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July 15, 2021

**Statement by Mr. Nakunyada and Ms. Basutli on Tuvalu  
(Preliminary)  
Executive Board Meeting  
July 19, 2021**

We thank staff for the comprehensive report as well as Mr. Huh and Mr. Iona for their insightful Buff statement. We broadly share the staff's appraisal and provide the following remarks for emphasis.

The global outbreak of the Covid-19 pandemic interrupted Tuvalu's robust growth performance realized in recent years. Nevertheless, implementation of swift and highly effective containment measures and a strong fiscal response package helped to keep the pandemic at bay and avoid an economic recession in 2020. Meanwhile, the significant progress made in vaccinating the population and concrete plans to complete inoculation of the eligible population before year end, bode well for the economic rebound projected for 2021. Nonetheless, the outlook remains challenged by the uncertainty around the path of the pandemic, as well as risks related to climate change and fiscal sustainability. Going forward, policy efforts should be directed towards prudent fiscal management, promoting private sector led growth and economic diversification, strengthening financial oversight and greater focus on climate adaptation and mitigation.

**Supportive fiscal policy should remain closely tied to the evolution of the pandemic to adequately cushion vulnerable households and firms.** In this regard, we stress the need for continued engagement with development partners to safeguard flexibility in the use of existing grants by adhering to accountability and transparency requirements. Once the crisis abates, gradual fiscal consolidation efforts would be important to help preserve fiscal buffers and enhance the country's ability to respond to future shocks. In addition, the adoption of a long-term fiscal anchor, targeting the domestic current fiscal balance, would be important to support fiscal and debt sustainability.

**Prudent fiscal management remains essential to reduce reliance on volatile fishing revenues and external assistance.** To that end, domestic revenue mobilization must be intensified through tax reforms and enhanced revenue administration. Concurrent

expenditure management measures are also required to contain the wage bill and optimize medical assistance and scholarship schemes. In addition, we encourage the authorities to improve spending efficiency by expediting completion of the Public Expenditure and Financial Accountability (PEFA) self-assessment and press ahead with the planned adoption of the PFM Roadmap (2021-2024). That said, we welcome the authorities' efforts to secure multilateral climate resources for adaptation and resilience building and the creation of a dedicated Climate Finance Unit to coordinate efforts to mobilize international climate finance.

**Enhanced financial sector supervision and regulation would be essential to strengthen financial soundness and improve intermediation.** We note with concern, the low levels of credit extension despite the high deposits at the National Bank of Tuvalu (NBT), as well deterioration in asset quality. Against this background, we agree on the need to improve the capacity of the Public Enterprise Reporting and Monitoring Unit (PERMU) to effectively supervise the financial sector. Further, we see merit in bringing the National Provident Fund under the supervisory purview of PERMU, given its important role in credit extension. Enhanced supervision would also help maintain correspondent banking relationships, to facilitate the country's cross-border payments. We view the authorities plans to utilize Fintech solutions for mobile money and e-transactions as important to improve financial deepening and inclusion. That said, we note that the authorities are encountering challenges in identifying an optimal strategy for digital solutions and stress the need for technical support to overcome attendant obstacles. *We note the sudden loss of the National Bank of Tuvalu's Correspondent Banking Relationship (CBR) with Australia, and the authorities outreach efforts to the Fiji Financial Intelligence Unit and the Asia Pacific Group on Anti-Money Laundering. Could staff shed more light on the effectiveness of these remedial measures?*

**Finally, structural reform efforts should be intensified to promote economic diversification and sustainable growth.** In this regard, diversification would be instrumental to enhance resilience to external shocks, considering the economy's high dependence on fishing revenues, external aid, and imports. In this vein, we welcome the launch of the national development plan (*Te Kete*), to drive several structural reform initiatives and promote economic diversification and build resilience to external shocks. This notwithstanding, we underline the need for concerted efforts to improve the business regulatory environment, increase private sector participation, and accelerate growth. While we acknowledge the significant progress made towards SOE reforms over the past decade, outstanding reforms should be completed to improve SOE performance and reduce associated contingent liability risks.