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July 15, 2021

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

We thank staff for the comprehensive reports and Mr. Hu and Mr. Iona their insightful Buff statement.

We welcome the authorities' prompt policy response to the outbreak. Thanks to preemptive containment measures and elevated alert level, the State of Emergency has been extended to the end of 2021, and so far, Tuvalu has remained COVID-free. After growing by 1 percent in 2020 on account of a strong fiscal response and low dependence on tourism, the economy is expected to rebound to 2.5 percent in 2021 but will remain below previous levels. Risks to the outlook remain tilted to the downside due to the uncertainty surrounding the path of the pandemic.

Securing resources for sustainable growth. As a fragile micro-state with a very small population, Tuvalu faces significant vulnerabilities to climate change and to financing climate adaption, especially natural disasters. In this respect, it is essential that once the economy recovers, the authorities continue their efforts to increase fiscal space and ensure sufficient resources to increase resilience of the economy, including financing climate adaptation needs and investment in infrastructure. To this end, we welcome Annex IV of the staff report on inclusive growth, climate resilience, and financing options.

Staff analysis indicates that Tuvalu will need to increase infrastructure investments by around 2.3 percent of GDP annually until 2030 to reach sustainable development goals in energy, roads, and water/sanitation/hygiene. Broadening the revenue base, as well as rationalizing spending, is needed to sustain investment in view of the volatility of fishing revenues. The authorities' planned reforms in budget formulation, and execution should help improve debt sustainability. In this regard, total public debt continued to decline and remained low, at 5.5 percent of GDP.

We welcome the authorities' commitment to mobilize external resources for adaptation and resilience building. We take positive note of Tuvalu's accreditation with the Adaptation Fund. Moreover, we welcome the authorities' interest in engaging with the Fund on climate issues, including on integrating climate change resilience into the macroeconomic framework and on unlocking climate finance, as noted by Mr. Hu and Mr. Iona in their Buff statement.

On the financial sector, we agree with staff on the need to advance measures to expand access to financial services. Continued progress in strengthening the banking sector and financial intermediation is critical to stimulate private sector growth and diversify the economy. Developing a fintech strategy would also be instrumental in broadening and deepening access to financial services and fostering small and medium-sized enterprises. At the same time, we encourage the authorities to improve effective regulation and oversight of the financial sector. We take note of significant consequences of declining correspondent banking relationships (CBRs). While acknowledging that collective action is needed to maintain CBRs, we welcome the authorities' efforts to strengthen the AML/CFT framework.

On structural reforms, the National Strategy for Sustainable Development 2021-2030 (Te Kete) aims to foster economic diversification and address obstacles to sustained and inclusive growth. We concur with staff that developing a clear accountability framework detailing actions and performance targets, including developing data collection processes, is key to implementing the strategy and its measuring progress.

With these comments, we wish Tuvalu and its people success in their future endeavors.