



2025 RECURRENT BUDGET SPEECH

DELIVERED ON 10th DECEMBER 2024

BY

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REPUBLIC OF KIRIBATI**

“A Vision to Impact – Transforming Aspirations to Tangible Outcomes”

*Honorable Speaker & your staff,
His Excellency Te Beretitenti
Honorable Cabinet Ministers
Leader of the Opposition
Honorable Members of Parliament
Kaain Kiribati ma taan ongora*

N arana ae tabu man mimitong, Kam na bane ni mauri!

Honourable Speaker,

I'm delighted to present to this esteemed House the national Budget for the fiscal year 2025. This is the 9th consecutive budget of our government - the *Tobwaan Kiribati Party* (TKP) government - since we took over the reins of government in 2016 following a fair and democratic electoral process.

It is so gratifying, Honorable Speaker, that Kiribati and the people have once again entrusted us through their votes to be their government under the current leadership for the third term in a row.

In taking on this noble responsibility, our government will continue to pursue with passion the honour of serving and delivering progress to the people in line with the spirit of our carefully crafted *Motinnano* (manifesto), which commits to making Kiribati a wealthy, healthy and peaceful nation with people at the center of it all.

The theme for the 2025 Budget, "*A Vision to Impact – Transforming Aspirations to Tangible Outcomes*," is a profound declaration of intent encapsulating the government's unwavering commitment to shaping a wealthy, healthy, and peaceful nation. At its core, the theme fits in well with the government's overarching vision of sustainable development. This vision prioritizes the effective deployment and management of resources to achieve tangible outcomes, ensuring that every initiative undertaken serves the collective good of the people. It emphasizes the importance of using available resources wisely, focusing on projects and policies that yield measurable progress in key areas such as economic growth, social equity, and environmental sustainability.

Honorable Speaker,

As in previous years, the 2025 budget involves extensive consultations with all government agencies and other key stakeholders, reflecting a shared vision and responsibility for national prosperity. Like the previous budgets, the formulation of the 2025 Budget is anchored on a fiscal strategy that is grounded on prudence, fiscal sustainability and accountability with a focus on the effective delivery of the essential public services and the fostering of inclusive growth and development.

Despite the negative global environment and uncertainties that we continue to face, our priorities embodied in this budget remain steadfast: fostering economic growth, enhancing public services, and investing in the well-being of our citizens.

ECONOMIC OUTLOOK & RECENT ECONOMIC PERFORMANCE

Honorable Speaker,

It is important that we consider the current state of play of the global economy given its direct impact on our domestic economy and, by extension, on the national budget.

According to the latest IMF report, global economic conditions are still uncertain. While there are signs of improvements such as the easing of global supply chains which should lead to lower inflation, confidence remains depressed due to the continuing intensification of regional conflicts, deepening geo-economic fragmentation and the looming trade war between the major superpowers.

Global growth is projected to steadily grow at 3.2% in 2024 and 3.3% in 2025. With inflationary pressures likely to have peaked and expected to decrease in the medium term, the strain on government spending and project costs should ease.

On the domestic front, economic activity is forecasted to pick up in 2024, with real GDP growth projected at 5.8 percent, primarily driven by higher consumption following a 38 percent increase in civil service wages. While the current account is anticipated to remain in surplus over the medium term, the surplus will be below its historical average, reflecting higher imports for domestic consumption and infrastructure projects, as well as a gradual decline in fishing license fees as a share of GDP. Real GDP growth is projected to decelerate towards 2 percent over the medium term, reflecting a moderation in population growth, and some improvement in total factor productivity (TFP) growth.

Inflation is expected to continue to decline from 4.5% in 2024 to 2.1% in 2025 and return to normal rates of around 2% in the outyears, which will reduce inflationary pressures on the cost of living for I-Kiribati as well as ministries' outlays and project costs.

The IMF's nominal GDP estimate for Kiribati for 2024 is AU\$501 million (revised up from AU\$470 million at the 2023 Budget) and AU\$528 million for 2025.

THE 2025 BUDGET

Honorable Speaker,

Let me now turn to the main subject-matter of this Speech – the 2025 Budget - which, I'm sure, this House and Kiribati have been anxiously waiting for.

As with the previous budgets, the 2025 Budget is framed within the Government's Medium Term Fiscal Strategy (MTFS). The goal of this fiscal strategy is to achieve macro-economic stability and build a resilient, wealthy, healthy and secure nation, through responsible fiscal management by:

- Growing financial net worth over the medium term, through prudent management of the RERF and cash balances and reducing debt. Where new debt is considered, it must be concessional, with at least a 35% grant element.
- Continued commitment to fiscal responsibility and implementation of the medium-term fiscal framework. This means focusing on budget repair and returning the budget to a balanced budget in the medium-term, while still delivering high-quality public services.
- Continuation and expansion of social protection measures while at the same time improving the targeting and efficiency of such payments.
- Strengthening Government payment administration and service delivery, including social protection payment administration, and investment in a new integrated financial management information system (IFMIS) and related legal and regulatory reforms.
- Improving SOE performance and reporting arrangements to encourage SOEs to be more efficient and effective in delivering services, and to improve their underlying financial viability.
- Investment in productivity enhancing infrastructure across the country, including in electricity, water, sanitation, transport and for high priority projects as outlined in the National Infrastructure Investment Plan (NIIP).
- Revenue mobilization through reforms to tax law and administration and RERF withdrawals consistent with the Withdrawal Policy.
- Implementation of financial sector reform, supporting improved financial intermediation and financial inclusion.

This strategy is supported by the implementation of two fiscal responsibility ratios to mitigate fiscal sustainability risks:

- Departmental expenditure should not exceed 50% of total budget expenditure; and
- Maintenance of a fiscal buffer that will provide cover for at least three months expenditure.

2025 Revenue Estimates

Let's look at the Revenue side of the Budget first.

The starting point of any budget process is the determination of the overall revenue envelope that will finance the budget for that fiscal year. This ensures that spending choices are made within fiscal constraints.

The total estimated revenue for 2025 is **\$402.6 million**. This is made up of the following items:

- Tax revenue - \$80 million
- Fisheries (licensing, transshipment and coastal) - \$200 million
- RERF dividend - \$80 million
- Budget support - \$33.1 million
- Others - \$6 million

Fisheries remain the largest revenue source, as it has always been, representing for this fiscal year about 50 percent of the 2025 estimated revenue, followed by Tax and the RERF dividend.

Fishing revenues are expected to be steady in 2024 and 2025 compared with the performance in 2023. The proposed base case for the 2025 Budget includes a realistic estimate of fishing revenues, in line with long-term linear trends. While fisheries revenue is

currently slightly below target, it is expected to align with the historical trend and be on track by the end of 2024.

The fisheries revenue estimate for 2025 is based on the past three-year actual average (2020-2023). This reflects the recovery of Covid-19 restrictions and the beginning of EL Nino conditions which should see fishing revenues at above average levels in 2023 and 2024. However, it is important to recognize that fishing revenues are historically volatile and challenging to predict. Estimates remain uncertain due to the significant volatility in the fishing industry, driven by ongoing external factors affecting operations and profitability.

Tax revenues are also likely to grow due to improved economic conditions and the effect of policy and administration reforms, including the implementation of the new Income Tax Act.

Although inflation is expected to slowly decline in 2025 to 2.1%, it is expected that the local economy will still be catching up with the aftermath effect of Covid19 and Ukraine and Russian war hence a blooming and a vibrant private sector which should boost consumption related revenues and income taxes. The strong tax revenue performance is expected to continue through 2024 and 2025, supported by the introduction of the new Income Tax Act. To improve the accuracy of the estimate for tax revenues, the forecast assumes that tax revenues will continue to grow at the average historical growth rates.

The **RERF Income** estimate to be withdrawn is \$80 million. This is based on the estimated rate of return on the RERF at the end of the year 2024 and the RERF Withdrawal Policy which stipulates that dividends can only be drawn down when the fund's rate of return was over 2% in the previous year, and that this revenue can only be used for approved development projects.

I wish to remind this House of the change in the RERF Drawdown Policy which Cabinet in its decision last year agreed to reduce the withdrawal threshold to 2 percent in nominal terms. The Cabinet took this decision based on the need to ensure a more equitable and fairer distribution of the RERF's income between the present and future generations, while protecting the real value of the RERF in the long-term.

Honorable Speaker, this new threshold for withdrawal resonates well with the sentiment that the various honorable members of this House have been expressing in support of the need to ensure that the present generation are not unfairly deprived of their fair share of the benefits from this trust fund.

Budget Support estimated for 2025 is \$33.1 million, which is almost 300 per cent higher than the 2024 Revised Budget figure. The increase in budget support for 2025 is due to the World Bank (WB) and ADB different fiscal cycle, which restricts them to disburse their budget support on a biannual basis instead of annually. The WB budget support for 2025 is \$12 million and ADB is \$15.2 million, which covers both the 2024 and 2025 financial years. The remaining \$5.9 million comprises supports from Australia (\$1 million), New Zealand (\$2.5 million) and the European Union (\$2.4 million).

Lastly, is **Other Revenues** estimated at \$6 million, which is 4 per cent higher than the 2024 Revised Budget. This revenue item includes dividends from companies and SOEs, as well as sundry revenues such as court fees, fines and school fees, collected by line Ministries.

2025 Expenditure Estimate

Having outlined the estimated total revenue for 2025, let me now turn to the expenditure side of the budget.

On the expenditure side, the improved economic outlook should also see less pressure on social protection expenditure, particularly for payments to the unemployed. The Government's continued efforts to improve targeting of social protection payments will also ensure more efficient spending.

The **overall estimated expenditure in 2025 is budgeted to \$402.5 million**. This comprises:

- \$193 million for Department expenditures, including \$148 million for Personal Emolument.
- \$75.4 million for Other Government expenditure—i.e., subsidies, grants and other commitments.

- \$3.3 million for Debt Servicing
- \$130.7 million for the Local Contribution to the Development Fund.

The 2025 Budget will continue to support the government's administration and operating costs, grants and subsidies, local contribution to development project costs, ongoing and new policy commitments (*Motinnano*) of the government. Ongoing commitments include outer island infrastructure projects, copra price subsidy, support for the unemployed (SFU), senior citizens allowances (SCA), payments of non-ER leave grants, support to the disabled, free education up to form 7, increasing free scholarship awards, continued support to churches, recognizing the important role of mayors and councilors through the provision of salary and many more.

Honourable Speaker,

For ease of analysis and to minimise information overload, I will not go through each and every expenditure items in the budget. Instead, I will focus on the key sectoral/thematic areas as follows.

Infrastructure development

Recognising the pivotal role that infrastructure plays in sustaining development activities, the 2025 Budget has increased support to infrastructure development, focusing on projects that drive sustainable development and economic growth. These include the following:

- Outer Island Infrastructure Project (\$32 million) – The provision is increased by \$2.0 million or 7 percent from the 2024 Revised Budget. The increase is made to cater for scheduled payments for this project due in 2025. This project aims to upgrade roads and airfields in the outer islands, with Phase 1 focusing on road improvements beginning in Butaritari.
- Infrastructure Maintenance Program (\$6 million) – The provision is increased by \$1.0 million or 20 percent higher than the 2024 Revised Budget. This will cover maintenance costs for all Government assets.
- Line and Phoenix Senior Secondary School (\$1.3 million) – To ensure completion of the project, the same allocation of \$1.3 million is given for 2025. This will cover phase

2 of the project which includes the development of extra classrooms to accommodate the increased number of students intake.

- Housing Development Phase II Linux (\$1.78 million) – The same provision is retained at the 2024 Revised Budget level; this will cover remaining civil servants' dwellings in Kiritimati.
- Outer Island Mobile Tower Phase 3 – The same provision of \$1 million is retained at the 2024 Revised budget level to cover the 7 islands in Phase 1 to increase mobile and internet coverage.

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 Budget allocates \$0.7 million for the freight subsidy.

For air services - the Budget allocation for the subsidy for Kiritimati air services is increased to \$8.3 million.

For telecommunications - the Budget allocates \$1 million for the outer islands' mobile towers project phase 3. The project will revisit islands covered in phase 1 to upgrade mobile and internet services and increase coverage for up to 80% of the islands' population.

Education

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.

For 2025, additional provision is provided to support:

- Leave grant to Pre-School teachers with a rate of \$1,500
- Pre-School teachers' salaries and related expenses (\$2.5 million)
- Repatriation and uplifting of students and other assistance to mission schools including training of their teachers (\$3.9 million).

In addition, the Government retains its commitment to invest in education from primary to tertiary level and the budget provides provision for the following:

- Support for Overseas scholarship for 2025 (\$9 million) to accommodate the increasing number of eligible school leavers.
- Loan scheme of \$1 million for those not eligible for overseas and in-country scholarships.
- School stationery for Primary and Junior Secondary School of \$1 million.
- Increase in Subsidies for school fees from \$4.9 million to \$6 million to complement the government's free education policy.
- School fees for children with special needs (\$150,000). This is Government's annual contribution to support the operation of the School for Children with Special needs.
- Government's contribution to University of the South Pacific (USP) is retained at \$1.1 million in line with the increasing number of USP students.

Overall, the total budget for the Ministry of Education is **\$49.9 million or 12 percent** of the total Budget for 2025.

Health

Honourable Speaker, health is another priority sector and is the second largest Ministry after Education.

It is evident that an increasing number of patients are being referred overseas for treatment on an annual basis, which requires a substantial financial amount. The estimate for 2025 has therefore been retained at \$7 million to accommodate the growing number of overseas referral cases and associated costs.

Additionally, to cater for local referrals, a total of \$1.2 million is now provisioned to meet the number of local referrals and all related costs.

Other budget support include:

- the ongoing support for the Directly Observable treatment (DOT) of \$139,000
- support to Health Specialists of \$200,000
- Kiribati Internship Program for Doctors of \$300,000

Overall, the total budget for the Ministry of Health and Medical Services in 2025 has increased to **\$39.8 million (10 percent of total budget)**.

Law and Order

As advocated through international development agendas, peace and security are the fundamental pillars of socio-economic stability and sustainable development. Therefore, it is imperative for the Government to implement measures to create a safer and peaceful Kiribati through the provision of timely and quality policing services.

In this vein, \$40,000 has been allocated to the Kiribati Police Services for maintaining peace and order.

Overall, the budget for the Kiribati Police Service is **\$16.4 million or 4 percent of total budget**.

Marine Resources Development

Maximizing returns from sustainable fisheries and marine resources is the ultimate goal of our government. To accomplish this, we need to improve our capability to effectively monitor fishing activities in our Exclusive Economic Zone (EEZ).

The total budget for the Ministry of Fisheries & Ocean Resources is **\$5.6 million or 1.4 percent of the total budget**. It should be noted that this provision does not include grant support for fisheries provided by development partners which are channeled through the Development Budget.

Social Welfare & Development

As indicated earlier, there are ongoing commitments including copra price subsidy, support for the unemployed (SFU), senior citizens allowances (SCA), payments of non-ER leave grants, support to the disabled, and support to churches that the 2025 Budget will continue to support.

The **Copra Price Scheme** is the cornerstone of this Government's support for economic activity on the outer islands. In the Budget, **\$28 million** is allocated for copra subsidy payments in 2025.

Support Fund to the Unemployed (SFU) is expected to decrease in 2025 based on two factors (i) Labour mobility scheme and (ii) Other social benefit incentives. With the increasing number of labor mobility schemes with Australia, New Zealand and other countries along with other social benefit incentives such as the leave grant for non-ER posts. Accordingly, the provision for SFU in 2025 is **reduced from \$28 million to \$25 million**.

Leave Grants for Non-ER Posts was implemented in 2023, with the overall aim of improving the livelihood of the people in line with our Motinnano. Sectors included in this initiative are VAT registered companies, registered Faith-Based Organizations (Churches), Seafarers and Fishers, Observers and Island Council Employees (excluding Mayors and councilors). This has extended to cover Leave Grant for Pre-School teachers with a rate of \$1,500. There is an overarching policy in place for the different sectors in order to receive this support. Based on this year's spending rate and a notable increase in the number of complying and new VAT registered companies, **the provision remains at \$10 million**.

The Government continues to provide support to Churches through the **Social Stability Fund (\$1.5 million)** that will support the development activities of our various registered Faith Based Organizations.

We remain indebted to our Senior Citizens for the many contributions and sacrifices they have made for the development of our people and country. The 2025 budget has retained the same provision of **Senior Citizens Allowances** as in the 2024 Budget (**\$23 million**).

OVERALL FISCAL POSITION & CASH RESERVE

With the estimated total revenue of \$402.6 million and total expenditure of \$402.5 million, the overall fiscal position yields a modest surplus of just over \$100K. Although insignificant, this fiscal position is consistent with our commitment to fulfilling our fiscal responsibilities and ensuring that we operate on a sustainable budget.

It is important to note that the Government continues to maintain a healthy fiscal buffer to manage liquidity risks. As of 15th November 2024, the total cash reserves stood at **\$186.1 million**. Based on the 2025 Budget, this total reserve can provide 4 months of expenditure

cover in the event of exogenous shocks to the government regular revenue streams, especially from fisheries.

We envisage that the cash position this year will remain healthy as fishing license revenue collections appear strong. As of 30th October 2024, total fishing license revenue received was \$154.7 million against the full year budget of \$197 million.

As reported earlier, the RERF is still performing well despite the withdrawal of the \$80 million made earlier this year, and the ongoing geopolitical tensions and conflicts around the world which had rattled markets. As of **31st October 2024**, the **RERF balance stood at \$1.51 billion**. When compared to the value of the RERF at the end of **2023 (\$1.39 billion)**, the fund has generated a return of 8.7%, (**\$120 million**), which exceeds the withdrawal threshold of 2% nominal returns by 6.7%. If we are to apply this 2% threshold policy, then the **maximum amount that we are allowed to withdraw is \$117 million**. Therefore, the planned \$80 million withdrawal for 2025 is well below this allowable maximum amount. Note that this government will avoid drawing down this full maximum amount from the RERF in any one year.

WAY FORWARD

Achieving fiscal sustainability remains a challenge given our heavy dependence on fishing revenues which account for over 50% of total income. The volatility in this revenue item is a major issue, reinforcing the need to explore options to diversify and broaden our revenue base to protect the government's bottom-line from shocks and unexpected shortfalls from fisheries.

A few additional revenue sources have been considered, which include the return of our upper space, bunkering, the maximisation of revenues from fisheries through, for example, increased ownership of the catches from our EEZ, and the possible leasing out of our idle islands in the Line Islands group to reputable foreign investors. However, none of these options have been seriously pursued due to competing demands and fiscal constraints. But these will now be on our priority list of tasks as we embark on this third term of administration.

The government also recognizes the importance of generating more stable and sustainable fiscal resources. In this regard, priority has been given to implementing the new Income Tax Act (ITA) and amending the existing Value-Added Tax (VAT) Act. The amendments to the VAT Act are currently under review by my ministry (MFED) and are expected to be submitted to the new parliament in the new year. Key areas covered by the amendments include shifting the VAT base from "free on board" (FOB) to "cost, insurance, and freight" (CIF) to align with the international practice, and removing tax exemptions for the SOEs.

Additionally, tax revenues could be increased by (i) eliminating the VAT and excise tax exemptions provided to the SOEs to protect the tax base and create a level playing field for the private sector; (ii) refraining from reducing the VAT rate following the shift from the FOB to CIF value; (iii) increasing excise taxes on tobacco products, alcoholic beverages, and sugary drinks, introducing excise taxes on kava, and regularly reviewing other excise rates to ensure that they are effective in achieving their revenue and public health objectives; and (iv) consolidating the corporate income tax (CIT) rates from three progressive rates into one to streamline the CIT, as few companies pay at the lower rate.

On the expenditure side, we will continue to review and control expenditure items that are wasteful and non-productive. One notable reduction that will be implemented in this 2025 Budget is subsidy to SOEs, otherwise known as the Community Services Obligation (CSO). The provision for CSO has now been significantly reduced in the budget in line with the new strategy that obligates certain SOEs to adopt a market-based approach in determining the price of their services or products. This means that SOEs, like Air Kiribati Limited (AKL) and Kiribati Oil Company (KOIL), will now be applying commercial rates when setting the prices of their products or services.

It is important also not to overlook the need to harness and further strengthen public-private partnership with the view to engaging the private sector more actively, especially in those areas where it clearly has a comparative advantage. This will help reduce the burden of the government, thereby enabling the government to concentrate on its core function.

CONCLUDING REMARKS

The 2025 Budget that I have just outlined is not just a statement of intent; it is a statement of resolve. This 2025 Appropriation Bill seeks to make available the requisite resources behind that resolve, with emphasis on strengthening economic foundations; empowering communities; building climate and economic resilience; and fostering equity.

Honorable Speaker

The 2025 Budget could not have been completed in a timely manner without the kind contributions and assistance of the various government agencies and entities. I would like, therefore, to take this opportunity to acknowledge and thank the Line Ministries for their commitments and tireless efforts throughout the budget cycle.

I would also like to thank our development partners for their continued support, through the budget support grants and tailored technical assistance, without which the resourcing and implementation of our budget programmes would have been more burdensome for the government.

Last, but not least, I wish to express my personal and special gratitude to my hard-working and dedicated NEPO staff who, under the supervision of the Secretary and Officer-in-Charge, have done so much for so little to pull together this 2025 Budget.

It is our conviction that the path outlined in this budget book will enable us to build a brighter future, grounded in shared responsibility and accountability.

Let us move forward with unity, purpose and resolve as we strive to build a future where every citizen thrives, and no one will be left behind as we progress forward.

May God bless Kiribati.