



Fiscal Update Report

31 March 2022

"Adapting to the New Normal"

National Economic Planning Office
Ministry of Finance & Economic Development

1.0 Introduction

1.1 This report provides an update on the status of the Government’s finances for the period 1 January to 31 March 2022, highlighting the performance of revenues, expenditures, and the cash balance. The report also discusses potential risks to public finances in the coming months.

1.2 The report uses data from the Government’s financial system and other sources in line ministries to provide an assessment of public finances as well as discussing key issues that affect the management of public finances, which must be addressed through appropriate policy interventions.

2.0 Financial Performance

2.1 **Table 1** provides a summary of financial performance for the period ended 31 March 2022. It highlights the outcome for revenues, expenditures, and the cash balance for the reporting period, which spans from 1 January 2022 to 31 March 2022.

2.2 A comparison of revenues and expenditures relative to their respective annual budgets is also reflected in Table 1. These are referenced in the Table as the ‘*performance rate*’ for revenues and the ‘*utilization rate*’ for expenditures.

Table 1: Fiscal Performance for Quarter 1 2022

	*Q1 Actuals	Q1 Forecast ¹	Difference	% change	Total Annual Budget	Performance rate / Utilization rate
Revenues	64,856,440	59,732,028	5,124,412	8.6%	305,178,279	21.3%
Expenditures	60,703,794	75,673,637	-14,969,842	-19.8%	305,131,607	19.9%
(Deficit)/Surplus	4,152,646	-15,941,608				
(Deficit)/Surplus % of GDP	0.9%	-3.5%				
Nominal GDP	450,799,787	450,799,787				

* Q1: Quarter 1.

2.3 Over the first 3 months of the year, revenues amounted to \$64.9 million while expenditures reached \$60.7 million. This resulted in a cash surplus of \$4.2 million at the end of March 2022, compared with an estimated deficit of \$15.9 million.

¹ The forecasts for revenues and expenditures in this report take into account historical trends and other contextual factors. These forecasts have been discussed with key stakeholders to ensure validity.

- 2.4 During the reporting period, revenues surpassed the first quarter forecast by \$5.1 million or 8.6 percent whereas expenditures fell short of the forecast by \$15.0 million or 19.8 percent.
- 2.5 The favorable result for revenues stemmed mainly from buoyant fishing license collections which exceeded the forecast for the first quarter by \$5.7 million or 12.3 percent. Expenditures, on the other hand, were inhibited by containment measures imposed earlier in the year to curb the first COVID-19 outbreak. The nationwide lockdown impacted most of the Government's operations and restrained spending across all line ministries.
- 2.6 By the end of March, revenues were 21.3 percent of total budgeted revenues, while expenditures amounted to 19.9 percent of total budgeted expenditures.

3.0 Revenues

- 3.1 **Table 2** summarizes the first quarter performance of major revenue categories, including tax, non-tax, and 'budget support' (i.e. donor grants to the recurrent budget).

Table 2: Revenue Performance for the Quarter 1 2022

Revenue Components	Q1 Actual	Q1 Forecast	Difference	% change	Total Budget Revenues	Proportion of Budget
Tax Revenue	12,027,370	11,960,104	67,266	0.6%	54,322,769	22.1%
Personal income tax	2,979,967	3,750,000	-770,033	-20.5%	12,500,000	23.8%
Company tax	1,314,819	1,369,806	-54,987	-4.0%	12,452,782	10.6%
Excise Tax	1,965,943	1,590,298	375,645	23.6%	8,369,987	23.5%
VAT	5,766,641	5,250,000	516,641	9.8%	21,000,000	27.5%
Non Tax Revenue	52,829,070	47,771,925	5,057,145	10.6%	233,458,874	22.6%
Dividends	0	0	0	0.0%	3,500,000	0.0%
Interest Income	0	0	0	0.0%	1,500,000	0.0%
RERF Dividends	0	0	0	0.0%	23,000,000	0.0%
Fishing License Revenue	52,048,753	46,336,080	5,712,673	12.3%	193,067,000	27.0%
Fish transshipment fees	174,179	347,835	-173,656	-49.9%	6,000,000	2.9%
Other Fishing Revenue	14,965	214,590	-199,625	-93.0%	933,000	1.6%
Other Ministries' Revenue	591,173	873,420	-282,247	-32.3%	5,458,874	10.8%
Budget Support	0	0	0	0.0%	17,396,636	0.0%
Budget support	0	0	0	0.0%	17,396,636	0.0%
Total Revenues	64,856,440	59,732,028	5,124,412	8.6%	305,178,279	21.3%

* The red fonts represent an under-performance in the revenue category relative to the forecast for the reporting period.

Tax Revenues

- 3.2 The main components of tax revenues are Value Added Taxes (VAT), personal income taxes, company taxes, and excise taxes.
- 3.3 Total tax collections amounted to \$12.0 million by the end of March 2022, \$0.07 million above the forecast. The largest tax earnings came from VAT which

registered collections of \$5.8 million, followed by personnel income taxes of \$3.0 million, excise taxes of \$2.0 million, and corporate taxes of \$1.3 million.

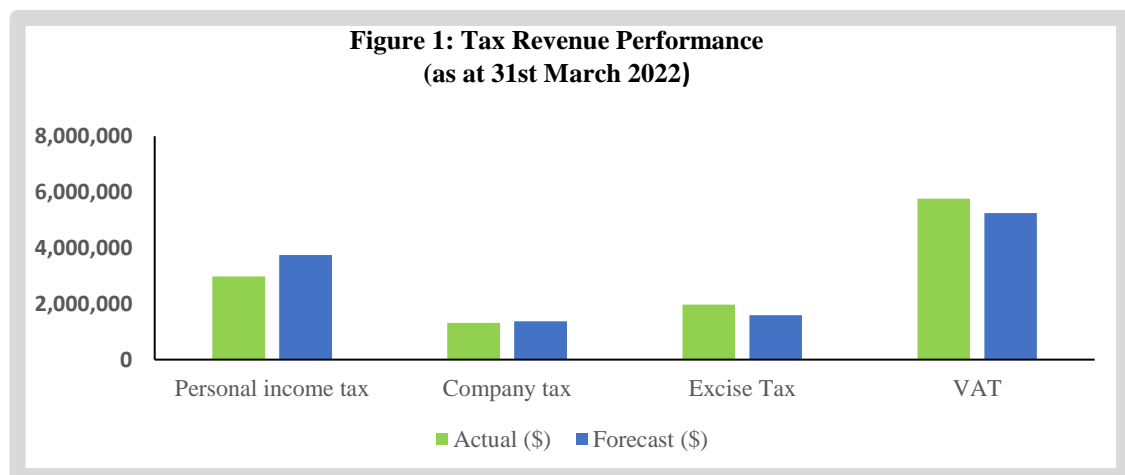
3.4 VAT and Excise Taxes surpassed their forecasts by \$0.5 million and \$0.4 million respectively; while earnings from personal and company taxes fell short of their forecasts by \$0.8 million and \$0.05 million respectively.

3.5 The below par collections for personal taxes in the first quarter stems from slow recruitment of new employees into the civil service to fill vacant positions in line ministries. As the Government is the largest employer in Kiribati, personal tax collections are largely driven by the Government’s staff recruitment and increases to civil service salaries.

3.6 Company tax collections continue to be hampered by sluggish business activity and investments. Prior to the pandemic, company tax collections averaged about \$2.5 million in the first three months. This dropped to \$2.2 million in 2020 – the first year of the Pandemic - and then slumped to \$1.3 million in both 2021 and 2022, or a reduction of around 41.0 percent.

3.7 The decline in company taxes is attributed mainly to income losses in the tourism sector. Hotels and tourist operators have operated at minimum capacity since the borders closed about two years ago. This has impacted profits and tax earnings from the sector and also affected other businesses across the economy, thus leading to an overall erosion in company tax revenues. The recovery in company taxes will be dependent on the reopening of the borders and the normalization of the business environment in Kiribati.

3.8 **Figure 1** highlights the performance of major tax categories up to 31st March 2022.



Non-Tax Revenue

3.9 Non-tax revenue comprises a wide range of revenue sources other than taxes or budget support from donors. It includes proceeds from fishing licenses - the largest revenue source, as well as income from other sources such as:

- (i) interest earnings from term deposits;
- (ii) dividends from state investments; and
- (iii) various fees, fines, and charges collected by ministries and agencies.

3.10 Dividends drawn from the RERF² are also classified as non-tax revenues in this report, consistent with the government budget classification.

Fisheries revenues

3.11 Fisheries revenues has three main components: (i) Fishing License Revenues; (ii) Fish Transshipment Fees; and (iii) Other Fishing Revenues.

3.12 Proceeds from fishing licenses makes up about 96.5 percent of total fisheries revenues, while the remaining 3.5 percent comes from the other two components.

3.13 Furthermore, fishing license revenues are expected to account for about 63.3 percent of total revenues this year, which is a reduction from last year's ratio of 66.8 percent.

3.14 Total earnings from **fishing licenses** increased to \$52.0 million in the first quarter, reflecting a growth of \$5.7 million above the March forecast. This quarter's result represents a significant rebound from last year's first quarter (2021) earnings which slumped to \$38.5 million; however, it remains below the pre-Pandemic peak of \$66.4 million recorded in 2019.

3.15 The current gap between this year's first quarter earnings and the 2019 first quarter earnings is \$14.4 million or 21.6 percent. Based on current trends, collections should reach close to pre-Pandemic levels by the end of the year or even surpass these levels slightly if market conditions improve in tandem with other factors (climate conditions, fish migratory patterns, etc.).

3.16 Incomes for **transshipment fees** amounted to \$0.2 million at the end of the March quarter, well below the full-year budgeted amount of \$6.0 million. While collections tend to improve in the months of April and June, the magnitude of these collections will depend largely on the volume of fish-stocks offloaded at

² Revenue Equalization Reserve Fund

domestic ports. These volumes could drop if more foreign vessels opt to offload their fish in other ports in the region. This would reduce collections from transshipment fees and undermine efforts to achieve the revenue target set for this year.

3.17 **Other fishing revenues** are revenues earned from Government services to the local fisheries sector. They include proceeds from the sale of fishing licenses, hiring of fishing boats, and distribution of maritime fishing maps.

3.18 Earnings from other fishing revenues usually varies each year depending on the demand for domestic fishing services. Proceeds for the quarter reached \$0.01 million, representing a low outturn compared with the Quarter 1 proceeds in recent years³. This quarter's earnings were impacted mainly by COVID restrictions, which inhibited fishing activities during the period.

Dividend

3.19 **'Dividends'** refer to payments reflecting the shares of profits the Government receives from its shareholding interest in State Owned Enterprises (SOE).

3.20 No dividends were received from SOEs during the reporting period as dividend payments are determined once SOEs close their accounts and declare final profits or losses for the year. Total dividends for the year are forecast to reach \$3.5 million.

Interest Income

3.21 **Interest income** is the interest earned from term deposits in commercial banks and other financial institutions.

3.22 The Government did not earn any interest income in the reporting period, as interest on term deposits were not expected to be paid during this time. Interest income is expected to increase gradually over the coming nine months to reach an amount of \$1.5 million for the year.

³ In 2021 proceeds from other fishing revenues reached \$0.2 million in the first quarter; in 2020 it was \$0.02 million; and 2019, \$0.3 million.

Revenue Equalization Reserve Fund

- 3.23 The Government did not make any withdrawals from the RERF sovereign wealth fund in the first quarter. Total dividends of \$23.0 million are forecast to be drawn from the RERF by the end of the year.

Other Ministry Revenues

- 3.24 This revenue stream captures revenues collected by line ministries for the provision of services. These revenues are collected through various kinds of fees, fines, and charges such as court charges, immigration fees, and school fees.
- 3.25 **Other ministry revenues** accumulated to about \$0.6 million in the first three months of this year. This result is \$0.3 million lower than the forecast for the quarter. Disruptions to services during the COVID outbreak contributed to the revenue shortfall.

Budget Support

- 3.26 **'Budget support'** refers to grants received from donors for the Recurrent Budget.
- 3.27 Several donors, including the Asian Development Bank, World Bank, Australia, New Zealand, and the European Union have pledged to provide total budget support of \$17.4 million in the 2022 National Budget. The release of these funds is dependent on meeting certain reform commitments approved through the Economic Reform Taskforce.
- 3.28 The Government is making progress on these commitments to facilitate the timely release of the budget support funds.

4.0 Government Expenditure

- 4.1 **Table 3** summarizes the performance of the main expenditure categories in the first three months of 2022.

Table 3: Performance of the Main Expenditure Categories up to 31 March 2022

Expenditure Categories	Q1 Actual	Q1 Budget Forecast	Difference	% change	Total Budget Expenditure	Proportion of Budget
Departmental expenditure	35,405,187	42,776,939	-7,371,752	-17.2%	142,589,796	24.8%
<i>Personal Emoluments</i>	29,196,209	31,030,114	-1,833,905	-5.9%	103,433,712	28.2%

<i>Operational Cost</i>	6,208,978	11,746,825	-5,537,847	-47.1%	39,156,084	15.9%
Other government expenditure	9,449,738	14,833,457	-5,383,719	-36.3%	64,817,420	14.6%
<i>Subsidies</i>	2,969,604	3,047,764	-78,160	-2.6%	24,243,219	12.2%
<i>Grants</i>	1,549,466	1,867,562	-318,096	-17.0%	27,846,314	5.6%
<i>Contributions[^]</i>	84,370	84,370	0			
<i>Other Commitments</i>	4,846,298	9,833,761	-4,987,462	-50.7%	12,727,887	38.1%
Debt servicing[^]	69,371	69,371	0	0.0%	4,090,104	1.7%
Local Contribution to Development Fund	15,779,498	17,993,870	-2,214,372	-12.3%	93,634,287	16.9%
<i>Copra Subsidy</i>	6,488,769	8,703,141	-2,214,372	-25.4%	40,000,000	16.2%
<i>Unemployment Benefit[^]</i>	7,799,650	7,799,650	0	0.0%	32,400,000	24.1%
<i>Projects and grants[^]</i>	1,491,079	1,491,079	0	0.0%	21,234,287	7.0%
Total Government Expenditures	60,703,794	75,673,637	-14,969,842	-19.8%	305,131,607	19.9%

* Red fonts represent an over-expenditure in the expenditure category relative to the forecast for the reporting period.

[^] Due to limited data and information, reliable forecasts could not be formulated for these expenditure categories. As such, actual outturns for the expenditure categories have been reflected in the forecast columns to prevent distortions.

Departmental Expenditure

4.2 Departmental expenditures include spending on personnel emoluments and other operational costs.

- **Personal emoluments** cover expenditures on salaries, wages, KPF⁴ contributions as well as allowances for overtime, housing and leave grants.
- **Operational costs** encompass the cost for running operations, including the costs for transportation, communication, stationery, printing and other administrative overheads.

4.3 Total **personnel costs** for the entire public service reached \$29.2 million at the end of March 2022. This result is slightly lower than the forecast for the period of \$31.0 million. Delays in filling vacant positions across line ministries contributed to the lower expenditure on personnel costs.

⁴ Kiribati Provident Fund

4.4 Compared with the first quarter forecast, spending on **operational outlays** recorded a significant shortfall of \$5.5 million or 47.1 percent. The under-expenditure is mainly attributed to the impact of COVID containment measures earlier in the year which stalled most of the Government's operations and restrained operational spending.

Other Government Expenditure

4.5 This expenditure category has four sub-components: subsidies; grants; contributions; and other commitments. The following discusses each expenditure component.

Subsidies

4.6 Subsidies are financial transfers made to private entities to support the provision of certain targeted goods and services at affordable prices. The aim of government subsidies is to improve the accessibility of such goods and services to the general public (or targeted groups) and improve living standards.

4.7 Some important subsidies offered in the 2022 Budget include subsidies for: freight and air services; school fees; housing; teacher salaries; and CSO⁵ contributions. A total sum of \$24.2 million is allocated in the 2022 budget for subsidy payments.

4.8 Subsidies of about \$3.0 million were paid in the reporting period, covering the following:

- Community Service Obligations (\$1.7 million);
- Support for Secondary Mission Schools (\$0.4 million);
- Subsidy for School Fees (\$0.3 million);
- Housing for Government Employees (\$0.3 million); and
- Support for Pre-School Teachers (\$0.2 million).

Grants

4.9 Grants cover direct payments made to public institutions and non-profit organizations to support the provision of important public services. Grants must be utilized for their intended purposes.

4.10 Grants in 2022 includes grants to the local island councils, urban councils, voluntary organizations, and for two key social protection programmes – the **senior citizens benefit scheme** and the **disability allowance scheme**. Funding for these two schemes makes up about 84.3 percent of the total grant budget in 2022.

⁵ Community Service Obligations: Government support for State Owned Enterprises.

- 4.11 During the first quarter, \$1.5 million of grants were paid, of which 93.3 percent or \$1.4 million was dispersed to the Senior Citizens Benefit Scheme. The remaining balance (6.7 percent or \$0.1 million) covered payments made to Local Island Councils (\$0.05 million) and the Disability Support Scheme (\$0.01 million).

Contributions

- 4.12 ‘Contributions’ includes subscriptions for the Government’s membership in multilateral institutions, such as the Secretariat of the Pacific Community, International Civil Aviation Organization, United Nations Framework Convention on Climate Change, and Sports Federations, to name a few. Total subscription payments in the reporting period amounted to \$84,370⁶.

Other Commitments

- 4.13 Other commitments comprise spending on specific obligations or commitments of the Government. Commitments in 2022 include provisions for land rent, search and rescue services, and ferry services to remote outer islands.
- 4.14 The commitment budget also encompasses provisions for National Elections and the Population Census which are important national responsibilities of the Government.
- 4.15 Even though spending on other commitments reached \$4.9 million by the end of March, the amount expended fell short of the forecast by \$5.0 million or 50.7 percent. The under-expenditure is largely attributed to delays encountered in settling land rent claims.
- 4.16 While the total rent owed by the end of the quarter was \$9.7 million, only \$4.6 million was paid. The Government is currently substantiating the rental claims for a number of leases with landowners and expects to resolve these issues before the end of the year to enable the clearance of all rental arrears.

Debt Servicing

- 4.17 Debt servicing refers to the payment of interest and principal charges on public debt as well as other financing charges.

⁶ Figure not rounded-off.

- 4.18 Total debt servicing costs for the period rose to \$0.07 million. This payment is consistent with the debt repayment schedule for the year, which shows that most debt payments will be settled in the months of April and September.
- 4.19 The Government is committed to meeting all remaining debt obligations for the year in a timely fashion, in line with the debt repayment schedule.

Local Contribution to the Development Fund (LCDF)

- 4.20 The LCDF is the main facility that the Government uses to fund development programmes and projects. Funds are transferred from the Kiribati Government operation account to the Development Account. Contributions to the LCDF are made through three broad categories:
- (i) Projects and Grants;
 - (ii) Copra Price Subsidies; and
 - (iii) Unemployment Benefits.

Projects and Grants

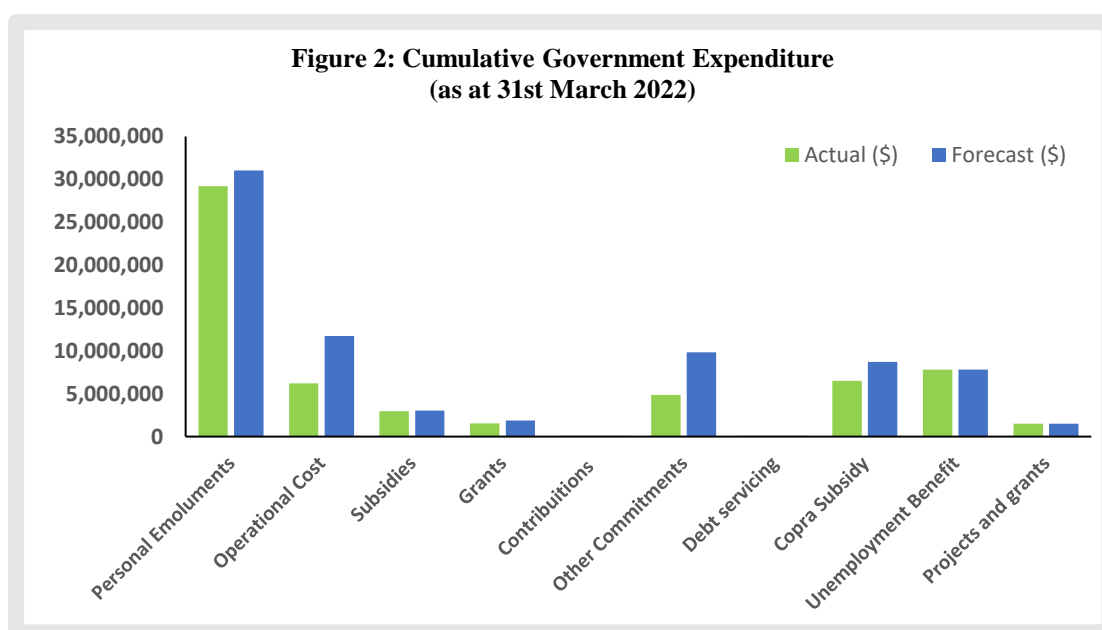
- 4.21 The provision for projects and grants includes funding contributions for capital projects, special grants, and sector-based development programmes.
- 4.22 A total of \$1.5 million was spent to support the following projects and grants:
- Overseas Scholarships (\$0.7 million);
 - Infrastructure Maintenance Program (\$0.3 million);
 - Local Medical Referrals (\$0.2 million);
 - Power Supply in Kiritimati Island (\$0.2 million); and
 - Support to Observers (\$0.05 million).

Copra Price Subsidy

- 4.23 Payments for copra subsidies amounted to \$6.5 million in the first quarter of this year. This payment benefited a total of 31,233 farmers. 29,481 of these farmers were from the Gilbert Group of Islands while 1,752 farmers were from the Line Group of Islands.
- 4.24 **Annex I** provides a detailed account of the distribution of the copra subsidy across these two island groups.

Unemployment Benefits

- 4.25 \$7.8 million was disbursed through the unemployment benefit scheme in the first three months, reaching a total of 52,058 recipients. This payment assisted 26,743 women (51.4 percent), receiving benefits of \$4.0 million. The remaining \$3.8 million was disbursed amongst male recipients.
- 4.26 The payment up to March consumed about 24.1 percent of total benefits budgeted for this year of \$32.4 million.
- 4.27 **Annex 2** provides a breakdown of unemployment benefits across all the main islands.
- 4.28 **Figure 2** highlights the performance of government's main expenditure categories over the period January to March 2022.



5.0 Development Fund

- 5.1 The Development Fund consists of projects funded by development partners and the Government.
- 5.2 The total Development Fund budgeted for 2022 amounts to \$262.7 million of which \$116.8m is estimated to be channeled through the Government (GOK) system. This comprises of \$93.6 million funded by the Government and the remaining from development partners.

At the end of 2021, it was estimated that a total of \$114.9 million will be carry overs bringing the total value of expenditure through the Development Fund in 2022 to \$377.7 million.

5.3 During the reporting period, a total of \$49.8 million was warranted to assist with project implementation. From the warranted amount, \$8.1 million was spent on new and ongoing projects, equivalent to 2.1% of the total Development Fund

5.4 The \$8.1 million total expenditure in the first quarter comprises the \$1.5 million spending from the 2022 LCDF while the remaining of \$6.6 million is spending from carry over balances.

6.0 Fiscal Balance

6.1 The fiscal balance, or the net deficit or surplus, is a key indicator of financial performance. A net deficit arises when expenditures exceed revenues, and a net surplus occurs when revenues surpass expenditures.

6.2 **At the closure of the March 2022 accounts, the Government posted a net surplus of \$4.2 million, equivalent to 0.9 percent of GDP.** The net budget balance forecast for the quarter was a deficit of \$15.9 million (or -3.5 percent of GDP).

7.0 Conclusion

Revenues

7.1 It is encouraging to see revenues perform well during the quarter, despite the ongoing impacts of the Pandemic. First quarter collections are 27.1 percent higher than the same period in the previous year.

7.2 The rebound in fishing revenues should provide firm support for the 2022 Budget and bolster fiscal stability moving forward.

7.3 Although the slowdown in company tax collections is concerning, collections should recover swiftly once the borders reopen and the business environment returns to normal. Likewise, personal income taxes should improve in the coming months as line ministries fill vacancies in the civil service.

7.4 The buoyancy in VAT and Excise tax collections is anticipated to continue over the course of the year. Collections for both these tax categories are driven largely by higher consumption spending, particularly in households that are receiving social benefits. Funding for all social support schemes were increased in the 2022 Budget, which is expected to fuel spending and provide further impetus for tax collections.

7.5 Moreover, in the coming months, the Government is expecting additional incomes from interest, SOE dividends, and RERF dividends. This should boost overall revenues and provide further capacity to support expenditures over the next nine months.

Expenditures

7.6 2022 has been an extraordinary year for expenditures given the disruptions caused by the country's first COVID outbreak in January.

7.7 Expenditures for the quarter lagged the forecast by almost 20 percent, underpinned by under-expenditures across all categories, especially '*departmental expenditures*' and '*other government expenditures*', which recorded significant shortfalls relative to their first quarter forecasts.

7.8 Despite the overall low expenditure for the first quarter, there is still scope for spending to regain momentum in coming months and rise to budgeted levels. Current plans to remove all COVID containment measures should trigger a surge in spending over the next three quarters as ministries restore delayed operations and implement planned activities for the year.

7.9 Close budget monitoring will continue in the coming months to manage the growth in expenditures and ensure it remains within the budget limits set for the year.

Fiscal Risks

7.10 The main risk to the Budget at this stage is the recent surge in global prices, fueled by the conflict in Ukraine and ongoing supply-chain disruptions. The IMF is predicting prices to surge upwards in the coming months if the conflict in Ukraine worsens and if countries begin to stockpile excess food and energy supplies. The price crisis is expected to filter through to the local economy - raising the overall cost of living as well as business costs and the cost of public services.

ANNEX 1

ANNEX 1: COPRA SUBSIDY PAYMENTS - JANUARY TO MARCH 2022				
	ISLAND GROUPS	ISLANDS	TOTAL SUBSIDY	NO. OF FARMERS
1	The Gilbert Group	Nikunau (2)	294,089.20	1,139
2		Marakei	429,148.00	1,401
3		Kuria	377,108.40	2,310
4		Abemama	780,723.80	5,150
5		Aranuka	343,891.60	1,998
6		Onotoa	220,296.00	1,186
7		Makin	172,638.00	436
8		Tabnorth	671,324.20	4,935
9		Arorae	107,394.40	1,947
10		Tamana	151,480.70	1,485
11		Butaritari	315,136.90	982
12		Nonouti	237,056.80	1,965
13		Maiana	222,568.00	1,712
14		Tabsouth	248,650.00	1,243
15		NorthTarawa	365,103.60	1,592
			4,936,609.60	29,481
16	Line Group	Teraina	636,924.00	330
17		Tabuaeran	480,303.69	64
18		Christmas	434,932.00	1,358
			1,552,159.69	1,752
	TOTAL		6,488,769.29	31,233

ANNEX 2

ANNEX 2: UNEMPLOYMENT BENEFIT PAYMENT - ISLAND DISTRIBUTION			
No.	Island	Population	Total
1	Abaiang	2,590	\$ 387,750
2	Abemama	1,570	\$ 235,250
3	Aranuka	535	\$ 80,150
4	Arorae	527	\$ 79,050
5	Banaba	154	\$ 23,100
6	Beru	1,138	\$ 170,550
7	BTC	7,608	\$ 1,140,450
8	BTC HD	34	\$ 5,100
9	Butaritari	1,583	\$ 237,200
10	ETC	2,708	\$ 405,800
11	Kiritimati	3,005	\$ 450,050
12	Kuria	556	\$ 83,300
13	Maiana	1,170	\$ 175,000
14	Makin	852	\$ 127,800
15	Marakei	1,316	\$ 197,250
16	Nikunau	980	\$ 146,750
17	Nonouti	1,253	\$ 187,800
18	Onotoa	787	\$ 118,050
19	Tab-North	1,534	\$ 229,950
20	Tab-South	607	\$ 90,750
21	Tabuaeran	882	\$ 132,150
22	Tamana	485	\$ 72,750
23	Teraina	761	\$ 114,000
24	TUC	19,223	\$ 2,879,750
25	TUC HD	200	\$ 29,900
	TOTAL	52,058	\$ 7,799,650