CENTRAL PACIFIC ECONOMIES

The resumption of infrastructure projects pushed growth higher in Kiribati and Tuvalu, but in Nauru growth slowed as the Australian-funded Regional Processing Centre scaled down operations. Growth is expected to continue in the three economies although for different reasons. Inflation is projected to moderate in Kiribati and Tuvalu, but will shoot up in Nauru due to higher communication costs. As rising sea levels threaten livelihoods and food security, immediate and concerted efforts to mitigate the threat and associated risks are needed.

**Kiribati**

The economy expanded in 2023 supported by infrastructure projects and social protection spending. The recovery gained momentum in 2023 from the resumption of large infrastructure projects. GDP grew by 4.2%, up from 3.9% in 2022 (Figure 2.37.1). Social protection programs, notably the copra subsidy and unemployment benefits, supported household incomes and domestic consumption.

**Economic growth is forecast to accelerate to 5.3% in 2024 before falling back to 3.5% in 2025.** The roll-out of energy, water, transport, and health projects in 2024, sustained social protection spending, and increased wages for civil servants are expected to drive growth over the forecast period. Downside risks remain focused on commodity price volatility, general elections, and natural hazards, which could jeopardize the smooth implementation of infrastructure projects.

Kiribati’s fiscal deficit narrowed in 2023, but will likely widen again in 2024. The fiscal deficit narrowed to the equivalent of 2.3% of GDP in 2023 from 2.7% in 2022. Revenue increased by 18.7%, as income from fishing licenses increased by 41.8% and tax revenues by 27.4% (Figure 2.37.2). During the same period, current expenditure jumped by 5.3%, with higher spending on social protection. In 2024, the fiscal deficit is projected to widen to 9.7% of GDP from a wage increase for government employees and a decline in budget support from development partners.

**Inflation accelerated in 2023 but will likely moderate over the next 2 years.** Inflation accelerated from 5.3% in 2022 to 9.7% in 2023 driven by...
The fiscal deficit slightly fell in 2023 as fishing license revenue recovered. Fishing license revenue rebounded in Kiribati but declined in Nauru and Tuvalu in 2023.

In Kiribati, the fiscal deficit slightly fell in 2023 as fishing license revenue rebounded. In Nauru, the fiscal deficit increased as fishing license revenue declined. In Tuvalu, the fiscal deficit remained stable.

The current account surplus is projected to return to the pre-pandemic level by 2025. The current account surplus in Kiribati is projected to return to the pre-pandemic level by 2025, while in Nauru and Tuvalu, it is expected to remain at 2022 levels.

Inflation is expected to remain relatively stable in Kiribati and Tuvalu. Inflation in Kiribati is expected to remain below 3% in 2024 and 2025. In Tuvalu, inflation is expected to remain below 2% in 2024 and 2025.

Growth is expected to accelerate in Kiribati and Nauru in 2024, but slow in Tuvalu. Growth in Kiribati is expected to reach 3.5% in 2025. Growth in Nauru is expected to reach 3.0% in 2025. Growth in Tuvalu is expected to remain below 2% in 2024 and 2025.

The balance of Kiribati's sovereign wealth fund—the Revenue Equalization Reserve Fund—remained stable in 2023, at 33% of GDP. The balance of Kiribati's sovereign wealth fund—the Revenue Equalization Reserve Fund—remained stable in 2023, at 33% of GDP. The balance of Kiribati's sovereign wealth fund—the Revenue Equalization Reserve Fund—remained stable in 2023, at 33% of GDP. The balance of Kiribati's sovereign wealth fund—the Revenue Equalization Reserve Fund—remained stable in 2023, at 33% of GDP.

Growth slowed to 1.6% in FY2023 (ended 30 June 2023), as activities in the Australia-funded Regional Processing Centre (RPC) were downscaled. With the shift to an “enduring capability” mode in July 2023, Nauru agreed to maintain RPC facilities regardless of the number of transferees, with the possibility of scaling up operations. The number of RPC employees fell from approximately 575 in December 2021 to less than 50 in December 2022.

Revenues related to RPC operations fell. Overall RPC-related revenue fell from 64% of total revenue in FY2022 to 53% in FY2023. Personal and corporate income taxes fell by 7%, while visa fees—largely for transferees—declined by 4%. With grants also falling by...
13%, the fiscal surplus shrunk from the equivalent of 24.7% of GDP in FY2022 to 19.1% in FY2023, despite a 6% decline in overall expenditure (Figure 2.37.4).

**Figure 2.37.4 Nauru Fiscal Components**

Fiscal surplus shrinks as Regional Processing Centre revenues decline.

<table>
<thead>
<tr>
<th></th>
<th>Capital expenditure</th>
<th>Current expenditure</th>
<th>Other revenue and grants</th>
<th>Fishing license fees</th>
<th>RPC-related revenue</th>
<th>Overall balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of GDP</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
| GDP = gross domestic product, RPC = Regional Processing Centre. Note: Years are fiscal years ending on 30 June of that year. Source: Asian Development Bank estimates using International Monetary Fund and Nauru budget documents.

Inflation accelerated from 1.5% in FY2022 to 5.2% in FY2023 on higher global commodity prices (Figure 2.37.5). As most goods are imported, international price pressures were felt strongly in the domestic market. Transport prices jumped 21.7%, as oil prices increased due to the Russian invasion of Ukraine. Furnishings and household maintenance rose 5.2% in FY2023 and food prices by 3.7%.

Economic growth is expected to remain stable in FY2024 and FY2025, driven by infrastructure and services. Growth is projected at 1.8% in FY2024 and 2.0% in FY2025. As the economy adjusts to reduced RPC activity, construction of Nauru port will continue to drive economic activity, with the potential to enhance trade, transportation, and fishing. Increased exports, particularly through the Australian government-guaranteed Pacific Flights Program, will also support growth. The program provides air links from Brisbane to the North Pacific, with Nauru Airlines servicing Palau since November 2023. Nauru Airlines received its seventh aircraft in February 2024, with four used for passenger flights and three for freight.

**Figure 2.37.5 Inflation**

Easing global prices for fuel, food, and other commodities will lower inflation.

- Kiribati
- Nauru
- Tuvalu

Note: Years are fiscal years ending on 30 June of that year in Nauru and coinciding with the calendar year in Kiribati and Tuvalu. Sources: Kiribati, Nauru, and Tuvalu budget documents; International Monetary Fund Article IV reports; Asian Development Bank estimates.

The fiscal surplus is expected to decline as fiscal uncertainty clouds the outlook. Total revenue and grants are expected to increase by 4% in FY2024, largely due to a 98% increase in grants from development partners offsetting an expected 9% decline in revenue. This includes a projected 58% drop in revenues related to the RPC. Expenditure is projected to increase by 8% with capital expenditure rising 82%. The fiscal surplus is therefore projected to fall to the equivalent of 13.6% of GDP in FY2024.

Inflation is projected to peak in FY2024 before decelerating in FY2025. Inflation is expected to increase to 10.3% in FY2024. Food inflation is expected to increase by 13% reflecting a higher price of rice, while communications is projected to soar by 85% due to repricing by the sole service provider at the end of 2023. Inflation is expected to decelerate to 3.5% in FY2025 in line with global prices.

A shift in diplomatic relations will impact development assistance. In January 2024, Nauru established diplomatic relations with the People’s Republic of China (PRC). It is expected that budget support from Taipei, China intended to service loans from the Taipei, China EXIM Bank will stop, and alternative support from the PRC will materialize. This will likely have fiscal implications.
**Box  Rebasing Nauru’s National Accounts**

*Using results from the 2012–2013 Household Income and Expenditure Survey (HIES), the national accounts of Nauru have been updated.*

The base year has been changed to FY2013 from FY2007. This resulted in an increased weight for manufacturing from 4% to 9% (mainly based on phosphate mining), and reduced weights for financial and business services from 17% to 12%, and public services from 24% to 20%. The resulting changes in GDP growth rates are significant. For instance, GDP growth in FY2019 was adjusted from 1% to 9% (box figure). Real GDP in FY2020 based on the new series is higher by 40% compared to the old series, while nominal GDP is higher by 9%. Further, GDP per capita in FY2020 in the new series is 17% higher than in the old series, which may have consequences on Nauru’s access to overseas development assistance.

**Figure 2.37.6  Tuvalu Fiscal Components**

*Increase in grants helped maintain a fiscal surplus in 2023.*

- Capital expenditure
- Current expenditure
- Grants
- Fishing license revenue
- Other revenue

**Tuvalu**

*The economy expanded by 3.9% in 2023.* The lifting of COVID-19 restrictions in late-2022 revived economic activity, particularly in construction, as infrastructure projects resume, trade, and hospitality. Capital projects funded by development partners are projected to contribute to 3.5% growth in 2024 and 2.4% in 2025.

**Consumer prices rose by 7.2% in 2023.** This was led by higher prices for telephone calls, internet services, various food items, and fuel due to the Russian invasion of Ukraine. Inflation is projected to moderate to 3.0% in 2024 and 2025 in line with trends in global commodity prices and trading partner inflation.

**The government recorded a fiscal surplus equivalent to 1.1% of GDP in 2023.** Revenue increased by 1.5% with development partner grants rising by 52.8% (Figure 2.37.6). Expenditure increased by 8.4% in 2023 due to increases in both operating and capital expenditures. In 2025, the fiscal balance is likely to move into deficit, as the domestic revenue base narrows and current expenditure remains high.

**The trade deficit widened by 33% in 2023 as infrastructure projects resumed.** Imports increased by 32.9% mostly due to high imports of fuel and capital machinery, with the latter in line with the resumption of infrastructure projects. While import prices are projected to subside from their peak in 2022–2023, increased economic activity will likely result in higher imports of goods and services in 2024 and 2025.

**Tuvalu continues to face persistent challenges to sustained growth.** There remain downside risks, including fiscal revenue volatility and the adverse
impact of climate change. Fishing license revenues are intricately tied to fish stocks and susceptible to the effects of climate.

**Policy Challenge—Responding to Rising Sea Levels**

**Sea levels in the Pacific are rising faster than the global average.** A 2022 World Meteorological Organization report showed that water levels were rising about 4.2 millimeters (mm) per year in the Pacific, above the global mean rate of 3.4mm. It has become clear that climate change impact is increasingly affecting Central Pacific economies, with more than 75% of their populations living in low coastal areas (Figure 2.37.7). For example, most of Kiribati’s 33 islands sit less than two meters above sea level. Tuvalu’s highest point is about 4.5 meters above sea level. Although Nauru’s average elevation is 36 meters, about 80% of the population live in coastal areas less than 10 meters above sea level.

**Figure 2.37.7 Vulnerability to Rising Sea Levels**

Central Pacific economies are among the most at risk to sea-level rise with the majority of their people living near coastlines.

- Population in low elevation (10 meters) coastal zone
- Land area where elevation is below 5 meters

<table>
<thead>
<tr>
<th>Country</th>
<th>Population in low elevation (%)</th>
<th>Land area where elevation is below 5 meters (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSM</td>
<td></td>
<td></td>
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<tr>
<td>Tuvalu</td>
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<td>Nauru</td>
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<td>Kiribati</td>
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<td>Vanuatu</td>
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<td>Niue</td>
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<tr>
<td>PNG</td>
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<tr>
<td>FSM</td>
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<tr>
<td>RMI</td>
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</tbody>
</table>

Sea-level rise is a threat to livelihoods and food security. Rising sea levels in the Pacific have increased coastal erosion and inundation, contributing to the loss of productive agricultural lands and freshwater. They also affect marine and coastal environments that are essential sources of livelihood.

**Urgent action and permanent solutions are needed.** Building coral-rock seawalls is a short-term solution, but they are easily destroyed by high tides. Some communities have relocated inland, and efforts have been made to expand mangrove forests to reduce soil erosion and alleviate the impact of storm surges. Some people migrate to other countries. For instance, around 20% of Tuvalu’s population have already relocated, many to New Zealand under the Pacific Access Category. In 2014, Kiribati purchased land in Fiji for possible relocation, but is now using it for food production. In 2023, the “Falepili Union” treaty was agreed between Australia and Tuvalu, providing an avenue for “migration with dignity.”

As Central Pacific economies act, support from the global community is needed. Tuvalu’s Future Now Project has launched three initiatives to help preserve the country’s identity: (i) lobbying the global community to address climate change solutions; (ii) securing legal territorial and maritime boundaries; and (iii) creating a digital nation. In 2021, the Nauru government launched the Higher Ground Initiative (HGI)—a long-term plan to safeguard people’s livelihoods. Supported by several development partners, the HGI intends to restore land at higher elevations (mostly former phosphate mining areas) and build new homes and key infrastructure for planned domestic migration. The government described HGI as their “single most important climate adaptation action.” In Kiribati, initiatives have been discussed with development partners, including the development of integrated flood management plans as part of infrastructure development. Climate-proofing will be an essential feature of infrastructure projects to improve resilience and reduce risks associated with sea-level rise and other climate change impacts. Continuous monitoring and studies to enhance understanding of rising sea levels and their impact will support policy design to effectively address this pressing issue.