Kiribati’s economic freedom score is 47.3, making its economy the 168th freest in the 2019 Index. Its overall score has decreased by 3.5 points, marked by steep drops in scores for labor freedom, business freedom, and trade freedom. Kiribati is ranked 41st among 43 countries in the Asia-Pacific region, and its overall score is well below the regional and world averages.

A shortage of skilled workers, weak infrastructure, and remoteness from international markets constrain development in Kiribati. The public sector dominates economic activity through ongoing infrastructure projects and inefficient state-owned enterprises. Foreign aid contributes as much as one-third of the government’s finances. Economic growth is undermined by regulations that hinder private-sector development. Government efforts to decentralize economic activity from the main islands have yielded only limited progress. The financial sector remains underdeveloped, leaving much of the population without formal access to banking services.

BACKGROUND: Comprised of 33 scattered coral atolls, Kiribati has few natural resources and is one of the least-developed Pacific Island countries. Kiribati gained independence from the United Kingdom in 1979, and its government functions democratically. Taneti Maamau of the Tobwaan Kiribati Party was elected president in 2016 after 12 years of rule by Anote Tong of the Boutokaan Te Koaua. Economic activity once centered on the mining of phosphates, but those deposits have been exhausted. A $500 million fund created with mining revenues continues to provide significant budget support. Kiribati relies on foreign assistance, emigrants’ remittances, fishing, coconut exports, and tourism. Crippling algae in the corals are a serious threat to the fishing industry.
Property rights are weak. The judicial system, modeled on English common law, provides adequate due process rights, but the rule of law remains uneven across the country. Contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. Official corruption, nepotism, and other abuses of privilege are serious problems. Government institutions responsible for implementing anticorruption measures are underresourced and ineffective.

The top individual income and corporate tax rates are 35 percent. Taxation remains erratic and poorly administered. The overall tax burden equals 15.7 percent of total domestic income. Over the past three years, government spending has amounted to 117.9 percent of the country’s output (GDP), and budget surpluses have averaged 20.6 percent of GDP. Public debt is equivalent to 26.3 percent of GDP.

Kiribati’s regulatory environment is quite rudimentary. Existing commercial regulations are not enforced consistently. The government is the major source of formal employment, providing jobs in public service and state-owned enterprises. Although monetary instability is mitigated by use of the Australian dollar as the official currency, the government funds price-distorting subsidies for some agricultural products such as coconut oil.

The combined value of exports and imports is equal to 105.3 percent of GDP. The average applied tariff rate is 15.9 percent, and nontariff barriers persist. Much-needed investment continues to be undermined by inefficient state-owned enterprises and regulations that hinder private-sector development. High credit costs impede development of Kiribati’s private sector. Much of the population remains outside the formal banking system.