



GOVERNMENT OF KIRIBATI

MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT

Fiscal Strategy for the 2024 Budget

Executive Summary

The Fiscal Strategy outlines the major parameters used to develop the 2024 Budget. This includes the ceilings to be applied to Ministry operating and personnel budgets.

The overall aim of the 2024 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.

For 2024, the Government will continue to seek to grow net worth and focus on fiscal sustainability to ensure that high quality government services can continue to be delivered and that vital social protection payments can be maintained. Reforms will be pursued to improve expenditure efficiency and mobilize revenue.

Economic conditions are expected to be strengthened in 2024, with the IMF April 2023 World Economic Outlook (WEO) forecasting real GDP growth of 2.5 % and inflation of 4.5 % in 2024, up from the 2.1% real growth forecast for 2023. This context suggests that Government can begin a gradual fiscal tightening, through improving program administration and expenditure efficiency. Inflationary pressures appear to have peaked and are expected to decline over the medium-term, reducing pressure on Ministry outlays and project costs.

The fiscal estimates for 2024 build on the 2022 outcomes. The final budget outcome for 2022 is a large deficit of \$74 million, much worse than the expected deficit of \$12 million. The outcome is almost entirely due to much lower than the forecasted fishing

revenues and the decision to preserve the RERF dividend rather than draw it down. Meanwhile, tax revenues outperformed their estimates, and expenditure was broadly in line with expectations.

Reflecting expectations of improved performance due to stronger economic conditions, the ending of Covid-19 travel restrictions, and the start of El Nino weather conditions, the base case forecast for revenue in 2024 is **\$341.3 million**, a 6% increase on the 2023 Revised Budget estimate. This reflects expectations that fishing revenue estimates exceed average levels and increases in tax revenues reflecting stronger economic growth rates. A RERF dividend of 2.5% is proposed, consistent with past Budget assumptions. This is for planning purposes and may not necessarily be used –the actual dividend will depend on 2023 RERF performance.

Taking account of the economic outlook, base case departmental budget ceilings have been increased by 2% on their 2023 Revised Budget levels to take account of expected salary increments and new posts.

Important social protections payments will continue, including Copra Subsidy, Support Fund for the Unemployed (SFU) payments, and Leave Grants for Non-Establishment Register (Non-ER) posts. However, proactive policy action is required to improve the targeting and efficiency of these schemes with a view to improving their long run affordability.

As with the 2023 process, expenditure proposals above the ceiling will be considered through a New Program Proposal (NPP) process and prioritized should fiscal space be identified. Cash reserves will be used to meet any funding gaps.

There are inherent risks in the estimates related to the assumptions that underpin them. Sensitivity analysis indicates the potential impact of these risks.

Table 1: Macro-Fiscal Summary

	2023	2024	2025	2026	2027
Real GDP Growth (%)	2.1%	2.5%	2.5%	1.9%	2.3%
Inflation (%)	8.6%	4.5%	2.1%	1.9%	1.8%
GDP (current prices)	358.0	383.0	400.0	416.0	432.0
Revenue (\$m)	320.7	341.3	370.9	370.6	388.6
% GDP	89.6%	89.1%	92.7%	89.1%	90.0%
Expenditure (\$m)	318.4	341.4	347.2	346.3	348.9
% GDP	88.9%	89.1%	86.8%	83.2%	80.8%
Recurrent balance (\$m)	2.32	-0.08	23.70	24.33	39.72
% GDP	0.6%	0.0%	5.9%	5.8%	9.2%
Cash Reserves	211.2	179.5	203.2	227.5	267.3
% GDP	59.0%	46.9%	50.8%	54.7%	61.9%
RERF	1,313.0	1,373.0	1,441.6	1,513.7	1,589.4
% GDP	409.4%	402.2%	388.7%	408.5%	409.0%
Debt (\$m)	48.7	46.0	43.3	40.7	38.1
% GDP	13.6%	12.0%	10.8%	9.8%	8.8%
Net worth	1,475.5	1,506.5	1,601.5	1,700.6	1,818.6
% GDP	412.2%	393.3%	400.4%	408.8%	421.0%

Fiscal Strategy for the 2024 Budget

Introduction

The Fiscal Strategy outlines the major parameters the Government will use to develop the 2024 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 2024 Budget will be framed within the Government’s Medium Term Fiscal Strategy (MTFS). This strategy establishes high level goals to achieve macro-economic stability in the medium term, consistent with the aspirations in the Kiribati 20 Year Vision (KV20), for Kiribati to be healthy, wealthy, and safe, with people at the centre.

The 2024 Budget also needs to take account of economic conditions and fiscal pressures, including the impact of inflation on operational and project costs and the need to address the costs of projects and policy initiatives that have been agreed but not funded.

The Fiscal Strategy includes an overview of the MTFS, 2022 budget performance, the economic outlook, 2024 Budget priorities, base case forecasts to underpin the proposed fiscal settings for 2024 and sensitivities and risks.

Publication of the 2024 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 MTF 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.

2022 Budget Outcome

Based on the budget outcome, the deficit for 2022 was much worse than the forecasted 2022 Revised Budget, with a deficit of \$74 million compared with a revised budget deficit of \$12 million. The result is almost entirely due to a shortfall of \$59 million in fishing revenues and the decision to preserve the RERF Dividend of \$23 million rather than draw it down. Taxation and other revenues performed better than expectations, while expenditures were more or less in line with estimates.

Table 2: 2022 Budget Outcome

	2022 Revised Budget	2022 Actual	Share of Budget %
Total Recurrent Revenue	305,178,279	233,573,487	76.5%
Total Domestic Revenue	287,781,643	219,249,973	76.2%
Fisheries revenue	200,000,000	141,020,386	70.5%
Taxation revenue	54,322,769	62,980,228	115.9%
Investment revenue	3,500,000	2,339,890	66.9%
<i>RERF Dividend</i>	23,000,000	-	0.0%
Other Ministries' Revenue	5,458,874	12,909,468	236.5%
Total donor budget support	17,396,636	14,323,514	82.3%
Total Recurrent Expenditure	317,144,610	307,482,230	97.0%
Departmental Expenditure	142,589,796	136,924,026	96.0%
Other Government expenditure	64,817,420	60,438,336	93.2%
Debt servicing	4,194,022	4,576,495	109.1%
Local Contribution to Development Fund	105,543,372	105,543,372	100.0%
Recurrent Balance	- 11,966,331	- 73,908,743	
% of GDP	-3.7%	-23.0%	
Recurrent Balance (excl. RERF Dividend)	- 34,966,331	- 73,908,743	
% of GDP			
Cash reserves	219,090,318	208,862,420	
FRR: Dept exp as % of total (<50%)	45.0%	44.5%	-0.4%
FRR: Cash reserves in exp months (3 months)	8.3	8.2	- 0.1
Expenditure as share of GDP	98.5%	95.5%	- 0.0
Departmental Expenditure as a share of GDP	44.3%	42.5%	- 0.0
Tax revenue as a share of GDP	16.9%	19.6%	0.0

2024 Budget Strategy and Ceilings

The proposed 2024 Budget base case settings take account of the medium-term strategy and how it can be achieved in light of expected economic conditions, fiscal risks and Government policy priorities to be delivered in 2024.

Economic Outlook

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

According to the latest IMF World Economic Outlook (April 2023), 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 and recent monetary policy tightening has exposed some fragility in the banking and finance sector.

Global growth is projected to slow from an estimated 3.4% in 2022 to 2.8% in 2023 before rising to 3.0% in 2024.

For Kiribati, the ending of Covid-19 related travel restrictions should be supportive if growth and the IMF are forecasting real GDP growth of 2.1% in 2023 rising to 2.5% in 2024, up from the 1.6% experienced in 2021.

Risks for Kiribati are broadly balanced. Upside risks include significant improvements in fishing revenues on the back of El Nino conditions and the ending of Covid-19 restrictions. Tax revenues are also likely to grow due to improved economic conditions and the effect of policy and administration reforms such as the implementation of the new Income Tax Act. On the expenditure side, the improved economic outlook should also see less pressure on social protection expenditures, particularly for payments to the unemployed. The Government's continued efforts to improve targeting of social protection payments will also ensure more efficient spending.

On the downside, the considerable global market uncertainty means it is unclear how the RERF will perform over the next few years, although current performance in 2023 is encouraging. As such, RERF dividends may not be as large as forecasted. Global uncertainty may also have a negative impact on fishing revenues.

Inflation is expected to continue to decline from a peak of 8.6% in 2023 to 4.5% in 2024, before falling to more normal rates of around 2% in the outyears, which will reduce inflationary pressures on the cost of living for I-Kiribati as well as Ministry outlays and project costs.

The IMF's nominal GDP estimate for 2023 is \$358 million (revised up from \$311 million at the 2023 Budget) and **\$383 million** for 2024.

2024 Budget Priorities

The following priorities are expected to inform the 2024 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 healthy surpluses 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.

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.

2024 Budget Assumptions

The key assumptions in formulating the 2024 Budget baseline estimates include:

- 2024 economic conditions will be consistent with the IMF forecast of 3% real global growth, 2.5% Kiribati real growth, and 4.5% inflation;
- Fishing revenues are expected to strengthen compared with the relatively low levels seen in 2022, due to the ending of COVID restrictions and the coming El Nino conditions;
- RERF dividends will be consistent with the RERF Withdrawal Policy, and a return consistent with the nominal long run average of 7.5%. While RERF performance has been strong so far in 2023 and expected changes to the portfolio allocation should be supportive of even stronger RERF growth, global

market volatility and uncertainty persists, thus it is prudent to base the 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 will 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 **Appendix A**. These estimates reflect assumptions at a point in time and are subject to change.

Revenue Estimates

The starting point of the 2024 Budget is to forecast a realistic revenue envelope that provides a ceiling for expenditure.

Fishing revenues are expected to improve in 2023 and 2024 compared with the relatively weak performance in 2022. This reflects the ending of Covid-19 restrictions and the beginning of EL Nino conditions which should see fishing revenues at above average levels in 2023 and 2024, although it should be noted that fishing revenues are historically volatile and difficult to predict. Relatively high inflation in 2024 should boost consumption related revenues and income taxes.

The proposed 2024 Budget base case is for a realistic estimate of fishing revenues, consistent with longer term linear trends. There is likely to be some upside potential in this estimate, as 2023 collections to May 2023 are very strong, although this may reflect delayed payments from 2022.

The RERF Withdrawal Policy enables Government to plan for orderly RERF withdrawals to support economic development priorities. Dividends can only be drawn down where the fund's rate of return was over 5% in the previous year, and revenue

can only be used for approved development projects. This rule protects the real value of the fund over time, consistent with 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 7.5% (equivalent to the long run estimated RERF return) and therefore 2.5%, or **\$29.8 million**, will be available to draw down. This 2.5% must be hypothecated to development projects identified by Government. Projects need to support investment in building human, social or economic capital, rather than consumption.

In 2022, tax revenues collected were 14% higher than the 2022 Revised Budget estimate. The strong tax revenue performance is expected to continue through 2023 and 2024, 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.

Overall, the proposed base case revenue funding envelope for 2024 is **\$341.3 million**, a 6% increase on the 2023 Revised Budget estimate. The detail of the estimate is at **Appendix B**.

Expenditure Estimates

For 2024, reflecting the economic outlook, base case departmental budget ceilings have been increased to reflect expected increases in salary costs while operation costs have been maintained at their 2023 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 2023 process, expenditure proposals above the ceiling will be considered through a New Program 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 **Appendix A**. The key elements are as follows.

- The departmental expenditure ceiling has been increased to **\$145.3 million** up from the 2023 Budget level of \$144.1 million, while in the outyears departmental expenditure is assumed to increase with inflation.
- Grants, subsidies, and other commitments have been reviewed and are broadly maintained at the 2023 level, except for increase in certain items such as the Senior Citizen's Benefit. The base case provision for this is **\$66.1 million**, a 4% increase on 2023.
- Debt servicing is projected to decline slightly over the medium-term as legacy debts balances fall and no new debts are agreed.
- The LCDF is expected to increase by 15% to **\$125.7 million**. While payments such as the SFU are expected to decline, this is offset by estimated increases in the costs of the Copra Subsidy, medical referrals, leave grants for Non-ER posts, and the Maintenance Fund, as well as provision for the Outer Island Infrastructure Project.

Fiscal Balance

The base case fiscal balance position is a surplus of \$2.3 million in the 2023 Revised Budget (0.6% of GDP) and a **deficit of \$0.08 million** in 2024 (-0.02% of GDP), before returning to surplus in the outyears. The 2023 and 2024 estimated fiscal balances are a significant improvement on the \$74 million (23% of GDP) deficits experienced in 2022, which demonstrates the Government's commitment to fiscal sustainability.

Cash reserves may come under pressure in 2024 as Government plans to meet additional commitments such as making payment to the Kiribati Provident Fund (KPF) to cover a loan guarantee provided by the previous Government.

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.

Appendix 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 2024.

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 **\$5.8 million** potentially at risk (2% of total revenue) in 2024. 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 2024 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 these risks on the budget settings, it will be important to review and revisit assumptions as the budget process progresses.

Appendix A: Aggregates and Forward Estimates

Item	2023	2024	2025	2026	2027
Total Recurrent Revenue	320,721,171	341,336,982	370,929,011	370,600,699	388,634,394
Total Domestic Revenue	293,968,508	335,526,982	349,264,011	361,015,699	373,054,394
Fisheries revenue	200,000,000	215,269,164	227,818,523	234,789,791	241,955,916
Taxation revenue	79,443,878	80,666,046	84,115,528	87,166,115	90,244,695
Investment revenue	5,405,480	33,841,079	29,291,958	30,700,270	32,172,740
<i>RERF Dividend</i>	-	29,841,079	25,663,328	26,946,495	28,293,819
Other Ministries' Revenue	9,119,150	5,750,693	8,038,003	8,359,523	8,681,043
Total donor budget support	26,752,663	5,810,000	21,665,000	9,585,000	15,580,000
Total Recurrent Expenditure	318,398,503	341,421,426	347,233,939	346,268,003	348,918,078
Departmental Expenditure	144,112,644	145,349,772	148,401,682	151,221,321	153,942,870
Other Government expenditure	63,563,782	66,075,852	68,555,093	66,152,102	66,152,102
Debt servicing	4,385,343.31	4,335,299.37	4,242,442.27	4,169,858.13	4,098,383.94
Local Contribution to Development Fund	106,336,733	125,660,502	126,034,721	124,724,721	124,724,721
Leave grants for Non-ER Posts	9,500,000	11,000,000	12,500,000	12,500,000	12,500,000
Copra subsidy	28,000,000	30,000,000	35,000,000	35,000,000	35,000,000
Unemployment benefit	30,100,000	28,000,000	28,000,000	28,000,000	28,000,000
Other Projects and Grants	38,736,733	56,660,502	50,534,721	49,224,721	49,224,721
Recurrent Balance	2,322,668	-84,443	23,695,073	24,332,696	39,716,316
% of GDP	0.6%	-0.02%	5.9%	5.8%	9.2%
Recurrent Balance (GFS basis)	6,202,803	3,770,807	27,484,033	28,074,587	43,411,929
% of GDP	1.7%	1.0%	6.9%	6.7%	10.0%
Cash reserves	211,185,087	211,100,644	203,211,484	227,544,179	267,260,496
<i>less: reimbursement of development funds</i>		- 20,000,000			
<i>less: payment of loan guarantee to KPF</i>		- 11,584,233			
Closing cash reserves	211,185,087	179,516,411	203,211,484	227,544,179	267,260,496
FRR: Dept exp as % of total (<50%)	45.3%	42.6%	42.7%	43.7%	44.1%
FRR: Cash reserves in exp months (3 months)	8.0	6.3	7.0	7.9	9.2
Expenditure as share of GDP	88.9%	89.1%	86.8%	83.2%	80.8%
Departmental Expenditure as a share of GDP	40.3%	38.0%	37.1%	36.4%	35.6%
Tax revenue as a share of GDP	22.2%	21.1%	21.0%	21.0%	20.9%

Appendix B: Revenue

	2020 Actual	2021 Actual	2022 Actual	2023 Revised Budget	2024 Proposed	2025	2026	2027
Tax Revenue								
Personal Income Tax	12,364,642	13,612,392	13,966,018	14,659,691	14,700,000	18,131,091	18,856,335	19,581,578
Company Tax	9,702,665	12,692,221	12,898,816	16,259,915	17,072,910	17,616,162	18,176,701	18,755,075
Excise Tax	8,619,710	10,919,224	8,506,093	13,016,967	13,147,136	13,507,631	13,878,011	14,258,546
VAT	20,962,001	28,746,555	27,609,302	35,507,306	35,746,000	34,860,643	36,255,069	37,649,495
Total Tax Revenue	51,649,018	65,970,392	62,980,228	79,443,878	80,666,046	84,115,528	87,166,115	90,244,695
Non-Tax Revenue								
Fishing Licence Revenue	170,736,450	161,445,280	130,567,318	191,432,013	197,054,164	202,841,432	208,798,666	214,930,857
Fish transshipment fees	12,004,312	7,481,672	9,602,849	8,091,428	7,000,000	13,299,133	13,831,098	14,363,063
Other fishing revenue	1,328,052	447,082	850,220	476,559	11,215,000	11,677,958	12,160,027	12,661,996
Total Fishing Revenue	184,068,815	169,374,034	141,020,386	200,000,000	215,269,164	227,818,523	234,789,791	241,955,916
Dividends	539,833	4,535,812	2,069,101	4,905,480	3,500,000	3,128,630	3,253,775	3,378,921
Interest Income	1,212,407	96,460	270,789	500,000	500,000	500,000	500,000	500,000
RERF Dividends	40,000,000	-	-	-	29,841,079	25,663,328	26,946,495	28,293,819
Investment Revenue	41,752,240	4,632,272	2,339,890	5,405,480	33,841,079	29,291,958	30,700,270	32,172,740
Other revenue	4,391,942	6,482,110	12,909,468	9,119,150	5,750,693	8,038,003	8,359,523	8,681,043
Total Non-Tax Revenue	230,212,996	180,488,416	156,269,744	214,524,630	254,860,936	265,148,484	273,849,584	282,809,699
Total own source revenue	281,862,015	246,458,807	219,249,973	293,968,508	335,526,982	349,264,011	361,015,699	373,054,394
World Bank	-	-	6,970,149	12,080,000		12,080,000		12,080,000
ADB	-	-		7,550,000		3,775,000	3,775,000	
NZ	2,500,000	2,500,000	2,499,985	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Australia	500,000	1,000,000	999,940	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
EU	4,008,305	-	3,853,440	3,622,663	2,310,000	2,310,000	2,310,000	
Total Budget Support	7,008,305	3,500,000	14,323,514	26,752,663	5,810,000	21,665,000	9,585,000	15,580,000
Total Revenue	288,870,320	249,958,807	233,573,487	320,721,171	341,336,982	370,929,011	370,600,699	388,634,394

Appendix C: Sensitivity Analysis

Item	2023	2024	2025	2026	2027
	Budget	Proposal	Estimate	Estimate	Estimate
	\$	\$	\$	\$	\$
Total Revenue	320,721,171	341,336,982	370,929,011	370,600,699	388,634,394
Total Domestic Revenue	293,968,508	335,526,982	349,264,011	361,015,699	373,054,394
Fisheries revenue	200,000,000	215,269,164	227,818,523	234,789,791	241,955,916
Taxation revenue	79,443,878	80,666,046	84,115,528	87,166,115	90,244,695
Investment revenue	5,405,480	33,841,079	29,291,958	30,700,270	32,172,740
<i>RERF dividend</i>	-	29,841,079	25,663,328	26,946,495	28,293,819
<i>Interest and dividends</i>	5,405,480	4,000,000	3,628,630	3,753,775	3,878,921
Other Ministries revenue	9,119,150	5,750,693	8,038,003	8,359,523	8,681,043
Total donor budget support	26,752,663	5,810,000	21,665,000	9,585,000	15,580,000
Total Expenditure	318,398,503	341,421,426	347,233,939	346,268,003	348,918,078
Departmental expenditure	144,112,644	145,349,772	148,401,682	151,221,321	153,942,870
Other government expenditure	63,563,782	66,075,852	68,555,093	66,152,102	66,152,102
Debt servicing	4,385,343	4,335,299	4,242,442	4,169,858	4,098,384
Local Contribution to Development Fund	106,336,733	125,660,502	126,034,721	124,724,721	124,724,721
<i>Leave grants for Non-ER Posts</i>	9,500,000	11,000,000	12,500,000	12,500,000	12,500,000
<i>Copra Subsidy</i>	28,000,000	30,000,000	35,000,000	35,000,000	35,000,000
<i>Unemployment Benefit</i>	30,100,000	28,000,000	28,000,000	28,000,000	28,000,000
<i>RERF Projects</i>	-	29,841,079	25,663,328	26,946,495	28,293,819
<i>Other projects and grants</i>	38,736,733	26,819,423	24,871,393	22,278,226	20,930,902
Balance	2,322,668	(84,443)	23,695,073	24,332,696	39,716,316
Balance as share of GDP	0.6%	0.0%	5.9%	5.8%	9.2%
Cash reserves estimate	211,185,087	179,516,411	203,211,484	227,544,179	267,260,496
FRR: Cash reserves expenditure months (3mths)	8.0	6.3	7.0	7.9	9.2
FRR: Dept exp share of total expenditure (<50%)	45%	43%	43%	44%	44%
Expenditure as share of GDP	89%	89%	87%	83%	81%
Departmental expenditure as share of GDP	40%	38%	37%	36%	36%
Tax revenue as share of GDP	22%	21%	21%	21%	21%
Sensitivity Analysis - impact on balance/reserves					
A1 Low case Fisheries revenue (10% less) balance impact	(17,677,332)	(21,611,360)	913,220	853,717	15,520,725
Cash reserve estimate impact	193,507,755	157,905,051	204,124,704	228,397,896	282,781,220
Cash reserve months	7.3	5.5	7.1	7.9	9.7
A2 High case Fisheries revenue (10% more) balance impact	22,322,668	21,442,473	46,476,925	47,811,675	63,911,908
Cash reserve estimate impact	233,507,755	200,958,884	249,688,409	275,355,854	331,172,404
Cash reserve months	8.8	7.1	8.6	9.5	11.4
B No Donor Budget Support balance impact	(24,429,995)	(5,894,443)	2,030,073	14,747,696	24,136,316
Cash reserve estimate impact	186,755,092	173,621,967	205,241,556	242,291,875	291,396,812
Cash reserve months	7.0	6.1	7.1	8.4	10.0
C No RERF Dividend (return < 5%) balance impact	2,322,668	(29,925,523)	(1,968,256)	(2,613,799)	11,422,497
Cash reserve estimate impact	213,507,755	149,590,888	201,243,228	224,930,381	278,682,992
Cash reserve months	8.0	5.3	7.0	7.8	9.6
D Expenditure 5% higher balance impact	(13,597,257)	(17,155,515)	6,333,376	7,019,296	22,270,412
Cash reserve estimate impact	197,587,830	162,360,896	209,544,859	234,563,475	289,530,908
Cash reserve months	7.4	5.7	7.2	8.1	10.0
E Copra Subsidy reduced by 50% balance impact	16,322,668	14,915,557	41,195,073	41,832,696	57,216,316
Cash reserve estimate impact	227,507,755	194,431,967	244,406,556	269,376,875	324,476,812
Cash reserve months	8.6	6.8	8.4	9.3	11.2
F SFU recipients reduced by 50% balance impact	17,372,668	13,915,557	37,695,073	38,332,696	53,716,316
Cash reserve estimate impact	228,557,755	193,431,967	240,906,556	265,876,875	320,976,812
Cash reserve months	8.6	6.8	8.3	9.2	11.0
Rate of growth in expenditure	4%	7%	2%	0%	1%
Rate of growth in revenue	37%	6%	9%	0%	5%

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 5% 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 Fund for the Unemployed: the number of recipients of the payment is reduced by half from around 47,000 to 23,500. 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 are able to cover.