

**EXECUTIVE
BOARD
MEETING**

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Supplement 3

July 8, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Tuvalu—Staff Report for the 2021 Article IV Consultation—Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Monday, July 19, 2021**

Publication: Yes*

Questions: Ms. Jurzyk, SPR (ext. 34223)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**



IMF Executive Board Concludes 2021 Article IV Consultation with Tuvalu

FOR IMMEDIATE RELEASE

Washington, DC – July 19, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Tuvalu.

The containment measures swiftly implemented by the Tuvaluan authorities at the onset of the pandemic helped keep Tuvalu COVID-free, though they have taken a toll on economic activity, impacting construction and tourism-related activities. However, inflow of COVID-related grants from international donors and buoyant domestic revenues from fishing license fees allowed the authorities to maintain current spending as planned and to extend additional support to the population and businesses through the COVID-19 relief package. As a result, the economy is estimated to have grown 1 percent in 2020, compared to 13.9 percent in 2019, with 1.6 percent inflation.

The Tuvaluan economy is expected to recover in 2021. The vaccine rollout that started in April will support domestic activity and eventually allow border reopening, even though securing enough vaccines to inoculate the entire population will take time. With higher current spending and a gradual resumption of infrastructure projects, GDP growth is projected at 2.5 percent in 2021. Full resumption of travel in 2022, continued high public spending, and further implementation of infrastructure projects is forecast to increase growth to 3.5 percent by 2022. Inflation is expected to gradually increase to 2.2 percent in 2021 and 2.4 percent in 2022.

Risks surrounding the outlook are high and tilted to the downside. Prolonged containment measures would delay resumption of infrastructure projects and hamper the recovery of private sector activity. Government revenues could fall short of projections. Continued lack of effective financial supervision of banks and weak balance sheets of State Owned Enterprises create contingent risks to the government and impede credit intermediation. A loss of the correspondent banking relationship would endanger Tuvalu's ability to process international payments. Tuvalu is also heavily exposed to the effects of climate change and natural disasters. Strong implementation of fiscal, financial, and structural reforms, aided by capacity building provided by international community, would help support growth going forward.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

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² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Tuvalu: Selected Social and Economic Indicators, 2017–2022

Population (2021 est.): 11,093
 Per capita GDP (2021 est.): AU\$6537
 Main export: Fish
 Key export markets: Fiji, China, Australia, Japan, New Zealand

Poverty rate (2017): 26 percent
 Life expectancy (2021): 68 years
 Primary school enrollment (2019, gross): 109 percent
 Secondary school enrollment (2018, net): 67 percent

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---|--------|--------|--------|--------|--------|
| | | | | Est. | Proj. | |
| | (Percent change) | | | | | |
| Real sector | | | | | | |
| Real GDP growth | 3.4 | 1.6 | 13.9 | 1.0 | 2.5 | 3.5 |
| Consumer price inflation (period average) | 4.1 | 2.2 | 3.5 | 1.6 | 2.2 | 2.4 |
| Government finance | (In percent of GDP) | | | | | |
| Revenue and grants | 108.6 | 156.1 | 111.7 | 121.5 | 122.3 | 107.3 |
| Revenue | 86.6 | 118.1 | 82.9 | 89.6 | 86.7 | 74.7 |
| <i>of which:</i> Fishing license fees | 44.1 | 79.8 | 48.9 | 55.6 | 43.5 | 41.5 |
| Grants | 21.9 | 38.0 | 28.9 | 31.9 | 35.7 | 32.6 |
| Total expenditure | 106.5 | 125.8 | 112.8 | 116.5 | 129.4 | 110.1 |
| Current expenditure | 84.0 | 81.8 | 70.8 | 75.0 | 88.0 | 89.0 |
| Capital expenditure 1/ | 22.4 | 43.9 | 42.0 | 41.5 | 41.4 | 21.1 |
| Overall balance | 2.1 | 30.3 | -1.1 | 5.0 | -7.0 | -2.9 |
| Overall balance (excl. grants) | -19.8 | -7.7 | -29.9 | -26.9 | -42.7 | -35.4 |
| Domestic Current balance 2/ | -41.5 | -43.6 | -36.8 | -41.0 | -55.7 | -55.9 |
| Financing | -2.1 | -30.3 | 1.1 | -5.0 | 7.0 | 2.9 |
| Foreign (net) | -0.2 | -1.0 | -0.9 | -1.1 | -0.6 | -0.6 |
| Consolidated Investment Fund (net, -=increase) | -1.9 | -29.3 | 2.0 | -3.9 | 7.7 | 3.4 |
| Tuvalu Trust Fund (in percent of GDP) | 292.8 | 279.9 | 237.0 | 241.4 | 232.8 | 217.8 |
| Consolidated Investment Fund (in percent of GDP) | 47.2 | 55.6 | 47.3 | 54.4 | 52.2 | 48.3 |
| Tuvalu Survival Fund (in percent of GDP) | 8.5 | 7.8 | 6.4 | 6.3 | 7.2 | 6.8 |
| Monetary Sector | | | | | | |
| Credit growth (percent change) 3/ | 2.1 | 2.0 | 0.4 | -0.5 | 1.1 | 2.9 |
| | (In percent of GDP, unless otherwise indicated) | | | | | |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | 11.5 | 53.9 | -16.9 | 3.8 | -4.1 | -4.1 |
| Goods and services balance | -107.5 | -106.0 | -118.8 | -115.3 | -105.8 | -101.5 |
| Capital and financial account balance | -9.4 | -49.1 | 35.4 | -8.9 | 4.4 | 12.7 |
| Overall balance | 4.6 | 9.3 | 37.1 | 2.0 | 0.2 | 8.7 |
| Gross reserves 4/ | | | | | | |
| In \$A million | 78.2 | 86.4 | 89.4 | 90.9 | 91.1 | 98.8 |
| In months of prospective imports of goods and services | 12 | 10 | 11 | 11 | 11 | 11 |
| | (In percent of GDP, unless otherwise indicated) | | | | | |
| Debt indicators | | | | | | |
| Gross public debt | 12.0 | 11.8 | 11.5 | 7.3 | 6.1 | 5.0 |
| External | 9.8 | 8.4 | 9.4 | 5.5 | 4.5 | 3.6 |
| Domestic SOE debt | 2.3 | 3.5 | 2.2 | 1.8 | 1.5 | 1.3 |
| Nominal GDP (In \$A million) | 59.1 | 64.4 | 77.9 | 79.6 | 83.4 | 88.7 |

Sources: Tuvalu authorities; PFTAC; SPC; ADB; World Bank; 2018 IMF's BOP TA; and IMF staff estimates and projections.

- 1/ Includes Special Development Expenditures (SDEs) and infrastructure investment
 2/ Domestic current balance excludes fishing revenue, grants, and capital expenditure.
 3/ Banks' and pension fund lending to non-government domestic sector.
 4/ The sum of liquid assets of the National Bank of Tuvalu, Consolidated Investment Fund, and SDR holdings.