# CENTRAL PACIFIC ISLANDS

| Table 1 | KIR | NRU | TUV |
|---|---|---|---|
| Population, million | 0.13 | 0.01 | 0.01 |
| GDP, current US$ billion | 0.22 | 0.15 | 0.06 |
| GDP per capita, current US$ | 1702 | 11914 | 4908 |
| LMIC poverty rate ($3.65) | 19.5[a] | 20.9[b] | 19.6[c] |
| Gini index | 27.8[a] | 32.4[b] | 39.1[c] |

Source: WDI, World Bank, and official data.
Notes: The actual year for the table data is 2022.
Abbreviations: LMIC = Lower middle-income; KIR = Kiribati; NRU = Nauru; TUV = Tuvalu.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent value (2012), 2017 PPPs.
c/ Most recent value (2010), 2017 PPPs.

*In Kiribati, a large increase in public sector wages will support growth but add to fiscal imbalances. In Tuvalu, the 2024 Falepili Union Treaty now allows Tuvaluans to emigrate to Australia, and this will shape development priorities. Nauru faces pressing financial risks as the only bank in the country plans to exit in 2024. Key challenges for growth and poverty reduction include a narrow economic base and vulnerability to climate change.*

## *Key conditions and challenges*

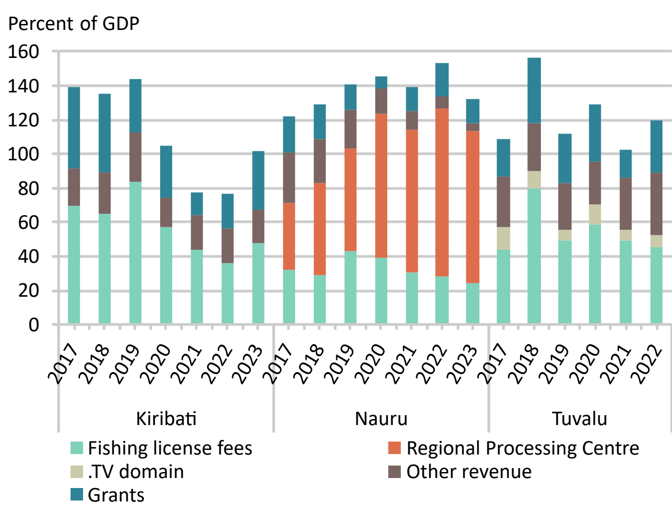
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and finance long-term development. However, they all must diversify public revenues to reduce volatility and fund high recurrent spending.

**Kiribati** has a highly centralized economy, with public expenditure at 105 percent of GDP in 2023. Recurrent spending is rapidly expanding, particularly on public wages, social protection, and the copra subsidy. While this has benefited the country's poor, it is distorting goods and labor markets, and creating fiscal imbalances as volatile fishing license fees account for over two-thirds of revenues. The IMF-World Bank Debt Sustainability Analysis from September 2023 concludes that, at 15 percent of GDP, Kiribati's external debt is sustainable, but at high risk of debt distress. To address these challenges, Kiribati must contain recurrent spending, foster private enterprise, and stabilize fiscal revenues using their sovereign wealth fund.

**Nauru** must adapt to diminishing fiscal revenues and identify new sources of growth in the medium term. Public revenues, economic growth, and employment have historically relied on phosphate mining, fishing, and operating Australia's Regional Processing Centre (RPC) for asylum-seekers. However, phosphate deposits are heavily depleted and fishing revenues are volatile. The RPC was to go on standby in 2023 but remains active due to recent asylum seekers arrivals. In FY23, income from the RPC-related activities constituted 64 percent of fiscal revenues and 92 percent of GDP. With RPC earnings uncertain, Nauru must find alternative sources of growth. The latest IMF Debt Sustainability Assessment of September 2023 found public debt, accounting for 20.2 percent of GDP, to be sustainable. Recently Nauru has significantly reduced domestic and external liabilities. It grapples with environmental challenges from climate change and the legacy of phosphate mining. A persistent effort to rehabilitate extensive former mine sites at the center of the island remains a priority.

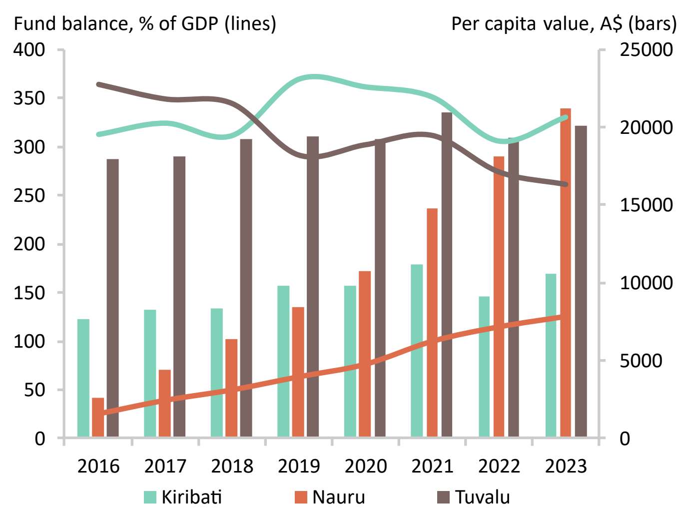
**Tuvalu**'s size, extreme remoteness, high import dependence, and vulnerability to external shocks pose significant challenges to development. Weak growth and widening fiscal deficits are forecast over the medium term due to declining fishing revenues and official grants. This is projected to deplete sovereign wealth funds, which have already shrunk due to weak global market returns. When these funds can no longer finance fiscal deficits the Government plans to seek concessional external financing. The 2023 IMF-World Bank DSA assesses Tuvalu's public debt, at 2.3 percent of GDP, to be sustainable but at high risk of distress. Structural reforms are essential to promote resilience, sustain growth, and encourage diversification.

**FIGURE 1 Central Pacific Islands** / Selected fiscal revenues




Sources: Country authorities, World Bank and IMF staff estimates and projections.
Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years.

**FIGURE 2 Central Pacific Islands** / Trust Fund balances




Sources: Country authorities, World Bank and IMF staff estimates and projections.
Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years. The Nauru Trust Fund was established in 2016.

## *Recent developments*

In **Kiribati**, strong fishing revenues due to favorable weather conditions and the Phoenix Islands Protected Area reopening lifted growth to 4.2 percent in 2023. Inflation reached 9.2 percent, due to higher food, beverage, and transportation prices in the first half of the year. Growth is estimated to have reduced poverty to 18.3 percent in 2022 (US$3.65 lower-middle-income line), below 19.5 percent in 2019. Domestic demand continues to be supported by high recurrent spending on public wages, social protection, and the copra subsidy. In 2023 this led to a fiscal deficit of approximately 4 percent of GDP after budget support. The RERF was worth 330 percent of GDP in December 2023, down from 370 percent in 2019 due to weak investment returns and GDP growth.

In **Nauru**, the economy is estimated to have grown by 0.6 percent in FY23. Inflation was 6.3 percent, lifted by global factors and higher transport costs. The fiscal surplus declined to 8.3 percent of GDP due to lower RPC-related activities. This allowed the Government to pass four supplementary budgets to give extra support to SOEs and public services, build cash buffers, and invest in community housing. The Government also made prepayments into the Intergenerational Trust Fund which was 122 percent of GDP in June 2023, up from 111 percent in June 2022. A new Household Income and Expenditure Survey will be collected between March 2024 and March 2025, which will enable living standards and other key socioeconomic indicators to be monitored.

In **Tuvalu**, growth is estimated to have reached 3.9 percent in 2023 from an average of -0.6 percent in 2020-2022. This strong rebound is due to the border reopening in December 2022, allowing infrastructure projects, and development partner support to resume. Inflation slowed in 2023 but remains elevated at 7.2 percent compared to 12.1 percent in 2022, reflecting global developments. The fiscal surplus of 1.1 percent of GDP in 2023 was largely due to increased donor funds. The total value of Tuvalu's sovereign wealth funds decreased from 311 to 261 percent of GDP between 2022 and 2023 due to global financial market returns.

## *Outlook*

In **Kiribati**, growth is expected to increase to 5.6 percent in 2024 due to a 38 percent increase in public sector wages. This makes Kiribati a regional outlier in the share of GDP spent on public employment, and creates fiscal imbalances. The wage rise was funded by loosening the RERF withdrawal policy and risks depleting its balance over time. A rule that withdraws up to 3 percent of the fund each year would allow annual withdrawals, make budgeting easier, and grow the real value of the fund over time. The RERF could also be used to smooth volatile revenues from fishing license fees, as is common in other resource-rich economies. To boost shared prosperity, maintain its pace of poverty reduction, and remove distortions that inhibit private sector activity, Kiribati should rationalize public wages and redirect copra subsidies towards targeting social protection and investing in human capital. Further rises in recurrent spending could jeopardize the country's fiscal responsibility rules.

In **Nauru** FY24 GDP growth is projected to recover to 1.4 percent due to government spending financed by better fishing and RPC revenues. A pressing challenge is to replace Bendigo Bank, the only bank in the country, which will exit by December 2024. In the medium term, the winding down of the RPC requires Nauru to tighten fiscal spending and diversify its economic base, for example through tourism, labor mobility schemes, or expanding fishing revenues. The installation of the East Micronesian Internet Cable in 2026 offers the opportunity to exploit its favorable time zone between Asia and the Americas, English language, and widespread literacy, by providing online services. A new port provides opportunities for transshipment and local value-addition to fishing products, but the donor-funded project is facing heavy delays and cost overruns.

In **Tuvalu**, economic growth is projected to gradually soften to 2.2 percent by 2026 as gains from border re-opening subside and capital investment growth normalizes. Growth is expected to be driven by construction, hotels, finance, and public administration. The 2023 Australia-Tuvalu Falepili Union Treaty, where Australia will provide a human mobility pathway for Tuvaluans, is expected to impact migration, remittances, and development over the medium to long term. Inflation is expected to moderate to 3.2 percent by 2026 as global inflation pressures and supply chain disruptions dissipate. Fiscal and current account deficits are projected over the medium term as grants and fishing license fees gradually decline. This will be financed by drawing down the sovereign wealth funds, which are projected to decline to 229 percent of GDP over the medium term. Risks to the Central Pacific outlook are substantial and include high global inflation and slowing global growth; shocks to global commodity prices; volatile revenue flows, including grants from development partners; and the ever-present threat of climate-related natural disasters.

**TABLE 2** **Central Pacific Islands** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

| | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | | | | | | |
| Kiribati | 8.5 | 3.9 | 4.2 | 5.6 | 2.0 | 2.1 |
| Nauru | 7.2 | 2.8 | 0.6 | 1.4 | 1.2 | 1.0 |
| Tuvalu | 1.8 | 0.7 | 3.9 | 3.5 | 2.4 | 2.2 |
| **Poverty rates of Kiribati** | | | | | | |
| International poverty rate ($2.15 in 2017 PPP)[a,b] | 1.3 | 1.2 | 1.1 | 0.9 | 0.9 | 0.9 |
| Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b] | 16.6 | 15.5 | 13.9 | 12.6 | 12.5 | 12.2 |
| Upper-middle income poverty rate ($6.85 in 2017 PPP)[a,b] | 66.6 | 65.3 | 63.2 | 59.5 | 59.2 | 59.0 |

Sources: World Bank and IMF.
Notes: e = estimate; f = forecast. Country authorities and World Bank and IMF staff estimates. Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.