

Tarawa 🌐

World Rank: **159**

Regional Rank: **35**

Kiribati's economic freedom score is 46.9, making its economy the 159th freest in the 2012 *Index*. Its score is 2.1 points better this year due to significant gains in freedom from corruption, monetary freedom, and fiscal freedom. Kiribati is ranked 35th out of 41 countries in the Asia-Pacific region, and its overall score is below the world and regional averages.

The island economy achieved one of the 20 largest score improvements in the 2012 *Index*. Much of this progress, however, is not firmly underpinned by a broad range of institutional reforms. Economic activity is still dominated by a public sector that accounts for two-thirds of employment and more than half of the economy. The economy relies heavily on foreign assistance and remittances. Kiribati has undergone a period of budgetary pressure caused by monetary instability combined with falling external income.

Economic dynamism continues to be undermined by the absence of an efficient regulatory framework and open-market policies that are critical to developing a more stable private sector. Only a small proportion of the labor force is employed in the formal sector. The government has tried to decentralize economic activity from the main islands, but progress has been very limited.

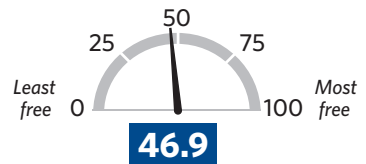
BACKGROUND: The Pacific archipelago of Kiribati gained its independence from Britain in 1979 and enjoys democratic government under a national constitution. President Anote Tong was elected to a second term in 2007 and was seeking re-election in late 2011 for a third and final term. Kiribati was once rich in phosphates and highly dependent on mining, but deposits were exhausted in 1979. Today, it depends on a \$500 million Revenue Equalization Reserve Fund created with the profits from phosphates earnings, as well as foreign assistance, remittances from overseas, sale of fishing licenses, and exports of fish and coconuts. Crippling algae in the corals surrounding Kiribati seriously threaten the fishing industry. As a result, preservation of Kiribati's coral ecosystem, the South Pacific's largest marine reserve, continues to be a priority.

How Do We Measure Economic Freedom?

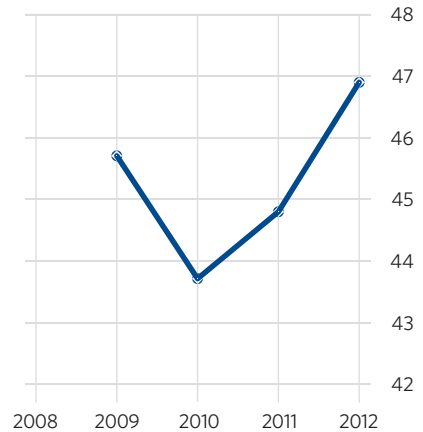
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

KIRIBATI

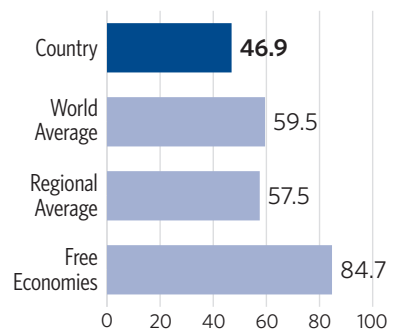
Economic Freedom Score



Freedom Trend



Country Comparisons

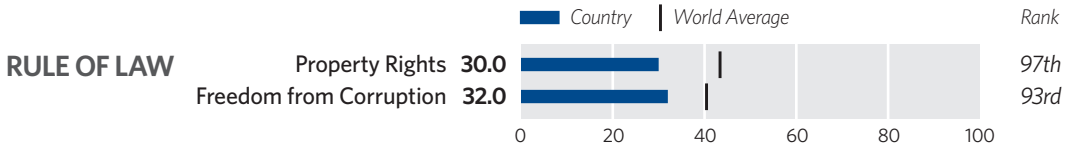


Quick Facts

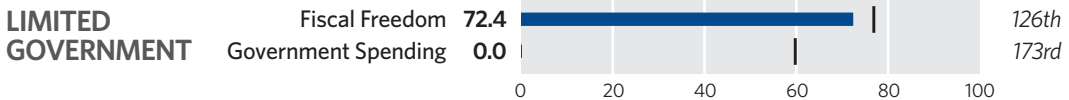
- Population:** 0.1 million
- GDP (PPP):** \$0.6 billion
- 1.8% growth in 2010
- 5-year compound annual growth 0.4%
- \$6,209 per capita
- Unemployment:** n/a
- Inflation (CPI):** -1.4%
- FDI Inflow:** \$3.7 million
- Public Debt:** 31.9% of GDP

2010 data unless otherwise noted.
Data compiled as of September 2011.

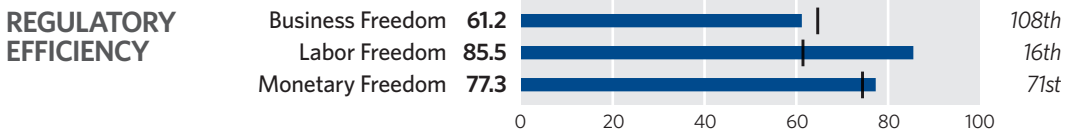
THE TEN ECONOMIC FREEDOMS



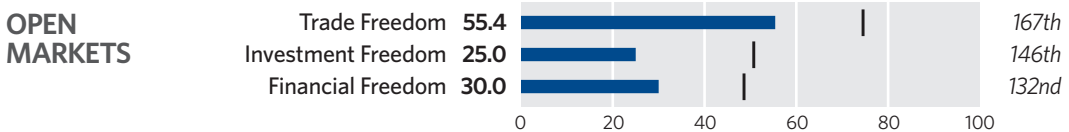
The judicial system is ineffective, and the rule of law remains uneven across the country. In the absence of a well-functioning legal framework, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. The government lacks the capacity to enforce intellectual property rights laws. Corruption remains widespread, further undermining the foundations of economic freedom.



The top income and corporate tax rates are 35 percent. Taxation remains erratic and poorly administered. In the most recent year, the total tax burden was estimated to be 17.5 percent of total domestic income, while government spending is equivalent to 91 percent of GDP. The chronic budget deficit has decreased to below 10 percent of GDP from 19 percent of total domestic output in 2008. Public debt stands at around 30 percent of GDP.



The regulatory environment is rudimentary. Commercial regulations are not enforced consistently and lack the capacity to spur more dynamic entrepreneurial growth. Modern bankruptcy procedures are not in place. Only a small share of the labor force participates in the formal economy. The government is the major source of employment. Monetary instability is mitigated by use of the Australian dollar as the official currency.



The trade weighted average tariff rate is prohibitively high at 17.3 percent, with import and export licensing, limited infrastructure, and geographic isolation adding to the cost of trade. A modern investment framework is not in place. High credit costs and constrained access to financing severely impede entrepreneurial activity and development of the private sector. A large part of the population remains outside the formal banking system.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+12.1	Business Freedom	-1.7	Trade Freedom	0
Freedom from Corruption	+4.0	Government Spending	0	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+6.2	Financial Freedom	0