—a \$195.7 million spending plan on the theme of 'leaving no-one behind'. There were Supplementary Budgets that topped up spending in a few areas and enabled priority projects to be advanced. Together, and with the Supplementary Budget tabled on Tuesday, total expenditure in 2019 is expected to be \$223.1 million.

The Government has worked tirelessly this year to implement that Budget, to honour our promises, and to make progress for all the people of Kiribati. Before I turn to the details of the 2019 Budget though, I would like to quickly recap on an important theme of the KV20: macroeconomic stability.

KV20 and Macroeconomic Stability

Honourable speaker, macroeconomic stability is a foundation upon which we can accelerate progress towards our collective KV20 aspiration of a wealthy, healthy and peaceful nation. Like KV20, annual budgets are guided by principles, including discipline, accountability, and efficiency. In particular:

- the total amount of money that the Government spends should be closely aligned to and be affordable over the medium term;
- spending should be allocated to match policy priorities; and
- spending should produce the intended result at the least cost.

Recent economic performance

Honourable Speaker, I will now move on to an overview of recent economic performance. Our economy has recently enjoyed growth above historical norms. Real GDP growth averaged 5 percent in the period 2015 to 2017, compared to the average of 1½ percent in 2009 to 2014.

The stronger growth reflects in large part higher public spending financed by record-high fishing revenue, and donor-supported infrastructure investment. Despite the increase in economic activity, inflation has remained subdued, in line with low inflation in trading partners and international food prices and is expected to remain around 2 percent this year.

RERF and cash reserves

Honourable Speaker, this year the value of the RERF passed the \$1 billion benchmark for the first time. This was a historic achievement for Kiribati and reflects the determination of this Government to manage the Fund prudently for current and future generations of our people. I would also like to acknowledge the efforts of the previous Government in starting reforms to improve the management of the RERF. And I would also like to thank the World Bank for their technical support to successive Governments. This Government has continued along the path of prudent management and in doing so added \$250m to the value of the RERF between March 2016 and October 2018.

Mindful of the risks

Honourable speaker, despite these excellent conditions, we remain mindful of the risks. First, the favourable conditions underpinning strong fishing revenues have lasted longer than usual. A cyclical reversal could threaten revenues.

Second, tighter global financial and economic conditions could adversely affect the economy through the exposure of the RERF;

- We have experienced this firsthand in the last month.
- Investor concerns about geopolitics and trade wars led to falls in global equity markets, cutting \$28m from the value of the RERF in October to \$994 million.
- This is a reminder that markets don't just move inexorably up, they sometimes 'adjust' as well. And it is a reminder that the Kiribati economy is linked to the global economy.

Thirdly, IMF analysis shows that Kiribati remains at high risk of debt distress, given volatile fishing revenue and considerable spending needs. This then is a reminder of the need to maintain adequate fiscal buffers, so that we can deal with shocks and surprises. I am pleased to inform the House that our Cash Reserve Account with State Street currently has a balance of \$112 million. Furthermore, the balance in the ANZ Number One Account is \$72 million.

These healthy balances reflect the responsible fiscal policies of the Government over the past three years. **The cumulative budget surpluses in 2016, 2017 and estimated for 2018 amount to some \$96 million.**

In addition, there is a further \$109 million in the ANZ Number Four Account (the Development Fund) and this reflects the Government's commitment to fund development priorities.

Fiscal strategy

Honourable Speaker, the Fiscal Strategy underpinning the 2019 Budget reflects the Government's commitment to macroeconomic stability and seeks to navigate the various risks and opportunities

The basic parameters of the Fiscal Strategy are straightforward:

- no deficit (i.e. a balanced budget);
- no new debt;
- no drawdowns from the RERF; and
- a conservative forecast of fisheries license revenues (of \$130 million)

Taken together, these parameters ensure aggregate discipline and sustainability; and that spending choices are made within fiscal constraints.

In short, we will continue to live within our means.

2019 Revenue

Honourable Speaker, the expenditure in the 2019 Budget presented today is therefore limited by the amount of revenue that we expect in 2019.

As discussed in the 3rd Supplementary Budget, revenues are performing well:

- Tax revenues in 2018 have performed in line with Budget estimates; and
- There is a big increase to fishing license revenues. We now estimate these to be \$170 million.

2019 Revenue Estimates

The 2019 estimates assume that tax revenue continues to grow in line with nominal GDP, so an increase from \$44.8 million in 2018 to \$46.9 million in 2019. Consistent with recent budgets, the 2019 estimates are based on a conservative assumption of \$130 million for fishing license revenue. With overall the non-tax revenue estimated to be \$140.6 million in 2019 and Other Government Revenue is estimated to be \$2.3 million. Estimates for budget support payments are based on current indications from development partners and expected to be \$14.3 million in 2019.

So overall, the total amount of funding available for the 2019 Budget is \$204 million.

Revenue Review

Honourable Speaker, in order to increase the resources available for future Budgets, the Government will conduct a Revenue Review in 2019 to identify revenue mobilisation measures.

The kind of measures that will be considered include:

- Fisheries: This is the biggest source of income for Kiribati and a sector that has the potential to contribute even more. For example, bunkering is an area where there is potential to earn more revenue and proposals on this are being developed.
- Air space rights: Kiribati currently only earns \$1.7 million per year from flights through our air space. The Government is seeking to re-negotiate air-space arrangements, regain control and increase revenue.
- Taxation: The basic structure of a tax system is sound, but there is always room for improvement and we will look at and consider recommendations to improve the fairness, equity and efficiency of our tax policies and administration.

2019 Budget Process

Honourable Speaker, I will now turn to the 2019 Expenditure estimates—the financial articulation of the Government’s policies and commitment to KV20.

But before I do, I would like to provide an overview to the House of the Budget Process.

The Budget Book that you have before you is the product of months of consultation, prioritisation and refinement.

- a process that started with the Fiscal Strategy (approved by Cabinet) that committed the Government to a balanced the budget;
- a process that challenged Ministries to put forward proposals that would deliver KV20 results efficiently, effectively and affordably;
- a process that collated all the known policy priorities of the Government—then reviewed, refined and prioritised and;
- a process that required tough decisions to be made within hard budget constraints and competition with other demands.

The outcome of that process is the Budget Book that you have in front of you. The 2019 Budget is not just 100 plus pages of tables documenting in detail this Government’s public spending plans.

2019 EXPENDITURE

Honourable Speaker, rather than detailing all the expenditure items in the 2019 Budget, I will touch on the highlights and the big picture.

New Disability Support Allowance

Honourable speaker, I would like to start my outline of expenditure by introducing a new Disability Support Allowance. Disability is present in all communities; it cuts across all economic classes, affects people of all ages and gender. And yet people with disabilities are often the last to benefit from programmes. The new Disability Support Allowance (DSA) aims to enhance independence of the members of our community with disability. The Government is allocating \$750,000 in the 2019 Budget and funding is expected to increase to \$1.5 million in 2020 once the scheme is fully implemented.

Education

Honourable Speaker, turning to education. In recent years there have been significant advances in school enrolment rates, basic literacy, particularly for girls and young women, yet there is limited capacity of tertiary institutions to absorb school leavers. Meanwhile, improving education standards will require better trained teachers and smaller class sizes.

The 2019 Budget helps to address these challenges:

First, we are investing in more and better trained teachers:

- An extra \$356,000 is being allocated to increase the intake of pre-service teacher training from 30 to 100.
- \$74,000 is being allocated for online learning facilities at the Kiribati Teaching College to improve the quality of training.
- And \$136,000 is being allocated to Food and Ration output to accommodate the increase in the intake of pre-service teachers.

Secondly, early childhood education has significant benefits for learning outcomes and last year Parliament passed the Early Childhood and Care Education Act. The 2019 Budget includes measures to implement the new legislation:

- \$1.1 million to support pre-school teacher salaries.
- Plus \$135,000 extra for the new Early Childhood and Care Education division in the Ministry of Education.

Thirdly, the Government remains committed to its free-education policy and is maintaining support to schools; with increases in school fee subsidies and support to secondary mission schools.

And fourthly, the Government is increasing its investment in tertiary education:

- around \$2.9 million is being allocated to enable more students to benefit from the scholarship program; and
- \$1 million is being allocated to Student Loan Scheme to enable more students to benefit.

Finally, other additional funding to support investments in skills includes:

- An extra \$110,000 to support the operation of the Kiribati Institute of Technology.
- An extra \$117,000 to support the establishment of a KIT and Marine Training College on Kiritimati Island.
- \$463,000 through LCDF to support public servant training. This money is centralized and managed by PSO to ensure that it is allocated and spent efficiently.

Health

Honourable Speaker, health is another priority sector.

Kiribati has recently graduated from Gavi support for vaccinations. This has been an incredible, successful and cost-effective program and we are grateful for the Gavi assistance. Starting in 2019, I am pleased to say that the Government has allocated \$150,000 to pick up the cost of vaccine purchases and will continue this important program.

An increasing number of patients are being referred overseas for treatment, necessitating supplementary appropriations. The estimate for 2019 has therefore been revised up by \$700,000 to cater for the increasing costs.

Other health measures include:

- \$100,000 for the procurement and maintenance of new VHF radios for outer island clinics; and
- \$100,000 for medical equipment, with a further \$1m of equipment to be purchased with support from Taiwan.

Overall the total budget for the Ministry of Health and Medical Services in 2019 will increase to \$24.3 million with a further \$4.7 million being provided through Local Contributions to the Development Fund.

A secure, safer and peaceful Kiribati.

Honourable Speaker, the Kiribati Police Service plays a critical role in ensuring safety and security. A total of \$110,000 has been allocated to join and participate in INTERPOL—the world's largest international police organisation with 192 member countries. Membership will give Kiribati access to international database and expertise and enable closer cooperation and efficiency in law enforcement. Additionally, \$300,000 has been allocated to recruit 25 patrol boat crew as part of the Government's plans to expand operations in our EEZ and improve maritime safety and security.

Overall the budget for the Kiribati Police Service has been increased by just over \$400,000 from \$9.1 million to \$9.5 million.

Fisheries

Fisheries are our main source of income and critical for funding KV20. In order to maximize revenues, we must also invest and be proactive.

First, in order to increase fisheries revenue, we need to improve our capability to effectively monitor fishing activities in our EEZs. That is why we need to increase our support to observers by \$350,000 from \$1 million to \$1.35 million, to meet the demand of observers to board fishing vessels that fish in our waters. With the increase in support to observers we will be able to minimize the cost of illegal unreported and unregulated fishing.

Secondly, we are increasing our support to fisheries program by increasing LCDF by \$850,000 from \$500,000 to \$1.35 million. In addition, we will be allocating a further \$200,000 for other marine resources. Together this allocation in the LCDF will be \$1.55 million 2019. This fisheries and marine resources program will enable a significant scaling up of work on maximizing the benefits from the 'blue economy' and our ocean wealth. This will include feasibility studies for bunkering and a transshipment hub, and options to increase the value we get from the Vessel Day Scheme.

And thirdly, we need to invest in infrastructure. The current fisheries head office in Bairiki has been condemned, and we cannot continue to require staff to work in such conditions. The 2019 Budget therefore sets aside \$2 million as Government's contribution towards new fisheries office at Tanaea. As more funds will be needed for the new office, we are also exploring funding assistance from development partners.

Other sectors of the economy

Honourable Speaker, agriculture is a small sector but important for people's livelihood, and essential for nutrition and health. As part of the Government's commitment to this sector, \$823,000 is being allocated through LCDF in 2019 for agricultural hand tools. This will benefit communities, especially on our outer islands.

The Copra Price Scheme is the cornerstone of this Government's support for economic activity on outer islands. In the 2018 Budget, \$31.1 million was allocated to the Development Fund. However, lower levels of copra output has meant that we expect actual expenditure in 2018 to be about \$20 million, meaning a balance of about \$11 million can be carried over to 2019. For 2019 we have therefore allocated a further \$16 million through the LCDF to bring the total amount available in 2019 to \$27 million.

Connectivity

Honourable Speaker, affordable services to connect our country and communities through shipping, aviation and telecommunications are critical for service delivery and sustainable development.

For shipping services:

- the 2019 Budget maintains the \$1 million allocation for the freight subsidy.
- \$130,000 is allocated through the LCDF for the salary of the CEO of the Kiribati National Shipping Services.

For air services:

- \$3.7 million (from the CSO allocation of \$5.5m) has been penciled to subsidize Air Kiribati; and
- \$2.08 million is allocated for the subsidy for Xmas air services.

The 2nd Supplementary Budget in 2018 set aside \$5.8 million to towards the cost of acquiring Embraer jets for Air Kiribati to operate. And the 3rd Supplementary Budget proposes to set aside a further \$15 million. The exact cost and financing of the Embraer jets (c. \$100 million) will depend on the outcome of ongoing negotiations. For now, the funds set aside to date are sufficient for the next stage of the project. At this stage, no further provisions are included in the 2019 Budget. However, this will be revisited later next year.

For telecommunications, the 2019 Budget includes \$3 million for new mobile phone towers on outer islands. The purpose of this project is to deploy mobile and internet services to all outer islands that currently do not have these services.

While the World Bank is assisting in providing similar services to four islands namely Tabiteuea South, Nikunau, Tamana and Arorae, the remaining funds in this project is not sufficient to cover the remaining islands that do not have these services namely Kuria, Aranuka, Nonouti, Beru, Teraina and Tabuaeran.

In addition to these islands, there are three islands namely Abemama, Tabiteuea North and Onotoa which currently have mobile services but not the data services (internet) and therefore will be upgraded to 3G networks.

The objective of this project is to procure infrastructure and equipment for all the islands just mentioned while the operators will be responsible for their operations and maintenance. The Government, through Bwebweriki Net Limited (BNL), will retain ownership of all the passive assets such as towers, building, power systems so that other operators can easily have access to them to encourage competition. The Government is also providing \$60,000 to help with the start-up costs of BNL.

Infrastructure and maintenance

Honourable speaker, the Government has delivered major investments in infrastructure, with support from our development partners, notably the World Bank and ADB:

- the South Tarawa road and sanitation upgrades have been completed;
- the Betio causeway and the airport upgrades are close to completion; and
- there is a pipeline of new projects, including for South Tarawa water and outer island infrastructure.

Honourable Speaker, building infrastructure is important, but so too maintenance. We must look after assets, so that communities continue to enjoy the benefits for years to come. The 2019 Budget therefore significantly increases funding for maintenance.

\$2 million is allocated through LCDF for a new maintenance program. This will provisionally include:

- \$1.3 million for road maintenance;
- \$300,000 for hospital and health centre maintenance;
- \$200,000 for school maintenance; and
- \$200,000 for other asset maintenance.

In addition, a further \$195,000 is being added to Support Grants to Island Councils for maintenance of assets.

Sports

Honourable Speaker, increasing access and participation in sport can make a major contribution to the lives of young people.

Sport teaches about fairness and tolerance, boosts self-esteem and develops the ability to take on responsibility.

- \$500,000 has been included in the 2019 Budget for Te Runga;
- \$300,000 has been allocated for the South Pacific Games; and
- \$4.2 million has been allocated through LCDF in 2019 for the new national stadium in Bairiki.

Overall expenditure

Honourable Speaker, **overall the total Government Expenditure in 2019 is estimated to be \$201.1 million.**

This is made up of:

- \$119.5 million for Department expenditures, including \$900,000 for new public service positions.
- \$33.8 million for Other Government expenditure—i.e. subsidies, grants and other commitments.
- \$2.8 million for Debt Servicing and;

- \$45.0 million as the Local Contribution to the Development Fund.

As mentioned, revenue is forecast to be \$189.8 million and Budget Support from Development Partners will add a further \$14.3 million to the resources available to Government.

Overall, the Government estimates a surplus of just under \$3 million in 2019.

These then are the highlights of the Budget.

More details, including the composition of spending, Ministry allocations, and the RERF etc. can be found in the Budget Book.

CONCLUDING REMARKS

Making it happen

Honourable Speaker, the 2019 Budget that I have just outlined is not just a statement of intent, it is a statement of resolve. The 2019 Appropriation Bill puts resources behind that resolve, targeting the top priorities in KV20. And in 2019 we will work hard again to translate resources and resolve into tangible results for our people.

Inclusive programs for disadvantaged members of our community.

Better education and health for all.

More opportunities for our young people.

Better connectivity and more infrastructure.

And the realization of the full potential of our people and resources.

Mr Speaker, in closing I wish to acknowledge and thank Line Ministries for their ambitions and their tireless efforts to deliver on the Government's bold development agenda. I would also like to thank development partners for their continued and valuable support. Last, but not least, I wish to sincerely thank my hard working and dedicated staff who have pulled together the 2019 Budget.

Let us all work together to move our nation forward, making sure no one is left behind and with the ultimate goal that we live in a healthy, wealthy and peaceful nation.

With these remarks, Mr Speaker, I now request that the 2019 Budget be read the first time.