

## **Fiscal Strategy for the 2026 Budget**

### **Executive Summary**

The Fiscal Strategy outlines the major parameters used to develop the 2026 Budget. This includes the ceilings to be applied to Ministry operating and personnel budgets.

The overall aim of the 2026 Fiscal Strategy is to demonstrate commitment to responsible fiscal management, by plotting a path back to surpluses and rebuilding cash reserves while still ensuring funding for important policy priorities is maintained, as well as enhancing value for money in the delivery of Government services, thereby supporting improved economic resilience and inclusive economic growth.

In 2026, the Government will concentrate on increasing net worth and ensuring fiscal sustainability to continue providing high-quality services and sustaining essential social protection payments. Efforts will be made to improve spending efficiency and increase revenue through targeted reforms.

Global growth is expected to remain moderate, in line with the IMF's July 2025 World Economic Outlook (WEO), which projects global GDP growth at 3.2% in 2024 and 3.3% in 2025. Inflation is projected to continue declining in most regions, reflecting tight monetary policy and easing commodity prices. In this context, Kiribati's real GDP growth for 2026 is projected at 2.0%, driven by the recovery in fisheries, improved domestic revenue collection, and externally financed infrastructure projects. As cyclical differences across economies diminish and global activity aligns more closely with potential output, Kiribati can gradually transition toward fiscal consolidation, focusing on improving program efficiency and public financial management. With inflationary pressures expected to ease over the medium term, the burden on government procurement and project costs is likely to decline, supporting more sustainable fiscal planning.

The fiscal estimates for 2026 build on the actual outcomes of 2024. The final budget outcome for 2024 recorded a surplus of \$2.63 million, a significant improvement from the projected deficit of \$33.4 million after supplementary appropriation. This positive result was largely due to stronger than expected tax collections and higher than forecasted revenue from line ministries, combined with expenditures tracking below anticipated levels.

Total revenue collection for 2026 is estimated at \$409.4 million, representing a 2% increase compared to the 2025 budget. This reflects more realistic forecasts for fishing license revenues and tax receipts. A \$78 million RERF dividend is proposed, in line with past budget assumptions; however, this amount is included for planning purposes only and may not be drawn down, as the actual dividend will depend on RERF performance in 2025.

In consideration of the economic outlook, departmental budget ceilings for personal emoluments, particularly salaries and KPF have been increased by 2% over the 2025 Revised Budget to accommodate expected salary increments and the recruitment of new positions. Housing assistance has also been increased by 50% to reflect the newly approved rate, which will be implemented in 2026 by the Kiribati Housing Corporation.

Key social protection programs will continue, including the Copra Subsidy, Support funds for the Unemployed (SFU), and Leave Grants for non-established positions. However, targeted policy reforms are needed to enhance the efficiency and long-term sustainability of these schemes.

Consistent with the 2025 budget process, any expenditure proposals exceeding the established ceilings will be submitted through the New Program Proposal (NPP) process and prioritized only if fiscal space permits. Where funding gaps exist, cash reserves may be utilized.

It is important to note that these estimates carry inherent risks due to the assumptions upon which they are based. Sensitivity analysis has been conducted to assess the potential impacts of these risks.

**Table 1: Macro-Fiscal Summary**

	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>
Real GDP Growth (%)	5.3%	3.9%	3.2%	2.5%	2.2%	2.1%
Inflation (%)	2.9%	6.5%	3.0%	2.5%	2.5%	2.0%
GDP (current prices)	467.0	498.0	524.0	547.0	569.0	593.0
Revenue (\$m)	405.5	402.6	409.4	380.9	359.8	394.9
% GDP	86.8%	80.8%	78.1%	69.6%	63.2%	66.6%
Expenditure (\$m)	402.9	432.2	409.4	410.6	409.2	404.8
% GDP	86.3%	86.8%	78.1%	75.1%	71.9%	68.3%
Recurrent balance (\$m)	2.63	-29.59	0.01	-29.69	-49.43	-9.89
% GDP	0.6%	-5.9%	0.0%	-5.4%	-8.7%	-1.7%
Cash Reserves	263.7	234.1	222.1	224.5	222.1	222.1
% GDP	56.5%	47.0%	42.4%	41.0%	39.0%	37.5%
RERF	1,600.2	1,626.6	1,697.7	1,773.7	1,855.1	1,942.1
% GDP	394.6%	404.0%	414.7%	465.7%	515.6%	491.8%
Debt (\$m)	3.4	3.3	3.2	6.5	6.5	6.4
% GDP	0.7%	0.7%	0.6%	1.2%	1.1%	1.1%
Net worth	1,860.5	1,857.4	1,916.6	1,991.7	2,070.7	2,157.8
% GDP	398.4%	373.0%	365.8%	364.1%	363.9%	363.9%

## **Fiscal Strategy for the 2026 Budget**

### **Introduction**

The Fiscal Strategy outlines the major parameters the Government will use to develop the 2026 Budget. This includes the ceilings to be applied to Ministry operating and personnel budgets.

The Fiscal Strategy must ensure that the top priorities of Government can be met in a sustainable way, without compromising the delivery of essential services or the budget in the long run, particularly in an environment where extremely volatile fishing revenues can lead to significant risks.

The 2026 Budget will be aligned with the Government's Medium Term Fiscal Strategy (MTFS), which sets overarching objectives to ensure macroeconomic stability in the medium term. This aligns with the Kiribati 20 Year Vision (KV20), which envisions a future where Kiribati is healthy, prosperous, and secure, with a strong focus on its people.

Additionally, the 2026 Budget must consider current economic conditions and fiscal pressures, including the effects of inflation on operational and project costs. It must also address the funding needs for projects and policy initiatives that have been approved but not yet financed.

The Fiscal Strategy includes an overview of the MTFS, 2024 budget performance, the economic outlook, 2026 Budget priorities, base case forecasts to underpin the proposed fiscal settings for 2026 and sensitivities and risks.

Publication of the 2026 Fiscal Strategy reflects the Government's commitment to improved public financial management and transparency. Publication is consistent with global best-case practice and is recommended under the International Monetary Fund's (IMF) Public Expenditure and Financial Accountability framework.

### **Medium Term Fiscal Strategy (MTFS)**

KV20 articulates long term goals related to achieving macro-economic stability, including implementing policies that will increase Gross Domestic Product (GDP), fisheries revenue contributions, the private sector's share of GDP and protect the real value of the Revenue Equalization Reserve Fund (RERF) over the long-term.

The goal of the MTFS is to achieve macro-economic stability and build a resilient, wealthy, healthy and secure nation, through responsible fiscal management by:

1. 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.

2. Achieving budget balance over the medium term consistent with economic conditions and inclusive economic growth, with the aim to fully fund Government consumption and investment from current revenue by:

- a. Revenue mobilization and diversification

b. Improving the efficiency and effectiveness of expenditure (value for money) and government investment

3. Investing in productivity enhancing social and economic infrastructure consistent with KV20 priorities and a proactive climate change response, with the aim to support future sources of growth and improved allocative efficiency; and

4. Structural reforms to diversify the economy and build resilience, with the aim to facilitate a vibrant private sector and create meaningful jobs.

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

1. Departmental expenditure not to exceed 50% of total expenditure; and
2. Maintenance of liquidity cash buffers of at least three months expenditure.

#### **2024 Budget Outcome**

In 2024, a significant budget surplus of **\$2.6 million** was recorded, in stark contrast to a revised projected deficit of **\$33 million**. This positive outcome was driven by a **\$21.8 million** increase in tax revenues and an additional **\$9.1 million** in other ministry revenues. Furthermore, expenditures were **\$9.8 million** lower than anticipated, contributing further to the overall surplus.

**Table 2: 2024 and 2025 Revised Budget Outcome**

Item	2024 Actual	2025 Revised
<b>Total Recurrent Revenue</b>	<b>405,523,534</b>	<b>402,608,631</b>
<b>Total Domestic Revenue</b>	<b>400,751,207</b>	<b>369,468,631</b>
Fisheries revenue	209,886,253	200,000,000
<i>Fishing License</i>	<i>199,492,787</i>	<i>184,024,626</i>
Taxation revenue	92,711,061	80,000,000
Investment revenue	83,242,747	83,500,000
<i>RERF Dividend</i>	<i>80,000,000</i>	<i>80,000,000</i>
Other Ministeries' Revenue	14,911,146	5,968,631
Total donor budget support	4,772,327	33,100,000
<b>Total Recurrent Expenditure</b>	<b>402,893,950</b>	<b>432,193,764</b>
Departmental Expenditure	185,273,963	194,352,682
Other Government expenditure	74,105,386	81,283,691
<i>Senior Citizen Budget</i>	<i>21,871,087</i>	<i>23,000,000</i>
<i>Disability</i>	<i>2,513,684</i>	<i>2,386,399</i>
<i>Subsidy for Kiritimati</i>	<i>5,445,109</i>	<i>8,278,649</i>
Debt servicing	3,381,808	3,346,188
Local Contribution to Development Fund	140,132,793	153,211,202
<i>Copra subsidy</i>	<i>28,000,000</i>	<i>46,509,146</i>
<i>Unemployment benefit</i>	<i>30,100,000</i>	<i>25,000,000</i>
<i>Other Projects and Grants</i>	<i>82,032,793</i>	<i>81,702,056</i>
<b>Recurrent Balance</b>	<b>2,629,584</b>	<b>-29,585,133</b>
<b>% of GDP</b>	<b>0.6%</b>	<b>-5.9%</b>
Cash reserves	263,675,925	234,090,792
Closing cash reserves	263,675,925	234,090,792
FRR: Dept exp as % of total (<50%)	46.0%	45.0%
FRR: Cash reserves in exp months (3 months)	7.9	6.5
Expenditure as share of GDP	86.3%	86.8%
Departmental Expenditure as a share of GDP	39.7%	39.0%
Tax revenue as a share of GDP	19.9%	16.1%

### 2026 Budget Strategy and Ceilings

The proposed 2026 Budget base case settings take account of the medium-term strategy and how it can be achieved considering the expected economic conditions, fiscal risks and Government policy priorities to be delivered in 2026.

### Economic Outlook

The Government uses IMF economic forecasts to underpin the economic assumptions used to develop budget estimates.

According to the IMF's latest World Economic Outlook (July 2025), global economic conditions remain cautiously optimistic but uneven across regions. While supply chain pressures have eased and

inflation is gradually declining due to tighter monetary policies and lower commodity prices, global confidence is still subdued. Some vulnerabilities remain, particularly in the financial sector, as the effects of recent monetary tightening continue to unfold.

Global growth is projected at 3.2% in 2024 and 3.3% in 2025, with inflation expected to return to target ranges in most economies over the medium term. Against this backdrop, the Government of Kiribati can begin a measured fiscal consolidation, focusing on enhancing program administration, strengthening public financial management, and improving the efficiency of expenditure. As inflationary pressures ease, the cost burden on public projects is likely to reduce, allowing for more sustainable investment planning and delivery.

The fisheries revenue estimate for 2026 builds on the 2024 outcome, with a projected 2% increase to reflect the onset of El Niño conditions, which are expected to positively influence fishing activity and revenue. However, it is important to note that fishing revenues have historically been volatile and difficult to predict, due to ongoing external factors that affect industry operations and profitability.

Tax revenues are also expected to grow, supported by improved economic conditions and the anticipated impact of policy and administrative reforms, including the implementation of the new Income Tax Act. On the expenditure side, an improved economic outlook is expected to reduce pressure on social protection spending, particularly unemployment-related payments. Continued efforts by the Government to improve the targeting and delivery of social protection programs will support more efficient and sustainable expenditure.

On the downside, significant global market uncertainty creates risks for the performance of the Revenue Equalization Reserve Fund (RERF). While current performance in 2025 appears encouraging, dividend payments from the RERF may fall short of projections in the coming years. Additionally, global uncertainty could also weigh on fishing revenues, compounding fiscal risks in the medium term.

Economic activity is expected to strengthen in 2025, with real GDP growth projected at 3.9 percent, before gradually moderating to around 2 percent over the medium term. Growth will continue to be largely driven by public consumption and the implementation of infrastructure projects.

While the current account is expected to remain in deficit over the medium term, the fiscal deficit is projected to narrow in 2025, reflecting efforts to contain current expenditures.

Inflation is forecast to rise to 7.8 percent in 2025, primarily due to a one-off increase in fuel prices and subsidy adjustments, before easing in the medium term in line with inflation trends among major trading partners. This sharp increase is expected to exert pressure on the cost of living for I-Kiribati households and increase the cost of project implementation.

The IMF's nominal GDP estimate has been revised upward to AUD 498 million in 2025 and is projected to reach AUD 525 million in 2026.

### **2026 Budget Priorities**

The following priorities are expected to inform the 2026 Budget setting:

- 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 continued investment in the newly adopted 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.

The overall aim is to ensure that as part of the commitment to responsible fiscal management, funding gaps are addressed, and service quality continues to improve, enhancing value for money in the

delivery of Government services, supporting improved economic resilience and inclusive economic growth.

### **2026 Budget Assumptions**

The key assumptions in formulating the 2026 Budget baseline estimates include:

- The 2026 economic conditions are expected to align with the IMF forecast of 3.3% global real GDP growth, 2.5% inflation globally, and a projected 2.5% real GDP growth for Kiribati, reflecting a gradual recovery in economic activity and easing inflationary pressures.
- Fishing revenues are expected to increase by 2% over the 2024 outcome, reflecting changes in weather conditions.
- RERF dividends are expected to align with the RERF Withdrawal Policy. While RERF performance has been strong in 2025 and anticipated changes to the portfolio allocation are expected to support even stronger growth, global market volatility and uncertainty remain. As such, it is prudent to base forecasts on long-run average returns.
- Tax revenues should improve over the medium-term as growth rises and policy reforms such as the new Income Tax Act strengthen collections.
- Continuation of key policies such as Leave Grants for non-ER posts, Copra Subsidy of \$4 per kilo, and SFU payments of \$50 a month. It is expected that SFU payments may decline over time as employment conditions improve and social protection payments are better targeted.
- Donor budget support payments are conditional on meeting fiscal responsibility and economic reform commitments, as articulated in the Economic Reform Taskforce (ERT) Matrix.

The base case estimates are summarized in the table at **Attachment A**. These estimates reflect assumptions at a point in time and are subject to change.

### **Revenue Estimates**

The starting point for the 2026 Budget is to forecast a realistic revenue envelope that sets the ceiling for expenditure.

Fishing revenues are projected to increase by 2% over the 2024 outcome. The proposed base case for the 2026 Budget incorporates a realistic estimate of fishing revenues, consistent with long-term

linear trends. Fisheries revenue is currently on track and is expected to maintain this trend through to the end of 2025.

The RERF Withdrawal Policy provides a framework for the Government to plan for orderly withdrawals to support economic development priorities. Under this policy, dividends may only be drawn down if the fund's nominal rate of return exceeded 2% in the previous year. Additionally, any withdrawn revenue must be allocated exclusively to development projects approved by Cabinet. This rule is designed to preserve the real value of the RERF over time, in alignment with the KV20 objectives.

For the purposes of the Fiscal Strategy, RERF revenue estimates are based on the implementation of the RERF Withdrawal Policy, and an assumption that returns will be higher than the **2 %** nominal (equivalent to the long run estimated RERF return). The estimated percentage increase in the RERF from 2023 to 2024 is **15%**, translating to an estimated **\$207 million** (or **13%**) potentially available for drawdown—based on the long-term expected return of the RERF. However, given the RERF's vulnerability to a range of external risks, including global market volatility, foreign exchange fluctuations, geopolitical tensions, and other shocks, a more prudent and sustainable drawdown of **\$78 million** is proposed.

This drawdown must be hypothecated to development initiatives endorsed by Cabinet, with a focus on projects that enhance human, social, or economic capital rather than supporting recurrent or consumption-related expenditures.

For 2026, total tax revenue is projected at **\$97.6 million**—representing a 22% increase from the 2025 Revised Budget. The forecast assumes a continued, moderate growth in tax revenues, supported by ongoing improvements in tax collection systems. Specifically, tax revenue is expected to increase by **5%** over the 2024 outcome.

Overall, the proposed base case revenue envelope for 2026 is estimated at **\$409.4 million**, reflecting a **2%** increase from the 2025 Revised Budget. A detailed breakdown of the revenue forecast is provided in **Attachment B**.

### **Expenditure Estimates**

For 2026, reflecting the economic outlook, base case departmental budget ceilings for personal emolument have been increased to reflect expected salary increments, new positions and the increase in housing rate from the Kiribati Housing Corporation while operation costs have been maintained at their 2025 Budget levels. This approach will also enable the rebuilding of cash reserves

to address fiscal pressures and risks, including the need to address Government policy priorities and make provision for urgent and unavoidable expenditure.

Like the 2025 process, expenditure proposals above the ceiling will be considered through a New Policy Proposal (NPP) process and prioritized should fiscal space be identified. Cash reserves will be used to meet any funding gaps.

The detail of the base case expenditure estimates is at **Attachment A**. The key elements are as follows.

- The departmental expenditure ceiling has increased to **\$196.4 million** in contrast to the 2025 Revised Budget level of **\$194.4 million**, while in the outyears departmental expenditure is assumed to increase with inflation.
- Grants, subsidies, and other commitments has decreased to **\$70.1 million** (14% decrease) compared to the 2025 Revised Budget level of **\$81.3 million**. This is primarily due to the supplementary allocation of one-off payment approved in 2025, which significantly increased the revised budget, but is not factored into the 2026 budget.
- Debt servicing is projected to decline to **\$3.16 million** (6% decrease) compared to the 2025 Revised Budget level of **\$3.35 million** as legacy debts balances fall and no new debts are agreed.
- The LCDF is projected to decrease by 9% against the 2025 Revised Budget (which includes approved supplementary for major commitments) equivalent to **\$139.7 million**. This reduction reflects that some major commitments currently have excessive balances, therefore only a top up is required for 2026, for instance, the Outer Island Infrastructure Project. Major payments will continue such as the Copra Subsidy, Support to the Unemployed (SFU). Additionally, some items not included in the 2025 budget due to sufficient carried over balances are now included in the 2026 budget. These include Local and Overseas Training, Support to Fisheries, Support to Observers and Outer Island Priority Projects.

### **Fiscal Position**

The base case fiscal balance for the 2025 Revised Budget is a deficit of **\$29.6 million** (-5.9% of GDP), with a small budget surplus of **\$0.008 million** projected for 2026 (0% of GDP). Achieving a surplus budget reaffirms the government's commitment to fiscal sustainability.

### **Risks and Sensitivities**

The base case estimates rest on assumptions related to economic activity, expenditure and revenue, especially expected fishing revenues and donor direct budget support payments.

**Attachment D** provides the results of the sensitivity analysis, showing the impact on budget balance, cash reserves and cash reserve cover of changes in key assumptions related to revenue and expenditure. A key result of the analysis indicates that if the fishing revenue estimate is 10% higher than expected, the budget will be in surplus in 2025.

Fishing revenues tend to be highly volatile, and there is a risk that they may under or over perform expectations. Tax revenue performance will reflect underlying economic conditions, and any policy changes through the year. Policy changes will need to be costed and considered in the context of the revenue impact. Risks will be mitigated by regular monitoring of collections and improvements to forecasting methodologies.

Donor support payments are conditional on meeting economic reform milestones, with an estimated **\$5.9 million** at risk (2% of total revenue) in 2026. The reforms are targeted at mitigating fiscal risks and include reforms to public financial management, including improved reporting, expenditure management and a new IFMIS as well as revenue mobilization initiatives. They also encompass improved SOE management, building climate change resilience and supporting financial sector reform.

A further risk relates to the quality of expenditure, and the long-term sustainability of social protection payments, such as the Copra Subsidy and SFU payments. It is proposed to undertake more analysis to consider opportunities to improve the efficiency and effectiveness of transfer payments in meeting Government objectives. This may include options to target payments to those most in need, or alternative more efficient delivery mechanisms.

Lack of expenditure discipline or emerging fiscal pressures present another risk to the base case estimates. This risk can be mitigated by a rigorous 2025 Budget process that includes review of departmental expenditure to determine opportunities for reallocation.

The economic outlook assumption is also a risk, and foreign exchange volatility may also impact on the estimates. The healthy cash reserves buffer will support and manage these risks.

To mitigate the impact of all these risks on the budget settings, it will be important to review and revisit assumptions as the budget process progresses.

## Attachment A: Aggregates and Forward Estimates

Item	2024 Actuals	2025 Rvd Budget	2026 Budget	2027 Estimate	2028 Estimate	2029 Estimate
	\$	\$	\$	\$	\$	\$
<b>Total Revenue</b>	<b>405,523,534</b>	<b>402,608,631</b>	<b>409,383,563</b>	<b>380,866,093</b>	<b>359,821,415</b>	<b>394,899,843</b>
Total Domestic Revenue	400,751,207	369,508,631	403,483,563	347,766,093	353,921,415	360,199,843
Fisheries revenue	209,886,253	200,000,000	215,126,179	195,201,562	199,105,593	203,087,705
Taxation revenue	92,711,061	80,000,000	97,565,282	99,516,588	101,506,920	103,537,058
Investment revenue	83,242,747	83,500,000	82,000,000	44,080,000	44,161,600	44,244,832
<i>RERF dividend</i>	80,000,000	80,000,000	78,000,000	40,000,000	40,000,000	40,000,000
<i>Interest and dividends</i>	3,242,747	3,500,000	4,000,000	4,080,000	4,161,600	4,244,832
Other Ministries revenue	14,911,146	6,008,631	8,792,102	8,967,944	9,147,303	9,330,249
<b>Total donor budget support</b>	<b>4,772,327</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>34,700,000</b>
<b>Total Expenditure</b>	<b>402,893,950</b>	<b>432,193,764</b>	<b>409,375,988</b>	<b>410,558,880</b>	<b>409,248,789</b>	<b>404,792,658</b>
Departmental expenditure	185,273,963	194,352,682	196,432,810	198,683,090	201,017,047	203,397,683
Other government expenditure	74,105,386	81,283,691	70,078,624	71,578,624	71,878,624	72,078,624
Debt servicing	3,381,808	3,346,188	3,161,519	3,280,096	3,224,843	3,191,630
Local Contribution to Development Fund	140,132,793	153,211,202	139,703,035	137,017,070	133,128,275	126,124,721
<i>Copra Subsidy</i>	48,000,000	46,509,146	48,000,000	40,000,000	40,000,000	40,000,000
<i>Unemployment Benefit</i>	23,000,000	25,000,000	23,000,000	25,000,000	25,000,000	25,000,000
<i>Projects and grants</i>	69,132,793	81,702,056	68,703,035	72,017,070	68,128,275	61,124,721
<b>Balance</b>	<b>2,629,584</b>	<b>(29,585,133)</b>	<b>7,574</b>	<b>(29,692,787)</b>	<b>(49,427,374)</b>	<b>(9,892,815)</b>
<b>Balance as share of GDP</b>	<b>0.6%</b>	<b>-5.9%</b>	<b>0.0%</b>	<b>-5.4%</b>	<b>-8.7%</b>	<b>-1.7%</b>
Cash reserves estimate	263,675,925	234,090,792	234,098,366	204,405,580	154,978,206	145,085,391
FRR: Cash reserves expenditure months	8	6	7	6	5	4
FRR: Dept expenditure share of total expenditure	46%	45%	48%	48%	49%	50%
Expenditure as share of GDP	86%	87%	78%	75%	72%	68%
Departmental expenditure as share of GDP	40%	39%	37%	36%	35%	34%
Tax revenue as share of GDP	20%	16%	19%	18%	18%	17%
<b>Sensitivity Analysis - impact on balance/reserves</b>						
<b>A Low case Fisheries revenue (10% less)</b>	(18,359,042)	(49,585,133)	(21,505,044)	(49,212,943)	(69,337,933)	(30,201,585)
Cash reserve estimate impact	245,316,883	184,505,659	212,593,323	155,192,637	85,640,272	114,883,806
Cash reserve months	7	5	6	5	3	3
<b>B No Donor Budget Support</b>	(2,142,744)	(62,685,133)	(5,892,426)	(62,792,787)	(55,327,374)	(44,592,815)
Cash reserve estimate impact	261,533,181	171,405,659	228,205,941	141,612,793	99,650,831	100,492,576
Cash reserve months	8	5	7	4	3	3
<b>C No RERF Dividend (return &lt; 5%)</b>	(77,370,416)	(109,585,133)	(77,992,426)	(69,692,787)	(89,427,374)	(49,892,815)
Cash reserve estimate impact	186,305,509	124,505,659	156,105,941	134,712,793	65,550,831	95,192,576
Cash reserve months	6	3	5	4	2	3
<b>D Expenditure 5% higher</b>	(17,515,114)	(51,194,821)	(20,461,225)	(50,220,731)	(69,889,814)	(30,132,448)
Cash reserve estimate impact	246,160,811	182,895,971	213,637,141	154,184,849	85,088,392	114,952,943
Cash reserve months	7	5	6	5	2	3
<b>E Copra Subsidy reduced by 50%</b>	26,629,584	(6,330,560)	24,007,574	(9,692,787)	(29,427,374)	10,107,185
Cash reserve estimate impact	290,305,509	227,760,232	258,105,941	194,712,793	125,550,831	155,192,576
Cash reserve months	9	6	8	6	4	5
<b>F SFU recipients reduced by 50%</b>	14,129,584	(17,085,133)	11,507,574	(17,192,787)	(36,927,374)	2,607,185
Cash reserve estimate impact	277,805,509	217,005,659	245,605,941	187,212,793	118,050,831	147,692,576
Cash reserve months	8	6	7	5	3	4

## Attachment B: Revenue

	2024 Actual	2025 Revised	2026 Proposed	2027	2028	2029
<b>Tax Revenue</b>						
Personal Income Tax	25,222,140	17,963,424	25,726,583	26,241,115	26,765,937	27,301,256
Company Tax	15,183,421	15,635,863	15,487,089	15,796,831	16,112,768	16,435,023
Excise Tax	10,912,621	11,000,000	14,130,873	14,413,491	14,701,761	14,995,796
VAT	41,392,879	35,400,713	42,220,736	43,065,151	43,926,454	44,804,983
<b>Total Tax Revenue</b>	<b>92,711,061</b>	<b>80,000,000</b>	<b>97,565,282</b>	<b>99,516,588</b>	<b>101,506,920</b>	<b>103,537,058</b>
<b>Non-Tax Revenue</b>						
Fishing Licence Revenue	199,492,787	184,024,626	204,168,399	184,024,626	187,705,119	191459220.9
Fish transshipment fees	8,688,000	7,000,000	8,891,625	9,069,458	9,250,847	9435863.952
Other fishing revenue	1,705,466	8,975,374	2,066,155	2,107,478	2,149,627	2192619.737
<b>Total Fishing Revenue</b>	<b>209,886,253</b>	<b>200,000,000</b>	<b>215,126,179</b>	<b>195,201,562</b>	<b>199,105,593</b>	<b>203,087,705</b>
Dividends	1,744,603	3,000,000	3,000,000	3,060,000	3,121,200	3183624
Interest Income	1,498,143	500,000	1,000,000	1,020,000	1,040,400	1061208
RERF Dividends	80,000,000	80,000,000	78,000,000	40,000,000	40,000,000	40,000,000
<b>Investment Revenue</b>	<b>83,242,747</b>	<b>83,500,000</b>	<b>82,000,000</b>	<b>44,080,000</b>	<b>44,161,600</b>	<b>44,244,832</b>
<b>Other revenue</b>	14,911,146	6,008,631	8,792,102	8,967,944	9,147,303	9,330,249
<b>Total Non-Tax Revenue</b>	<b>308,040,146</b>	<b>289,508,631</b>	<b>305,918,281</b>	<b>248,249,505</b>	<b>252,414,495</b>	<b>256,662,785</b>
<b>Total own source revenue</b>	<b>400,751,207</b>	<b>369,508,631</b>	<b>403,483,563</b>	<b>347,766,093</b>	<b>353,921,415</b>	<b>360,199,843</b>
World Bank		12,000,000		12,000,000		12,000,000
ADB		15,200,000		15,200,000		15,200,000
NZ	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Australia		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
EU	2,272,327	2,400,000	2,400,000	2,400,000	2,400,000	4,000,000
<b>Total Budget Support</b>	<b>4,772,327</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>34,700,000</b>
<b>Total Revenue</b>	<b>405,523,534</b>	<b>402,608,631</b>	<b>409,383,563</b>	<b>380,866,093</b>	<b>359,821,415</b>	<b>394,899,843</b>

## Attachment C: Sensitivity Analysis

Item	2025 Rvd Budget \$	2026 Budget \$	2027 Estimate \$	2028 Estimate \$	2029 Estimate \$
<b>Total Revenue</b>	<b>402,608,631</b>	<b>409,383,563</b>	<b>380,866,093</b>	<b>359,821,415</b>	<b>394,899,843</b>
Total Domestic Revenue	369,508,631	403,483,563	347,766,093	353,921,415	360,199,843
Fisheries revenue	200,000,000	215,126,179	195,201,562	199,105,593	203,087,705
Taxation revenue	80,000,000	97,565,282	99,516,588	101,506,920	103,537,058
Investment revenue	83,500,000	82,000,000	44,080,000	44,161,600	44,244,832
<i>RERF dividend</i>	<i>80,000,000</i>	<i>78,000,000</i>	<i>40,000,000</i>	<i>40,000,000</i>	<i>40,000,000</i>
<i>Interest and dividends</i>	<i>3,500,000</i>	<i>4,000,000</i>	<i>4,080,000</i>	<i>4,161,600</i>	<i>4,244,832</i>
Other Ministries revenue	6,008,631	8,792,102	8,967,944	9,147,303	9,330,249
<b>Total donor budget support</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>33,100,000</b>	<b>5,900,000</b>	<b>34,700,000</b>
<b>Total Expenditure</b>	<b>432,193,764</b>	<b>409,375,988</b>	<b>410,558,880</b>	<b>409,248,789</b>	<b>404,792,658</b>
Departmental expenditure	194,352,682	196,432,810	198,683,090	201,017,047	203,397,683
Other government expenditure	81,283,691	70,078,624	71,578,624	71,878,624	72,078,624
Debt servicing	3,346,188	3,161,519	3,280,096	3,224,843	3,191,630
Local Contribution to Development Fund	153,211,202	139,703,035	137,017,070	133,128,275	126,124,721
<i>Copra Subsidy</i>	<i>46,509,146</i>	<i>48,000,000</i>	<i>40,000,000</i>	<i>40,000,000</i>	<i>40,000,000</i>
<i>Unemployment Benefit</i>	<i>25,000,000</i>	<i>23,000,000</i>	<i>25,000,000</i>	<i>25,000,000</i>	<i>25,000,000</i>
<i>Projects and grants</i>	<i>81,702,056</i>	<i>68,703,035</i>	<i>72,017,070</i>	<i>68,128,275</i>	<i>61,124,721</i>
<b>Balance</b>	<b>(29,585,133)</b>	<b>7,574</b>	<b>(29,692,787)</b>	<b>(49,427,374)</b>	<b>(9,892,815)</b>
<b>Balance as share of GDP</b>	<b>-5.9%</b>	<b>0.0%</b>	<b>-5.4%</b>	<b>-8.7%</b>	<b>-1.7%</b>
Cash reserves estimate	234,090,792	234,098,366	204,405,580	154,978,206	145,085,391
FRR: Cash reserves expenditure months	6	7	6	5	4
FRR: Dept expenditure share of total expenditure	45%	48%	48%	49%	50%
Expenditure as share of GDP	87%	78%	75%	72%	68%
Departmental expenditure as share of GDP	39%	37%	36%	35%	34%
Tax revenue as share of GDP	16%	19%	18%	18%	17%
<b>Sensitivity Analysis - impact on balance/reserves</b>					
<b>A Low case Fisheries revenue (10% less)</b>	<b>(49,585,133)</b>	<b>(21,505,044)</b>	<b>(49,212,943)</b>	<b>(69,337,933)</b>	<b>(30,201,585)</b>
Cash reserve estimate impact	184,505,659	212,593,323	155,192,637	85,640,272	114,883,806
Cash reserve months	5	6	5	3	3
<b>B No Donor Budget Support</b>	<b>(62,685,133)</b>	<b>(5,892,426)</b>	<b>(62,792,787)</b>	<b>(55,327,374)</b>	<b>(44,592,815)</b>
Cash reserve estimate impact	171,405,659	228,205,941	141,612,793	99,650,831	100,492,576
Cash reserve months	5	7	4	3	3
<b>C No RERF Dividend (return &lt; 5%)</b>	<b>(109,585,133)</b>	<b>(77,992,426)</b>	<b>(69,692,787)</b>	<b>(89,427,374)</b>	<b>(49,892,815)</b>
Cash reserve estimate impact	124,505,659	156,105,941	134,712,793	65,550,831	95,192,576
Cash reserve months	3	5	4	2	3
<b>D Expenditure 5% higher</b>	<b>(51,194,821)</b>	<b>(20,461,225)</b>	<b>(50,220,731)</b>	<b>(69,889,814)</b>	<b>(30,132,448)</b>
Cash reserve estimate impact	182,895,971	213,637,141	154,184,849	85,088,392	114,952,943
Cash reserve months	5	6	5	2	3
<b>E Copra Subsidy reduced by 50%</b>	<b>(6,330,560)</b>	<b>24,007,574</b>	<b>(9,692,787)</b>	<b>(29,427,374)</b>	<b>10,107,185</b>
Cash reserve estimate impact	227,760,232	258,105,941	194,712,793	125,550,831	155,192,576
Cash reserve months	6	8	6	4	5
<b>F SFU recipients reduced by 50%</b>	<b>(17,085,133)</b>	<b>11,507,574</b>	<b>(17,192,787)</b>	<b>(36,927,374)</b>	<b>2,607,185</b>
Cash reserve estimate impact	217,005,659	245,605,941	187,212,793	118,050,831	147,692,576
Cash reserve months	6	7	5	3	4

The budget estimates rest on assumptions related to economic activity, expenditure and revenue, especially expected fishing revenues, donor direct budget support payments, RERF returns and expected dividends, as well as the maintenance of expenditure restraint.

The table above includes estimates on the impact on the overall balance for scenarios, where the underlying assumption may not hold. The impact is shown of a change in the assumption on the overall balance, cash reserves estimate, and the amount of cash reserve expenditure cover.

This sensitivity analysis of assumptions includes the following scenarios:

A. Fishing revenue:

- A1 low case: Fishing revenues are 10 % lower than expected. The impact is that revenue decreases, and the overall position deteriorates.
- A2 high case: Fishing revenues are 10 % higher than expected. The impact is that revenue increases, and the overall position improves.

B. No Donor Budget Support: Donors do not pay budget support, due to non-achievement of economic reform milestones. The impact is that revenue decreases, and the overall position deteriorates.

C. No RERF Dividend: rates of return on RERF do not exceed the 2 % benchmark for withdrawal of a dividend, as outlined in the RERF Withdrawal Policy. Therefore, no dividend can be drawn down. The impact is that revenue decreases, and the overall position deteriorates. Expenditure on RERF projects is expected to occur, reflecting that an appropriation was approved.

D. Expenditure high case: expenditure exceeds the forward estimates by 5 %. The impact is that expenditure is increased, and the overall position deteriorates.

E. Copra Subsidy reduction: the Copra Subsidy is reduced from \$4 a kilo to \$2 a kilo. The impact is that expenditure on the measure is reduced, and the overall position improved.

F. Support for the Unemployed: the number of recipients of the payment is reduced by half from around 38,000 to 20,000. The impact is that expenditure on the measure is reduced, and the overall position improved.

Cash reserves are assumed to be available to cover the volatility in the balance. The capacity to do this is assessed using an estimate of how many months expenditure the reserves can cover.