



2021 BUDGET SPEECH

Delivered on 25th November 2021

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Maneaba ni Maungatabu, Ambo, Tarawa

“Adapting to the New Normal”

Honourable Madam Speaker

Excellency Te Beretitenti

Honourable Cabinet Ministers & Members of the House

The People of Kiribati

N aran Ara Uea ae E mwaaka ma n tabu, kam na bane ni mauri!

INTRODUCTION

It gives me great honour and pleasure to address this esteemed House on the 2022 Budget.

Madam Speaker and fellow Parliamentarians,

The theme for this year’s budget is ‘Adapting to the new normal’. This builds on the 2021 theme to embrace the new normal in the first year of the COVID-19 pandemic.

We do not know how long COVID-19 will be in our lives, but it is likely to be here for the foreseeable future.

What is certain, is that we must adapt to its presence in our lives, and we must learn to live with it.

As with 2021, there is significant uncertainty in the economic outlook, related to the impact of the COVID-19 pandemic and its implications for global economic recovery and local policy responses. But the outlook is positive.

As vaccination rates increase and restrictions ease, global economic growth is expected to accelerate, constrained by supply disruptions and worsening pandemic dynamics in some economies.

For Kiribati to fully benefit from the recovery, we must maintain macro-economic stability through prudent fiscal management, and effectively manage risks over the short and longer term.

We must take this opportunity to rethink how we do business and be smart about building resilience and investing in a prosperous future.

Madam Speaker,

The budget I present today, demonstrates this Government's commitment to fiscal responsibility, whilst supporting our fellow citizens to adapt to the new normal.

Kiribati has fared better than many of its Pacific neighbours in this new normal, as we do not rely as much as them on tourism for our prosperity.

Proactive Government action to contain the pandemic has seen Kiribati remain COVID-19 free, but this has not been without its costs. As vaccination rates increase and restrictions ease, we must adjust again to adapt to the new normal.

MEDIUM TERM FISCAL STRATEGY

Madam Speaker

Managing uncertainty requires a longer-term view than what is immediately in front of us. Fiscal policy especially must be framed within a medium-term context that supports macro-economic stability, with settings that enable it to adapt to address short term shocks.

In 2022, the Budget has been prepared consistent with the newly introduced Medium-Term Fiscal Strategy that outlines where we want to be in the future.

The strategy seeks to achieve macroeconomic stability and inclusive economic growth over the medium-term through responsible fiscal management, by:

- growing net worth through prudent management of the Revenue Equalisation Reserve Fund (the RERF);
- achieving budget balance over the medium term;
- investing in productivity enhancing social and economic infrastructure; and
- implementing structural reforms to diversify the economy and build resilience to facilitate a vibrant private sector and create meaningful jobs.

The 2022 Budget outlines how the Government will achieve this in 2022.

ECONOMIC OUTLOOK

Madam Speaker,

The global economic recovery from the shock of the COVID-19 pandemic is well underway. The IMF World Economic Outlook predicts global growth with a peak at 5.9 per cent in 2021 and moderate to 4.9 per cent in 2022.

The recovery reflects increased vaccination rates, supportive policy responses and lifting confidence, but is constrained by supply disruptions and pandemic uncertainty.

Reflecting positive global conditions, the Kiribati economy is expected to expand by 2.5 per cent of Gross Domestic Product (or GDP) in 2022. This outlook assumes that vaccination rates will increase and enable containment measures to ease, leading to lifting border restrictions, increased labour mobility and port activity.

Once borders re-open, investment projects should move forward and domestic activity recover. Improved global conditions should support positive RERF performance and fishing revenues, all other things being equal.

Risks for Kiribati are skewed to the downside and relate to the potential impact of a COVID-19 outbreak, the duration of containment measures that limit labour mobility, port activity, and project progress, as well as the impact of global economic conditions on RERF performance and fishing demand.

BUDGET AGGREGATES

In light of these modestly positive economic conditions, the 2022 Recurrent Budget estimates total Government revenue of **\$305.2 million**, expenditure of **\$305.1 million** and a small surplus balance of **\$46.7 thousand**, equivalent to **0.01 per cent** of GDP.

Total appropriation expenditure is **\$290.7 million**, **95 per cent** of the total budget, and statutory expenditure is **\$14.4 million**, or **5 per cent**.

REVENUE

Total revenue in 2022 is estimated at **\$305.2 million**, **9 per cent** higher than 2021, mainly reflecting higher expected fishing and tax revenue.

Fishing revenue is expected to contribute **\$200 million** in 2022, **21 per cent** more than the 2021 Budget estimate. This reflects an expectation that revenues will be in line with the historical average.

Recognising a realistic fishing revenue estimate means that the Government can have a good view of the available resources to support delivery of its policy priorities, enabling sound planning for expenditure.

Tax revenue collections are expected to be **\$54.3 million**, **9 per cent** higher than 2021, reflecting positive economic conditions and Government transfer payments.

Investment revenue, including the RERF dividend, is expected to be **\$28 million** in 2022. This is **38 per cent** lower than 2021, reflecting a smaller RERF dividend of **\$23**

million. The dividend withdrawal is consistent with the RERF Withdrawal Policy, whereby only returns over 5 per cent in real terms are available for a dividend.

In 2022, the dividend will be used to support the development objective of human capital accumulation through education related grants and subsidies as well as infrastructure development.

Direct budget support revenue from development partners is expected to be **25 per cent** higher in 2022 at **\$17.4 million**. This support is conditional on achieving key economic reform commitments, including the commitment to prudent fiscal management, and implementing the RERF Withdrawal Policy.

Other revenue of **\$5.5 million, 9 per cent** higher than 2021, is expected from other sources such as fees and sundry revenue.

EXPENDITURE

Madam Speaker,

The amount of available revenue has set a tight constraint on expenditure priorities that could be pursued in 2022.

Nevertheless, this budget includes measures to underpin macro-economic stability and build resilience to manage economic uncertainty through enhanced social protection and investing in future productive capacity.

To support families adapt to the new normal and ease cost of living pressures, the budget provides for social protection measures that total **\$96.1 million**, or **32 per cent** of total expenditure. This is a **51 per cent** increase on the 2021 Budget provision.

The measures include:

- **\$40 million** for the Copra Price Scheme – a **150 per cent** increase on the 2021 provision to reflect that effective in 2022, the Copra subsidy will be doubled to \$4 a kilo;

- **\$32.4 million** for Support for the Unemployed payments – a **20 per cent** increase on the initial 2021 Budget estimate, with the costing assuming this payment will reach up to 53,000 people, nearly two thirds of the working age population;
- **\$20.7 million** for elderly benefits, **9 per cent** higher than in 2021;
- **\$2.8 million** for disability allowances, an **87 per cent** increase on 2021, reflecting an increase in the eligible population; and
- **\$0.2 million** for school fees for under-privileged children, a nearly fourfold increase in the provision due to higher fees and more children being eligible.

Madam Speaker,

The proposed expenditure amounts by recurrent budget categories for 2022 are as follows.

\$142.6 million is provided for departmental expenditure, comprising personal emoluments and operating costs. This provision is **3 per cent higher** than the 2021 Budget and includes provision for pay increments and the 2022 establishment.

Under departmental expenditure, personal emoluments for statutory positions amounted to **\$5.1 million**. This amount is **13 per cent** higher than the amount budgeted for this year. This is due to the inclusion of MPs' allowances in line with the MPs' Salaries and Allowances (amendment) Act 2021.

\$4.0 million is provided to meet debt repayments, servicing the loans agreed by previous administrations. This Government has maintained its policy of no new debt agreements.

\$64.8 million is provided for other expenditure, comprising subsidies, grants and other commitments. This is **43 per cent lower** than in 2021 due to payments for Support for the Unemployed being moved to the LCDF.

The decision to move the provision reflects the view that these payments are a contribution to economic development as the extra income available to the beneficiaries enables them to carry out commercial activities.

The Development Fund has operational advantages for such demand driven payments, in that the funding is not constrained by the annual appropriation process, and if not used in one year, the funds are available for future years.

Excluding Support for the Unemployed, the grants and subsidies provision has increased by **3 per cent** in 2021. In addition to aged and disability support payments and education grants, this includes provision of:

- **\$9.7 million** for land rent, the same as in 2021, to compensate the Tarawa landowners who forego development and investment opportunities from their lands due to Government leasing; and
- **\$7.4 million** for Community Service Obligation payments to State Owned Enterprises. This includes payments for services from Air Kiribati Limited (AKL) of **\$4.4 million**, the Public Utility Board (PUB) of **\$1.4 million**, Kiribati National Shipping Ltd (KNSL) of **\$0.9 million** and Kiribati Housing Corporation (KHC) of **\$0.7 million**.

Madam Speaker,

This year, **\$93.6 million** is provided for the LCDF. This is **92 per cent** higher than 2021, mainly reflecting commitments to increase the Copra Subsidy and pay Support for the Unemployed from this Fund.

Excluding Support for the Unemployed, this provision has increased by **31 per cent** from 2021.

The LCDF includes provision of **\$21.2 million** for development projects, including new funding of:

- **\$6.5 million** for overseas scholarships, a **\$3 million** increase on the 2021 figure;
- **\$3.0 million** for infrastructure maintenance;
- **\$2.0 million** for overseas medical referrals; and
- **\$1.5 million** for the Social Stability Fund.

Madam Speaker,

Reflecting the Government's development priorities, the largest three users of departmental funding are the Ministry of Education accounting for **\$36.3 million**, or **25 per cent** of total departmental expenditure, followed by the Ministry of Health and Medical Services with **\$27.8 million (19 per cent** of the total) and Kiribati Police Service with **\$11.4 million**, or **8 per cent** of the total.

The 2022 agreed establishment register has increased total public service positions by 63 from 5,568 in 2021 to 5,631 in 2022, a **1 per cent** increase. Most positions are with the Ministry of Education, **31 per cent** of the total, followed by the Ministry for Health and Medical Services with **17 per cent** of the total, and the Kiribati Police Force with **11 per cent** of the total.

DEVELOPMENT BUDGET

Madam Speaker,

My presentation of the 2022 Budget would be incomplete without considering the Development Fund.

Total 2022 Development Budget expenditure in 2022 is **\$262.7 million** comprising **\$93.6 million** from the Government through the LCDF as outlined earlier, and **\$169.1 million** from development partners.

The most significant Development Fund expenditure in 2022 is on the social protection payments for the Copra Subsidy and Support for the Unemployed. These total **\$72.4 million**, or **28 per cent** of expected Development Fund outlays.

Excluding these payments, total projected funding for development projects in 2022 is estimated at **\$190.3 million**, or **59 per cent** of GDP.

After the social protection payments, the top three project areas by department in 2022 are:

- Utilities, sanitation and water projects, through the Ministry for Infrastructure and Sustainable Energy, totalling **\$78.8 million (30 per cent)** of the total);
- Education projects, through the Ministry of Education, totalling **\$21.2 million (8 per cent)** of the total); and
- Health projects through the Ministry of Health and Medical Services, totalling **\$15.8 million (6 per cent)** of the total).

The geographic dispersion of the Development Fund reflects national projects to the value of **\$162.2 million (62 per cent)** of the total), Gilbert Group projects of **\$89.3 million (34 per cent of the total)** and Line and Phoenix Islands projects of **\$11.3 million**, or **4 per cent** of the total.

In 2022, the top three donors are the Asian Development Bank with **\$49.7 million**, the Australian Department of Foreign Affairs and Trade with **\$28.3 million**, and the New Zealand Ministry of Foreign Affairs and Trade with **\$24.2 million**. The Peoples Republic of China is expected to contribute **\$14.0 million**.

CASH AND THE RERF

Madam Speaker,

Through sound fiscal management, we have the resources to support these investments and to manage fiscal risks effectively.

Sufficient cash is available, and the RERF continues to grow strongly.

Cash available to Government as of 30 September 2021 was **\$404.7 million**. Of this, cash buffer reserves that are held to manage liquidity risks totalled **\$184.7 million**.

RERF performance over 2021 has been very strong, reflecting the global economic recovery, and especially positive global equity markets. On 30 September 2021, the RERF balance was **\$1.3 billion**.

RISKS

Madam Speaker,

As mentioned at the beginning of this speech, adapting to the new normal means adapting to a world of uncertainty.

In preparing this budget, the Government has considered the risk to achieving its objectives and put in place strategies to manage them.

The main risks to the 2022 Budget relate to the uncertainty in global economic conditions; the impact of the COVID-19 pandemic and travel restrictions; and the ability to deliver on our fiscal credibility targets, either through inadequate revenue or lack of expenditure discipline.

The strong cash buffers will assist managing this uncertainty. We have established a fiscal responsibility ratio to help manage this risk, setting a target that cash buffers be maintained at least to a level equivalent to three months of expenditure. I am pleased to say the proposed 2022 Budget exceeds this target and achieves an estimated cash buffer equivalent to seven months of expenditure.

To further support managing fiscal risks, the Government will continue to mobilise revenue and monitor expenditure efficiency.

Expenditure on delivering public services and running government, will be actively monitored, and opportunities to improve the value for money of expenditure will be pursued. To support achieving this, we have adopted a fiscal responsibility target of departmental expenditure to be below 50 per cent of total expenditure. I am pleased to say that we have achieved this in 2022, with an expected outcome of **47 per cent**.

In addition, we will pursue reforms to improve the targeting and administration of social protection programs. The State-Owned Enterprise Reform Program will also continue in 2022.

2020 AND 2021 PERFORMANCE

The 2022 Budget builds on the 2020 actual outcome and expectations for 2021. Analysis of the 2020 final budget outcome needs to take into account outlays met from

revenue sourced from recurrent collections and the Development Fund, as it was used as bridging finance for outlays in January 2020.

The final outcome for 2020 was a surplus of **\$9.7 million**, or **3 per cent** of GDP. This compares to the initial 2020 Budget expectation of a deficit of **\$36.9 million** or **13 per cent** of GDP.

Total recurrent outlays in 2020 were **\$239.1 million** (**\$213.6 million** plus **\$25.5 million** from the Development Fund). This was **92 per cent** of the expected budget amount. Total revenue was **\$248.9 million**, excluding the Development Fund contribution, **16 per cent** more than had been expected in the 2020 Budget. This mainly reflected stronger than expected fishing revenues that were **23 per cent** more than expected.

The surplus has been used to bolster cash reserves.

For 2021, revenue collections for the year to date (January to September 2021, the latest available data, are running ahead of budget, with **95 per cent** of the total revenue collected, against a benchmark of **75 per cent** for September 2021.

Fishing revenue collection are on track with **\$131.1 million** collected to end of September (**79 per cent**) against a full year budget estimate of **\$165.5 million**. Of this, **\$127.0 million** was from the Vessel Day Scheme, **\$3.7 million** from transshipment fees, and **\$0.3 million** from other fishing revenue. Nevertheless, I am happy to inform this House that recently this month we have hit the target with our fishing licence revenue collections of **\$162.9 million** against the end of year target of **\$160.0 million**.

Positive economic conditions and Government transfer payments have supported strong VAT and Income Tax collections. This strong performance should flow through to 2022 collections, all other things being equal.

Total Expenditure up to September 2021 was tracking below budget at **73 per cent**. This reflects, in part, slower than expected outlays on Support for the Unemployed payments. This is expected to be addressed by the end of the year. Debt payments and LCDF payments are on track to be fully expended by the end of the year.

CONCLUDING REMARKS

Madam Speaker,

The 2022 Budget is the Government's economic plan for the year. It aims to support all I-Kiribati to adapt to the new normal, providing capacity to build resilience and underpin a prosperous future.

The budget could not be prepared without the efforts of many people, and I would like to acknowledge all those involved, from different ministries and foreign missions, for their tireless commitment to the preparation of this budget. In particular my ministry – NEPO staff and management – who have laboured day and night to produce the 2022 Budget.

I also hereby reiterate Government's deepest appreciation to all our Development Partners for their continued support to the Government's development agenda, especially with the COVID-19 response and the vaccination drive.

From the people of Kiribati, I say KAM BATI N RABWA – THANK YOU VERY MUCH!

Madam Speaker,

Let me now end my remarks with our traditional blessing of Te Mauri, Te Raoi ao Te Tabomoa.

Thank you.