

The contents of this document are preliminary and subject to change.

GRAY/21/2097

July 15, 2021

**Joint Statement by Mr. Alhosani, Ms. Kashima, Mr. Mochtar, Mr. O'Brolchain, Ms. Smith, Ms. Al-Riffai, Mr. Chea, and Mr. Kuretani on Tuvalu
(Preliminary)
Executive Board Meeting
July 19, 2021**

We thank staff for the informative set of reports and Mr. Huh and Mr. Iona for their helpful Buff statement.

We commend the Tuvaluan authorities for their prompt policy response to prevent the outbreak of the COVID-19 pandemic and support the economy, allowing Tuvalu to be amongst the only ten COVID-free countries in the world. Tuvalu managed to avoid an economic recession in 2020, thanks to the favorable revenue position and donor grants, and growth is projected to firm over 2021 and 2022 supported by higher fiscal expenditure and resumption of infrastructure projects. Nonetheless, the outlook remains highly uncertain and is subject to significant downside risks, including from the impact of climate change and natural disasters as well as the uncertainty around fishing revenues and donor supports. We broadly agree with staff's appraisals and offer the following comments for emphasis.

Maintaining fiscal discipline and mobilizing revenue while supporting the most vulnerable, along with viable private enterprises are warranted to ensure fiscal and debt sustainability over the medium-term. We welcome the authorities' commitment to ensuring the transparency and accountability of pandemic-related spending, while continuing work with development partners. The current fiscal policy should be supportive of economic recovery but given the country's continued high risk of debt distress, we concur with staff that it is necessary to resume the fiscal consolidation plan once the pandemic subsides. This will help to build the fiscal buffers needed to contain fiscal and debt pressures and strengthen resilience to natural disasters. We take positive note of the progress made in reforming state-owned enterprises and encourage the authorities to continue further with these efforts. Moreover, it is imperative that the authorities continue to strengthen public financial management while mobilizing international resources to finance climate-related projects.

Improving the effectiveness of the bank supervisory framework will be crucial to limit the contagion risk from the pandemic and safeguard financial stability. Utilizing Fintech

could improve efficiency of the financial system and promote financial inclusion. However, it is of utmost importance that necessary institutional frameworks are in place to preserve the integrity of the financial system and ensure consumer protection. While we take positive note of the initiative to enhance collaboration with PFTAC to build the capacity of PERMU, further capacity development is essential to help limit the adverse impact of the pandemic on Tuvalu's fragile banking system, minimize the banking sector's longstanding challenges of limited legal means, weak risk management, and high NPLs. We note the recent loss of Correspondent Banking Relationship with an Australian Bank, and welcome that the authorities have been able to get assistance from the Asia Pacific Group on Anti-Money Laundering and the Fiji Financial Intelligence Unit to address AML/CFT challenges. *Can staff comment on what progress has been made, as well as what is being done by the Fund to assist?*

The government has made commendable strides in strengthening the country's resilience to natural disasters. Furthermore, the focus on mitigating climate-related risks under the National Strategy for Sustainable Development (NSSD) for 2021-30, is also noteworthy. In light of Tuvalu's restricted fiscal space and its narrow tax revenue prospects, we see merit in the decision to secure the additional funding needed for climate adaptation from global climate financing facilities. We take note of the rationale employed by staff to include only the cost implications of climate disasters in the long run so as not to complicate the policy discussions. Nonetheless, and in light of Tuvalu's heightened vulnerability to climate risks and their associated fiscal and socio-economic implications, we wonder if this omission may lead to an underestimation of Tuvalu's overall risk assessment. *Staff's comments are welcome.*

Steadfast implementation of structural reforms is needed to promote private sector development, foster job creation and support economic diversification. The authorities' national strategy for financial literacy and education to promote financial inclusion is welcome. Given Tuvalu's remoteness, small size and limited infrastructure, addressing infrastructure bottlenecks will be essential to help stimulate private sector development and promote a business-friendly environment. Moving forward, we encourage the authorities to strengthen the institutional capacity, enhance macroeconomic statistics and review the social protection system to ensure that the vulnerable are well supported and protected from external shocks and from the impacts of the reforms. To that end, we see merit in leveraging the Fund's and other development partners' technical assistance to support the reform efforts.

With these remarks, we wish the authorities every success in their future endeavors.