International Monetary Fund Assessment Letter: Tuvalu

For the Pacific Disaster Resilience Program
IMF Staff Concludes 2017 Staff Visit to Tuvalu

August 1, 2017

- Tuvalu’s macroeconomic performance has been favorable on the back of strong fishing license revenue and increased capital expenditure.
- Real GDP growth in 2016 is estimated at 3 percent, and is projected to rise to 3.2 percent in 2017 due to increased government expenditure.
- Important to preserve fiscal buffers and restrain recurrent expenditure to enhance climate change resilience.

An International Monetary Fund (IMF) team, led by Jongsoon Shin, visited Tuvalu from July 25–August 1, 2017 to conduct the 2017 Staff Visit. The team exchanged views with senior officials of the Tuvalu government, representatives from public enterprises and the private sector, and development partners.

At the conclusion of the visit, Mr. Shin issued the following statement:

“The macroeconomic performance has been favorable on the back of strong fishing license revenue and increased capital expenditure. Real GDP growth in 2016 is estimated at 3 percent, and is projected to rise to 3.2 percent in 2017 due to increased government expenditure. Inflation was moderate at 2.6 percent in 2016, and is expected to rise to 2.9 percent in 2017 as economic activity picks up.

‘Fiscal accounts reached a surplus of around 20 percent of GDP in 2016 supported by strong fishing license revenue and development partners’ assistance. The fiscal buffers have been replenished as the Tuvalu Trust Fund (TTF) stock rose amid buoyant Australian financial markets, and remain at a comfortable level. For 2017, the fiscal accounts are expected to remain in surplus due to robust fishing license fees.

“The authorities appropriately place top priority on strengthening climate change resilience, and have made initial progress. The Green Climate Fund (GCF) approved a US$36 million grant for coastal protection, one of the first GCF projects in the Pacific. The adoption of Public Financial Management (PFM) Roadmap 2017–21 has also helped unlock donor funding.

“Nonetheless, the economy is susceptible to risks, stemming from the effects of climate change, volatile fishing revenues, a high degree of dependency on third parties, limited financial supervision, and weak balance sheets of public enterprises.

“Looking ahead, it will be important to preserve fiscal buffers and restrain recurrent expenditure against the need for capital spending to enhance climate change resilience. Improving financial sector oversight and strengthening the policy framework for public enterprises would help improve the balance sheets and minimize the potential fiscal contingent liability.

“The IMF continues to support Tuvalu’s reform agenda through various forms of technical assistance in macroeconomic areas.”

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