

SUR/11/10

January 31, 2011

**The Acting Chair's Summing Up  
Tuvalu—2010 Article IV Consultation  
Executive Board Meeting 11/9  
January 28, 2011**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the opportunity to discuss this first Article IV consultation with Tuvalu. Directors recognized that Tuvalu faces tremendous challenges because of its remote location, limited land area, lack of resources, serious capacity constraints and the potential impact of climate change. The uncertain global recovery is adding to the country's vulnerabilities. In light of the difficult near and medium-term prospects of the economy, Directors emphasized the need for resolute fiscal adjustment and structural reforms. Noting the limited domestic job opportunities, they agreed that the authorities should promote overseas employment opportunities, which would generate income and help reduce poverty.

Directors urged the authorities to cut spending, given that the Consolidated Investment Fund (CIF) available for budget financing will be depleted soon at the current pace of spending. They called for a front-loaded adjustment mainly through cuts in capital spending, and subsidies and transfers, which increased rapidly in recent years. Freezing wages and reducing travel costs will also be important.

Directors agreed that to ensure fiscal sustainability, it will also be necessary to increase domestic revenue, particularly by boosting efforts to increase tax compliance. At the same time, saving any windfall revenue from offshore earnings into the CIF and formulating a medium-term budget framework will strengthen fiscal management.

Directors agreed that use of the Australian dollar as Tuvalu's currency is appropriate. They underscored however that fiscal adjustment will be key to maintaining external stability.

Directors commended the authorities for their structural reform efforts. They welcomed the ongoing public enterprise reform and looked forward to further progress in regularization of government's financial relations with the public enterprises. Directors stressed that continued improvements in the banking sector and credit culture will help support private-sector development. Noting the steps being taken to address the high level of nonperforming loans, they urged the authorities to accelerate progress on putting in place the supervisory and prudential requirements. Improving the country's statistical capacity will be critical for policy analysis and formulation.

It is expected that the next Article IV consultation with Tuvalu will take place on a 24-month cycle.