



Press Release No. 16/445  
FOR IMMEDIATE RELEASE  
October 4, 2016

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## **IMF Executive Board Concludes 2016 Article IV Consultation with Tuvalu**

On September 12, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Tuvalu.

The macroeconomic outlook is stable. Real GDP growth in 2015 is estimated at 2.6 percent and is projected to rise to 4 percent in 2016 on account of several large infrastructure projects and recovery spending following Cyclone Pam. Inflation remained steady in 2015 at 3.2 percent and is expected to rise slightly in 2016 to 3.5 percent as economic activity picks up.

The budget achieved a substantial surplus in 2015 for the fourth consecutive year, supported by strong fishing license fees, internet license fees related to the “.tv” domain, and development partner assistance. With four years of budget surpluses, fiscal buffers have been rebuilt and remain at a comfortable level, even though expenditures have increased rapidly. The fiscal position is expected to turn into a small deficit in 2016 and is projected to remain in deficit over the medium term.

Risks to the outlook relate to the effects of climate change, volatility in fishing revenues, and volatile global financial conditions, which could affect distributions to the budget from the Tuvalu Trust Fund.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors noted that the near-term macroeconomic outlook is stable and growth is picking up, partly owing to recovery spending following Cyclone Pam. Directors commended

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<sup>1</sup> 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.

<sup>2</sup> 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>.

the authorities for the substantial progress achieved under their Policy Reform Matrix, 2012-15, as well as the commitment to continue these efforts under the national strategy for sustainable development, 2016-2020. However, important medium- and long-term challenges remain. These relate to sustaining investment to mitigate the effects of climate change, strengthening fiscal frameworks, public enterprise reform, and financial sector oversight.

Directors observed that Tuvalu's fiscal challenges are centered around revenue volatility and meeting the long-term costs associated with climate change while maintaining a sound fiscal position. They welcomed the recent initiatives to develop a climate change risk assessment framework and to incorporate disaster costs into budget planning. Directors noted, however, that improvements in public financial management were also needed, particularly with respect to the framework for capital budgeting.

Directors welcomed the rebuilding of fiscal buffers on the back of higher fishing licensing revenue in recent years. They underscored that sustaining adequate fiscal buffers is a critical element in the policy strategy to manage future risks. In this respect, Directors called for restraint on recurrent expenditure to sustain buffers and enhance debt sustainability. More broadly, the adoption of a medium-term fiscal framework that targets a small structural budget surplus will boost resilience. Directors also encouraged the authorities to continue seeking access to global climate change funding, with the assistance of development partners.

Directors emphasized that public enterprise reform remains a key policy priority, including improving corporate management and clearly defining and pricing social services. On financial sector oversight, they highlighted that the banking commission should conduct a review of non-performing assets and on-site supervision of banks, in collaboration with external advisors.

Directors welcomed the assessment that the exchange system is free of restrictions. While noting that the real exchange rate is in line with fundamentals, they encouraged the authorities to continue to implement the national development strategy to strengthen competitiveness. Directors also urged the authorities to make use of technical assistance to improve economic statistics.

## Tuvalu: Selected Social and Economic Indicators, 2012-2017

Population (2014): 9,893

Poverty rate (2010): 26.3 percent

Per capita GDP (2014 est.): US\$3,827

Life expectancy (2014): 66 years

Main export: Fish

Primary school enrollment (2006): 100 percent

Key export markets: Fiji, Australia, Japan

Secondary school enrollment (2001): 79.5 percent

	2012	2013	2014	2015	2016	2017
	Est.			Proj.		
	(Percent change)					
Real sector						
Real GDP growth	0.2	1.3	2.2	2.6	4.0	2.3
Consumer price inflation (period average)	1.4	2.0	1.1	3.2	3.5	2.9
Government finance	(In percent of GDP)					
Revenue and grants	84.3	107.5	123.1	123.5	124.5	113.3
Revenue	56.6	82.9	74.1	105.5	91.7	80.9
<i>of which</i> : Tax revenue	15.0	19.0	18.0	19.4	17.1	17.3
Fishing license fees	21.8	45.4	32.0	60.9	53.2	43.0
Grants	27.8	24.6	49.0	18.0	32.9	32.4
Total expenditure	75.0	81.1	86.8	116.3	127.3	117.6
Current expenditure	75.0	81.0	86.6	116.1	127.1	117.4
<i>of which</i> : Wages and salaries	31.9	32.2	36.1	37.4	43.2	43.8
Special Development Expenditure	6.2	7.4	9.2	13.3	23.9	13.5
Overall balance	9.3	26.3	36.3	7.2	-2.7	-4.2
Tuvalu Trust Fund (stock, \$A million)	131	141	144	149	151	155
Consolidated Investment Fund (stock, \$A million) 1/	4.5	12.2	24.3	30.8	28.9	26.2
Tuvalu Survival Fund (stock, A\$ million)					5.0	5.0
	(Percent change, unless otherwise indicated)					
Money and credit						
Deposits	9.7	29.2	10.6	2.0	...	...
Credit	-11.4	15.2	-32.0	2.0	...	...
Lending interest rate (in percent)	10.6	10.6	10.6	9.1	...	...
	(In millions of Australian dollars, unless otherwise indicated)					
Balance of payments						
Current account balance	6.6	0.5	8.0	3.3	-1.8	-2.7
(In percent of GDP)	17.2	1.2	19.3	7.6	-4.0	-5.7
Exports of goods	19.9	18.8	19.2	19.7	20.1	20.6
<i>o/w</i> Fish	19.5	18.4	18.8	19.3	20.1	20.6
Imports of goods	-21.4	-32.2	-29.3	-33.6	-38.6	-39.9
Current transfers (net)	21.2	18.0	25.6	14.9	17.3	17.8
Capital and financial account balance	-3.4	8.7	-4.9	2.1	-1.8	1.3
<i>of which</i> : TV domain license fees	3.7	4.4	4.5	6.3	6.3	6.3
Capital transfers (net)	4.7	5.1	5.8	9.1	11.3	8.6
Gross official reserves 2/	27.5	37.9	41.0	46.4	42.7	41.3
(In months of next year's imports)	5.4	8.3	7.4	7.1	6.5	6.1
	(In percent of GDP, unless otherwise indicated)					
Debt indicators						
Gross public debt	25.9	57.2	64.4	58.2	53.7	44.3
External	19.7	51.8	59.8	54.5	51.7	44.3
Domestic	6.3	5.4	4.6	3.8	2.0	0.0
Exchange rates						
Australian dollars per U.S. dollar (period average)	1.0	1.0	1.1	1.3	...	...
End-period	1.0	1.1	1.2	1.4	...	...
Real effective exchange rate (2005=100)	103.8	102.1	97.3	91.9	...	...
Nominal GDP (In millions of Australian dollars)	38.5	39.7	41.3	43.5	46.1	48.1

Sources: Tuvalu authorities; PFTAC; SPC; ADB; World Bank; and IMF staff estimates and projections.

1/ Includes government transfers of unspent capital spending allocations to the Tuvalu Development Fund in 2015, estimated at A\$5.2 million.

2/ Defined as the sum of foreign assets of the National Bank of Tuvalu, the Consolidated Investment Fund, and SDR holdings.