INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/257

TUVALU

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTORS FOR TUVALU

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Tuvalu, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 3, 2025 consideration of the staff report that concluded the Article IV consultation with Tuvalu.
- **The Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 3, 2025, following discussions that ended on May 27, 2025, with the officials of Tuvalu on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 31, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Alternate Executive Directors** for Tuvalu.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/293

IMF Executive Board Concludes 2025 Article IV Consultation with Tuvalu

FOR IMMEDIATE RELEASE

- Tuvalu's economic recovery is expected to continue, with GDP growth projected at 3 percent in 2025 and 2.6 percent in 2026, supported by externally-financed infrastructure projects and public spending.
- The economy continues to face significant structural challenges and downside risks, reflecting its economic and environmental fragility and heightened global uncertainty.
- Policies should focus on maintaining economic and financial stability, building resilience against shocks, and addressing structural challenges for sustainable growth.

Washington, DC – September 12, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Tuvalu on September 3rd, 2025.[1]

Tuvalu's economy is recovering from the COVID-19 pandemic. Following a sharp contraction during 2020-22, real GDP grew by 4 percent in 2023 and 3.1 percent in 2024, driven by continued effects of reopening on domestic activities and major infrastructure projects including coastal adaptation, maritime transportation, and renewable energy. Both fiscal and external balances remain volatile reflecting Tuvalu's heavy reliance on fishing license fees and grants. Inflation has eased significantly from its pandemic peak of 14 percent in 2022Q3 to 1.2 percent in 2024, in line with global commodity prices and easing of shipping bottlenecks.

The economic recovery is expected to continue, but growth is projected to moderate gradually over the medium term. The economy is projected to grow by 3 percent and 2.6 percent in 2025 and 2026, respectively, supported by the construction of the new phase of Tuvalu Coastal Adaptation Project and an increase in public investment. Over the medium term, growth is projected to moderate gradually to below 2 percent, reflecting sluggish productivity growth, increasing emigration, and vulnerability to climate events. Despite the limited direct impact of recent trade tensions, downside risks to the economic outlook stemming from heightened global uncertainty have increased.

[1] 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.

Executive Board Assessment[2]

Executive Directors welcomed Tuvalu's ongoing recovery from the COVID-19 pandemic. Directors noted, however, that Tuvalu continues to face increased downside risks and significant structural challenges stemming from its remoteness, high dependence on external revenue and grants, rising emigration, and vulnerability to climate change. They emphasized the need to enhance fiscal sustainability and implement reforms to address bottlenecks, strengthen resilience, and boost growth potential. Capacity development and close engagement with the Fund and development partners remain essential.

Directors highlighted the need for a multi-pronged fiscal strategy to reduce the deficit and ensure adequate buffers, while addressing development priorities. Noting Tuvalu's high spending pressures and volatile fiscal revenue, Directors underscored the need to mobilize revenues, rationalize expenditure, and reprioritize resources. They also encouraged the authorities to further improve public financial management to reduce volatility and risks related to the fiscal accounts.

Directors emphasized the importance of establishing an effective regulatory and supervisory framework and enhancing financial inclusion. They welcomed the authorities' efforts to improve Tuvalu's connectivity to the global payment system, including by joining the Asia Pacific Group on Money Laundering and modernizing financial services. Measures to further strengthen the AML/CFT framework and safeguard correspondent banking relationships are important. While noting that the financial sector remains sound, Directors encouraged efforts to enforce reporting requirements, consolidate prudential standards, and enhance risk monitoring.

Directors stressed that prioritized structural reforms are necessary to enhance growth potential and address climate challenges. Noting Tuvalu's limited resources and capacity, Directors agreed on the importance of focusing on developing reclaimed land, enhancing the efficiency of public services, and strengthening state-owned enterprise governance and performance. Measures to improve infrastructure and steps to explore economic diversification are also important. Directors agreed that enhancing human capital and facilitating female labor force participation would help to mitigate the impact of emigration. They also underscored the criticality of enhancing Tuvalu's resilience to climate change and strengthening disaster preparedness.

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[2] At the conclusion of the discussion, the Managing Director, as Chair 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.

Table 1. Tuvalu: Selected Social and Economic Indicators, 2022-2030

Population (2024 est.): 9,853 — Poverty rate (2017): 26 percent
Per capita GDP (2024 est.): AU$8,680 — Life expectancy (2023): 65 years
Main export: Fish — Primary school enrollment (2022, gross): 98 percent
Key export markets: Australia, Fiji, and New Zealand — Secondary school enrollment (2022, gross): 91 percent

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.			Proj.			
				(Percent change)					
Real sector									
Real GDP growth	-11.8	4.0	3.1	3.0	2.6	2.7	2.3	2.0	1.8
Consumer price inflation (period average)	12.2	7.2	1.2	2.1	2.3	2.5	2.5	2.5	2.5
Government finance				(In percent of GDP)					
Revenue	100.7	154.1	110.2	122.9	118.3	114.8	113.1	111.7	110.4
Non-grants revenue	82.0	100.7	82.3	79.0	80.6	79.6	78.7	78.0	77.4
of which: Fishing license fees	48.4	57.6	44.6	41.6	40.5	39.3	38.4	37.6	36.9
Grants	18.7	53.4	27.8	43.9	37.7	35.2	34.4	33.7	33.0
Expenditure	115.3	138.8	118.4	122.3	121.3	119.1	118.0	117.2	116.4
Expense	104.9	127.7	111.3	111.7	109.9	107.6	106.6	105.7	105.0
Net acquisition of non-financial asset	10.4	11.1	7.1	10.7	11.3	11.5	11.5	11.5	11.5
Net lending/borrowing	-14.6	15.3	-8.2	0.6	-3.0	-4.3	-4.9	-5.5	-6.0
Net lending/borrowing excl. grants	-33.3	-38.1	-36.1	-43.3	-40.6	-39.5	-39.3	-39.2	-39.0
Domestic Current balance 1/	-71.3	-84.6	-73.6	-74.2	-69.8	-67.3	-66.2	-65.3	-64.5
Net acquisition of financial assets	-15.2	15.5	-7.2	-2.3	-2.8	-4.0	-3.4	-2.6	-2.5
Net incurrence of liabilities	-0.6	0.2	1.0	-3.0	0.1	0.3	1.5	2.9	3.5
Tuvalu Trust Fund	234.6	266.5	297.7	288.6	281.2	273.7	267.2	261.8	257.1
Consolidated Investment Fund	48.1	51.6	42.6	43.5	45.9	43.5	41.7	40.7	40.0
Monetary Sector									
Credit growth (percent change) 2/	20.3	16.2	7.8	4.9	4.8	4.8	4.8	4.6	4.4
				(In percent of GDP, unless otherwise indicated)					
Balance of payments (in percent of GDP)									
Current account balance	-0.3	40.0	7.3	14.9	5.5	-0.4	-2.4	-3.9	-5.1
Goods and services balance	-101.6	-112.8	-107.0	-109.8	-112.7	-115.4	-116.4	-117.1	-117.5
Capital minus financial account balance	-19.3	-18.8	-26.2	6.4	0.3	0.4	2.7	5.0	6.5
Overall balance	-19.6	21.2	-18.9	21.3	5.8	0.0	0.3	1.1	1.3
Gross reserves 3/									
In AU$ million	111.7	123.7	105.8	127.8	137.5	137.5	138.0	139.2	140.7
In months of prospective imports of goods and services	13	14	11	12	12	11	11	10	10
				(In percent of GDP, unless otherwise indicated)					
Debt indicators									
Gross public debt	11.5	11.0	11.1	7.7	7.5	7.4	8.5	11.0	14.1
External	6.3	5.8	4.2	2.5	2.5	2.5	3.9	6.5	9.7
Domestic and SOE debt	5.2	5.2	6.9	5.3	5.1	4.9	4.7	4.5	4.4
Nominal GDP (In AU$ million)	78.1	76.1	85.5	90.0	94.6	99.7	104.7	109.6	114.4

Sources: Country authorities; PFTAC; SPC; ADB; World Bank; and IMF staff estimates and projections.
1/ Domestic current balance excludes fishing revenue, grants, and capital expenditure.
2/ Banks' and pension fund lending to non-government domestic sector.
3/ The sum of liquid assets of the National Bank of Tuvalu, Consolidated Investment Fund, and SDR holdings.

INTERNATIONAL MONETARY FUND

TUVALU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 31, 2025

KEY ISSUES

Context. An economic recovery is underway, mainly driven by infrastructure projects financed by development partners. However, structural vulnerabilities remain a significant challenge to Tuvalu's economic stability and growth prospects. In particular, its small size and remoteness imply a narrow domestic production base, heavy dependency on imports, and the dominance of the public sector. Both fiscal and external positions are significantly affected by volatile fishing license fees and grants. Tuvalu is also highly vulnerable to climate change and natural disasters. Rising migration poses additional challenges on Tuvalu's small labor force and exacerbates labor shortages and capacity constraints.

Policies. Policies should focus on building resilience against shocks and addressing structural obstacles to sustainable growth.

- Implement a multi-pronged fiscal strategy to maintain fiscal sustainability while supporting Tuvalu's development priorities and addressing long-term challenges, particularly from climate change. Fiscal measures should focus on unwinding the recent increase in current spending, reorienting resources towards development needs, and strengthening the compliance and efficiency of tax collection.
- Improve public financial management to support the fiscal strategy and manage the volatility and risks of the fiscal accounts.
- Establish effective financial sector supervision by enforcing regular regulatory reporting of financial institutions, implementing consolidated prudential standards, and strengthening the supervisory authority. Enhance Tuvalu's connectivity to the global payment system and promote financial inclusion, including through further modernizing banking services.
- Implement prioritized and realistic structural reforms to enhance growth potential, including infrastructure, SOEs reforms, and economic diversification in potential sectors. Enhance human capital and climate resilience to mitigate the impact of outward migration and climate change.

Approved By
Corinne Deléchat (APD) and Jay Peiris (SPR)

Discussions took place in Funafuti, Tuvalu and Suva, Fiji between May 19-27, 2025. The staff team comprised Ruifeng Zhang (head), Sakai Ando, Ryoichi Okuma (all APD), and Shivneel Kirpal (Resident Representative Office, Fiji). Neil Saker (Resident Representative, Fiji) joined the mission. The mission met with the Deputy Prime Minister and Minister of Finance and Economic Development Panapasi Nelesone, senior government officials, business representatives, and development partners. Sukh-Ochir Batsukh (OED) and Tuimasi R. Ulu (World Bank) attended the meetings. Annia Bowen, Saraf Nawar, and Sherri Zhang (all APD) supported the mission.

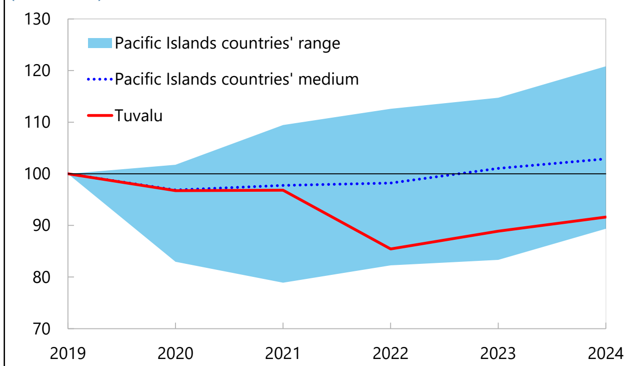
CONTENTS

ANNEXES

CONTEXT

1. **Tuvalu's economy is gradually recovering from the sharp contraction caused by the COVID-19 pandemic.** Following an economic contraction of cumulative 15 percent during 2020-22, GDP has been rebounding since the country's reopening at end-2022, driven by the resumption of construction activity, recovery of the trade sector, and higher government spending. However, reflecting the significant scarring from the pandemic due to the economy's high reliance on externally-financed infrastructure projects, the recovery has been slower than in most Pacific Island countries, and real GDP has not yet reached its pre-pandemic level.

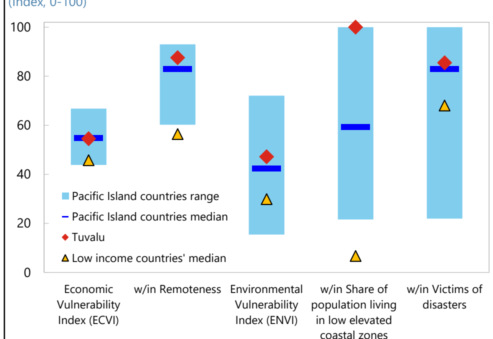
Real GDP Level in Pacific Island Countries
(2019=100)



Sources: Country Authorities; PFTAC; and IMF Staff Estimates.

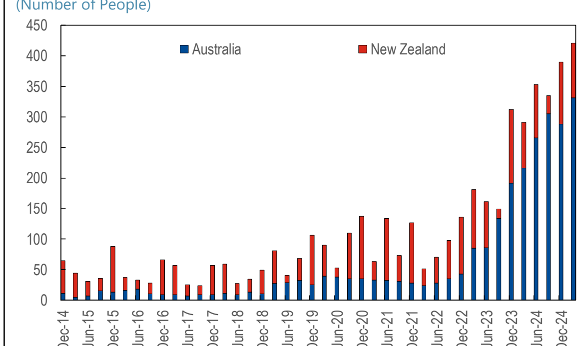
2. **Structural vulnerabilities remain a significant challenge to Tuvalu's economic stability and growth prospects.** Tuvalu is classified as a Fragile and Conflict-Affected State due to its institutional and economic fragility. As outlined in staff's Country Engagement Strategy (Annex I), Tuvalu's small size and remoteness imply a high cost of living and doing business, a narrow domestic production base, heavy dependency on imports, and the dominance of the public sector in the economy.[1] Both fiscal and external positions are significantly affected by volatile fishing license fees and grants. While outward emigration brings economic benefits through remittance inflows and support to household income, rising migration poses pressures on Tuvalu's small labor force, leading to labor shortages—including in the public sector— and exacerbating capacity constraints. Finally, Tuvalu is highly vulnerable to climate change and natural disasters (Annex II), with rising sea levels implying that most of the islands could be at threat of being underwater by 2050.[2]

Economic and Environmental Vulnerability Index in 2024 1/
(Index, 0-100)



1/ A higher index in 0-100 represents higher vulnerability.
Source: United Nations Committee for Development Policy Secretariat. Triennial Review Dataset 2000 - 2024.

Temporary Worker Migrations
(Number of People)



Sources: Governments of Australia and New Zealand; IMF Staff Calculations.

[1] Tuvalu is one of the smallest and most remote countries on earth, with a population of around 10,000 living on nine small atolls and reef islands (total land area of 26 square kilometers). The average height of Tuvalu is about two meters above sea-level, and the highest elevation is less than 5 meters.

[2] Also see Appendix I of 2023 Article IV Staff Report.

3. The authorities have unveiled an ambitious policy agenda to tackle these challenges. The economic priorities of the new government (formed in early 2024) center around enhancing climate resilience, maintaining fiscal stability, and promoting sustainable and inclusive development. While efforts are underway to implement previous Fund policy recommendations, progress has been mixed (Annex III). In August 2024, Australia and Tuvalu ratified their bilateral agreement (Falepili Union, Box 1), which unlocks additional financing and supports Tuvaluans migrating to Australia. The authorities continue to collaborate with development partners to implement their Policy Reform Matrix (FY2025-27)[3]. Given significant capacity and financing constraints, effective prioritization and continued support from development partners are critical to implement the government's policy agenda.

Box 1. Australia–Tuvalu Falepili Union Treaty

In November 2023, Australia and Tuvalu signed a bilateral agreement (Australia-Tuvalu Falepili Union Treaty[1]), which entered into force in August 2024. The treaty aims to enhance the bilateral partnership between the two countries and covers three main areas, which are climate cooperation, security, and human mobility. Key economic elements of the treaty include:

Development Assistance for Tuvalu

Australia has committed over AUD 150 million, equivalent to approximately 175 percent of 2024 Tuvalu GDP in total financial assistance under the Falepili Union, including:

- **Climate Adaptation**: AUD 38 million for the Tuvalu Coastal Adaptation Project (TCAP). The second phase of TCAP started in 2024 and is expected to be completed in mid-2026.
- **Telecommunications**: AUD 50 million (in 2024-25) for Tuvalu's first undersea telecommunications cable.
- **Connectivity**: AUD 40 million to improve Tuvalu's aviation sector and enhance connectivity.
- **Fiscal Support**: AUD 10 million in budget support (over 2023-24 and 2024-25), contributions to the Tuvalu Trust Fund, and support for critical reforms.
- **Other projects:** AUD 15 million for a National Security Coordination Centre. Support for other sectors includes education and health.

Special Emigration Pathway

The human mobility program provides Tuvaluan citizens the choice to migrate to Australia – temporarily or permanently – to live, work, and study as permanent residents. Visa holders will have access to Australian health, education, and key income family support. The allocation for the first year of the program is 280 visas (around 3 percent of Tuvalu's population), which are allocated through a random ballot.[2]

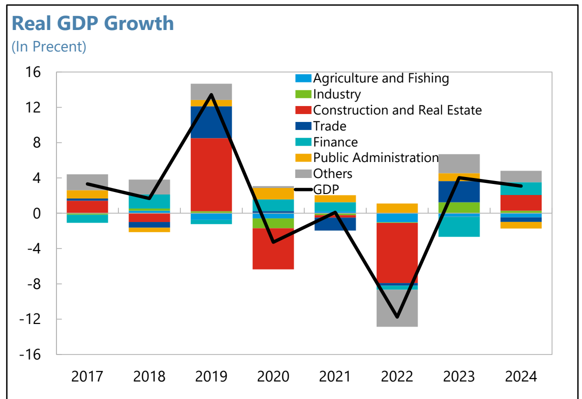
1/ "Falepili" is a Tuvaluan word for the traditional values of good neighborliness, care, and mutual respect. For the treaty text, see: https://www.dfat.gov.au/countries/tuvalu/treaty-text-falepili-union

2/ The Treaty ballot opened between June 16 and July 18, 2025, and over 80 percent of Tuvalu's population registered for the ballot.

[3] The PRM identifies policy actions that will trigger payments of budget support by development partners upon completion.

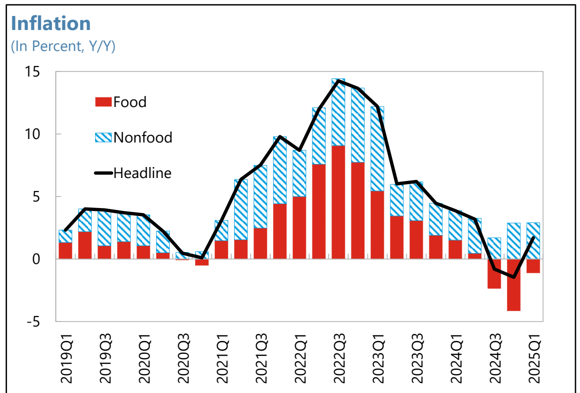
RECENT DEVELOPMENTS

4. The economic recovery continued in 2024, albeit at a slower pace than in 2023. Despite severe flooding early in the year, GDP growth in 2024 is estimated to have reached 3.1 percent (4.0 percent in 2023), supported by continued effects of reopening on domestic activities and major infrastructure projects including coastal adaptation, maritime transportation, and renewable energy.



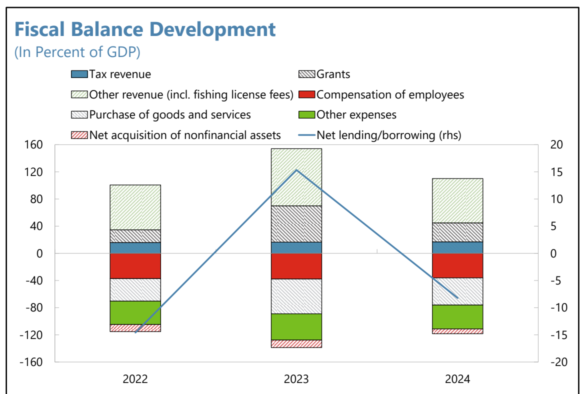
Sources: Country Authorities; PFTAC; and IMF Staff Estimates.

5. Inflation has eased significantly from its pandemic peak. Tuvalu's inflation is highly correlated with import prices and shipping costs (Annex IV). Since peaking at 14.2 percent in 2022Q3, inflation has been trending down and declined to an average of 7.2 percent in 2023, and to 1.2 percent in 2024, in line with global commodity prices and continued easing of shipping bottlenecks. In particular, since 2024Q3, the moderation of inflation rates has been mainly driven by the decline in food prices.



Source: Country Authorities.

6. Fiscal balances remained highly volatile. A large fiscal deficit of 14.6 percent of GDP in 2022 was reversed to a surplus of 15.3 percent of GDP in 2023, driven by an increase in grants (over 35 percent of GDP) from development partners including the World Bank.[4] For 2024, the overall expenditure-to-GDP ratio fell due to lower spending on goods and services, Tuvalu's Overseas Medical Referral Scheme (TOMRS), and under-execution of capital expenditure. While tax revenue and income from Tuvalu's internet domain increased, the overall fiscal balance turned to a deficit of 8.2 percent of GDP in 2024, due to a decline of grants from the high level of 2023 and lower fishing license fees.[5]



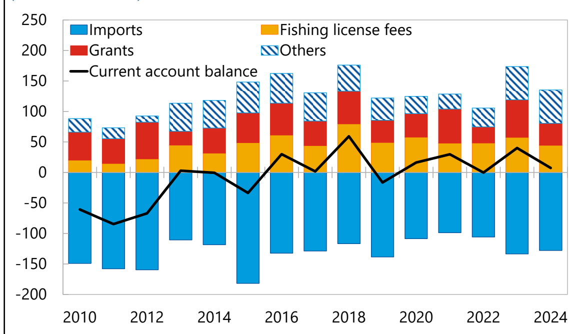
Source: Country Authorities.

[4] The timing of grant disbursement is subject to uncertainty since it is often conditional on reform progress.

[5] Tuna migration due to climate conditions including the El Nino Southern Oscillation is considered one of the contributing factors to the lower fishing license fees.

7. Lower grants and fishing license fees also reduced the current account surplus in 2024. Tuvalu's trade deficit remains structurally large due to its small export base and heavy reliance on imports, with the shortfall financed by income from fishing licenses and grants. Both goods and services imports have rebounded since the post-pandemic reopening in end-2022. The current account surplus surged to 40 percent of GDP in 2023 but is estimated to have declined to 7.3 percent of GDP in 2024, reflecting the fluctuations in fishing license fees and grants. Tuvalu's external position for 2024 is estimated to be broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex V). Gross reserves remained at a comfortable level, with import cover of 11 months.[6]

Major Drivers of Current Account Balance
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Estimates.

8. Progress has been made in modernizing financial services, but connectivity to global payment systems remains fragile. Credit expanded by 7.8 percent (y/y) in 2024, in line with the post-pandemic recovery in the real sector. As part of a phased approach to modernize financial services, Tuvalu recently launched its first ever Automatic Teller Machines (ATMs) and Point of Sales equipment (POS), marking an important step to move away from an entirely cash-based economy.[7] However, Tuvalu continues to face correspondent banking relationships (CBR) concentration risks, with only the National Bank of Tuvalu (NBT) maintaining CBRs for international payments.

OUTLOOK AND RISKS

9. The economic recovery is expected to continue, but growth is projected to moderate gradually over the medium term. The direct impact of recent trade tensions is limited for Tuvalu given its small goods exports, while there are indirect effects from heightened global uncertainty and the negative impact of trade tensions on Tuvalu's major development partners. The economy is projected to grow by 3 percent and 2.6 percent in 2025 and 2026, respectively, driven by the construction of the second phase of Tuvalu Coastal Adaptation Project (TCAP) and an increase in public investment. Over the medium term, externally-financed projects, including those under the Falepili union, are expected to continue to support economic activity, but growth is projected to moderate gradually to below 2 percent, reflecting sluggish productivity growth, increasing emigration, and vulnerability to climate events. Inflation is expected to remain contained at around 2 percent in 2025 reflecting negative headline inflation at end-2024 and lower global commodity prices, before rising gradually to 2.5 percent over the medium term, in line with inflation dynamics of Tuvalu's trading partners.

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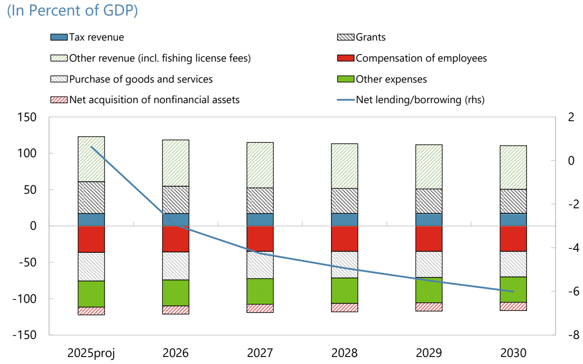
[6] Tuvalu does not have a central bank and uses the Australian dollar as its legal tender. Staff estimates the official reserves as sum of foreign assets of National Bank of Tuvalu, the Consolidated Investment Fund, and SDR holdings.

[7] The ATMs are currently only accessible via prepaid cards, with plans underway to introduce Tuvalu-issued debit cards and eventually provide international card functionality.

10. The fiscal balance is projected to shift to a small surplus in 2025 but would deteriorate again starting in 2026.[8] Both current and capital expenditures are projected to increase, driven by higher allocations in the FY2025-26 budget. However, grants are expected to increase by over 15 percent of GDP reflecting higher committed budget support from Australia, the World Bank, and the Asian Development Bank, improving the overall balance from a deficit of 8.2 percent of GDP in 2024 to a surplus of 0.6 percent of GDP in 2025. Over the medium term, grants and fishing license fees are projected to grow slower than nominal GDP, reflecting current grants commitments from development partners and continued impact of climate conditions on Tuvalu's tuna stocks, while expenditure pressures would remain elevated. As a result, fiscal balances are expected to deteriorate gradually in the baseline scenario and reach -6 percent of GDP by 2030.

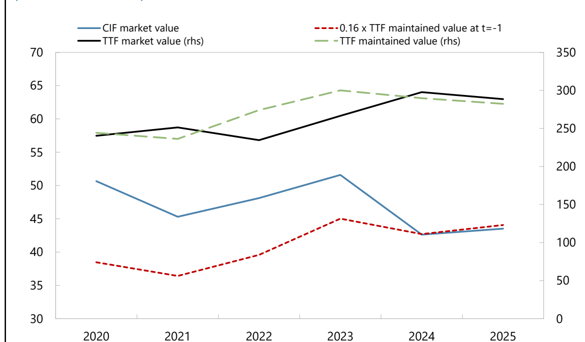
11. Foreign financing will be required to finance the fiscal deficits. Tuvalu's fiscal deficits can be financed by the returns from the Tuvalu Trust Fund (TTF) and Consolidated Investment Fund (CIF).[9] The performance of the TTF improved in 2024, but its market value was only slightly above the maintained value. Due to withdrawals to finance the deficits, the balance of the CIF is expected to decline to the government's target level, leaving minimal fiscal space. Based on the projected performance and withdrawal rules of the TTF and CIF, the returns of the two funds would not suffice to fully finance the fiscal deficits under staff's baseline projections, so that the financing gaps are expected to be financed by foreign financing on concessional terms starting in 2026.[10] As a result, Tuvalu is assessed to remain at a high risk of debt distress (see Debt Sustainability Analysis).

Fiscal Balance Projection
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Calculations.

Fiscal Reserves
(In Percent of GDP)



Sources: Country authorities; and IMF Staff Calculations.

12. The current account is expected to remain in surplus in the near term but to shift to deficits over the medium term. Imports and the trade deficit are expected to continue increasing in 2025 driven by economic growth and import-intensive projects, but the current account surplus is projected to widen, supported by higher grants. Over the medium term, trade deficits will remain

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[8] The government switched the timing of fiscal years from calendar year to July to June starting from 2024.

[9] The TTF is a sovereign wealth fund of Tuvalu and is administered by an international Board and the government of Tuvalu, while the CIF is a buffer fund under a full control of the government. Withdrawals from the TTF can be made only when the TTF market value is higher than its maintained value (indexed to Australian inflation). TTF withdrawals will be transferred to the CIF before they can be used to finance the deficit. The government has a target to keep the CIF above 16 percent of TTF maintained value. For details of the TTF and CIF, see Appendix V in Tuvalu's 2021 Article IV Staff Report.

[10] The government intends to maintain prudent debt management by avoiding non-concessional external borrowing. Also see FY2025-26 budget.

elevated reflecting Tuvalu's structural characteristics and persistent fiscal deficits. While compensation of employees and remittances are expected to increase due to emigration, both primary and secondary income is projected to decline, reflecting lower fishing license fees and grants. The current account is therefore projected to turn to deficits from 2027. Reserve coverage is expected to decline slightly from 11 months of imports in 2024 to 10 months by 2030.

13. Downside risks to the outlook remain elevated and have increased due to heightened global uncertainty (Annex VI). In addition to the impact of the downside scenario (Box 2), under-performance of public corporations including state-owned banks, partially due to ineffective monitoring and supervision, could cause fiscal risks. Further loss of CBRs would severely disrupt cross-border payments. An acceleration of outward migration would exacerbate labor shortages. Increased frequency and intensity of extreme climate events, as well as a faster rise of sea levels, remain major risks to Tuvalu's economic outlook. Global risks of heightened trade and geopolitical tensions and higher commodity prices could also increase inflation. Upside risks include higher than expected fishing license fees, additional or faster disbursements of grants from development partners relative to current commitments, and greater structural reform momentum, which could accelerate economic growth.

Box 2. Downside Scenario and Contingent Policies

This box assesses the impact of a downside scenario featuring prolonged global trade tensions and heighted policy uncertainty, calibrated based on Box 1.1 of the April 2025 World Economic Outlook. Tuvalu's export exposure is limited, but the economy could be affected through various channels under the downside scenario: i) lower fiscal revenue from Tuvalu's internet domain and fishing licenses due to lower global growth and consumption; ii) lower or delayed financial assistance due to the growth slowdown in key development partners and increasing challenges to international cooperation; iii) lower remittances reflecting lower growth and productivity of sourcing countries; and iv) lower returns of the TTF and CIF due to the decline in global asset prices. Given Tuvalu's high dependence on external revenue, the risk scenario would lead to higher fiscal deficits, weaker external balances, and a lower growth path than in the baseline. Contingent policies should include targeted support to vulnerable groups, increasing expenditure efficiency, safeguarding financial stability through prudential policy, and accelerating structural reforms.

Authorities' Views

14. The authorities broadly agreed with staff's assessments of the economic outlook and risks. They concurred with staff that the direct impact of recent trade tensions on Tuvalu would be limited given its small goods exports, and that externally-financed infrastructure projects would continue to drive growth in the near term. While recognizing the challenges posed by increasing emigration, they expected further financial support from development partners beyond the current project pipeline and therefore were somewhat more optimistic about medium-term growth. The authorities also shared staff's assessment that heightened global uncertainty and financial markets' volatility could affect Tuvalu's external revenues and the returns of its sovereign wealth funds. They noted the recent easing of inflation but stressed that addressing the high cost of living remained a key government priority. The authorities also broadly agreed with staff's external sector assessment.

POLICY DISCUSSION: BUILDING RESILIENCE AND PROMOTING SUSTAINABLE GROWTH

The heightened global uncertainty and risks of future shocks make addressing Tuvalu's already high fragility even more challenging. Given its limited capacity and financing constraints, the government of Tuvalu faces significant challenges to deliver essential public services, maintain economic and financial stability, build resilience against shocks, and support sustainable growth. Policies should focus on: i) enhancing fiscal sustainability to provide space against future shocks while reallocating resources for Tuvalu's development needs; ii) establishing effective financial sector supervision to safeguard financial stability and further modernizing banking services; and iii) implementing prioritized and realistic structural reforms to enhance the growth potential and address demographic and climate challenges.

A. Fiscal Policy: Enhancing Fiscal Sustainability and Supporting Development Needs

15. Fiscal policy should balance ensuring fiscal sustainability and supporting development priorities. Tuvalu's high vulnerability to external shocks requires fiscal sustainability and adequate buffers against downside risks. Meanwhile, the government faces significant near-term spending pressures in order to deliver essential public services for a micro and remote island economy, while also having to address medium-term climate adaptation costs and labor shortages stemming from a small size of population and increasing emigration.[11]

16. A multi-pronged fiscal strategy is needed to address these challenges. Given persistent fiscal deficits under the baseline scenario and Tuvalu's limited fiscal space, the strategy should include the following elements: i) gradually reducing fiscal deficits through unwinding the increase in current expenditure since the pandemic, enhancing spending efficiency, and mobilizing domestic revenue; ii) increasing spending for priority areas including human capital, infrastructure, and climate resilience; and iii) appropriately using fiscal buffers to stabilize fiscal accounts, cushion against shocks, and address long-term challenges. Staff's simulations show that reducing the fiscal deficit gradually to around 2 percent of GDP by 2030 (compared to 6 percent of GDP in the baseline) would enable the returns of the TTF and CIF to finance a major part of the fiscal deficits and keep public debt on a downward path. The domestic current balance would provide an appropriate anchor and is expected to improve to -45 percent of GDP by 2045 under the consolidation scenario,[12] and the value of the buffer fund (CIF) would stabilize at the current level of around 40 percent of GDP, which is needed to cover major shocks and downside risks.[13]

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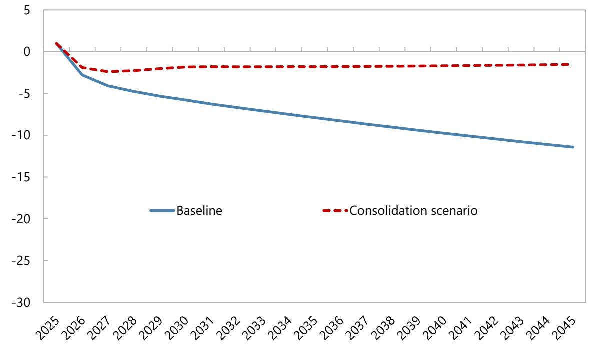
[11] Tuvalu's annual investment needs for climate-resilient infrastructure are estimated at around 30 percent of GDP. See Dao et al. (forthcoming) and World Bank 2024 CCDR for Pacific atoll countries.

[12] The domestic current balance excludes grants, fishing license fees, and capital expenditure from the fiscal balance.

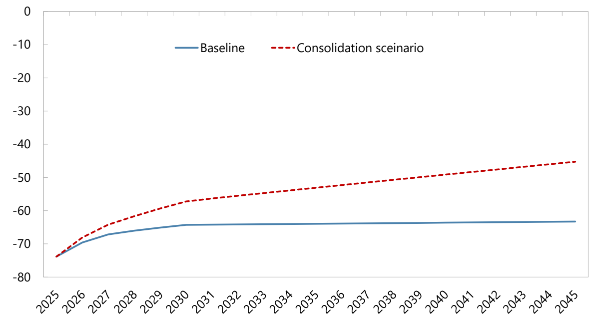
[13] Climate and economic shocks could have significant impact on Tuvalu's economy. For example, Cyclone Pam in 2015 caused economic damages of more than 25 percent of GDP: https://climateknowledgeportal.worldbank.org/country/tuvalu/vulnerability. The COVID-19 pandemic resulted in a15 percent decline of GDP.

Primary Fiscal Balance
(In Percent of GDP)



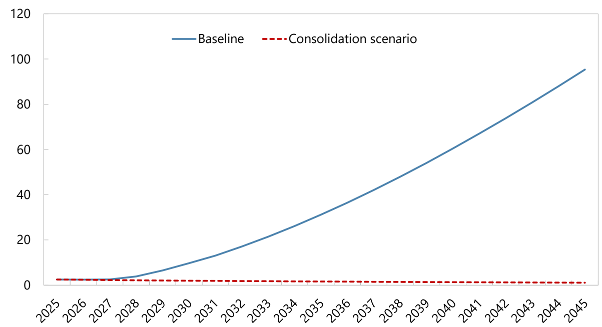
Sources: Country Authorities; and IMF Staff Calculations.

Primary Domestic Current Balance
(In Percent of GDP)



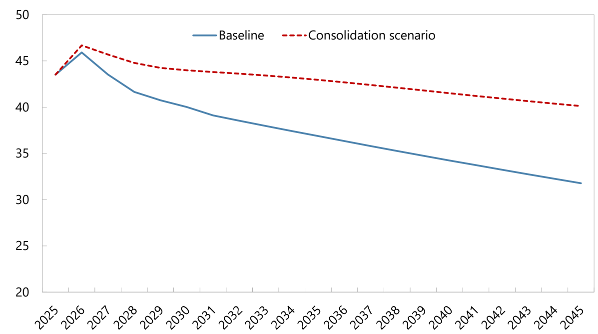
Sources: Country Authorities; and IMF Staff Calculations.

Government Debt
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Calculations.

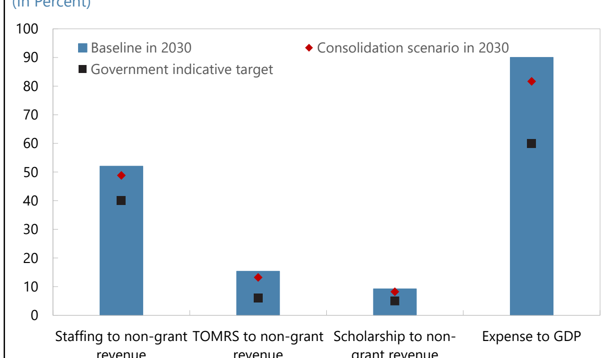
Fiscal Buffer (CIF)
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Calculations.

17. On the expenditure side, implementation of the fiscal strategy should primarily focus on unwinding the current spending increases while reorienting resources towards priority development needs.

Government Expenses
(In Percent)



Sources: Country Authorities; and IMF Staff Calculations.

- **Rationalizing current spending.** Considering the rapid increase in expenses in recent years, expenditure measures are expected to generate large fiscal savings and should include: i) timely completing the planned civil service review and containing the overall wage bill through right-sizing the workforce and addressing the understaffing issue by enhancing the efficiency of public services, while using targeted wage increases for essential positions with recruitment and retention issues; ii) implementing cost-saving measures based on the recent review of TOMRS, including enhancing local healthcare capacity, streamlining the scheme's operational guidelines, and improving its governance; iii) rationalizing overseas scholarships by better aligning them with Tuvalu's development needs and enforcing mandatory service requirements upon return; iv) continuing to unwind the increase in goods and services spending, and v) cutting broad-based utility subsidies and replacing them with targeted protection for the most vulnerable. These measures will also support the authorities' efforts to achieve their operational fiscal targets.

- **Reallocating resources to priority development areas.** Part of the savings from the expenditure rationalization should be redirected to areas such as infrastructure maintenance, human capital development, and climate resilience (see Section on Structural Reforms).

Illustrative Revenue and Expenditure Measures under the Consolidation Scenario
(In Percent of GDP)

	2017-19 Average	2025	2030 Baseline	2030 Consolidation	2030 Consolidation - Baseline
Revenue	125.7	122.9	110.4	110.9	0.5
Tax revenue	15.0	17.1	17.4	17.9	0.5
Expense	79.0	111.7	105.0	98.3	-6.7
Staffing	31.8	36.4	35.0	34.4	-0.6
Medical treatment scheme	8.3	13.0	12.3	11.1	-1.2
Scholarship	7.0	7.7	7.7	7.1	-0.6
Purchase of goods and services	21.7	39.3	35.2	31.9	-3.2
Other expenses	10.2	15.1	14.8	13.7	-1.0
Net acquisition of nonfinancial assets 1/	20.8	10.7	11.5	14.6	3.1
Overall fiscal balance	10.4	0.6	-6.0	-1.9	4.1
Domestic current balance	-40.7	-74.2	-64.5	-57.3	7.2

1/ Infrastructure expenditure for 2017-2019 Average.
Source: Country authorities and IMF staff estimates.

18. Revenue measures should prioritize strengthening the compliance and efficiency of tax collection. The authorities should focus efforts on compliance of large taxpayers and those liable for Tuvalu Consumption Tax (TCT). The immediate priority should be establishing processes and procedures to efficiently manage on-time filing and ensure correct assessment of TCT amounts due and their on-time payment. The TCT's late filing penalty introduced in July 2024 should be imposed where applicable. Revenue collection can be further improved by developing approved forms for taxes administered by Tuvalu Revenue and Customs Department and documenting procedures to guide effective, risk-based tax audit practices. Over time, establishing information exchanges with other government agencies and financial institutions will support the compliance efforts and recovery of unpaid taxes. The authorities should also consider reviewing tax policies - including on the TCT, Personal Income Tax, and Corporate Income Tax - and exploring further options to boost tax revenue and streamline tax incentives.[14]

19. Improving public financial management (PFM) can help manage the volatility and risks of the fiscal accounts. Strengthening PFM would support the implementation of the recommended increase in capital expenditure, manage the volatility and risks of the fiscal accounts, and help unlock climate finance and facilitate grants disbursements. The authorities have made progress in PFM in recent years, including introducing the new Financial Management Information System and formulating the Medium-Term Fiscal Framework (MTFF). The publication of Tuvalu's Fiscal Risk Reports is also welcome. Further reform measures should focus on the following areas:[15]

- *Improving budget reliability.* This would require improving revenue forecasting, incorporating known costs for budget preparation and in the MTFF, effective execution monitoring, and transparent in-year budget adjustments.

- *Strengthening public investment management to enhance absorption capacity.* In particular, the authorities should improve project identification, costing, and monitoring. Multi-year investment planning with prioritization and proper sequencing can strengthen project implementation and facilitate timely disbursements of grants, as well as address urgent development bottlenecks and maximize growth benefits.

- *Enhancing fiscal reporting and transparency on extra-budgetary funds, project financing, and SOEs,* to better monitor fiscal activities at the general government level and identify fiscal risks. Given significant delays in the auditing of SOEs' financial reports, the authorities have issued a Ministerial Order on Public Enterprise Monitoring Reporting, based on a simplified reporting template. Tuvalu would benefit from continued efforts to enforce data submission, analyze the submitted data, and publish the statistics and insights.

- *Reinforcing procurement management*, by exploring open competitive bidding when feasible instead of direct contracting and local shopping, strengthening compliance with procurement regulations, developing an e-procurement system, and enhancing transparency of procurement information.

- *Strengthening the integration of climate resilience in PFM through Climate Budget Tagging (CBT).* Incorporating CBT in the budget process and reporting will support the government to allocate resources toward climate investment and other climate-related expenditures in a transparent and accountable manner, ensuring effective management of climate-related initiatives.

[14] A TA mission on Tax Policy Review by IMF Fiscal Affairs Department has been scheduled for early 2026.

[15] A Public Expenditure and Financial Accountability (PEFA) assessment was conducted by the Pacific Financial Technical Assistance Centre (PFTAC) in September 2024: https://www.pefa.org/index.php/node/5375.

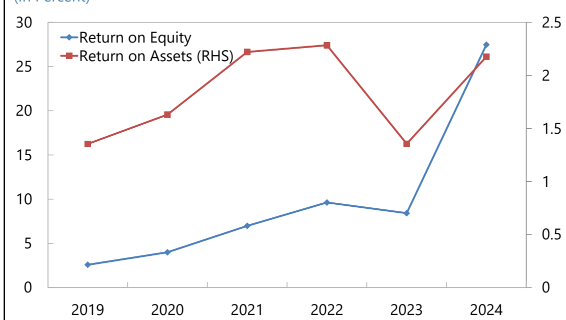
Authorities' Views

20. The authorities concurred with staff's recommendation to ensure fiscal sustainability while supporting Tuvalu's development needs. The authorities stressed the elevated spending pressures to deliver essential public services but indicated that the recommended expenditure measures align with their fiscal objectives of supporting stability and building buffers. They plan to adopt cost-saving measures and are considering the feasibility of a health insurance scheme to contain the spending on TOMRS. They also anticipated that the increase in purchases of goods and services would moderate with lower inflation and agreed that subsidies should be better targeted at the most vulnerable households. The authorities emphasized the increased allocation for capital expenditure in the FY2025-26 budget but recognized that capacity constraints might continue to affect investment execution. On the revenue side, the authorities highlighted their ongoing efforts to increase fishing license revenue through new bilateral agreements and reflagging of foreign vessels. They agreed with staff's recommendations on enhancing tax compliance and further revenue mobilization through a tax policy review.

21. The authorities agreed with the importance of continued PFM reforms. They viewed PFM as a critical part of their strategy to improve spending efficiency, manage fiscal risks, and ensure accountability. They emphasized that the recent PEFA assessment has identified key PFM gaps and plan to adopt a sequenced and prioritized action plan based on the recommendations of the PFTAC TA on the PFM roadmap.

B. Financial Sector Policies: Establishing Effective Regulation while Promoting Financial Inclusion

Bank's Profitability
(In Percent)



Sources: NBT, DBT Financial Statements; and IMF Staff Calculations

22. The financial sector appears sound overall, but challenges remain. Tuvalu's financial sector comprises two state-owned banks, the NBT and the Development Bank of Tuvalu (DBT), as well as the Tuvalu National Provident Fund (TNPF). The NBT is the only commercial bank in Tuvalu, with foreign exchange transactions being its major income source.[16] The TNPF's profits are mainly from the return of its offshore investments. While the TNPF extends loans to its members, credit risks are limited since its members' balances are used as collateral. The DBT faces challenges from continuous losses, partially reflecting its lending portfolio and weak credit assessment.[17] The capital adequacy ratio of the banking sector remained at a high level of around 120 percent at end-2024, and the NPL ratio of the NBT fell from 32.6 percent in 2019 to 21.2 percent in 2024, with the provisioning coverage at 153.5 percent (Table 4). However, the weak

[16] The NBT accounts for over 95 percent of the combined assets of the two banks.

[17] Most of DBT's loans focus on households and small and micro businesses in Tuvalu's outer islands.

performance of the DBT suggests a need to strengthen its buffers amid limited supervision.[18] In addition, access to credit and financial services by the private sector remains challenging, given structural impediments related to limited forms of collateral, lack of robust credit information, absence of a national ID, and low levels of financial literacy.

23. Establishing effective financial regulatory and supervisory frameworks is urgently needed. Tuvalu established the Banking Commission (BCT) under the Banking Commission Act (2011) to supervise banks. However, the supervisory capacity of the BCT remains limited, and institutional constraints continue to hamper its effective and independent operation. As identified by recent IMF TA,[19] the priorities for effective financial regulation and supervision include:

- **Addressing delays in submission of prudential returns of the financial institutions.** The banks and TNPF should complete the audits of their financial statements without further delay. The BCT should enforce the timely submission of prudential returns, continue its financial risk analysis, and take appropriate supervisory measures to safeguard the stability of the banks. These measures should be supported by adequate resourcing and training of the BCT to conduct both on-site and off-site supervision.

- **Finalizing and issuing the proposed consolidated prudential standard.[20]** Implementing the proposed prudential standard would not only strengthen the regulation and supervision of the two banks but would also help the banks gain expertise in risk management in line with regulatory requirements. The BCT should proceed with consultations with banks, conduct an impact study of the proposed consolidated regulations, and timely issue the regulations.

- **Enhancing the institutional set up of financial supervision.** Strengthening the statutory role of the BCT by separating it from the Public Enterprise Reform and Monitoring Unit, as envisaged under the Banking Commission Act, is a necessary step for establishing effective regulatory and supervisory framework. The supervisory perimeter of the BCT should also expand to cover Tuvalu's National Provident Fund given its role in extending credit to members.

24. Strengthening the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) framework can support Tuvalu's connectivity to the global payment system. Tuvalu joined the membership of the Asian-Pacific Group on Money Laundering (APG) in July 2023, and the authorities should continue to engage closely with the APG on assessing AML/CFT risks and strengthening the legal framework and compliance. Completing the amendments of the Proceeds of

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[18] The government allocated AUD 1.0 million to support the operation of the DBT (about 1/3 of DBT's total assets) in the 2025-26 budget.

[19] Tuvalu Prudential Standards (November 2022) and Financial Risk Analysis and Impact Study Training (September 2024).

[20] The PFTAC has assisted the authorities with developing a consolidated prudential standard for Tuvalu, covering governance, general risk management, capital adequacy, credit risk management, forex risk management, liquidity risk management and operational risk management. Considering the limited supervisory capacity, the proposed standard includes only the most essential prudential requirements, but these requirements are aligned with Basel Framework.

Crime Act will establish the legal status and clarify the responsibility of the Financial Intelligence Unit (FIU). These initiatives should help maintain continued CBRs. To mitigate the risks of further loss of CBRs, Tuvalu has joined the World Bank Pacific CBR project. Efforts to address CBR pressures should also take into account the relatively low ML/TF risk environment in Tuvalu and focus on outreach to key foreign regulatory authorities, including a corridor risk assessment.

25. Continued efforts are needed to modernize financial services and improve financial inclusion. The ongoing efforts to modernize banking services can help overcome geographical barriers that limit financial inclusion and improve efficiency. Improving financial literacy and establishing a reliable national digital ID system are also crucial for financial inclusion. Advancing efforts to improve credit risk management of financial institutions, via creation of the planned centralized credit registry to better assess the repayment capacity of borrowers, will enhance access to credit. Introducing risk-based loan pricing, a collateral framework, and a resolution regime to facilitate NPL recovery could foster the efficient allocation of credit. Meanwhile, the introduction of digital services should ensure financial integrity given limited supervisory capacity.

Authorities' Views

26. The authorities acknowledged the need to establish effective financial regulation and supervision. While noting that the financial sector is overall stable, they recognized that the effectiveness of financial supervision is hampered by limited supervisory capacity and institutional constraints. They underscored that the financial performance of the DBT reflects its development mandate to support remote areas and underserved population. They agreed to review the streamlined prudential standards and strengthen financial reporting and credit risk management of all three financial institutions.

27. The authorities reaffirmed their commitments to improving AML/CFT and enhancing financial inclusion. They are collaborating with the APG to strengthen the AML/CFT requirements and elevate the role of the FIU, with a formal mutual assessment expected for 2027. Recognizing the concentration risks of CBRs, they expressed interest in participating in the Fund's Regional Safe Payments Corridor G20 initiative. Regarding the financial inclusion, the authorities highlighted recent progress in modernizing banking services and their plan to expand the ATMs and POS to outer islands. They are in the process of upgrading the core banking system of the NBT, which is expected to further improve connectivity to the international payment system. They are still considering the establishment of a centralized credit registry and a national ID system but noted that progress would depend on available resources.

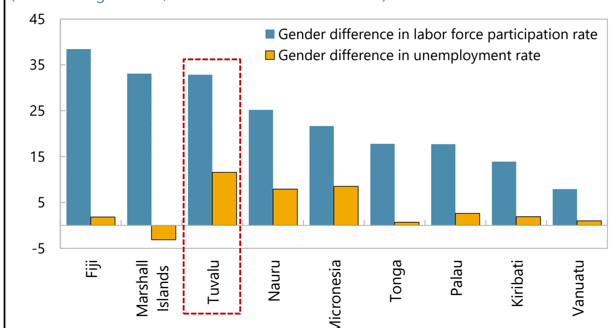
C. Structural Reforms: Tackling Development Challenges and Enhancing Growth Potential

28. Structural reforms need to be carefully prioritized, focusing on addressing development bottlenecks and attaining higher growth potential. Given significant capacity and financing constraints, reform measures should be well aligned with Tuvalu's macroeconomic and structural conditions and build on existing progress to expedite implementation. Priorities should include: i) collaborating with local communities to effectively develop the reclaimed land, which provides critical space for housing, infrastructure, and other essential services;[21] ii) leveraging recent improvements in internet connectivity and using IT technology to enhance the access and efficiency of public services, including through Telehealth and e-Learning to outer islands;[22] iii) ensuring proper maintenance of key infrastructure assets, particularly transportation and utilities including renewable energy, to prevent pre-deterioration and enhance infrastructure resilience to climate disasters and change (¶30); iv) strengthening SOE governance and performance, accompanied by reviewing utility pricing to ensure cost recovery; and v) exploring viable economic diversification in sectors with higher potential, including increasing value-added content of agricultural products (such as coconut), eco-tourism, and commercial fishery.

29. A multi-layered approach is needed to mitigate emigration pressures. While outward emigration has supported remittances and consumption, measures to enhance both human capital and labor supply are required to address labor shortage issues. The measures could include improving education access and quality to build a skilled and productive workforce; enhancing training on occupations in demand, including healthcare, teaching, and technical vocational skills; implementing Tuvalu's Labor Migrants Reintegration Strategy (LMRS) to attract returning migrants and promote skill transfer. Facilitating female labor force participation, including through affordable childcare services, could help bridge significant gender gaps in labor market participation and employment, while alleviating labor shortages.

Gender Difference in Labor Outcomes

(In Percentage Points, 2020 or Latest Available Data)



Note: Gender difference in unemployment rate measured as difference between the female and male unemployment rates.
Sources: World Development Indicators; and IMF Staff Calculation.

30. Enhancing resilience to climate change and natural disasters remains crucial for Tuvalu (Annex II). Tuvalu should continue to engage with development partners to secure climate financing and implement major climate resilient projects, as envisaged in its national adaptation plans. In addition, the authorities need to further enhance disaster management, through enforcement of amended building codes and use of risk maps to inform planning, while continuing to strengthen community disaster preparedness. Given Tuvalu's high dependence on imported fossil fuel for electricity generation, accelerating renewable energy production can lower Tuvalu's energy costs, reduce its external sector vulnerability, and enhance energy security.[23]

[21] Over 7.3 hectares of reclaimed land from the first phase on TCAP was handed over to the government in October 2024, and the second phase of TCAP is expected to be completed in mid-2026.

[22] Tuvalu's first international undersea cable (Tuvalu Vaka Cable) landed in December 2024, and Starlink internet services started in January 2025.

[23] Tuvalu has set a target to reach 100 percent renewable energy generation by 2030. Currently, about 84 percent of energy generation relies on imported fossil fuels while 16 percent is from solar. Fuel imports account for about 20 percent of GDP.

Authorities' Views

31. The authorities agreed that the recommended structural reforms identify the right development priorities. They noted that they are developing the land use policy for the reclaimed land and expect that the recent improvement in internet connectivity would facilitate the digital delivery of public services. They highlighted that the ongoing SOE review would identify measures to enhance the financial performance and governance of public corporations. They also stressed that the increase in infrastructure investments and maintenance would lay the foundation for economic diversification. On emigration issues, the authorities agreed that investing in quality education and enhancing female labor participation would be crucial solutions. They are scaling up local vocational training programs to upskill the workforce.

32. The authorities stressed that enhancing climate resilience is critical. They are pursuing additional financing assistance for new phases of TCAP and noted that proper enforcement of building codes and strengthening disaster preparedness need to be prioritized. They remained committed to achieving the target of 100 percent renewable energy production by 2030 and emphasized that the ongoing and planned solar panel projects would bring the share of renewable energy closer to the target. They also anticipated that the transition would lower the cost of electricity and enhance energy reliability.

D. Capacity Development and Data Issues

33. Tuvalu benefits significantly from capacity development (CD). The Fund's CD for Tuvalu focuses on supporting the authorities' policy and reform agenda and improving implementation capabilities in line with key surveillance priorities. In particular, recent IMF CD activities included tax administration, macroeconomic statistics, PFM, and financial sector supervision.

34. Building on recent progress, further efforts are required to address notable data gaps. Data provided by the authorities to the Fund have some shortcomings that somewhat hamper surveillance (Annex VII). The authorities have made some progress in enhancing statistics capacity and improving data compilation. IMF TA continues to support Tuvalu's macroeconomic statistics and recently assisted the authorities in revising historical data of the national accounts and updating the estimates to 2024, based on improved source data on public corporations, government non-market production, and the consumption tax. The authorities should strengthen institutional capacity through further increasing statistics personnel, improving knowledge management to address high staff turnover, and implementing recommendations from IMF TA.

Authorities' Views

35. The authorities agreed with the CD priorities and reiterated their commitment to improving economic statistics. The authorities appreciated IMF's CD activities that properly reflect their demand and inform policy decisions. Acknowledging the importance of robust macroeconomic statistics, they aim to enhance capacity through increasing staffing and training for Tuvalu's Central Statistics Division. They welcomed continued IMF TA support to further strengthen data adequacy for surveillance.

STAFF APPRAISAL

36. Tuvalu is gradually recovering from the COVID-19 pandemic. The growth momentum is expected to continue in the near term, supported by externally-financed projects and public spending. Inflation has eased from its peak during the pandemic, in line with global commodity prices and the inflation dynamics of Tuvalu's trading partners. The external position in 2024 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

37. The economy continues to face significant structural challenges and downside risks. Tuvalu is highly vulnerable to external economic and climate shocks due to its geographic characteristics, a narrow domestic production base, and heavy dependency on imports and external revenue. Rising emigration intensifies labor shortages and capacity constraints. Despite Tuvalu's limited export exposure, recent trade tensions and heightened global uncertainty have increased downside risks to Tuvalu's economic outlook.

38. Fiscal policy should ensure fiscal sustainability while supporting development priorities. The fiscal balances are expected to deteriorate over the medium term, reflecting Tuvalu's high spending pressures and volatile fiscal revenue. Tuvalu is assessed to remain at a high risk of debt distress. Facing the challenges of delivering essential public services, addressing investment needs from climate adaptation, and alleviating labor shortages from emigration pressure, a multi-pronged fiscal strategy is needed to reduce fiscal deficits, increase spending for priority areas, and maintain adequate fiscal buffers. Implementation of the fiscal strategy requires a combination of revenue mobilization, expenditure rationalization, and resource reprioritization measures. Continued improvement in public financial management would help manage the volatility and risks of fiscal accounts.

39. Establishing an effective regulatory and supervisory framework is required to maintain financial sector stability. While the financial sector remains broadly sound, effective financial regulation and supervision is lacking. Credit access continues to be constrained by limited collateral, lack of credit information, and low financial literacy. Staff recommends strengthening the legal and institutional foundations for supervision, including clarifying the statutory responsibilities of the supervisory authority and broadening its oversight to all credit-providing entities. The timely issuance of consolidated prudential standards, enforcement of regular financial reporting, and enhanced risk monitoring remain critical to safeguard financial stability.

40. The authorities should continue their efforts to improve Tuvalu's connectivity to the global payment system and promote financial inclusion. The recent progress in AML/CFT reforms, including the APG membership and modernization of financial services, is welcome. Strengthening the AML/CFT legal framework and joining the World Bank Pacific CBR project and the Fund Safety Payment Corridor Initiative would support continued CBRs. Further modernizing financial services and enhancing credit infrastructure would enhance financial inclusion. These reforms should be calibrated to Tuvalu's supervisory capacity and risk environment.

41. Carefully prioritized and focused structural reforms are needed to address development bottlenecks and enhance growth potential. The formulation of reform measures needs to consider Tuvalu's limited resources and implementation capacity. Priority areas should include effectively developing the completed reclaimed land, leveraging improved internet connectivity to enhance the access and efficiency of public services, ensuring proper maintenance of key infrastructure assets, strengthening SOE governance and performance, and exploring economic diversification in sectors with higher potential (e.g. agricultural products, eco-tourism, and commercial fishery).

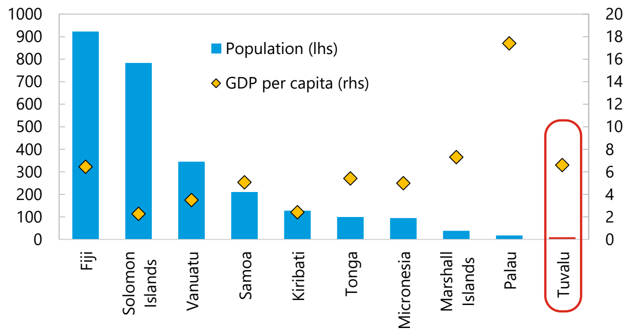
42. Mitigating the impact of emigration and enhancing climate resilience are crucial. The authorities should focus on improving education access and quality, enhancing training, and attracting returning migrants to promote skill transfer. Facilitating female labor force participation could help bridge significant gender gaps in employment, while alleviating labor shortages. Tuvalu should continue to implement climate resilient projects and strengthen disaster preparedness, with the support from development partners. Increasing renewable energy production toward Tuvalu's national target would reduce its high reliance on imported fuel and lower energy cost.

43. It is recommended that the next Article IV consultation take place on the current 24-month cycle.

Figure 1. Tuvalu: The Setting in a Cross-Country Context

Tuvalu is among the least populated countries in the world.

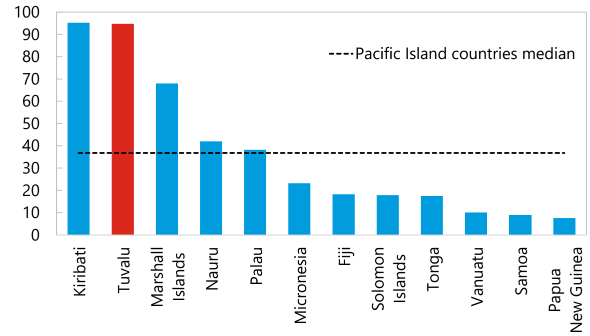
Population and GDP per Capita in 2024
(In Thousand in Lhs; and Thousand of US Dollars in Rhs)



Sources: IMF, *World Economic Outlook.*

Its population is entirely located in coastal areas, and therefore highly vulnerable to climate change…

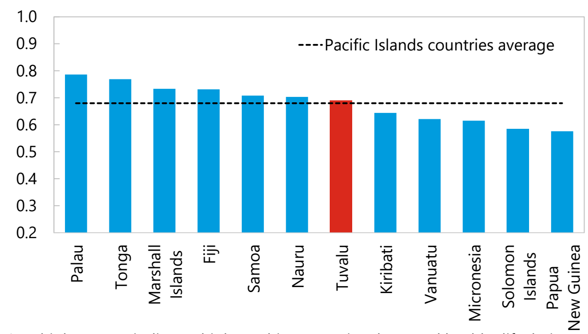
Share of Population Living in Low Elevated Coastal Zones
(In Percent of Population)



Source: United Nations Committee for Development Policy Secretariat. Triennial Review Dataset 2000 - 2024.

… and is characterized by medium development among regional peers.

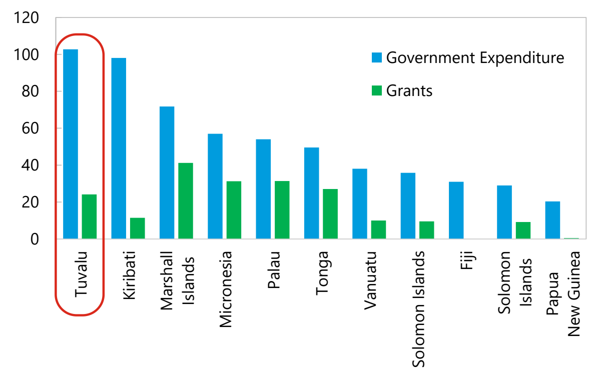
Human Development Index in 2023 1/
(Index 0-1)



1/ A higher score indicates higher achievement in a long and healthy life, being knowledgeable and having a decent standard of living.
Sources: United Nations Development Programme.

The public sector, which relies on grants from development partners, dominates the economy.

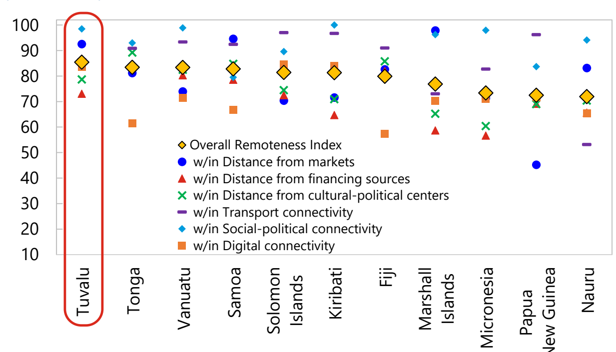
Government Expenditure and Grants in 2024
(In Percent of GDP)



Sources: IMF, *World Economic Outlook.*

Private sector development is hampered by the highest remoteness…

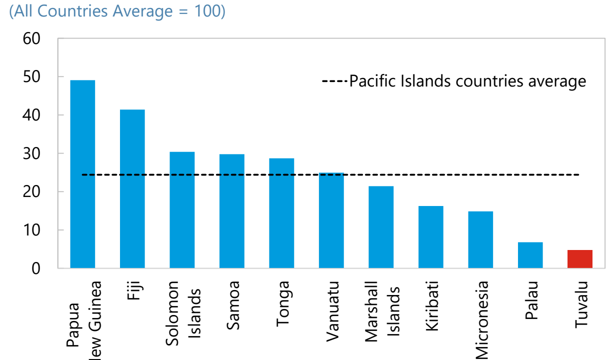
Remoteness Index 1/
(Index 0-100)



1/ A higher score indicates higher remoteness for all dimentions.
Sources: Cantu-Bazaldua (2021); and United Nations Conference on Trade and Development.

…and the weakest connectivity to global liner shipping networks in the region.

Liner Shipping Connectivity Index in 2024 1/
(All Countries Average = 100)

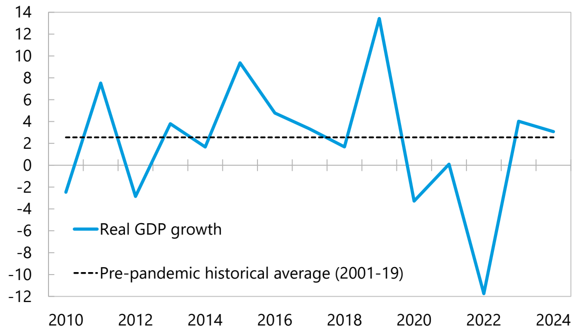


1/ A higher value is associated with better connectivity to global liner shipping networks.
Sources: United Nations Conference on Trade and Development.

Figure 2. Tuvalu: Recent Economic Developments

After a significant drop during the pandemic, GDP growth recovered in 2023 and remained slightly above historical average in 2024.

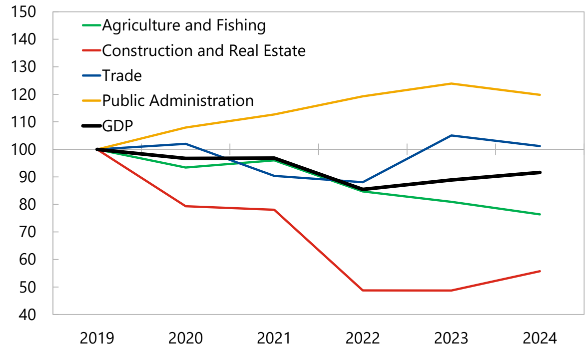
Real GDP Growth
(In Percent)



Sources: Country Authorities; PFTAC; and IMF Staff Estimates.

GDP however remains below the pre-pandemic level.

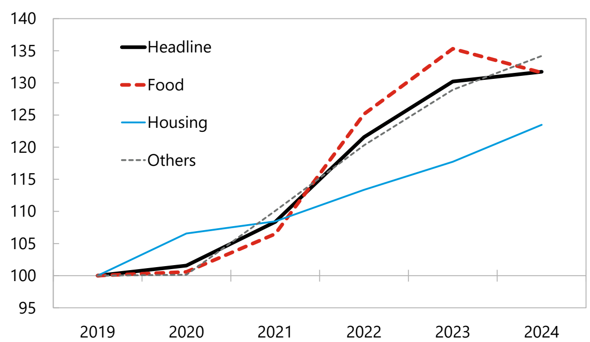
Real GDP Level by Main Sector
(2019=100)



Sources: Country Authorities; PFTAC; and IMF Staff Estimates.

Inflation has stabilized after the pandemic, driven by lower food prices.

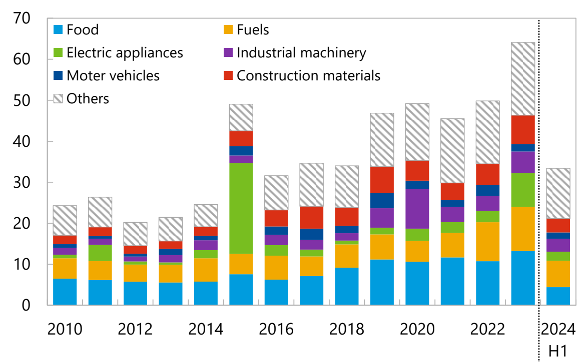
Cost of Living (CPI Level)
(2019=100)



Sources: Country Authorities; and IMF Staff Estimates.

Imports of goods increased in 2023 after reopening.

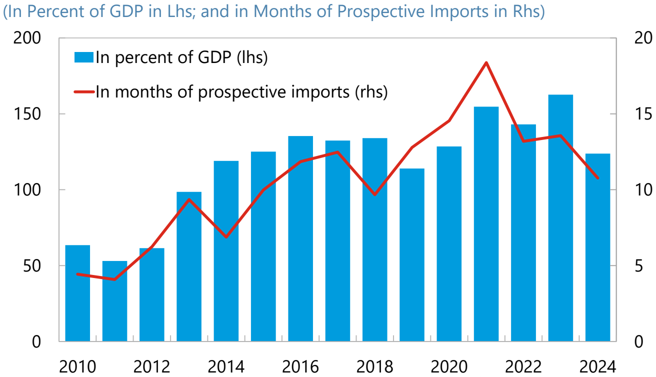
Imports of Goods (Value)
(In Million of AUD)



Sources: Country Authorities; and IMF Staff Categorises.

Reserves are estimated to remain adequate as of end-2024.

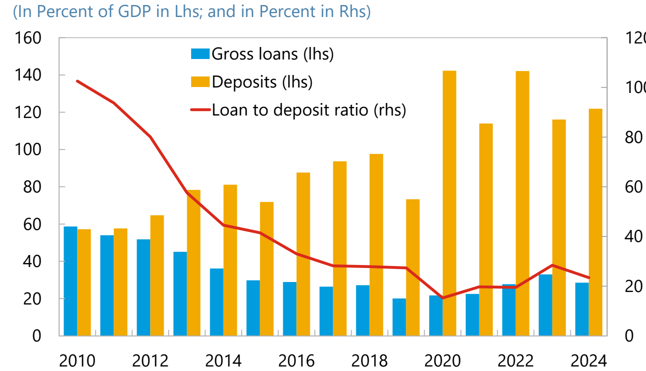
Gross Reserve 1/
(In Percent of GDP in Lhs; and in Months of Prospective Imports in Rhs)



1/ Defined as the sum of foreign assets of the National Bank of Tuvalu, Consolidated Investment Fund, and SDR holdings.
Sources: Country Authorities; PFTAC; and IMF Staff Estimates.

Lending growth is recovering.

Bank Loans and Deposits
(In Percent of GDP in Lhs; and in Percent in Rhs)

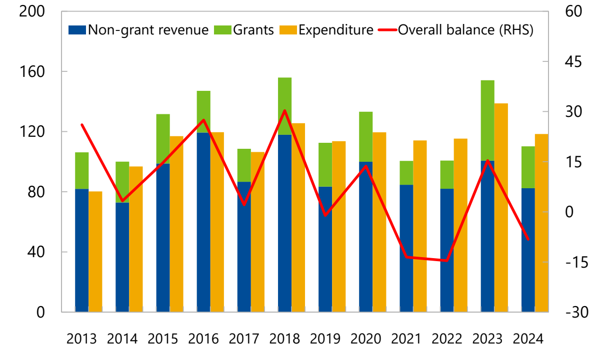


Sources: Country Authorities; and IMF Staff Estimates.

Figure 3. Tuvalu: Fiscal Developments

The fiscal balance is heavily dependent on grants.

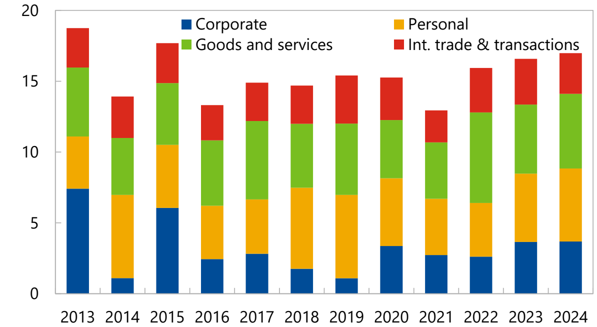
Fiscal Balance
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Calculations.

Tax revenues, including personal income tax, have been recovering.

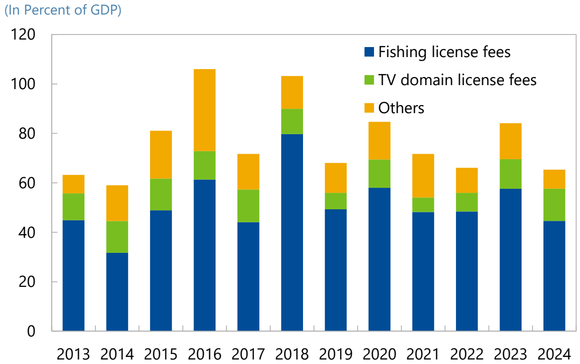
Tax Revenue
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Calculations.

Fishing license revenue is moderate in 2024.

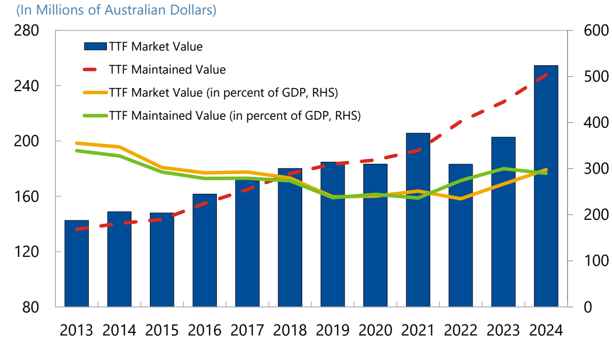
Non-tax Non-grant Revenue
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Estimates.

The market value of the TTF has been recovering.

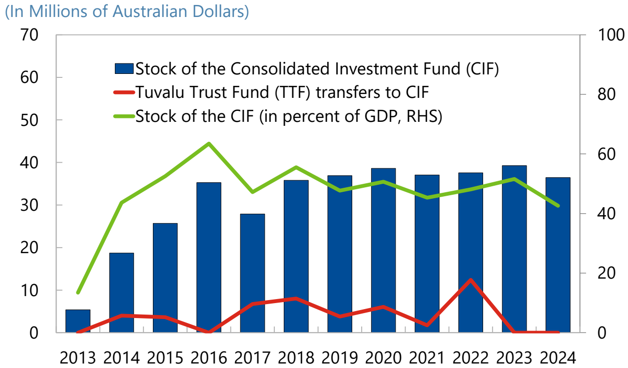
Tuvalu Trust Fund
(In Millions of Australian Dollars)



Note: Updated as of March 2024.
Sources: Country Authorities; and IMF Staff Calculations.

The stock of CIF remains moderate.

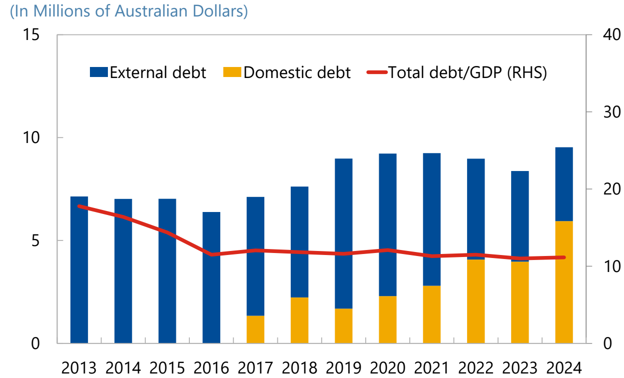
Consolidated Investment Fund
(In Millions of Australian Dollars)



Note: Updated as of April 2024.
Source: Country Authorities.

Public debt in percent of GDP has been slowly declining.

Public Debt
(In Millions of Australian Dollars)



Sources: Country Authorities; and IMF Staff Calculations.

Table 1. Tuvalu: Selected Social and Economic Indicators, 2022-2030

Population (2024 est.): 9,853 | Poverty rate (2017): 26 percent
Per capita GDP (2024 est.): AU$8,680 | Life expectancy (2023): 65 years
Main export: Fish | Primary school enrollment (2022, gross): 98 percent
Key export markets: Australia, Fiji, and New Zealand | Secondary school enrollment (2022, gross): 91 percent

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.			Proj.			
				(Percent change)					
Real sector									
Real GDP growth 1/	-11.8	4.0	3.1	3.0	2.6	2.7	2.3	2.0	1.8
Consumer price inflation (period average)	12.2	7.2	1.2	2.1	2.3	2.5	2.5	2.5	2.5
Government finance				(In percent of GDP)					
Revenue	100.7	154.1	110.2	122.9	118.3	114.8	113.1	111.7	110.4
Non-grants revenue	82.0	100.7	82.3	79.0	80.6	79.6	78.7	78.0	77.4
of which: Fishing license fees	48.4	57.6	44.6	41.6	40.5	39.3	38.4	37.6	36.9
Grants	18.7	53.4	27.8	43.9	37.7	35.2	34.4	33.7	33.0
Expenditure	115.3	138.8	118.4	122.3	121.3	119.1	118.0	117.2	116.4
Expense	104.9	127.7	111.3	111.7	109.9	107.6	106.6	105.7	105.0
Net acquisition of non-financial asset	10.4	11.1	7.1	10.7	11.3	11.5	11.5	11.5	11.5
Net lending/borrowing	-14.6	15.3	-8.2	0.6	-3.0	-4.3	-4.9	-5.5	-6.0
Net lending/borrowing excl. grants	-33.3	-38.1	-36.1	-43.3	-40.6	-39.5	-39.3	-39.2	-39.0
Domestic Current balance 2/	-71.3	-84.6	-73.6	-74.2	-69.8	-67.3	-66.2	-65.3	-64.5
Net acquisition of financial assets	-15.2	15.5	-7.2	-2.3	-2.8	-4.0	-3.4	-2.6	-2.5
Net incurrence of liabilities	-0.6	0.2	1.0	-3.0	0.1	0.3	1.5	2.9	3.5
Tuvalu Trust Fund	234.6	266.5	297.7	288.6	281.2	273.7	267.2	261.8	257.1
Consolidated Investment Fund	48.1	51.6	42.6	43.5	45.9	43.5	41.7	40.7	40.0
Monetary Sector									
Credit growth (percent change) 3/	20.3	16.2	7.8	4.9	4.8	4.8	4.8	4.6	4.4
				(In percent of GDP, unless otherwise indicated)					
Balance of payments (in percent of GDP)									
Current account balance	-0.3	40.0	7.3	14.9	5.5	-0.4	-2.4	-3.9	-5.1
Goods and services balance	-101.6	-112.8	-107.0	-109.8	-112.7	-115.4	-116.4	-117.1	-117.5
Capital minus financial account balance	-19.3	-18.8	-26.2	6.4	0.3	0.4	2.7	5.0	6.5
Overall balance	-19.6	21.2	-18.9	21.3	5.8	0.0	0.3	1.1	1.3
Gross reserves 4/									
In AU$ million	111.7	123.7	105.8	127.8	137.5	137.5	138.0	139.2	140.7
In months of prospective imports of goods and services	13	14	11	12	12	11	11	10	10
				(In percent of GDP, unless otherwise indicated)					
Debt indicators									
Gross public debt	11.5	11.0	11.1	7.7	7.5	7.4	8.5	11.0	14.1
External	6.3	5.8	4.2	2.5	2.5	2.5	3.9	6.5	9.7
Domestic and SOE debt	5.2	5.2	6.9	5.3	5.1	4.9	4.7	4.5	4.4
Nominal GDP (In AU$ million)	78.1	76.1	85.5	90.0	94.6	99.7	104.7	109.6	114.4

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

1/ Historical GDP data has been recently revised. See Annex VII Data Issues for more details.
2/ Domestic current balance excludes fishing revenue, grants, and capital expenditure.
3/ Banks' and pension fund lending to non-government domestic sector.
4/ The sum of liquid assets of the National Bank of Tuvalu, Consolidated Investment Fund, and SDR holdings.

Table 2a. Tuvalu: Summary of Government Operations, 2022-2030

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Proj.					
	(In millions of Australian dollars)								
Revenue	78.7	117.3	94.2	110.7	111.9	114.5	118.5	122.4	126.3
Tax revenue	12.5	12.6	14.5	15.4	16.2	17.1	18.1	19.0	19.9
of which: Personal income tax	3.0	3.7	4.4	4.8	5.0	5.3	5.6	5.9	6.2
of which: Corporate income tax	2.0	2.8	3.1	3.3	3.5	3.8	4.0	4.2	4.5
of which: Consumption tax	5.0	3.7	4.5	4.7	4.9	5.2	5.4	5.7	5.9
Nontax revenue	66.2	104.6	79.7	95.3	95.7	97.3	100.4	103.4	106.4
of which: Fishing license fees	37.8	43.8	38.1	37.4	38.3	39.2	40.2	41.2	42.2
of which: License fees for .TV domain 1/	5.9	9.1	11.2	10.1	11.2	11.4	12.0	12.5	13.1
of which : Grants	14.6	40.6	23.8	39.5	35.6	35.1	36.0	36.9	37.8
Expenditure	90.1	105.6	101.3	110.1	114.7	118.7	123.6	128.4	133.2
Expense	81.9	97.1	95.2	100.5	104.0	107.3	111.6	115.8	120.0
of which: Wages and salaries	29.1	28.7	31.0	32.8	33.9	34.9	36.7	38.3	40.0
of which: Goods and services purchases	26.0	39.0	34.1	35.4	36.4	37.4	38.3	39.2	40.2
of which: Medical treatment scheme	8.7	13.6	11.7	11.7	12.2	12.7	13.1	13.6	14.1
of which: Scholarship programs	5.6	5.8	6.2	7.0	7.3	7.7	8.1	8.5	8.8
of which : Interest payments	0.0	0.0	0.1	0.3	0.2	0.2	0.2	0.2	0.3
Net acquisition of nonfinancial assets	8.2	8.4	6.1	9.6	10.7	11.4	12.0	12.6	13.1
Net lending/borrowing	-11.4	11.7	-7.0	0.6	-2.8	-4.2	-5.2	-6.0	-6.9
Net lending/borrowing excl. grants	-26.0	-29.0	-30.8	-39.0	-38.4	-39.3	-41.1	-42.9	-44.7
Domestic current balance 2/	-55.7	-64.4	-62.9	-66.8	-66.0	-67.1	-69.3	-71.5	-73.8
Net acquisition of financial assets	-11.9	11.8	-6.2	-2.1	-2.7	-4.0	-3.6	-2.9	-2.9
Net incurrence of liabilities	-0.5	0.1	0.9	-2.7	0.1	0.3	1.6	3.1	4.0
	(In percent of GDP)								
Revenue	100.7	154.1	110.2	122.9	118.3	114.8	113.1	111.7	110.4
Tax revenue	15.9	16.6	17.0	17.1	17.1	17.2	17.2	17.3	17.4
of which: Personal income tax	3.8	4.8	5.2	5.3	5.3	5.3	5.4	5.4	5.4
of which: Corporate income tax	2.6	3.7	3.7	3.7	3.8	3.8	3.8	3.9	3.9
of which: Consumption tax	6.4	4.9	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Nontax revenue	84.8	137.5	93.2	105.9	101.2	97.6	95.9	94.4	93.1
of which: Fishing license fees	48.4	57.6	44.6	41.6	40.5	39.3	38.4	37.6	36.9
of which: License fees for .TV domain 1/	7.5	11.9	13.1	11.2	11.8	11.4	11.4	11.4	11.4
of which : Grants	18.7	53.4	27.8	43.9	37.7	35.2	34.4	33.7	33.0
Expenditure	115.3	138.8	118.4	122.3	121.3	119.1	118.0	117.2	116.4
Expense	104.9	127.7	111.3	111.7	109.9	107.6	106.6	105.7	105.0
of which: Wages and salaries	37.2	37.8	36.2	36.4	35.9	35.0	35.0	35.0	35.0
of which: Goods and services purchases	33.3	51.2	39.9	39.3	38.5	37.5	36.6	35.8	35.2
of which: Medical treatment scheme	11.1	17.9	13.7	13.0	12.9	12.7	12.5	12.4	12.3
of which: Scholarship programs	7.1	7.7	7.2	7.7	7.7	7.7	7.7	7.7	7.7
of which : Interest payments	0.1	0.1	0.1	0.4	0.2	0.2	0.2	0.2	0.2
Net acquisition of nonfinancial assets	10.4	11.1	7.1	10.7	11.3	11.5	11.5	11.5	11.5
Net lending/borrowing	-14.6	15.3	-8.2	0.6	-3.0	-4.3	-4.9	-5.5	-6.0
Net lending/borrowing excl. grants	-33.3	-38.1	-36.1	-43.3	-40.6	-39.5	-39.3	-39.2	-39.0
Domestic current balance 2/	-71.3	-84.6	-73.6	-74.2	-69.8	-67.3	-66.2	-65.3	-64.5
Net acquisition of financial assets	-15.2	15.5	-7.2	-2.3	-2.8	-4.0	-3.4	-2.6	-2.5
Net incurrence of liabilities	-0.6	0.2	1.0	-3.0	0.1	0.3	1.5	2.9	3.5
Memorandum items:									
External public debt (in percent of GDP)	6.3	5.8	4.2	2.5	2.5	2.5	3.9	6.5	9.7
TTF market value (in percent of GDP)	234.6	266.5	297.7	288.6	281.2	273.7	267.2	261.8	257.1
Stock of CIF (in percent of GDP) 3/	48.1	51.6	42.6	43.5	45.9	43.5	41.7	40.7	40.0
Nominal GDP (AUS$ million)	78.1	76.1	85.5	90.0	94.6	99.7	104.7	109.6	114.4

Sources: Country authorities; and IMF staff estimates and projections.

1/ .TV is an internet domain.

2/ Excludes fishing license fees, grants, and net acquisition of nonfinancial asset.

3/ Balance after projected fiscal deficit financing.

Table 2b. Tuvalu: Summary of Government Operations, 2022-2030 (FY) 1/

	2022	2023	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
			Est.			Proj.		
			(In millions of Australian dollars)					
Revenue	78.7	117.3	102.4	111.3	113.2	116.5	120.4	124.3
Tax revenue	12.5	12.6	14.9	15.8	16.7	17.6	18.5	19.4
of which: Personal income tax	3.0	3.7	4.6	4.9	5.2	5.5	5.8	6.0
of which: Corporate income tax	2.0	2.8	3.2	3.4	3.7	3.9	4.1	4.3
of which: Consumption tax	5.0	3.7	4.6	4.8	5.0	5.3	5.6	5.8
Nontax revenue	66.2	104.6	87.5	95.5	96.5	98.9	101.9	104.9
of which: Fishing license fees	37.8	43.8	37.8	37.8	38.7	39.7	40.7	41.7
of which: License fees for .TV domain 2/	5.9	9.1	10.6	10.6	11.3	11.7	12.2	12.8
of which : Grants	14.6	40.6	31.7	37.6	35.4	35.5	36.4	37.3
Expenditure	90.1	105.6	105.7	112.4	116.7	121.2	126.0	130.8
Expense	81.9	97.1	97.8	102.2	105.6	109.4	113.7	117.9
of which: Wages and salaries	29.1	28.7	31.9	33.4	34.4	35.8	37.5	39.2
of which: Goods and services purchases	26.0	39.0	34.8	35.9	36.9	37.8	38.8	39.7
of which: Medical treatment scheme	8.7	13.6	11.7	12.0	12.4	12.9	13.4	13.8
of which: Scholarship programs	5.6	5.8	6.6	7.1	7.5	7.9	8.3	8.7
of which : Interest payments	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Net acquisition of nonfinancial assets	8.2	8.4	7.8	10.2	11.1	11.7	12.3	12.8
Net lending/borrowing	-11.4	11.7	-3.2	-1.1	-3.5	-4.7	-5.6	-6.5
Net lending/borrowing excl. grants	-26.0	-29.0	-34.9	-38.7	-38.9	-40.2	-42.0	-43.8
Domestic current balance 3/	-55.7	-64.4	-64.9	-66.4	-66.5	-68.2	-70.4	-72.7
Net acquisition of financial assets	-11.9	11.8	-4.1	-2.4	-3.3	-3.8	-3.2	-2.9
Net incurrence of liabilities	-0.5	0.1	-0.9	-1.3	0.2	0.9	2.4	3.6
				(In percent of GDP)				
Revenue	100.7	154.1	119.8	123.6	119.7	116.8	115.0	113.5
Tax revenue	15.9	16.6	17.5	17.5	17.6	17.7	17.7	17.7
of which: Personal income tax	3.8	4.8	5.4	5.4	5.5	5.5	5.5	5.5
of which: Corporate income tax	2.6	3.7	3.8	3.8	3.9	3.9	3.9	4.0
of which: Consumption tax	6.4	4.9	5.4	5.3	5.3	5.3	5.3	5.3
Nontax revenue	84.8	137.5	102.3	106.1	102.1	99.2	97.3	95.7
of which: Fishing license fees	48.4	57.6	44.2	42.1	41.0	39.8	38.9	38.1
of which: License fees for .TV domain 2/	7.5	11.9	12.4	11.8	11.9	11.7	11.7	11.7
of which : Grants	18.7	53.4	37.0	41.8	37.4	35.6	34.8	34.1
Expenditure	115.3	138.8	123.6	124.9	123.4	121.5	120.3	119.3
Expense	104.9	127.7	114.4	113.6	111.7	109.8	108.6	107.6
of which: Wages and salaries	37.2	37.8	37.3	37.1	36.4	35.9	35.8	35.8
of which: Goods and services purchases	33.3	51.2	40.6	39.9	39.0	37.9	37.0	36.3
of which: Medical treatment scheme	11.1	17.9	13.7	13.3	13.1	12.9	12.8	12.6
of which: Scholarship programs	7.1	7.7	7.7	7.9	7.9	7.9	7.9	7.9
of which : Interest payments	0.1	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Net acquisition of nonfinancial assets	10.4	11.1	9.2	11.3	11.7	11.8	11.7	11.7
Net lending/borrowing	-14.6	15.3	-3.8	-1.2	-3.7	-4.7	-5.3	-5.9
Net lending/borrowing excl. grants	-33.3	-38.1	-40.8	-43.0	-41.1	-40.4	-40.1	-40.0
Domestic current balance 3/	-71.3	-84.6	-75.8	-73.8	-70.4	-68.4	-67.3	-66.3
Net acquisition of financial assets	-15.2	15.5	-4.8	-2.7	-3.5	-3.8	-3.1	-2.6
Net incurrence of liabilities	-0.6	0.2	-1.1	-1.4	0.2	0.9	2.2	3.3
Memorandum items:								
Nominal GDP (AUS$ million)	78.1	76.1	85.5	90.0	94.6	99.7	104.7	109.6

Sources: Country authorities; and IMF staff estimates and projections.

1/ Fiscal year changed from January-December to July-June in 2024. These numbers after 2024 are the average of two calendar years.

2/ .TV is an internet domain.

3/ Excludes fishing license fees grants, and net acquisition of nonfinancial asset.

Table 3. Tuvalu: Balance of Payments, 2022-2030

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.			Proj.			
					(In percent of GDP)				
Current account balance									
including official grants	-0.3	40.0	7.3	14.9	5.5	-0.4	-2.4	-3.9	-5.1
excluding official grants	-26.5	-21.5	-28.7	-37.1	-40.3	-43.7	-44.9	-45.6	-46.3
Goods and services balance	-101.6	-112.8	-107.0	-109.8	-112.7	-115.4	-116.4	-117.1	-117.5
Goods balance	-47.2	-68.9	-61.2	-61.4	-61.6	-61.9	-62.2	-62.6	-63.0
Exports of goods, f.o.b.	0.3	0.6	0.6	0.9	0.9	0.9	0.9	0.9	0.9
Imports of goods, f.o.b.	47.6	69.4	61.8	62.2	62.5	62.8	63.1	63.4	63.8
Services balance	-54.4	-44.0	-45.8	-48.4	-51.1	-53.5	-54.2	-54.5	-54.5
Exports of services	3.8	20.2	20.4	20.4	20.5	20.9	21.3	21.8	22.4
Imports of services	58.2	64.2	66.2	68.8	71.6	74.4	75.5	76.3	77.0
Primary income balance	77.5	94.7	79.2	73.3	72.7	71.6	71.0	70.7	70.2
Inflows	78.0	95.2	79.7	74.0	73.2	72.1	71.5	71.1	70.7
Fishing license fees	48.4	57.6	44.6	41.6	40.5	39.3	38.4	37.6	36.9
Compensation of employees	4.2	4.7	4.8	5.0	5.3	5.6	5.7	5.9	6.1
Investment income	17.8	21.0	17.3	16.3	15.6	15.7	15.9	16.2	16.2
Outflows	0.5	0.5	0.5	0.7	0.5	0.5	0.5	0.5	0.5
Secondary income balance	23.8	58.1	35.0	51.3	45.5	43.4	43.0	42.6	42.2
Inflows	28.5	64.1	38.6	54.9	49.1	47.0	46.5	46.1	45.8
Official	28.0	63.6	38.1	54.0	48.1	45.5	44.7	44.0	43.2
of which: grants on budget	18.7	53.4	27.8	43.9	37.7	35.2	34.4	33.7	33.0
Private	0.5	0.5	0.5	0.8	1.0	1.5	1.8	2.2	2.5
of which: remittances	0.3	0.4	0.9	1.1	1.6	1.9	2.3	2.6	2.8
Outflows 1/	4.7	6.0	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Capital account balance	10.6	3.4	6.0	10.7	11.2	11.6	12.2	12.7	13.3
Net lending/borrowing (Current+Capital accounts)	10.3	43.4	13.3	25.6	16.7	11.2	9.8	8.9	8.1
Financial account balance (assets - liabilities)	29.9	22.2	32.2	4.3	10.9	11.2	9.5	7.8	6.8
Errors and omissions	0.7	-5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Gross official reserves 2/	111.7	123.7	105.8	127.8	137.5	137.5	138.0	139.2	140.7
(in months of imports of goods and services)	13.2	13.6	10.8	12.1	12.1	11.4	10.8	10.4	10.1

Sources: Country authorities, PFTAC, and IMF staff estimates.

1/ Includes government's overseas contributions.

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

Table 4. Tuvalu: Financial Soundness Indicators 2019-2024

	2019	2020	2021	2022	2023	2024
						Est.
Capital Adequacy 1/						
Capital to Risk Weighted Assets (CAR) 2/	168.7	169.8	159.6	164.3	138.4	119.4
Capital to Deposits	33.5	18.7	23.7	25.7	36.4	35.8
Capital to Total Assets	24.9	15.6	18.9	20.3	26.4	25.7
Asset Quality						
Gross NPLs to Gross Loans 3/	32.6	33.2	29.4	24.8	21.2	21.2
Provisions to NPLs 3/	173.5	195.1	215.9	208.7	198.4	153.5
Provisions to Gross Loans	31.9	32.9	31.1	26.3	22.3	22.2
Earnings & Profitability 3/						
Return on Equity (ROE)	16.1	19.9	24.3	19.8	12.5	17.4
Return on Assets (ROA)	3.9	3.0	4.5	4.0	3.3	4.5
Interest margin to gross income	22.3	19.5	20.1	20.4	35.7	41.4
Non-interest expenses to gross income	42.6	40.5	40.2	31.0	37.4	30.6
Liquidity 1/						
Liquid Assets to Total Assets	81.5	88.2	84.3	83.6	68.7	45.2
Liquid Assets to Total Deposits	109.8	105.3	105.7	106.0	94.7	62.9
Total Loans to Total Deposits	27.3	15.3	19.8	19.5	28.4	23.7
Credit 4/						
annual growth rate	(6.9)	2.6	10.6	20.3	16.2	7.8
in percent of GDP	27.9	29.0	29.9	37.7	45.0	43.1

Sources: Financial statements of NBT, DBT and TNPF.

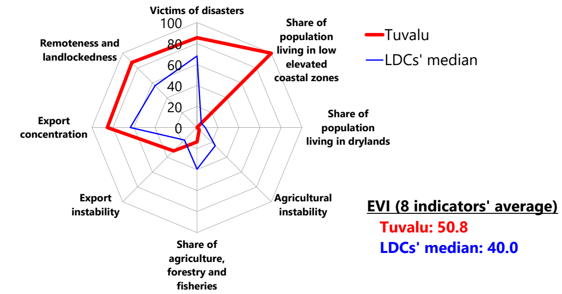
1/ Based on NBT and DBT data only.
2/ IMF Staff calculations based on capital to net loans ratio and 20 percent of other assets.
3/ Based on NBT data only.
4/ Includes lending by TNPF.

Annex I. Country Engagement Strategy[1]

A. Fragility of Tuvalu and Its Drivers

1. Tuvalu is one of the smallest and most remote countries in the world with high economic and environmental vulnerability. Tuvalu comprises three reef islands and six coral atolls, which are scattered over 500,000 km^2 of the western Pacific Ocean. The total land area of the islands is only 26 km^2, making Tuvalu the fourth smallest country by land area. Tuvalu has a population of around 10,000 people. While Tuvalu is categorized as a Middle-Income Country based on its income per capita (US$ 6,830), it remains one of the 44 Least Developed Countries designated by the United Nations, reflecting its high economic and environmental vulnerability. Tuvalu is characterized by the World Bank as a Fragile and Conflict-Affected State (FCS) due to its institutional and social fragility.

Economic and Environmental Vulnerability Index (EVI) 1/
(Index, 0-100 in 2024)



1/ A higher index in 0-100 represents higher vulnerability. LDCs are Least Developed Countries defined by the United Nations.
Source: United Nations Committee for Development Policy Secretariat. Triennial Review Dataset 2000 - 2024.

2. Tuvalu's fragility drivers stem from its geographic constraints and institutional and social contexts, which have important implications for Tuvalu's economic outcomes.

- **Small size and lack of economies of scale.** Tuvalu's small land area and population implies a narrow domestic production base and provides limited space for development. Tuvalu is highly dependent on imports, with imports of goods and services above 100 percent of GDP. The economy is dominated by the public sector, with fiscal revenue heavily relying on volatile external sources such as fishing license fees and grants.

- **Remoteness and limited connectivity.** Tuvalu is around 4,000 km away from Australia, one of its major import partners, and over 1,000 km from Fiji, its nearest regional trade hub. Due to its geographical isolation, logistical disadvantages, and high dependence on imports (including food and fuel), Tuvalu is exposed to international price shocks and shipping disruptions, increasing the cost of living and doing business and posing significant challenges to food and energy security.

- **Natural disasters and climate change risks.** The average elevation in Tuvalu is about 2 meters above sea level, while the highest point in the country is less than 5 meters high. Most of the population lives on land less than one meter above sea level. Tuvalu is one of the most

[1] This Country Engagement Strategy provides an overview of the drivers of fragility, constraints to reform, and reform priorities that inform the strategy for Fund engagement with Tuvalu. The strategy draws insights from exchanges with the authorities, development partners, and the private sector.

vulnerable countries to natural disasters and climate change. Cyclones, storm surges, and frequent high tides cause significant economic and social damage.

- **Weak institutional and technical capacity.** While Tuvalu is politically stable, there are structural challenges associated with its institutional capacity. The government faces capacity constraints due to a small labor force, limited human capital, and outward emigration, which hamper the government's administrative efficiency, service delivery, effective policy and reform implementation.

B. Constraints to Reform and Policies to Address the Sources of Fragility

3. **The sources of fragility and limited financial resources constitute major constraints to reforms.** Tuvalu's geography, weak institutional capacity, and limited financial resources hinder the government from effectively delivering public services, implementing economic policies and reforms, and making necessary investment to improve infrastructure and enhance climate resilience.

4. **Addressing Tuvalu's fragility requires a multi-pronged approach to ensure economic stability, enhance climate resilience, and achieve sustainable development.** Key policies include:

- **Enhancing fiscal sustainability and strengthening public financial management (PFM).** Revenue mobilization, strengthening tax compliance, rationalizing current spending, and reorienting resources to development needs would support fiscal sustainability and enhance fiscal buffers against shocks. Improving PFM can enhance transparency, accountability, and efficiency in public spending and support the access to much-needed climate financing.

- **Establishing effective financial oversight while supporting connectivity to the global payment system.** Establishing effective financial regulatory and supervisory frameworks is a priority to enhance financial stability. Modernizing banking services by introducing ATMs, bank cards, and online banking would help overcome geographical barriers and promote financial inclusion. Strengthening the AML/CFT framework will support correspondent banking relationships.

- **Promoting growth through improving infrastructure and economic diversification.** Priorities for improving infrastructure include upgrading transport infrastructure and internet connectivity. Economic diversification in sectors with higher potential, including agricultural products (such as coconut), eco-tourism, and commercial fishery, can help expand Tuvalu's narrow growth base and reduce import reliance.

- **Enhancing human capital.** Given Tuvalu's small workforce and emigration pressures, enhancing human capital is needed to address labor shortages and capacity issues, including for the public sector. Measures should include improving the efficiency of education, enhancing vocational training and skills development, promoting labor participation, and attracting returning migrants and enhancing skill transfer.

- **Strengthening climate adaptation and resilience to natural disasters.** Given capacity constraints and significant investment needs, continuing to work with development partners to secure climate financing and implement major climate-resilient projects is critical. Disaster risk preparedness and management should be enhanced through using risk maps, enforcing amended building codes, and improving the coordination for disaster response, relief, and recovery operations.

C. Fund Engagement, Capacity Development Priorities, and Cooperation with Development Partners

5. Recent Fund engagement with Tuvalu has focused on surveillance and capacity development (CD). The Fund has provided policy recommendations through Article IV consultations and regular staff visits. Major IMF recommendations include building fiscal buffers and enhancing fiscal sustainability, advancing PFM reforms to access climate finance, strengthening financial regulation, and deepening structural reforms to enhance climate resilience and growth potential. Fund Technical Assistance (TA) has been delivered mainly by the Pacific Financial Technical Assistance Centre (PFTAC) but also by focused missions from Fund headquarters.

6. The Fund's CD has been driven by the authorities' demand and well aligned with policy priorities identified through the surveillance process. Experience in delivering CD in Tuvalu suggests that multi-year planning and implementation, early and close engagement with the authorities, and tailoring the TA to take into account limited capacity can help enhance the quality of CD absorption. Recent CD activities and priorities mainly include the following:

- **Revenue mobilization and tax administration.** The Fund is assisting the authorities' efforts in improving revenue compliance management and modernizing tax administration systems.

- **Public Financial Management.** The Fund has recently undertaken an *Agile*PEFA (Public Expenditure and Financial Accountability) assessment to determine current levels of PFM performance, strengths, and weaknesses. PFTAC is assisting the authorities in formulating a PFM roadmap, which is expected to be used to coordinate development partners' support.

- **Financial sector Supervision.** The Fund has provided TA on establishing the effective financial regulatory framework and implementing prudential standards. The Fund continues to assist the authorities in improving oversight of financial institutions and strengthening prudential supervision.

- **Macroeconomic Analysis/Modelling Program.** The Fund has developed a Macro-Fiscal Model for analyzing real and fiscal sector trends and will provide further training on macroeconomic modeling.

- **Macroeconomic statistics.** The Fund has been supporting the authorities to produce data on national accounts, the external sector, and government financial statistics.

7. Close coordination with development partners is essential for Fund engagement with Tuvalu. Key development partners such as the World Bank, the Asian Development Bank (ADB), United Nations agencies, the European Union, and bilateral partners provide important development assistance and support reform implementation in Tuvalu. Close collaboration with these development partners, particularly those with permanent local presence, can enhance resource efficiency, foster synergies, and ensure a coordinated response to address Tuvalu's fragility drivers.

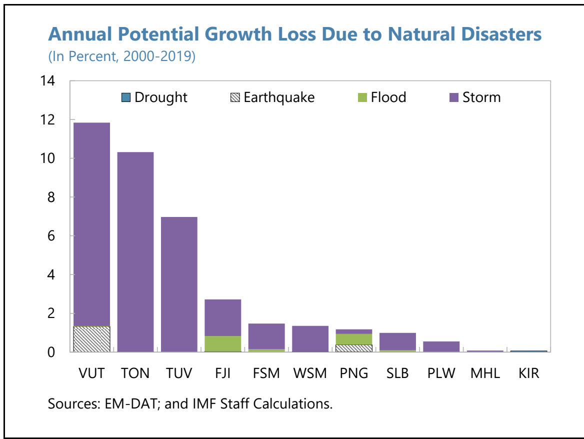
8. The achievement and sustainability of Fund engagement with Tuvalu are subject to risks. Tuvalu's high vulnerability to external shocks—including climate-related disasters and volatile global commodity prices—could affect macroeconomic stability and strain public finances. The frequent turnover of government officials and weak institutional and technical capacity may hinder policy implementation and slow the pace of economic reforms.

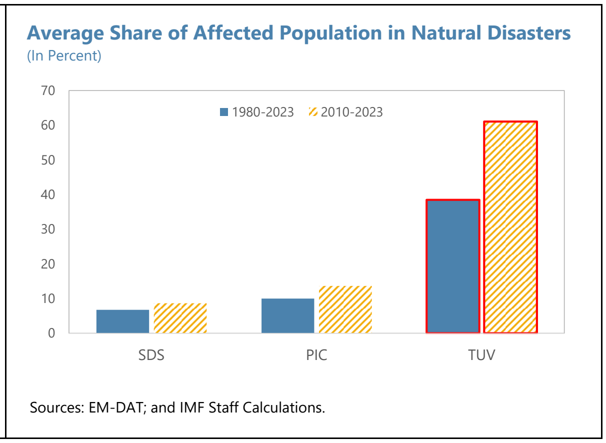
Annex II. Impact of Natural Disasters and Tuvalu's Response[1]

Natural disasters cause substantial damage to Tuvalu's economy. The impact is expected to increase as climate change raises sea levels. In recent years, Tuvalu's has made progress in improving disaster management and implementing resilience-enhancing projects. Tuvalu will benefit from strengthening climate financing and PFM reforms. Support from development partners remains critical, given capacity constraints and significant investment needs.

1. Climate-related natural disasters happen every year in Tuvalu. The average elevation of Tuvalu is only around 2 meters above sea level, one of the lowest in the world. High tides happen several times a year in Tuvalu, damaging roads, homes, and crops. On average, storms occur once a year, some of which can cause devastating damages, such as the cyclone Pam in 2015 and Tino in 2020. The damage is expected to increase as climate change progresses and the sea level rises.[2] Tuvalu also experiences droughts, as in 2011 and 2021, since Tuvalu's freshwater supply depends almost entirely on rainfall.

2. The impact of natural disasters on Tuvalu's economy is high. Recent IMF staff analysis shows that the impact of natural disasters on Tuvalu's annual potential growth could reach up to 6 percent of GDP.[3] The share of the affected population in major disasters is larger in Tuvalu than in Small Developing States (SDS) or Pacific Island Countries (PIC).[4] The impact seems to be increasing over time, although the sample is small, consisting of 9 events from 1980 to 2023, of which 4 events are after 2010.





[1] Prepared by Sakai Ando.

[2] According to *the report in June 2023 by National Aeronautics and Space Administration (NASA)*, sea level in Tuvalu has already risen by 0.15 meters in the last 3 decades and is projected to increase by 0.2-0.3 meters by 2050 relative to 2005.

[3] Lim and Zhou (2025), "Impact Dynamics of Natural Disasters and the Case of Pacific Island Countries." IMF Working Paper.

[4] EM-DAT includes major disasters that meet at least one of the following criteria: 10 fatalities, 100 affected people, a declaration of state emergency, or a call for international assistance.

3. In response, Tuvalu has implemented various measures to cope with disaster risks.

- **Establishing the legal and institutional framework to prepare for natural disasters.** Through the Disaster Management Act (2007), Tuvalu established the National Disaster Management Office (NDMO) /Department of Disaster Management (DDM) to coordinate disaster mitigation, preparedness, response, and recovery activities. To mitigate the impact of climate change and natural disasters, the Climate Change Resilience Act in 2019 defines the functions and powers of the relevant institutions, and the National Climate Change Policy 2021-2030 establishes strategies. The revised National Disaster Management Act was passed in 2024 to provide a clearer organizational structure and procedures to deal with natural disasters, including the state of emergency declaration.

- **Actively working on infrastructure projects to enhance resilience to natural disasters.** For example, Tuvalu Coastal Adaptation Project Phase I (TCAP-I) which commenced in 2017 and has been mainly funded by the Green Climate Fund and Australia, handed over 7.3 hectares of raised flood-resilient reclaimed land to Tuvalu in 2024.[5] Phase II (TCAP-II) which started in September 2024 and is financed by Australia and New Zealand aims to reclaim another 8 hectares of raised land. These major projects are complemented with other ongoing projects to strengthen resilience, including those for transportation, renewable energy, and water supply.

- **Setting up mechanisms for disaster relief.** The Tuvalu Survival Fund established in 2016 helps Tuvalu self-insure against natural disasters, by providing financial assistance for emergency relief, disaster recovery, and rehabilitation. The size of the fund was nearly 10 million Australian dollars assets as of April 2024 (around 10 percent of GDP).

4. Tuvalu will benefit from further improving disaster management. For donors to finance investment needs, PFM and the management of investment projects need to be strengthened, as recommended by recent IMF TA. Improving transparency with climate budget tagging is also encouraged. Utilizing the insights from risk dashboard and hazard assessment, as well as enforcing the revised building code regulation, would further enhance resilience.

5. Support from development partners remains critical, given capacity constraints and significant investment needs. Investment needs to mitigate damages from natural disasters are substantial. The World Bank (2024) estimates that the costs for physical adaptation up to 0.5 meters of sea-level rise, including sea walls, inland relocation, and house raising, are US$1 billion in discounted present value terms.[6] Given the capacity constraints, continued development partners' support is essential in financing and executing necessary projects, as well as capacity development.

[5] UNDP: https://www.undp.org/pacific/projects/tuvalu-coastal-adaptation-project.

[6] World Bank (2024). "Country Climate and Development Report: The Pacific Atoll Countries."

Annex III. Implementation of Recommendations from the 2023 Article IV Consultation

2023 Article IV Recommendations	Policy Actions
Fiscal Policies	
Fiscal policy to serve the dual goals of ensuring sustainability while meeting climate adaptation needs.	The new government formed in early 2024 has included fiscal sustainability as one of its policy priorities, as reflected in FY2024-25 and FY2025-26 budgets.
Rationalize current expenditure on the wage bill, goods and services, the Tuvalu Overseas Medical Referral Scheme (TOMRS), and overseas scholarships, and review all subsidies.	The authorities have completed the review of TOMRS and plan to review civil services. Expenditure on goods and services and TOMRS declined in 2024. Other current spending remained elevated.
Mobilize additional revenues by increasing the VAT rate, improving tax compliance and efficiency, phasing out tax exemptions, and improving SOEs tax payments.	The authorities have started to audit larger taxpayers including SOEs to strengthen tax compliance. A Tuvalu Consumption Tax (TCT) late lodgment penalty was introduced in 2024. The authorities received PFTAC TA to strengthen the TCT compliance.
Continue public financial management (PFM) reforms to support climate financing.	The authorities published its first Fiscal Risk Report in April 2024. A PEFA mission was conducted by PFTAC in 2024. The authorities have been investigating modalities for Climate Budget Tagging.
Financial Sector Policies	
Strengthen financial regulation and supervision frameworks and expand supervision to include the Tuvalu Pension Fund.	The authorities received TA on prudential standards and financial risk analysis. Overall progress in strengthening financial regulation and supervision has been limited.
Enhance AML/CFT frameworks and improve Tuvalu's connectivity to the global payments system.	Tuvalu joined the Asia-Pacific Group on Money Laundering (APG) in July 2023 and is engaging with APG on a potential assessment and related TA.
Structural Reforms	
Increase trade integration and reduce external vulnerabilities.	The authorities are working with development partners on Tuvalu's coconut sector rehabilitation and agriculture development.
Strengthen disaster resilience through updated building codes, risk maps for infrastructure, and revamping the Disaster Risk Management Act.	The authorities continued to work with development partners on major climate-resilient infrastructure projects. An online hazard and risk dashboard was rolled out in 2024. The National Disaster Management Act was passed in 2024.
Improve human capital through improving scholarships and strengthening health services.	The authorities are enhancing telehealth services, supported by improvements in internet connectivity.
Reform SOEs to improve SOE performance and service delivery.	The Fiscal Risk Report included discussions on SOE risks to public finances. Ministerial Order on Public enterprise Monitoring Reporting was issued in 2025.
Capacity Development	
Address data shortcomings by hiring and training statistical personnel, improving succession planning, and publishing preliminary data.	The authorities continued to receive TA from the IMF and increased statistical staffing. It is expected that TA from the Fund will still be needed to help produce macroeconomic statistics.

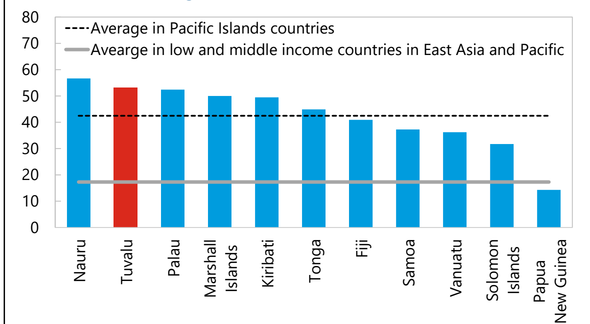
Annex IV. Import Dependence and Inflation Dynamics[1]

Due to its heavy reliance on imports and the use of the Australian dollar as legal tender, Tuvalu's inflation dynamics are significantly influenced by the inflation of its main import partners. Transportation costs also have a considerable impact on Tuvalu's inflation.

1. Tuvalu's economy is highly dependent on imports. Pacific Island countries (PICs) generally are heavily dependent on imports to support their domestic demand due to their small sizes and narrow production bases. Tuvalu's import reliance is one of the highest among PICs, with goods imports averaging over 50 percent of GDP. Tuvalu's imports mainly include food, mineral fuels, machinery, and manufactured goods. On the other hand, the goods-producing sector represents only around 10 percent of GDP, and Tuvalu's good exports amount to less than 1 percent of GDP.[2]

Imports of Goods in Pacific Island Countries 1/

(In Percent of GDP, Average in 2015-19)



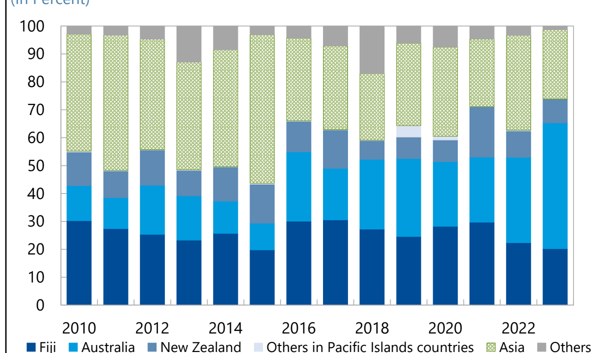
1/ This indicates the average share of goods' imports in GDP in the pre-pandemic period (2015-19).

Sources: World Bank; and IMF Staff Estimates.

2. Australia and Fiji are the two largest source countries of Tuvalu's imports. Around 50 percent of Tuvalu's imports are from Australia and Fiji, reflecting Tuvalu's geographic location and economic connection with the two countries. While Fiji traditionally had the highest share in Tuvalu's imports, Australia's share in Tuvalu's imports has increased since the late 2010s, and Australia has become Tuvalu's largest import partner in recent years. With the entry into force of the Falepili Union between Tuvalu and Australia in August 2024, Australia's share in Tuvalu's imports could increase further going forward.

Share by Country in Imports of Goods (Value)

(In Percent)



Sources: Country Authorities; and IMF Staff Estimates.

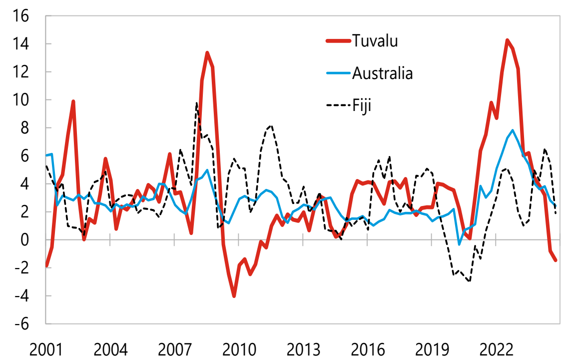
3. The main import partners' inflation and transportation costs have significant influence on Tuvalu's inflation dynamics. Tuvalu's inflation movements are highly correlated with those of Australia and Fiji. In addition, as a remote island country, Tuvalu's inflation is high impacted by shipping costs. Staff's empirical analysis suggests that Tuvalu's inflation rates are expected to increase by around 0.7-0.8 and 0.2 percentage-points with one-quarter lag, for a one percentage

[1] Prepared by Ryoichi Okuma.

[2] The share of goods-producing sectors in GDP is the sum of the agriculture, fishing, and manufacturing sectors, according to the authorities' SNA data.

point rise in Australia and Fiji's inflation rates, respectively.[3] The higher coefficient of Australia's inflation is likely to reflect Australia's higher share in Tuvalu's imports and the use of the Australian dollar as legal tender. The import bottlenecks caused by shipping restrictions during the COVID-19 pandemic also seem to have accelerated Tuvaluan inflation. Including a dummy variable for the pandemic, which represents shipping restrictions to contain COVID-19 in 2020-22, indicates that the shipment restrictions are estimated to have accelerated inflation by over 1 percentage point. The tightening in the global supply chain is estimated to also have caused inflationary pressures on Tuvalu.

Inflation in Tuvalu and Main Import Partners
(In Percent)



Sources: CEIC; Haver; and IMF Staff Estimates.

Regression of Inflation in Tuvalu: Estimation Results 1/

Estimation methodology: OLS

Dependent variable: Inflation in Tuvlau | Sample period: 2000-24 2/ | Data frequency: Quarterly

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Inflation in Tuvalu (-1)	0.80 ***	0.87 ***	0.79 ***	0.82 ***	0.88 ***	0.80 ***
	(0.06)	(0.05)	(0.06)	(0.06)	(0.05)	(0.06)
Change in inflation in Australia (-1)	0.96 ***	0.81 ***	0.82 ***	0.86 ***	0.72 ***	0.74 ***
	(0.25)	(0.26)	(0.26)	(0.25)	(0.26)	(0.26)
Change in inflation in Fiji (-1)				0.25 **	0.25 **	0.23 **
				(0.12)	(0.12)	(0.12)
COVID-19 pandemic dummy 3/		1.23 *			1.11 *	
		(0.65)			(0.64)	
Global Supply Chain Pressure Index 4/			0.38 *			0.34 *
			(0.21)			(0.21)
Observations	92	92	92	91	91	91
Adjusted R-squared	0.71	0.70	0.72	0.72	0.71	0.73

1/ ***, **, and * indicates the coefficient is with 1, 5, and 10 percent confidence level, respectively.
2/ The regression includes as many observations as possible in the sample period.
3/ The dummy variable is 1 during 2020-22 when there were COVID restrictions in Tuvalu, otherwise 0.
4/ The index is developed by the Federal Reserve Bank of New York through a principal component analysis with multiple indicators related to global supply situation. The higher index (or lower) indicates the condition of global supply chain is more (or less) tightened. One limitation of using the index for this analysis is that the index may not reflect regional variations, which are relevant for Tuvalu.
Sources: Federal Reserve Bank of New York; CEIC; and IMF staff estimates.

[3] Due to data limitation on the demand side, this annex only applies variables on the supply side to estimate the impact on Tuvalu's inflation. The coefficients of determination (adjusted R-squared) in the regression results of around 0.7 imply that demand side factors including the fiscal policy's impact might contribute up to 30 percent of Tuvalu's inflation dynamics.

Annex V. External Sector Assessment[1]

Overall Assessment: *The external position of Tuvalu in 2024 was broadly in line with the level implied by medium term fundamentals and desirable policies. While the Current Account (CA) is estimated to have registered a surplus of 7.3 percent of GDP in 2024 and is projected to remain in surpluses in the near term, it is expected to turn into a deficit and to widen gradually in the medium term as the import-dependent economy continues to recover and the fiscal deficit widens gradually. Reserves remain adequate but are expected to decrease over time. There remains substantial uncertainty around the assessment due to data limitations and the volatile nature of the balance of payment flows.*

Potential Policy Responses: *Fiscal consolidation will be needed to increase net external savings. Continuing to pursue grant financing and highly concessional loans will reduce pressures on debt accumulation. Economic policies should focus on improving the structural obstacles to greater international competitiveness and reducing the dependency on volatile inflows from grants and fishing licenses.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) of Tuvalu is estimated at 514 percent of GDP at end-2024 with significantly small liabilities. The Tuvalu Trust Fund (TTF) represents around half of the gross assets.

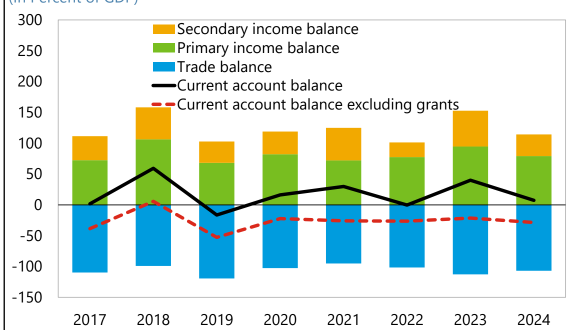
Assessment. While the high net creditor position of Tuvalu has been stable in the last decade, the NIIP, depending heavily on the TTF performance, is expected to decline gradually with widening CA deficits in the medium term.

2024 (% GDP)	NIIP: 514%	Gross Assets: 529%	Debt Assets: 2%	Gross Liab.: 15%	Debt Liab.: 15%

Current Account

Background. The CA in 2024 is estimated to have recorded a surplus of 7.3 percent of GDP as the large trade deficit driven by the recovery in imports was financed from even higher fishing licenses in primary income and grants in secondary income. While the recovery in imports is expected to continue, driven by the robust economic growth in 2025 and beyond, the CA is projected to remain in a surplus of 14.9 percent of GDP in 2025 due to a rebound in grants. However, the CA is expected to deteriorate and turn to deficits in the medium term due to elevated import needs and declining fishing revenue and grants.

Current Account Balance
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Estimates.

Assessment. The EBA-lite CA model[1] indicates that the adjusted CA for 2024 was 9.0 percent of GDP, while the CA norm, calculated from desirable policies and historical data, was 9.3 percent of GDP. As a

[1] Prepared by Ryoichi Okuma.

result, the CA gap in 2024 was -0.3 percent of GDP, and the 2024 external position is assessed as broadly in line with the level implied by medium term fundamentals and desirable policies. The gap is expected to turn negative in the medium term with widening CA deficits. Addressing this expected gap will require fiscal consolidation. The assessment is subject to the caveats that Tuvalu is not part of the estimation sample (and therefore fitness of the model cannot be assessed) and that many of the model's explanatory variables need to be imputed given data gaps.

Tuvalu: EBA-lite Model Results, 2024

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**7.3**	
Cyclical contributions (from model) (-)	-0.5	
Natural disasters and conflicts (-)	-1.2	
Adjusted CA	**9.0**	
CA Norm (from model) 2/	**9.3**	
Adjusted CA Norm	**9.3**	
CA Gap	**-0.3**	**15.6**
o/w Relative policy gap	-3.3	
Elasticity	-0.4	
REER Gap (in percent)	**0.9**	**-44.6**

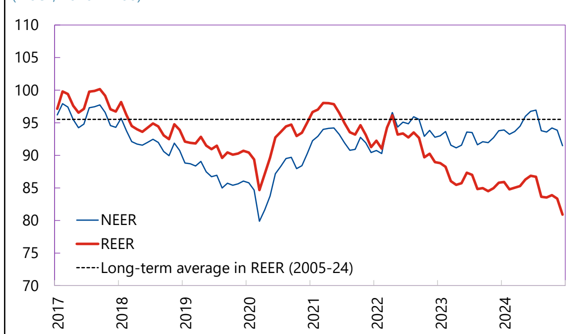
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER in 2024 depreciated by 1.6 percent and reached 11 percent (below its two-decade average). However, as the main supporters of CA, i.e., fishing licenses and grants, are inelastic to REER, the CA elasticity to REER is just -0.4 in the CA model. Because of this low elasticity and the exogeneity of the NEER, fiscal policy and structural reforms should be the main instruments to adjust external imbalances.

Assessment. The EBA-lite CA model indicates that the REER in 2024 was overvalued by 0.9 percent relative to the exchange rate implied by its CA gap. The assessment comes with the same caveats as the CA assessment.

Real and Nominal Effective Exchange Rates
(Index, 2010 = 100)

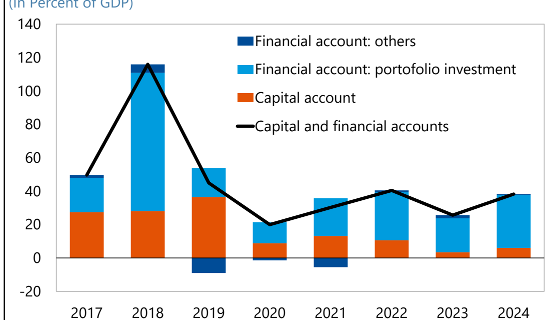


Sources: Information Notice System (INS); and IMF Staff Calculations.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account, mainly composed of government grants and contributions to the TTF, is estimated to have been 6.0 percent of GDP in 2024. The financial account surplus is estimated to have increased to 32.2 percent of GDP in 2024, mainly driven by portfolio investment. Tuvalu receives virtually no FDI inflows or outflows.

Current Account Financing (Capital and Finacial Accounts)
(In Percent of GDP)



Sources: Country Authorities; and IMF Staff Estimates.

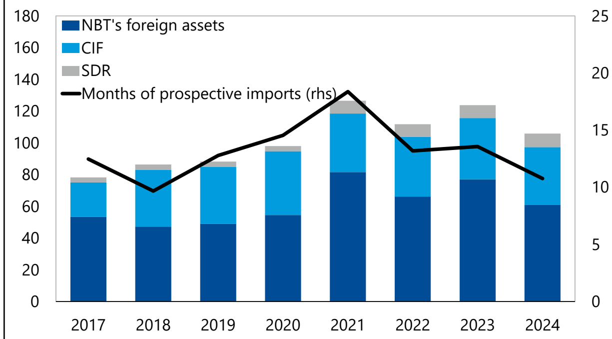
Assessment. Financial flows can be volatile as swings in international financial markets can significantly affect the performance of the TTF. However, the large financing needs in the medium term, driven by the widening CA deficit due to the expected fiscal deficits, will require an increase in external debt. Continuing to pursue grant financing and highly concessional loans can lessen the debt burden, while fiscal consolidation together with structural reforms can help reduce the CA deficit in the first place. Structural reforms that develop the private sector facilitating FDI can also bring new sources of external flows.

FX Intervention and Reserves Level

Background. As Tuvalu does not have its own central bank, the gross official reserves are calculated as the total of foreign assets of the National Bank of Tuvalu, the Consolidated Investment Fund (CIF), and SDR holdings. By end-2024, the gross official reserves are estimated at USD 69.9 million, with the import coverage at 10.8 months of prospective imports.

International Reserves

(In Millions of Australian Dollars in Lhs; and in Months in Rhs)



Sources: Country Authorities; and IMF Staff Estimates.

Assessment. Tuvalu's ability to adopt an independent currency remains limited, and the Australian dollar provides a strong nominal anchor. The reserve coverage was sufficient in 2024, as it remained above the recommended adequate level for Tuvalu, assessed to be around 10-12 months of imports[2]. The reserve coverage is expected to decrease gradually to 10 months of imports in the medium term. While the coverage remains broadly stable, the government needs to maintain an adequate import coverage to have space to implement countercyclical macroeconomic policies when required, and to absorb international shocks. Structural reforms to increase CA inflows and fiscal consolidation will help to maintain reserve coverage. Additionally, implementing institutional changes to reduce macroeconomic risks and executing infrastructure projects to build resilience to climate, will reduce the need of holding high levels of international reserves.

[1] On the detail methodology, see IMF (2024), "EBA-lite 3.0 Model and Methodology". However, the estimation for Tuvalu is just approximately due to data restriction.

[2] The adequate level is estimated based on IMF (2016), "Guidance Note on the Assessment of Reserve Adequacy and related Considerations". However, the estimation for Tuvalu is impacted by limitations in data availability.

Source of Risks	Relative Likelihood	Expected Impact on Economy	Policy Response
Global Risks			
Trade Policy and Investment Shocks	**High** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**Medium** Further increases in food and energy prices would worsen food and energy security. High fuel cost would also weaken growth prospects in the medium term.	• Support the small-scale food production and enhance the resilience of coastal fisheries. • Improve transport connectivity through implementing infrastructure projects. • Targeted support for vulnerable groups in lieu of general subsidies.
Tighter Financial Conditions and Systemic Instability	**Medium** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Exports are minimal and main spillover may be through poor returns from the Tuvalu Trust Fund (TTF). An abrupt market adjustment could reduce the net asset value and returns of TTF thereby reducing transfers from Consolidated Investment Fund (CIF) to the government.	• Increase buffers by saving the transfers from TTF to CIF. • Ensure that the minimum balance target of the CIF is maintained. • Increase expenditure efficiency by identifying areas where savings could be achieved while maintaining capital expenditure.
Commodity Price Volatility	**Medium** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**High.** An increase in global commodity prices, especially for food and fuel, could increase domestic inflation pressure and worsen current account balance given Tuvalu's high reliance on commodity imports.	• Support the small-scale food production and enhance the resilience of coastal fisheries. • Improve transport connectivity through implementing infrastructure projects. • Targeted support for vulnerable groups in lieu of general subsidies.
Deepening Geo-Economic Fragmentation	**High** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**Medium** Given Tuvalu's narrow production base and reliance on imports, trade disruptions and FX volatility would impact inflation and growth. Weaker international cooperation could delay or reduce external grants.	• Seek to diversify the economy. • Support the small-scale domestic food production, such as the coconut industry, and enhancing the resilience of coastal fisheries. • Strengthen fiscal buffers.
Cyberthreats	**High** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	**High** Tuvalu's underdeveloped cyber infrastructure makes it vulnerable to cyberattacks. This can result in large economic and financial losses and hamper the delivery of critical government services.	• Strengthen cyber infrastructure and regulatory frameworks to combat cybercrimes. • Conduct effective cybersecurity awareness programs for users, including building local capacity.
Climate Change	**Medium** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**High** Increased incidence of natural disasters with large fiscal costs for recovery efforts would put pressure on the fiscal and lowering of potential output. Recovery after cyclone Pam was estimated at above 30 percent of GDP in 2015.	• Strengthen fiscal buffers. • Increase infrastructure investment that bolsters resistance to rising sea levels and cyclones. • Build institutional capacity and strengthen the PFM framework.

Source of Risks	Relative Likelihood	Expected Impact on Economy	Policy Response
Domestic Risks			
Loss of Correspondent Banking Relationship (CBR)	**High** With a single domestic bank in Tuvalu maintaining CBRs with only a few banks and the temporary loss of the CBR in 2022, CBR risk is high.	**High** Loss of CBRs would disrupt international payments and receipts and create a balance of payments crisis.	• Seek an expansion of CBR leveraging the assistance of development partners. • Improve AML/CFT framework and supervision
Heavy Reliance on Volatile Fishing Revenues and uncertain grant flows	**High** Fishing license fees—the main source of government revenues—are volatile, and vulnerable to changes in climate patterns. Similarly, volatility in grants creates large swings in the fiscal balance.	**High** Protracted decline in fishing revenues would endanger long-run fiscal sustainability. Delayed or reduced grants could create significant fiscal pressures. On the upside, higher than expected fishing revenues and grants could accelerate growth.	• Continue implementation of the medium-term fiscal framework and save excess fishing revenue. • Broaden revenue base and conduct fiscal consolidation.
Poor Performance of State-Owned Banks and Non-Financial Enterprises	**High** Poor governance of SOE governance, lack of effective bank supervision would lead to a high NPLs constraining banks' lending capacity and increasing reliance on government support.	**High** The constrained bank lending capacity would hinder financial inclusion, hurting potential growth. Weak financial performance of SOEs creates contingent liabilities to the government.	• Implement effective regulation and supervision of banks. • Advance SOE reforms and improve SOE performance.
Acceleration of outward migration	**High** Tuvalu faces risks of larger than expected emigration through seasonal worker schemes and permanent migration.	**High.** While emigration increases remittances and supports consumption, an acceleration of outward migration could worsen labor shortage and affect long-term growth prospects.	• Building skilled and productive workforce through education and training. • Effective reintegration programs of returnee migrants into the local economy.

* The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex VII. Data Issues

Annex VII. Table 1. Tuvalu: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	C	C	C	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	C	C	C		
Granularity 3/	C		C	C	C		
			B		C		
Consistency			C	C		C	
Frequency and Timeliness	D	C	B	D	D		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Overall data provided to the Fund has some shortcomings that somewhat hamper surveillance, partially reflecting the capacity issues for a small island country. **National Account.** The authorities produce annual data on GDP, assisted by IMF TA. However, GDP is only based on production approach with significant revisions and lags, hampering the accurate assessment of the current economic conditions. **Prices.** The authorities publish quarterly CPI data with components. The frequency and timeliness can be improved. The delays in updating CPI weights hinder the representation of current expenditure patterns. **GFS.** The authorities publish data on fiscal operations and public debt of the central government in the budget documents and provide monthly data on fiscal developments. Tuvalu's general government debt and central government debt are the same. Government domestic debt and SOE debt are collected from the National Bank of Tuvalu and are included in the Debt Sustainability Analysis, but there are lags in data availability. Fiscal data have a good coverage of above-the-line items for the central government but will benefit from expanding coverage to general government, including special funds and local governments, and reporting below-the-line items to ensure consistency. **External.** The authorities produce data on the external sector, assisted by IMF TA. The authorities also publish monthly data on International Merchandise Trade Statistics, which support team's surveillance. However, BOP's errors and omissions are sizable, and the timeliness should be improved. Since Tuvalu does not have a central bank and uses the Australian dollar as its legal tender, IMF staff estimates the international reserves based on the sum of foreign assets of National Bank of Tuvalu and the Consolidated Investment Fund and SDR holdings. Data limitations may affect the assessment on the external sector including reserve adequacy. **Monetary and Financial.** The authorities do not produce monetary and financial statistics. Staff estimates data on the monetary and financial sectors based on information provided by the two state-owned banks and Tuvalu National Provident Fund (TNPF), but data quality and timeliness issues may hamper surveillance.

Changes since the last Article IV consultation. The authorities have made some progress in enhancing statistics capacity, improving data compilation, and increasing staffing in the statistical division. The MoF has been able to produce monthly data on fiscal developments based on the Financial Management Information System (FMIS). The authorities started to publish fiscal risk reports in 2024, which include some SOEs' debt and financial indicators. The authorities have issued a Ministerial Order To strengthen SOE reporting. The recent IMF TA noted the improvements in the availability of source data for the national accounts statistics, which helped update the estimates of GDP for 2021 to 2024.

Corrective actions and capacity development priorities. The authorities agreed with staff's recommendations on strengthening institutional capacity through further increasing statistics personnel, improving knowledge management to address high staff turnover, and implementing recommendations from IMF TA. The activities of local government, off-budget funds, off-budget donor activities should be reported with more granularity. The authorities should also request data reporting from the two banks and the TNPF to compile the data on the financial sector. The statistical division should continue to expand its website and maintain the data to be as up to date and comprehensive as possible. CD priorities include strengthening statistics on GDP, Government Finance Statistics, financial sector statistics, and the external sector including BOP and IIP.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff estimates the international reserves as the sum of foreign assets of National Bank of Tuvalu and the Consolidated Investment Fund and SDR holdings. Staff also estimates data on the monetary and financial sectors based on information provided by two banks and the TNPF.

Other data gaps. Data on labor market conditions, including frequent data on unemployment rates and labor participation by gender and age.

Annex VII. Table 2. Tuvalu: Data Standards Initiatives

Tuvalu participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in April 2013 but is yet to disseminate the data recommended under the e-GDDS.

Annex VII. Table 3. Tuvalu: Table of Common Indicators Required for Surveillance

As of June 30, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Tuvalu[8]	Expected Timeliness[6,7]	Tuvalu[8]
Exchange Rates[1]	06/2025	06/2025	D	NA	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2024	04/2025	A	I	M	...	1M	...
Reserve/Base Money[2]	NA	NA	NA	NA	M	...	2M	...
Broad Money[2]	NA	NA	NA	NA	M	...	1Q	...
Central Bank Balance Sheet[2]	NA	NA	NA	NA	M	...	2M	...
Consolidated Balance Sheet of the Banking System[2]	NA	NA	NA	NA	M	...	1Q	...
Interest Rates[2]	NA	NA	NA	NA	M	...	...	...
Consumer Price Index	2025Q1	04/2025	Q	I	M	Q	2M	2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	...	...	...	...	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	01/2025	02/2025	M	I	Q	A	1Q	9M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2024	06/2025	A	A	Q	A	2Q	9M
External Current Account Balance	2023	04/2025	A	I	Q	A	1Q	8M
Exports and Imports of Goods and Services	06/2024	11/2024	M	I	M	A	12W	7M
GDP/GNP	2024	05/2025	A	I	Q	A	1Q	7M
Gross External Debt	2024	05/2025	A	I	Q	...	2Q	...
International Investment Position	2023	04/2025	A	I	A	...	3Q	...

[1] Tuvalu does not have a central bank and uses the Australian dollar as its legal tender. The official reserves are calculated as the sum of foreign assets of National Bank of Tuvalu and the Consolidated Investment Fund and SDR holdings.
[2] Tuvalu does not have a central bank. Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

TUVALU

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 31, 2025

Prepared By | Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of June 30, 2025)

Membership Status
Joined June 24, 2010; Article VIII

General Resource Account

	SDR Million	% Quota
Quota	2.50	100.00
Fund holdings of currency (Exchange Rate)	1.89	75.72
Reserve Tranche Position	0.61	24.32

SDR Department

	SDR Million	% Allocation
Net cumulative allocation	4.08	100.00
Holdings	3.47	85.04

Outstanding Purchases and Loans: None

Financial Arrangements: None

Overdue Obligations and Projected Payments to the Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.01	0.02	0.02	0.02	0.02
Total	**0.01**	**0.02**	**0.02**	**0.02**	**0.02**

Exchange Rate Arrangements
Tuvalu's legal tender is the Australian dollar. There is no central monetary institution. The National Bank of Tuvalu (NBT) is the only commercial bank in Tuvalu handling foreign exchange transactions. Tuvalu has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions.

Article IV Consultation
The previous Article IV consultation discussions were held in April 2023. The staff report (IMF Country Report No. 2023/267) was discussed by the Executive Board on July 10, 2023. Tuvalu is on a 24-month consultation cycle.

Technical Assistance
Pacific Financial Technical Assistance Centre (PFTAC) has provided assistance on tax policy and administration, public financial management, financial sector supervision, macro-fiscal modeling, government finance statistics, and balance of payments and national accounts statistics compilation. IMF headquarters provided assistance on external sector statistics.

Resident Representative
The Regional Resident Representative Office for Pacific Islands is based in Suva, Fiji and was opened on September 13, 2010. The office covers Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Mr. Neil Saker is the current resident representative.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank Group:

http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=TV

Asian Development Bank: https://www.adb.org/countries/tuvalu/main

Pacific Financial Technical Assistance Center:

https://www.pftac.org/content/PFTAC/en1/capacity-development/countries-wp1.html

RELATIONS WITH PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE (PFTAC)

(As of June 2025)

Technical assistance is provided by the Pacific Financial Technical Assistance Center (PFTAC). Given its small size and limited absorptive capacity, Tuvalu has been a moderate recipient of support, with 29 TA days delivered in FY2024 but increased to 180 TA days in FY2025. PFTAC has recently provided assistance on Macroeconomic Programming and Analysis, Real Sector and Finance Statistics, Public Financial Management, Revenue Administration, and Financial Sector Supervision. This engagement has supported the development of medium-term fiscal frameworks, improvements in tax administration, and enhanced financial sector oversight.

The workplan for FY2026 focuses on the same areas as in previous years. A total of 126 TA days are planned. Priorities include: (i) follow up on the enhancement of prudential and risk management standard and review off-site financial risks analysis, (ii) update GDP compilation and improve used methods and data sources, (iii) implement quarterly budget execution reporting, and (iv) improve tax audits and revenue administration, implement and enhance compliance improvement strategy, and manage large taxpayers.

TUVALU

July 31, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Corinne Deléchat and Jay Peiris (IMF) and Manuela Francisco and Lalita Moorty (IDA)

Prepared jointly by the staff of the International Monetary Fund (IMF) and International Development Association (IDA).[1]

Tuvalu: Joint Bank-Fund Debt Sustainability Analysis	
Risk of External Debt Distress:	High
Overall Risk of Debt Distress:	High
Granularity in the Risk Rating:	Sustainable
Application of Judgement:	Yes. The projection horizon was extended to 20 years to capture the impact of natural disasters and climate change on debt dynamics.

Tuvalu remains at a high risk of debt distress, unchanged from the 2023 Debt Sustainability Analysis (DSA). Consistent with the previous DSA, judgment was applied to extend the projection horizon to 20 years as opposed to the standard 10 years to capture Tuvalu's vulnerability to natural disasters and the effects of climate change on debt dynamics. Tuvalu is projected to face persistent fiscal deficits going forward. The mechanical external and overall risk rating is moderate based on the first 10 years of projections since none of the debt burden indicators breach their thresholds[2] under the baseline, while the Present Values (PV) of external and public debt-to-GDP ratio breach their thresholds under the stress tests. However, these ratios are projected to breach thresholds under the baseline scenario in the long run, making the final external and overall risk of debt distress high. Despite upward trending debt burden indicators, Tuvalu's debt is assessed as

[1] This DSA has been prepared jointly by the IMF and World Bank, following the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (2018).

[2] Tuvalu's Composite Indicator (CI) index indicates that the country's debt-carrying capacity remains weak (2.58) based on the IMF's 2025 April World Economic Outlook (WEO) and the 2023 World Bank Country Policy and Institutional Assessment (CPIA).

sustainable. This assessment assumes continued access to external budget support on concessional terms from development partners, low debt service ratios throughout the projection horizon, and some cash buffers in the Consolidated Investment Fund (CIF) to finance deficits. Risks to debt sustainability remain high due to elevated current spending, high reliance on volatile fishing revenues and grants, and risks of natural disasters. This underscores the importance of reining in fiscal deficits, improving public financial management and implementing structural reforms, ensuring good cooperation with donors, and securing grants needed to fulfill the country's large development needs and climate adaptation efforts.

PUBLIC DEBT COVERAGE

1. **Tuvalu's liabilities covered in this Debt Sustainability Analysis comprise debt of the budgetary central government and SOEs (Text Table 1).** Although Tuvalu does not compile government finance statistics at the general government level, a recent technical assistance report estimates that both revenue and expenditure of local governments are below 5 percent of budgetary central government.[3] Tuvalu does not have a central bank. The data on domestic debt of the government and SOEs are from the National Bank of Tuvalu (NBT), which is appropriate for debt sustainability analysis. The last guaranteed loan was settled in 2018, and there have been no new guarantees since then.[4] The authorities, however, may be asked to step in and cover existing, non-guaranteed SOE loan obligations if an SOE were unable to fulfill, given that the corporations are wholly owned by the government. Thus, SOE debt is included in the baseline definition of public debt. The definition of external and domestic debt is based on residency. All external debt is on a concessional basis.

Text Table 1. Tuvalu: Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	X

2. **The debt reporting and transparency have improved.** The 2024/25 budget document includes a dedicated section on public debt, providing detailed information on creditors, currency composition, maturity structure, and debt service schedule. The budget document also states that there is no publicly guaranteed debt. Information about SOEs' debt is not included in the budget document, while the government's Fiscal Risk Report included debt information for a few SOEs. Domestic government debt and

[3] IMF (2023), Technical assistance report: "Tuvalu Government Finance and Public Sector Debt Statistics Mission."

[4] FY2025-26 budget document.

SOE debt in this analysis are collected by observing NBT's assets. The debt reporting heat map published by the World Bank reports improvement in 2024, reflecting the publication of the first Fiscal Risk Report.[5] Tuvalu has also issued a Ministerial Order on Public Enterprise Monitoring Reporting, setting simplified reporting standards for monitoring SOEs' finances in 2025.

3. The DSA includes a combined contingent liabilities stress test aimed at capturing the public sector's exposure to a financial market shock (Text Table 2). The SOE's debt shock has been reduced to 0 percent of GDP because the government-guaranteed and non-guaranteed debt is captured in the baseline under the country's public debt definition. The Public Private Partnerships (PPPs) shock is set to 0 as there are no PPPs in Tuvalu. The contingent liabilities stress test is based on the default values for the financial market component (5 percent of GDP) because the financial sector in Tuvalu is limited, comprising two banks and the public sector pension fund, where both the largest bank and the pension fund are relatively well capitalized based on the latest data (2023).

Text Table 2. Tuvalu: contingent Liabilities Stress Test

1	**The country's coverage of public debt**	The central government, government-guaranteed debt, non-guaranteed SOE debt		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	In the baselnie
4	PPP	35 percent of PPP stock	0.0	No PPP
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

4. Tuvalu is one of the smallest, most remote, and climate-change-vulnerable countries in the world, categorized as a Fragile and Conflict-Affected State (FCS). Tuvalu is estimated to have a GDP of around US$65 million and a population of 9,853 in 2024. It has underdeveloped structural economic conditions and heavily depends on international grants and donor-financed Tuvalu Trust Fund (TTF) reserves to absorb shocks. Income derives primarily from fishing license fees, dot TV internet domain licenses, trust fund investments, foreign aid, and remittances. The public sector dominates the economy. The use of the Australian dollar as legal tender and limited monetary policy options make fiscal policy critical. Tuvalu is one of the most vulnerable climate-change-exposed countries in the world, with its annual

[5] See https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report/2024.

climate adaptation need estimated to be more than 30 percent of GDP, according to staff estimates based on WB CCDR.[6] Natural disasters disrupt fiscal planning and substantially alter budgeted outcomes.

5. **Total public debt as of end-2024 is 11.1 percent of GDP** (Text Table 3). Since the 2023 DSA, the government has continued to pay down external debt. The debt to the Asian Development Bank (ADB) for the establishment of the Falekaupule Trust Fund was paid off in 2023. The remaining debts are those to the ADB and the International Cooperation and Development Fund (ICDF) of Taiwan Province of China. Debt to the ADB is for the Tuvalu Maritime Training Center, and debt to the ICDF is for the Tuvalu Convention Center. The debt to the ADB is denominated in Special Drawing Right (SDR) with a maturity of 32 years, and the debt to the ICDF is denominated in U.S. dollars with a maturity of 10 years. The domestic financing by both the government and SOEs from the NBT increased in 2024 compared to 2023.

Text Table 3. Tuvalu: Public and Publicly Guaranteed Debt

In millions of AUS$	2021	2022	2023	2024
Government debt to ADB (SDR)	3.5	2.9	2.7	2.5
Government debt to ICDF (US$)	2.4	2.0	1.7	1.1
Public debt to NBT (AUS$)	2.8	4.1	4.0	5.9
Total	8.7	9.0	8.4	9.5
In percent of GDP				
Government debt to ADB (SDR)	4.3	3.7	3.6	2.9
Government debt to ICDF (US$)	2.9	2.6	2.2	1.3
Public debt to NBT (AUS$)	3.4	5.2	5.2	6.9
Total	10.6	11.5	11.0	11.1

6. **Tuvalu's external assets remain sizable but are not fully available to meet fiscal needs.** The market value of the Tuvalu Trust Fund (TTF) is nearly 300 percent of GDP. However, the market value was below the maintained value over the past three years, and thus, drawdowns were restricted. The Consolidated Investment Fund is around 40 percent of GDP. The drawdowns, however, are restricted to the portion above 16 percent of the TTF maintained value. Thus, despite the large assets, the portion of the assets that can be used for financing the fiscal deficit is minimal. The constraints will be binding should the market value of the TTF remain below the maintained value.[7] In addition to the TTF and CIF for budget purposes, Tuvalu has the Tuvalu Survival Fund as resources for disaster relief and the Tuvalu Development Fund for the management of donor funded projects, worth slightly above 10 and 20 percent of GDP at the end of 2024 respectively.

[6] Dao, Gonguet, Han, Lim, and Nawar (forthcoming), "Climate Finance and Adaptation Needs in Pacific Island Countries," and WB CCDR (https://openknowledge.worldbank.org/entities/publication/81cd0369-b80a-4d77-8968-c2ed5c704d55).

[7] For details on the TTF and CIF withdrawal rules, see Debt Sustainability Analysis for the 2023 Article IV consultation.

BACKGROUND ON MACRO FORECASTS

7. The baseline assumptions underpinning the DSA are as follows (Text Table 4):

Text Table 4. Tuvalu: Baseline Macroeconomic Assumptions
(In percent of GDP unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2015-2024 Historical average	2025-2035 Projection average
Current DSA											
Real GDP growth (percent)	-11.8	4.0	3.1	3.0	2.6	2.7	2.3	2.0	1.8	2.5	2.0
GDP deflator growth (percent)	8.2	-6.4	9.0	2.2	2.4	2.7	2.7	2.6	2.5	4.9	2.5
Revenue 1/	101.2	155.7	110.3	123.3	118.8	115.3	113.5	112.1	110.8	125.7	112.8
Primary expenditure	115.3	138.7	118.3	122.0	121.1	118.9	117.9	117.0	116.2	118.7	117.6
Primary fiscal balance	-14.1	17.0	-8.0	1.3	-2.3	-3.6	-4.3	-4.9	-5.4	7.0	-4.8
Import	105.8	133.6	128.0	131.0	134.1	137.2	138.6	139.8	140.8	127.3	138.7
Export (incl. fishing licenses)	52.6	78.4	65.6	62.9	61.8	61.1	60.6	60.3	60.2	68.9	60.7
Current account	-0.3	40.0	7.3	14.9	5.5	-0.4	-2.4	-3.9	-5.1	13.4	-2.2
Previous DSA											
Real GDP growth (percent)	0.7	3.9	3.5	2.4	2.2	2.1	2.0	1.9	1.9	3.8	1.9
GDP deflator growth (percent)	5.5	6.0	4.0	3.9	3.5	3.2	3.0	2.9	2.6	5.1	2.8
Revenue 1/	128.2	123.6	122.2	116.2	114.8	114.1	113.4	112.6	111.8	127.8	111.8
Primary expenditure	118.8	122.2	120.8	119.2	118.4	118.3	118.1	117.4	117.0	119.1	117.1
Primary fiscal balance	9.4	1.5	1.4	-3.0	-3.6	-4.1	-4.6	-4.9	-5.2	8.7	-5.2
Import	97.2	117.3	120.4	120.2	120.8	121.0	120.0	120.0	119.9	124.9	119.9
Export (incl. fishing licenses)	49.4	47.5	58.7	58.5	59.8	60.1	60.3	61.8	61.9	65.1	61.2
Current account	4.6	2.4	-1.2	-4.3	-4.8	-5.4	-4.9	-4.1	-4.1	8.3	-4.8

1/ Since the DSA includes SOE debt, revenue in the DSA includes the assumption that SOEs can finance their own debt service, as in the previous DSA.

- **Economic Growth.** The economy has continued to recover from the COVID-19 pandemic and is projected to grow by 3 percent in 2025, driven by the externally financed infrastructure projects in the construction sector and an increase in public spending. The direct impact of recent trade tensions on Tuvalu is expected to be limited given Tuvalu's small export base. Growth is expected to slow to 2.6 percent in 2026 and moderate over the long term, falling below 2 percent due to low capital investment and sluggish TFP growth, weak competitiveness, adverse climate events, and emigration pressures. Compared to the 2023 DSA, growth is stronger in the near term, with a slight downward revision in the long run considering elevated emigration pressure.

- **Inflation.** Inflation has eased considerably since the peak of 2022 during the COVID-19 pandemic, reflecting the decline in food prices. Over the medium term, the inflation is projected to converge to the inflation of Tuvalu's main trading partners at 2.5 percent, which is subject to the changes in global food and energy prices. Compared to the 2023 DSA, near-term inflation is revised downward, reflecting recent data.

- **Fiscal balance.** Fiscal balances have been volatile, swinging from -14 percent of GDP in 2022 to 17 percent of GDP in 2023, and to -8 percent of GDP in 2024, mainly driven by volatile fishing license fees and grants. Net lending/borrowing is projected to be around -6 percent of GDP in 2030. Although Tuvalu is expected to continue to receive sizable grants in the forecast horizon, the amount in percent of GDP is projected to gradually decline over the medium term due to uncertainty surrounding donor commitments. Fishing license fees are projected to grow at a slower pace than GDP, reflecting historical levels and uncertain weather patterns. Spending on purchase of goods and services and Tuvalu Overseas Medical Referral Scheme (TOMRS) are projected to decline gradually from the high levels during the pandemic, but expenditure on compensation of employees and government programs like scholarships is projected to remain elevated. Capital investment is projected to remain close to 12 percent in the long term, supporting development goals and climate resilience. Compared to the 2023 DSA, both revenue and expenditure are revised upward in the near term, reflecting higher projected grants and budget allocations, but remain similar in the long run.

- **Balance of payments.** The current account is estimated to remain in surplus in 2024, following a sizable surplus in 2023, reflecting the dynamics of fishing license fees and grants. Over the medium term, the current account is projected to develop a moderate deficit, in line with developments in the fiscal balances. Exports of goods and services (including fishing licenses) are projected to remain stable. Imports are projected to remain elevated due to the ongoing infrastructure investment. Foreign direct investment is projected to remain limited. Compared to the 2023 DSA, the current account balance is revised upward in the near term, reflecting the large surplus in 2023, but remains similar in the long run.

- **Government borrowing.** The government is projected to fund fiscal deficits with transfers from the CIF first, subject to the existing rule of leaving at least 16 percent of the TTF maintained value in the CIF. The TTF market value is projected to grow at 1 percent above Australia's inflation rate, generating a modest return to finance a part of the projected deficits. When CIF transfers are insufficient to fund the deficit, the authorities are projected to borrow externally on concessional terms from multilateral institutions, with 1.5 percent interest and 32 years of maturity after 8 years of grace period.[8] The government is adhering to zero non-concessional borrowing, as per the IDA Sustainable Development Financing Policy (SDFP).

8. **Realism tools suggest that projections are reasonable (Figures 3 and 4).** The paths for public and external debt are projected to rise at a similar pace as in the 2023 DSA, but the year when debt ratios start to increase is delayed. The current account, which is highly volatile in a small fragile economy like Tuvalu, is the main component behind unexpected changes in external debt dynamics. Large residuals in

[8] The terms are in line with the loans from the ADB.

public debt are explained by the financing of the deficit by the CIF. The paths for fiscal adjustment and growth are on the high side of the cross-sectional distributions, although the size is moderate compared to the volatility of historical data. GDP growth and fiscal balance may not always be linked mechanically due to a large share of off-budget investment projects in the former and a large share of non-tax external revenue sources in the latter, such as grants and fishing license fees. The long-run growth projections are based on significant structural challenges such as remoteness, which raises the costs of doing business/trading with the rest of the world, low access to credit, the dominance of the public sector, and weak private sector growth. The rebound of government investment is projected to be modest due to capacity constraints, and on a more realistic path than in the previous DSA given the recent data points. Real GDP growth is expected to be driven by donor-financed projects outside of the government budget.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Tuvalu's debt-carrying capacity is classified as weak (Text Table 5). The Composite Indicator (CI) stands at 2.58, indicating that the country's debt-carrying capacity is weak in the LIC-DSA framework. The CI score remains similar to the 2023 DSA.

Text Table 5. Tuvalu: Country Policy and Institutional Assessment Rating and Debt Thresholds

			Current Period		Previous Period	
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components	CI Score components	Contribution of components
CPIA	0.39	2.85	1.10	43%	1.10	43%
Real growth rate	2.72	1.58%	0.04	2%	0.08	3%
Import coverage of reserves	4.05	57.96%	2.35	91%	2.35	91%
Import coverage of reserves^2	-3.99	33.60%	-1.34	-52%	-1.34	-52%
Remittances	2.02	1.22%	0.02	1%	0.02	1%
World economic growth	13.52	2.97%	0.40	16%	0.39	15%
CI Score			2.58	100%	2.59	100%

10. Based on the CI rating, Tuvalu's debt is assessed against the lowest threshold designated in the context of the LIC DSA (Text Table 6). With "weak" classification, Tuvalu is assessed against a threshold of 35 percent for the PV of public debt-to-GDP ratio, 140 percent for debt-to-export ratio, 10 percent for debt-service-to-export ratio, and 14 percent for debt-service-to-revenue ratio.

11. Besides the six standardized stress tests, the analysis incorporates three tailored stress tests. They include contingent liabilities, natural disasters, and commodity prices. The combined contingent liabilities stress test is described in paragraph 3 above. A natural disaster stress test is calibrated at a one-time 30 percent of GDP shock to the external debt-to-GDP ratio, a one-off 2 percentage points decline in real GDP growth, and a standard 3.5 percentage points shock on export growth. This tailored stress test is customized in line with the impact of Cyclone Pam in 2015, as done in 2023 DSA. In addition, the commodity price shock is triggered since commodity exports exceed 50 percent of total exports over the previous three-year period. The calibration of the commodity price shock corresponds to default values generated by the DSA template.

Text Table 6. Tuvalu: Debt Thresholds

Debt carrying capacity (CI classification)	PV of PPG external debt in percent of		PPG external debt service in percent of		PV of total public debt
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70

DEBT SUSTAINABILITY ANALYSIS

A. Baseline Scenario

12. **Tuvalu's risk ratings for both external and public debt indicate a high risk of debt distress in the long term**. Although the mechanical external and overall risk rating is moderate based on the first 10 years of projections, the final external and overall risk of debt distress is assessed to be high given that the PV of both public and external debt-to-GDP ratios breach their respective thresholds from 2039 onwards. The projection horizons have been extended to 20 years, beyond the standard 10 years, to account for Tuvalu's vulnerability to natural disasters, the effects of climate change, and emigration pressure on debt dynamics.

13. **Under the baseline scenario, the PVs of both the external and public debt breach their debt-to-GDP thresholds within the first 20 years but not within the standard 10-year horizon**. Public and external debt-to-GDP ratios are projected to breach the relevant threshold by 2039 and 2038, respectively. The debt trajectory shows steady increases, reflecting persistent deficits due to elevated expenses and the need for external funding for infrastructure projects amid declining revenues. Staff assume that the authorities maintain the minimum buffer of 16 percent of the TTF value in the CIF account. All borrowing is external, given the small size and persistently low asset quality of the domestic banking system. Borrowing is assumed to be conducted on concessional terms over the entire forecast horizon. As a result, the debt service-to-revenue ratio remains below the 14 percent of the revenues-to-GDP threshold.

14. **Domestic debt is projected to remain low and fall over time (Figure 5).** Domestic debt consists of government and SOEs' loans from the National Bank of Tuvalu. The government is projected to borrow around 1 percent of GDP over the forecast horizon for liquidity management. As in 2023 DSA, SOEs are projected to pay down their loans. Compared to other countries using the LIC DSF with non-zero domestic

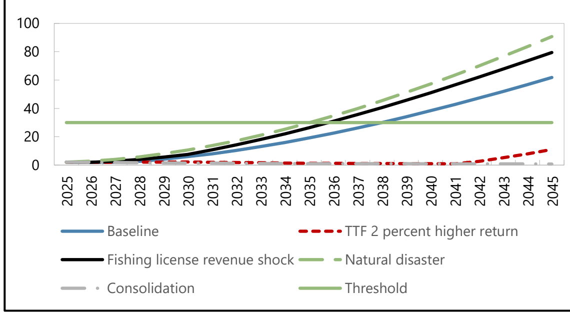
debt, both the domestic debt to GDP ratio and domestic debt service to revenues including grants are smaller. This estimation is subject to uncertainty due to data limitation on SOE debt (¶2).

15. Stress tests for both external and public debt indicate that debt ratios are highly sensitive to exports, natural disasters, and commodity price shocks. The stress test suggests that the PV of the external debt-to-GDP ratio can rise above the threshold of 30 percent by 2027 and remain above that level for the remainder of the projection period. Debt service levels, however, would remain below the 14 percent threshold due to current low debt levels and concessional terms for new debt.[9] A standard export shock results in a large increase in debt-to-exports and debt-service-to-exports ratios, crossing the relevant thresholds in 2035 and 2042, respectively. The definition of exports in the DSA includes fishing license revenues, so the export shock implies a large drop in this key revenue source and abrupt and large increases in debt. A standard commodity price shock would lead the PV of the public-debt-to-GDP ratio to rise above 35 percent by 2028 due to the high dependence on imported fuel. External debt-service-to-revenue ratio remains below the 14 percent threshold under most extreme shocks.

B. Alternative Scenarios

16. Alternative scenarios consider potential upside and downside risks on Tuvalu's debt profile. They reflect fully customized scenarios.

Tuvalu: PV of External Debt to GDP under Alternative Scenarios



- **Consolidation scenario.** The authorities' fiscal indicators aim to keep the expense-to-GDP ratio below 60 percent, staffing to non-grant revenue below 40 percent, TOMRS to non-grant revenue below 6 percent, scholarship to non-grant revenue below 5 percent, tax revenue to GDP above 20 percent, and capital expenditure to GDP above 30 percent. The consolidation scenario assumes that the fiscal variables gradually get closer to these targets. Such gradual consolidation could realistically contain the PV of external debt to GDP below the threshold of 30 percent.

- **Strong TTF returns.** Baseline projections assume the performance of the TTF is 1 percent above Australian CPI inflation. A higher return of the TTF could expand fiscal space. If the TTF return is 2 percent higher than the baseline in each year of the projection horizon, i.e., 3 percent higher than Australian CPI inflation, the PV of external debt to GDP will stay below the threshold until 2045.

- **Fishing license revenue shock.** This scenario assumes that fishing license revenue falls from 38 to 35 percent of GDP to reflect climate shocks that could affect tuna stocks from 2031. The shock

[9] The increase in debt service in 2036 reflects the expiry of the grace period of the foreign financing.

would worsen the PV of external debt to GDP to 80 percent by 2045, crossing the threshold by 2037.

- **Natural disaster.** Given the macro-criticality of climate disasters, we consider a natural disaster shock similar to the 2015 Cyclone Pam hitting the country in 2026, reducing GDP by 30 percent. Such a permanent shock on the level of GDP would cause the PV of external debt to GDP to breach the threshold by 2037.

RISK RATING AND VULNERABILITIES

17. Tuvalu remains at high risk of debt distress, similar to the conclusion of the 2023 DSA. Under the baseline scenario, Tuvalu would face persistent fiscal deficits due to elevated current spending and the need to maintain infrastructure spending while fishing revenues and grants do not grow fast enough to offset growth in expenditures. The annual climate adaptation needs are estimated to amount to more than 30 percent of GDP. Due to the weak performance of the TTF, projected deficits would entail an increase in concessional debt as soon as 2026. The debt trajectory highlights the importance of rationalizing expenses and mobilizing domestic revenue to lower the risk of debt distress while creating a fiscal buffer and extending climate adaptation efforts.

18. Despite the risk rating, debt is assessed as sustainable, given concessional sources and low debt service burden. Despite remaining in permanent breach of the PV of debt-to-GDP threshold after 2035, debt is assessed as sustainable primarily because all debt is on concessional terms, and debt service indicators remain well below their relevant thresholds. Indeed, the PV of the debt-to-GDP threshold is only breached after more than 10 years. Projections for a 20-year period are inherently uncertain, especially in the case where data quality is low, suggesting further down weighting is appropriate for far-off horizons when assessing sustainability.

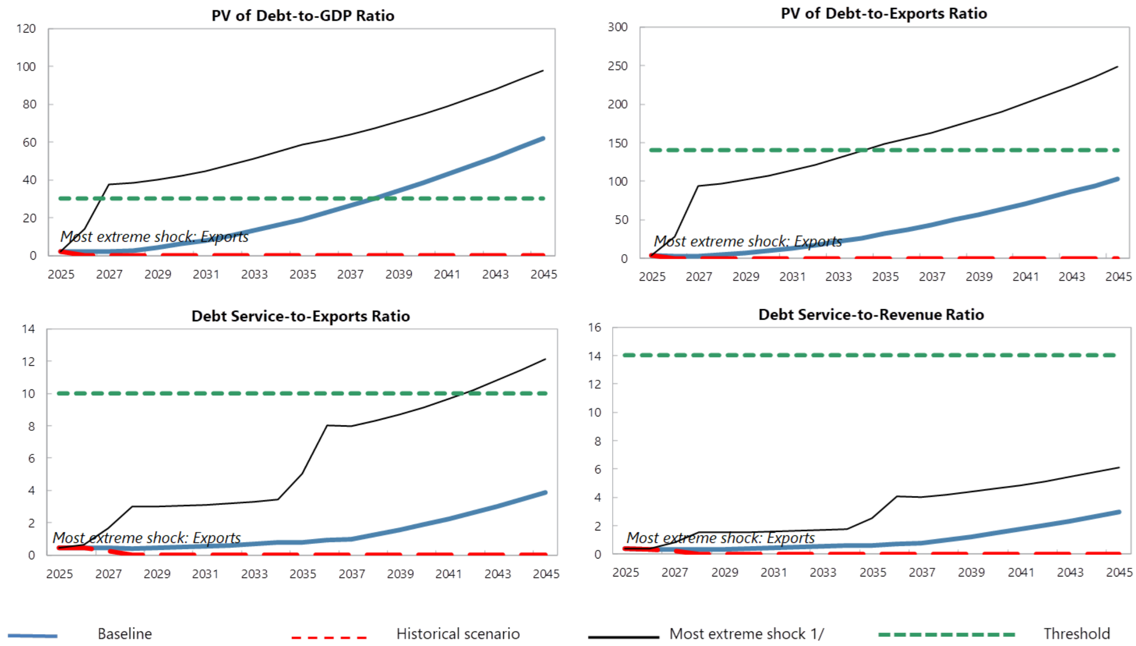
AUTHORITIES' VIEWS

19. The authorities agreed with the DSA assessment. The long-run risks associated with natural disasters and climate change, including the impact on fishing license fees, pose significant risks to debt sustainability. However, no new external debt has been taken on since 2019 and overall external debt has been decreasing in recent years. The authorities agreed on the need for fiscal adjustment to support fiscal sustainability. They also emphasized the importance of sustained support from development partners to meet climate resilience and development goals while ensuring debt sustainability.

20. In addition, the authorities noted that, to mitigate risks, they do not plan to incur any new non-concessional external debt over the short- to medium-term in line with the IDA Sustainable Development Financing Policy (SDFP) for FY25. The authorities have published the Fiscal Risk Reports in 2024 and 2025, which identified key fiscal risks and outlined mitigation strategies. Considering the auditing of SOEs' financial reports has been significantly lagging in Tuvalu, the authorities have issued a Ministerial

Order on Public Enterprise Monitoring Reporting, setting simplified reporting standards for monitoring public enterprises' finances – the second FY25 Performance and Policy Action under SDFP. The authorities agreed to publish the first public enterprise brief report based on the Ministerial Order. Institutionalizing the use of a simplified reporting template is critical to enhance fiscal transparency of public enterprises and will ensure consistent publication of the annual fiscal risk reports.

Figure 1. Tuvalu: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2025-2045



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	Yes	Yes
Commodity price	No	No
Market financing	n.a.	n.a.

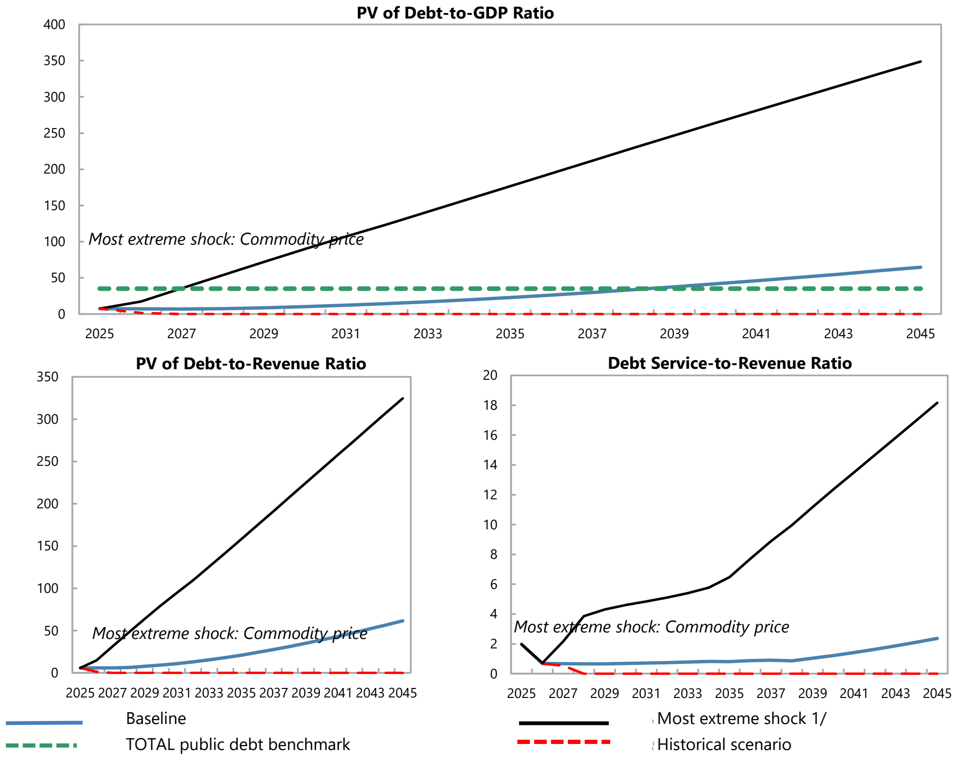
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	8	8

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Tuvalu: Indicators of Public Debt Under Alternative Scenarios, 2025-2045



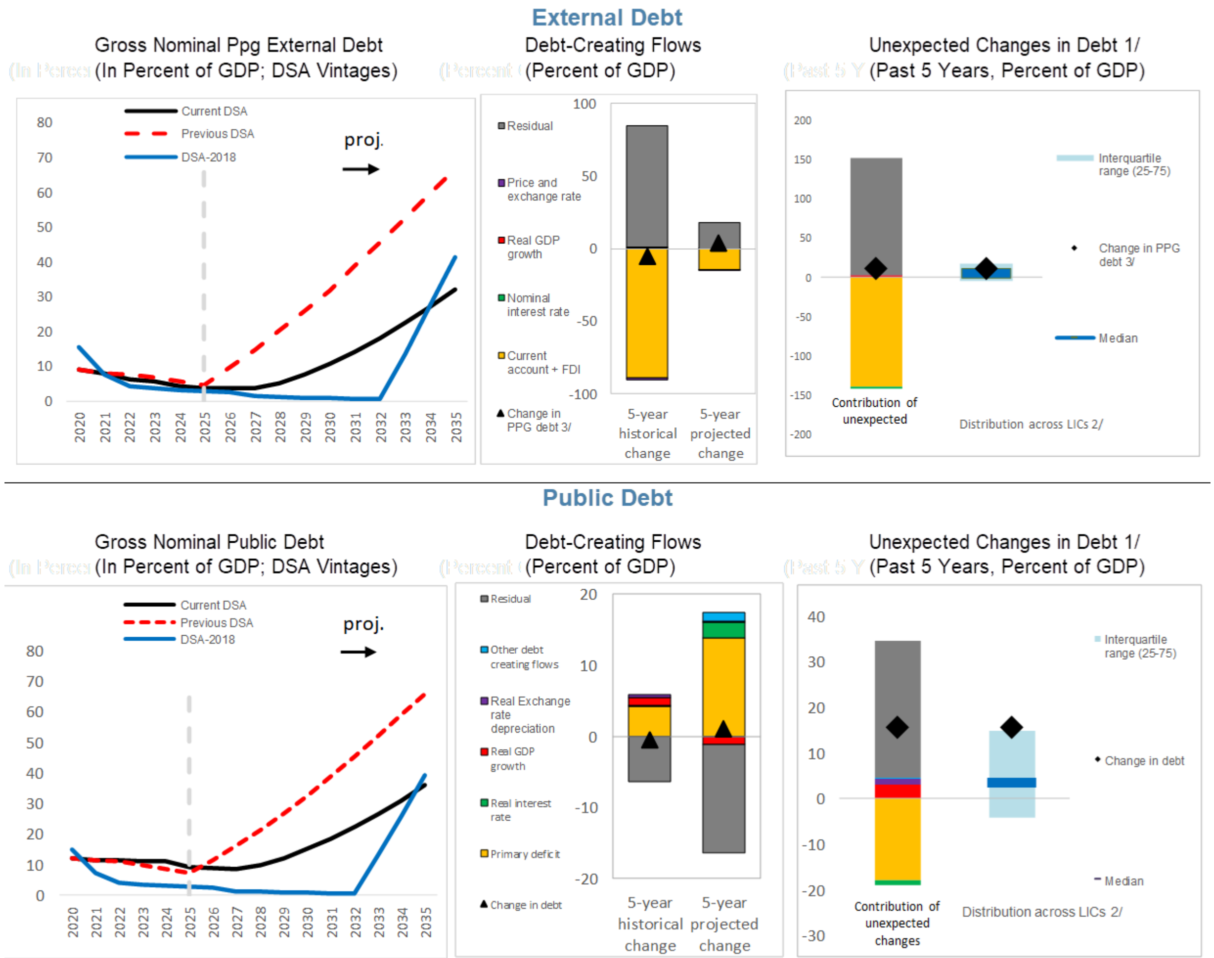
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	91%	91%
Domestic medium and long-term	0%	0%
Domestic short-term	9%	9%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-2.5%	-2.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Tuvalu: Drivers of Debt Dynamics – Baseline Scenario



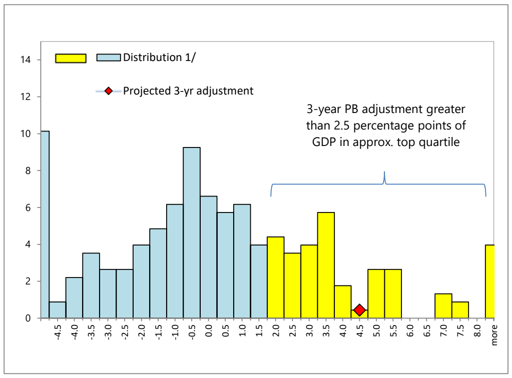
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

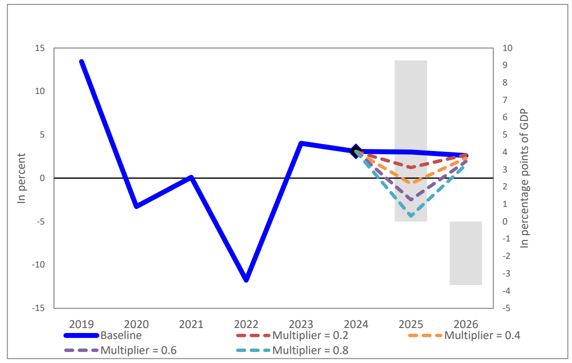
Figure 4. Tuvalu: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



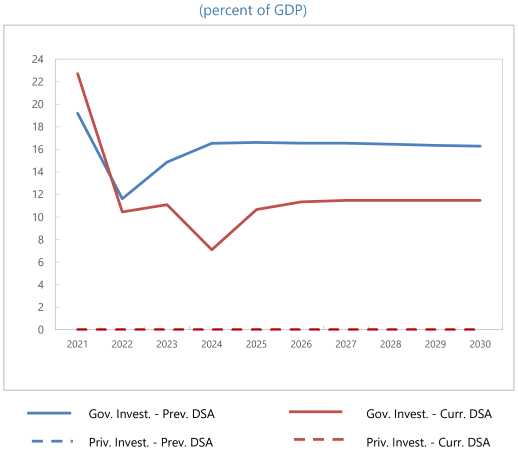
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



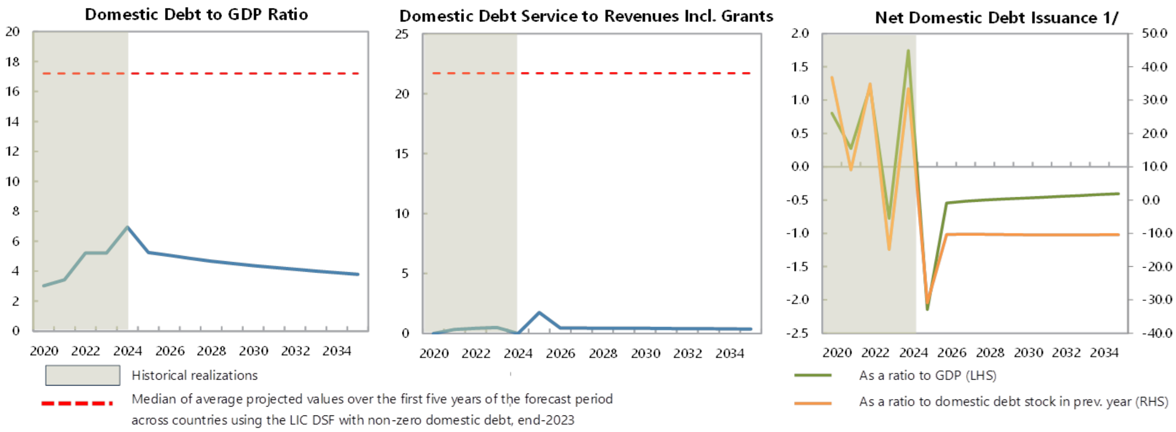
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

Figure 5. Tuvalu: Indicators of Domestic Public Debt, 2020-2035
(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	0%
Short-term	100%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	0.0%
Avg. maturity (incl. grace period)	1
Avg. grace period	0
Domestic short-term debt	
Avg. real interest rate	-2.5%

Sources: Country authorities; and staff estimates and projections.

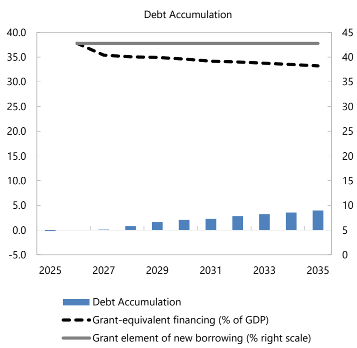
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

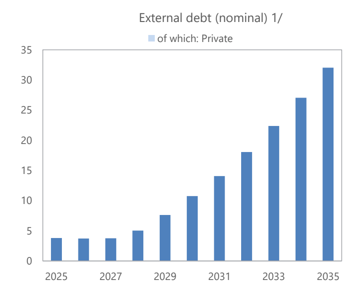
Table 1. Tuvalu: External Debt Sustainability Framework, Baseline Scenario, 2022-2045

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	**6.3**	**5.8**	**4.2**	**3.8**	**3.7**	**3.8**	**5.0**	**7.6**	**10.8**	**32.0**	**95.9**	**8.7**	**13.5**
of which: public and publicly guaranteed (PPG)	**6.3**	**5.8**	**4.2**	**3.8**	**3.7**	**3.8**	**5.0**	**7.6**	**10.8**	**32.0**	**95.9**	**8.7**	**13.5**
Change in external debt	-1.6	-0.5	-1.6	-0.4	-0.1	0.0	1.3	2.6	3.1	5.0	7.3		
Identified net debt-creating flows	**1.3**	**-39.5**	**-7.9**	**-15.0**	**-5.6**	**0.3**	**2.3**	**3.8**	**5.0**	**7.1**	**9.4**	**-13.2**	**2.0**
Non-interest current account deficit	**0.2**	**-40.0**	**-7.3**	**-14.9**	**-5.5**	**0.4**	**2.4**	**3.8**	**5.1**	**7.1**	**9.4**	**-13.4**	**2.1**
Deficit in balance of goods and services	53.2	55.2	62.4	68.2	72.2	76.1	78.0	79.5	80.6	80.6	80.6	**58.4**	**77.9**
Exports	52.6	78.4	65.6	62.9	61.8	61.1	60.6	60.3	60.2	60.2	60.2		
Imports	105.8	133.6	128.0	131.0	134.1	137.2	138.6	139.8	140.8	140.8	140.8		
Net current transfers (negative = inflow)	-23.8	-58.1	-35.0	-51.3	-45.5	-43.4	-43.0	-42.6	-42.2	-39.9	-36.0	**-43.0**	**-42.9**
of which: official	-26.3	-61.5	-35.9	-52.0	-45.8	-43.3	-42.5	-41.7	-41.1	-38.7	-34.5		
Other current account flows (negative = net inflow)	-29.1	-37.1	-34.7	-31.8	-32.2	-32.3	-32.7	-33.1	-33.3	-33.6	-35.2	**-28.9**	**-33.0**
Net FDI (negative = inflow)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.5**	**0.0**
Endogenous debt dynamics 2/	**1.1**	**0.5**	**-0.6**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		
Contribution from nominal interest rate	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.4	1.3		
Contribution from real GDP growth	1.0	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4	-1.3		
Contribution from price and exchange rate changes	0.0	0.7	-0.4	...	...	...	...	...	...	...	...		
Residual 3/	**-2.9**	**39.0**	**6.3**	**14.6**	**5.5**	**-0.2**	**-1.1**	**-1.2**	**-1.9**	**-2.1**	**-2.0**	**12.0**	**0.5**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**2.2**	**2.1**	**2.0**	**2.0**	**2.7**	**4.2**	**6.0**	**19.1**	**61.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**3.4**	**3.3**	**3.2**	**3.2**	**4.4**	**6.9**	**9.9**	**31.7**	**102.6**		
PPG debt service-to-exports ratio	**1.3**	**0.9**	**1.0**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.5**	**0.8**	**3.9**		
PPG debt service-to-revenue ratio	**0.8**	**0.7**	**0.8**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.6**	**3.0**		
Gross external financing need (Million of U.S. dollars)	0.5	-19.9	-3.8	-8.3	-3.1	0.4	1.7	2.7	3.8	6.5	14.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-11.8	4.0	3.1	3.0	2.6	2.7	2.3	2.0	1.8	1.5	1.5	**2.5**	**2.0**
GDP deflator in US dollar terms (change in percent)	0.0	-10.4	8.3	-2.7	1.8	1.9	2.2	2.3	2.6	2.5	2.5	**1.9**	**1.9**
Effective interest rate (percent) 4/	0.5	0.8	0.9	1.0	1.0	1.0	1.0	1.2	1.3	1.5	1.5	**0.9**	**1.2**
Growth of exports of G&S (US dollar terms, in percent)	-10.4	38.9	-6.7	-3.9	2.8	3.5	3.6	3.9	4.3	4.0	4.0	**10.8**	**3.1**
Growth of imports of G&S (US dollar terms, in percent)	-5.5	17.7	6.9	2.6	6.9	7.1	5.6	5.3	5.1	4.0	4.0	**6.5**	**4.8**
Grant element of new public sector borrowing (in percent)	...	...	...		42.8	42.8	42.8	42.8	42.8	42.8	42.8	**...**	**42.8**
Government revenues (excluding grants, in percent of GDP)	82.5	102.3	82.5	79.4	81.1	80.1	79.2	78.4	77.8	78.0	78.5	**95.8**	**78.7**
Aid flows (in Million of US dollars) 5/	10.2	27.0	18.0	24.9	22.5	22.1	23.3	24.8	25.9	31.6	48.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	37.8	35.4	35.1	34.9	34.6	33.2	31.5	**...**	**34.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	...	99.5	99.3	97.4	95.3	94.3	90.5	82.3	**...**	**94.6**
Nominal GDP (Million of US dollars)	54	51	56	57	59	62	65	68	71	86	128		
Nominal dollar GDP growth	-11.7	-6.8	11.6	0.2	4.5	4.7	4.5	4.4	4.4	4.0	4.0	**4.3**	**3.9**
Memorandum items:													
PV of external debt 7/	...	...	2.2	2.1	2.0	2.0	2.7	4.2	6.0	19.1	61.8		
In percent of exports	...	...	3.4	3.3	3.2	3.2	4.4	6.9	9.9	31.7	102.6		
Total external debt service-to-exports ratio	1.3	0.9	1.0	0.5	0.4	0.4	0.4	0.4	0.5	0.8	3.9		
PV of PPG external debt (in Million of US dollars)			1.3	1.2	1.2	1.2	1.7	2.8	4.2	16.4	78.9		
(PVt-PVt-1)/GDPt-1 (in percent)				-0.2	0.0	0.1	0.8	1.7	2.1	4.0	7.5		
Non-interest current account deficit that stabilizes debt ratio	1.8	-39.5	-5.7	-14.5	-5.5	0.3	1.1	1.2	1.9	2.1	2.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

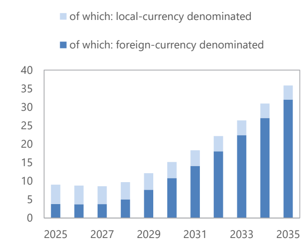
Table 2. Tuvalu: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2045

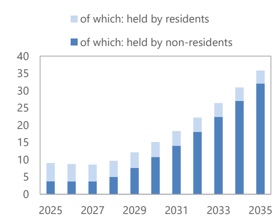
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	11.5	11.0	11.1	9.0	8.8	8.6	9.7	12.1	15.1	35.8	98.9	11.8	17.9
of which: external debt	6.3	5.8	4.2	3.8	3.7	3.8	5.0	7.6	10.8	32.0	95.9	8.7	13.5
Change in public sector debt	0.2	-0.5	0.1	-2.1	-0.3	-0.2	1.1	2.4	3.0	4.9	7.3		
Identified debt-creating flows	15.6	-15.9	7.6	0.2	2.5	3.8	4.5	5.1	5.6	7.4	9.8	-7.2	5.0
Primary deficit	14.1	-17.0	8.0	-1.3	2.3	3.6	4.3	4.9	5.4	7.6	11.4	-7.0	4.8
Revenue and grants	101.2	155.7	110.3	123.3	118.8	115.3	113.5	112.1	110.8	108.6	104.8	125.7	112.8
of which: grants	18.7	53.4	27.8	43.9	37.7	35.2	34.4	33.7	33.0	30.6	26.4		
Primary (noninterest) expenditure	115.3	138.7	118.3	122.0	121.1	118.9	117.9	117.0	116.2	116.2	116.2	118.7	117.6
Automatic debt dynamics	1.5	1.1	-0.3	0.3	0.2	0.2	0.2	0.2	0.2	-0.2	-1.6		
Contribution from interest rate/growth differential	1.1	0.4	-0.3	0.3	0.2	0.2	0.2	0.2	0.2	-0.2	-1.6		
of which: contribution from average real interest rate	-0.4	0.8	0.1	0.6	0.4	0.4	0.4	0.4	0.4	0.2	-0.2		
of which: contribution from real GDP growth	1.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.5	-1.3		
Contribution from real exchange rate depreciation	0.4	0.7	-0.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-15.4	15.4	-7.5	-2.3	-2.8	-4.0	-3.5	-2.7	-2.6	-2.5	-2.6	6.7	-2.8
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	9.3	7.3	7.0	6.8	7.3	8.7	10.4	22.9	64.7		
PV of public debt-to-revenue and grants ratio	...	...	8.4	5.9	5.9	5.9	6.5	7.7	9.4	21.1	61.7		
Debt service-to-revenue and grants ratio 3/	1.1	1.0	0.0	2.0	0.7	0.7	0.7	0.7	0.7	0.8	2.4		
Gross financing need 4/	15.2	-15.5	6.9	2.3	3.1	4.4	5.1	5.7	6.2	8.4	13.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-11.8	4.0	3.1	3.0	2.6	2.7	2.3	2.0	1.8	1.5	1.5	2.5	2.0
Average nominal interest rate on external debt (in percent)	0.5	0.8	0.9	1.0	1.0	1.0	1.0	1.2	1.3	1.4	1.5	0.9	1.2
Average real interest rate on domestic debt (in percent)	3.6	19.6	2.7	9.6	9.4	9.1	9.1	9.2	9.2	9.3	4.0	0.3	9.3
Real exchange rate depreciation (in percent, + indicates depreciation)	4.9	11.8	-1.0	...	...	...	...	...	...	...	...	0.8	...
Inflation rate (GDP deflator, in percent)	8.2	-6.4	9.0	2.2	2.4	2.7	2.7	2.6	2.5	2.5	2.5	4.9	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.8	25.2	-12.1	6.2	1.9	0.8	1.4	1.2	1.1	1.5	1.5	5.5	1.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	13.9	-16.5	7.8	0.8	2.6	3.8	3.3	2.5	2.4	2.7	4.1	1.7	2.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Tuvalu: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025-2045

(In percent)

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
PV of debt-to GDP ratio																					
Baseline	2	2	2	3	4	6	8	10	13	16	19	23	26	**30**	**34**	**38**	**43**	**47**	**52**	**57**	**62**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
B. Bound Tests																					
B1. Real GDP growth	2	2	2	3	5	8	10	13	16	20	24	28	**33**	**38**	**43**	**48**	**54**	**59**	**65**	**71**	**77**
B2. Primary balance	2	10	19	21	22	24	26	28	**31**	**34**	**37**	**40**	**43**	**47**	**50**	**54**	**58**	**63**	**67**	**71**	**76**
B3. Exports	2	14	**38**	**38**	**40**	**42**	**45**	**48**	**51**	**55**	**58**	**61**	**64**	**67**	**71**	**75**	**79**	**83**	**88**	**93**	**98**
B4. Other flows 3/	2	11	20	20	22	23	25	28	**30**	**33**	**36**	**39**	**41**	**44**	**48**	**51**	**55**	**59**	**62**	**67**	**71**
B5. Depreciation	2	2	-10	-10	-8	-5	-3	0	4	7	11	16	22	27	**33**	**39**	**45**	**51**	**57**	**64**	**71**
B6. Combination of B1-B5	2	16	17	18	20	22	24	27	30	**33**	**36**	**40**	**43**	**47**	**51**	**55**	**60**	**65**	**70**	**75**	**80**
C. Tailored Tests																					
C1. Combined contingent liabilities	2	5	5	5	7	9	11	13	16	19	22	25	29	**33**	**37**	**41**	**46**	**50**	**55**	**60**	**65**
C2. Natural disaster	2	18	21	22	25	27	**30**	**33**	**37**	**41**	**45**	**49**	**54**	**59**	**64**	**69**	**74**	**80**	**86**	**92**	**98**
C3. Commodity price	2	2	3	2	0	-2	-4	-5	-7	-8	-8	-9	-9	-8	-8	-6	-5	-3	-1	2	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio																					
Baseline	3	3	3	4	7	10	13	17	22	26	32	37	44	50	57	64	71	79	86	94	103
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
B. Bound Tests																					
B1. Real GDP growth	3	3	3	4	7	10	13	17	22	26	32	37	44	50	57	64	71	79	86	94	103
B2. Primary balance	3	17	32	34	37	40	43	47	51	56	61	66	72	78	84	90	97	104	111	119	126
B3. Exports	3	28	94	97	102	107	114	122	130	140	**149**	**155**	**163**	**171**	**181**	**190**	**201**	**212**	**224**	**236**	**248**
B4. Other flows 3/	3	18	32	33	36	39	42	46	50	55	60	64	69	74	79	85	91	97	104	111	118
B5. Depreciation	3	3	-14	-12	-10	-7	-4	0	5	10	15	21	28	36	43	51	59	67	76	84	93
B6. Combination of B1-B5	3	28	24	35	38	42	46	52	58	65	70	77	84	91	99	107	116	125	134	**144**	**154**
C. Tailored Tests																					
C1. Combined contingent liabilities	3	7	8	9	12	15	18	22	26	31	36	42	48	55	61	68	76	83	91	99	107
C2. Natural disaster	3	30	34	37	41	46	51	56	62	69	76	83	91	99	108	116	125	135	**144**	**154**	**164**
C3. Commodity price	3	4	6	3	0	-3	-6	-9	-11	-12	-14	-14	-14	-14	-12	-11	-8	-5	-1	3	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio																					
Baseline	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	1.0	1.3	1.6	1.9	2.2	2.6	3.0	3.4	3.9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	0.5	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Bound Tests																					
B1. Real GDP growth	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	1.0	1.3	1.6	1.9	2.2	2.6	3.0	3.4	3.9
B2. Primary balance	0.5	0.4	0.8	1.1	1.2	1.2	1.2	1.3	1.4	1.4	2.1	3.0	3.1	3.3	3.5	3.8	4.1	4.5	4.8	5.2	5.6
B3. Exports	0.5	0.6	1.7	3.0	3.0	3.0	3.1	3.2	3.3	3.5	5.0	8.0	8.0	8.3	8.7	9.1	9.7	**10.2**	**10.8**	**11.5**	**12.2**
B4. Other flows 3/	0.5	0.4	0.8	1.1	1.1	1.2	1.2	1.3	1.3	1.4	2.2	2.9	3.0	3.2	3.4	3.7	4.0	4.3	4.6	5.0	5.4
B5. Depreciation	0.5	0.4	0.4	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.4	-0.3	-0.2	0.1	0.5	0.8	1.2	1.7	2.1	2.5	3.0
B6. Combination of B1-B5	0.5	0.5	1.3	1.3	1.3	1.3	1.4	1.5	1.6	1.7	3.1	3.2	3.3	3.6	3.9	4.3	4.7	5.2	5.7	6.2	6.7
C. Tailored Tests																					
C1. Combined contingent liabilities	0.5	0.4	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.9	0.9	1.0	1.1	1.4	1.7	2.0	2.3	2.7	3.1	3.5	4.0
C2. Natural disaster	0.5	0.5	1.1	1.2	1.2	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.9	2.2	2.6	2.9	3.3	3.7	4.1	4.6	5.0
C3. Commodity price	0.5	0.4	0.5	0.5	0.4	0.3	0.2	0.2	0.1	0.0	-0.1	0.0	-0.3	-0.4	-0.5	-0.7	-0.7	-0.7	-0.7	-0.6	-0.5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio																					
Baseline	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.8	1.0	1.2	1.5	1.7	2.0	2.3	2.6	3.0
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Bound Tests																					
B1. Real GDP growth	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.8	0.8	0.9	1.0	1.2	1.5	1.8	2.2	2.5	2.9	3.3	3.7
B2. Primary balance	0.4	0.3	0.6	0.9	0.9	0.9	1.0	1.0	1.1	1.1	1.6	2.3	2.4	2.5	2.7	2.9	3.2	3.4	3.7	4.0	4.3
B3. Exports	0.4	0.4	0.8	1.5	1.5	1.5	1.6	1.6	1.7	1.7	2.5	4.0	4.0	4.2	4.4	4.6	4.9	5.1	5.4	5.7	6.1
B4. Other flows 3/	0.4	0.3	0.6	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.7	2.3	2.3	2.4	2.6	2.8	3.0	3.3	3.5	3.8	4.1
B5. Depreciation	0.4	0.4	0.4	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.4	-0.3	-0.2	0.1	0.5	0.8	1.2	1.6	2.0	2.5	2.9
B6. Combination of B1-B5	0.4	0.4	0.8	0.8	0.8	0.9	0.9	1.0	1.0	1.1	2.1	2.1	2.2	2.4	2.6	2.8	3.1	3.4	3.7	4.1	4.4
C. Tailored Tests																					
C1. Combined contingent liabilities	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8	1.0	1.3	1.5	1.8	2.1	2.4	2.7	3.0
C2. Natural disaster	0.4	0.3	0.8	0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.3	1.4	1.4	1.7	1.9	2.2	2.5	2.8	3.1	3.4	3.7
C3. Commodity price	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	-0.1	0.0	-0.2	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Tuvalu: Sensitivity Analysis for Key Indicators of Public Debt, 2025-2045

(In percent)

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
PV of Debt-to-GDP Ratio																					
Baseline	7	7	7	7	9	10	12	14	17	20	23	26	30	34	**38**	**42**	**46**	**50**	**55**	**60**	**65**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	7	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
B. Bound Tests																					
B1. Real GDP growth	7	14	27	**39**	**52**	**65**	**78**	**92**	**106**	**121**	**136**	**151**	**166**	**181**	**196**	**211**	**227**	**242**	**257**	**272**	**287**
B2. Primary balance	7	17	26	26	27	28	30	32	35	**38**	**41**	**44**	**47**	**50**	**54**	**58**	**62**	**66**	**70**	**75**	**79**
B3. Exports	7	17	34	35	**36**	**37**	**39**	**41**	**44**	**47**	**49**	**51**	**53**	**56**	**59**	**62**	**65**	**68**	**71**	**75**	**79**
B4. Other flows 3/	7	17	25	25	26	28	30	32	34	**37**	**40**	**42**	**45**	**48**	**51**	**54**	**58**	**62**	**66**	**70**	**74**
B5. Depreciation	7	5	1	-1	-3	-4	-6	-8	-9	-10	-11	-11	-12	-12	-11	-11	-10	-10	-9	-7	-6
B6. Combination of B1-B5	7	15	15	10	11	13	15	17	20	23	26	29	33	**37**	**41**	**45**	**50**	**54**	**59**	**64**	**69**
C. Tailored Tests																					
C1. Combined contingent liabilities	7	10	10	10	11	13	15	17	20	23	26	29	33	**36**	**40**	**44**	**49**	**53**	**58**	**63**	**68**
C2. Natural disaster	7	26	26	27	29	32	34	**38**	**41**	**45**	**49**	**53**	**58**	**62**	**67**	**73**	**78**	**83**	**89**	**95**	**101**
C3. Commodity price	7	17	**36**	**54**	**72**	**90**	**107**	**124**	**141**	**159**	**177**	**194**	**212**	**229**	**247**	**264**	**281**	**298**	**315**	**332**	**349**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio																					
Baseline	6	6	6	6	8	9	11	13	16	18	21	24	28	31	35	39	43	48	52	57	62
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	6	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Bound Tests																					
B1. Real GDP growth	6	11	22	32	43	54	66	78	91	104	117	130	144	158	172	186	200	214	229	243	258
B2. Primary balance	6	14	22	23	24	26	27	30	32	35	37	40	43	47	50	54	58	62	66	71	75
B3. Exports	6	15	30	30	32	34	35	38	40	43	45	47	50	52	55	58	61	64	68	71	75
B4. Other flows 3/	6	14	21	22	23	25	27	29	31	34	37	39	42	45	48	51	55	58	62	66	70
B5. Depreciation	6	4	1	(1)	(3)	(4)	(6)	(7)	(8)	(9)	(10)	(11)	(11)	(11)	(11)	(10)	(10)	(9)	(8)	(7)	(6)
B6. Combination of B1-B5	6	13	13	9	10	12	13	16	18	21	24	27	30	34	38	42	47	51	56	60	65
C. Tailored Tests																					
C1. Combined contingent liabilities	6	8	8	9	10	12	14	16	18	21	24	27	30	34	38	42	46	50	55	60	64
C2. Natural disaster	6	22	22	24	26	28	31	34	37	41	45	49	53	58	63	68	73	78	84	90	96
C3. Commodity price	6	15	31	48	64	80	95	110	126	142	158	175	191	208	225	241	258	275	291	308	325
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	2.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.2	1.4	1.6	1.9	2.1	2.4
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	2.0	0.7	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Bound Tests																					
B1. Real GDP growth	2.0	0.7	1.6	2.6	2.9	3.2	3.5	3.8	4.1	4.4	4.8	5.6	6.4	7.1	8.1	9.0	10.0	10.9	11.9	12.8	13.8
B2. Primary balance	2.0	0.7	2.1	2.4	1.2	1.1	1.1	1.1	1.2	1.2	1.6	2.1	2.2	2.1	2.3	2.4	2.6	2.8	3.0	3.2	3.5
B3. Exports	2.0	0.7	0.9	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.8	2.6	2.6	2.5	2.6	2.8	2.9	3.1	3.3	3.5	3.7
B4. Other flows 3/	2.0	0.7	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.6	2.0	2.0	1.9	2.1	2.2	2.4	2.6	2.8	3.0	3.2
B5. Depreciation	2.0	0.7	0.6	(0.0)	0.4	0.3	0.2	0.1	0.1	0.0	(0.3)	(0.6)	(0.9)	(1.2)	(1.3)	(1.4)	(1.4)	(1.5)	(1.5)	(1.5)	(1.5)
B6. Combination of B1-B5	2.0	0.7	0.7	1.3	0.9	0.9	0.9	0.9	1.0	1.0	1.1	1.2	1.2	1.2	1.3	1.5	1.7	2.0	2.2	2.4	2.7
C. Tailored Tests																					
C1. Combined contingent liabilities	2.0	0.7	1.1	0.8	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	0.9	1.1	1.3	1.5	1.7	1.9	2.2	2.4
C2. Natural disaster	2.0	0.7	3.4	1.4	1.3	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.6	1.8	2.0	2.2	2.4	2.7	2.9	3.2
C3. Commodity price	2.0	0.7	2.2	3.9	4.3	4.6	4.8	5.1	5.4	5.8	6.5	7.7	8.9	9.9	11.2	12.3	13.5	14.7	15.8	17.0	18.2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Mark Blackmore, Alternate Executive Director for Tuvalu, Ms. Nghi Luu, Alternate Executive Director, and Mr. Sukh-Ochir Batsukh, Advisor to Executive Director
September 3, 2025

On behalf of the Tuvalu authorities, we thank Mr. Zhang and the team for the candid and constructive discussions during the 2025 Article IV consultations. The government highly values the continued engagement of Fund staff and appreciates the support for capacity development. Tuvalu broadly concurs with the staff's assessment on the economic outlook and policy recommendations.

Recent Developments and Outlook

Tuvalu's economy is gradually recovering from the sharp contraction caused by the COVID-19 pandemic, with GDP rebounding since end-2022, driven by construction activity, trade recovery, and higher government spending. However, the recovery remains slower than in most Pacific Island countries due to the economy's heavy reliance on externally financed projects, structural vulnerabilities, and pandemic-related scarring. As a very small, remote, and fragile state, Tuvalu faces high costs of living and doing business, a narrow domestic production base, dependence on imports, dominance of the public sector, and significant fiscal and external volatility from fishing license fees and grants. Rising emigration is adding pressure to the small labor force, including the public sector, while the country remains highly vulnerable to climate change and natural disasters, with rising sea levels threatening most islands by 2050.

The government has set an ambitious policy agenda to address these challenges, focusing on climate resilience, fiscal stability, and sustainable inclusive development, while implementing prior Fund recommendations and their Policy Reform Matrix (FY2025–27). Progress includes securing the Falepili Union agreement with Australia, unlocking financing and supporting migration, and modernization of financial services, such as launching ATMs and POS systems, although connectivity to global payment systems remains fragile with concentrated correspondent banking relationships. External balances remain supported by fishing license revenues and grants, though lower inflows in 2024 reduced the current account surplus to 7.3 percent of GDP, down from 40 percent in 2023. Tuvalu's trade deficit remains structurally large, financed by fishing licenses and grants, while gross reserves remain comfortable with import coverage of 11 months, and credit expanded by 7.8 percent.

Tuvalu broadly agrees with staff's assessment of the economic outlook and risks. The government noted that the direct impact of recent trade tensions on Tuvalu is limited due to its small amount of goods exports, although indirect effects could arise through the impact on the country's major development partners amid heightened global uncertainty. Externally-financed infrastructure projects, including the second phase of the Tuvalu Coastal Adaptation Project (TCAP) and initiatives under the Falepili Union, are expected to continue supporting near-term growth, projected at 3 percent in 2025 and 2.6 percent in 2026. Over the medium term, growth is expected to gradually moderate to below 2 percent, reflecting sluggish productivity, increasing emigration, and climate vulnerabilities. The government acknowledged the recent easing of inflation but stressed that addressing the high cost of living remains a key priority, with inflation projected to rise gradually to 2.5 percent in line with global commodity prices and trading partner dynamics.

The authorities agreed with staff that the fiscal balance is expected to shift to a small surplus in 2025, supported by higher grants from development partners, but would gradually deteriorate thereafter as expenditure pressures remain elevated. They highlighted increased allocations in the FY2025–26 budget for current and capital spending, while noting that grants and fishing license revenues are projected to grow more slowly than nominal GDP. Fiscal deficits will continue to require foreign financing on concessional terms from 2026, as returns from the Tuvalu Trust Fund (TTF) and Consolidated Investment Fund (CIF) alone are insufficient, leaving Tuvalu at high risk of debt distress.

On the external sector, Tuvalu broadly agreed that the current account will remain in surplus in the near term, supported by higher grants, but is expected to shift to deficits from 2027 due to structural trade deficits and declining primary and secondary income. The government recognized elevated downside risks from global uncertainty, underperformance of public corporations, potential loss of correspondent banking relationships, outward migration, and climate-related events such as rising sea levels and more frequent extreme weather. At the same time, they acknowledged upside potential from higher-than-expected fishing license fees, additional or accelerated disbursement of grants, and stronger structural reform momentum, which could support higher economic growth and strengthen fiscal and external resilience.

Fiscal Policy

The government concurs with staff's recommendations on ensuring fiscal sustainability while supporting Tuvalu's development priorities. They emphasized the high near-term spending pressures required to deliver essential public services in a small and remote island economy, while also addressing medium-term challenges such as climate adaptation and labor shortages due to emigration. Proposed expenditure measures align with fiscal objectives of maintaining stability, building fiscal buffers, and gradually reducing fiscal deficits. Planned cost-saving measures include rationalizing Tuvalu's Overseas Medical Referral Scheme (TOMRS) through enhanced local healthcare capacity and governance improvements, considering the feasibility of a health insurance scheme, and targeting subsidies to the most vulnerable households.

Increased allocations for capital expenditure are contained in the FY2025–26 budget, although capacity constraints may affect investment execution. On the revenue side, ongoing efforts aim to increase fishing license revenues through new bilateral agreements and reflagging of foreign vessels, enhance tax compliance, and mobilize additional revenue through a comprehensive tax policy review. These measures are intended to improve fiscal sustainability while supporting development priorities.

The government reaffirms the importance of continued public financial management (PFM) reforms as a central strategy to improve spending efficiency, manage fiscal risks, and strengthen accountability. The recent PEFA assessment identified key PFM gaps, and a sequenced and prioritized action plan is being implemented with PFTAC technical assistance. Priority reform areas include improving budget reliability through better revenue forecasting and monitoring, strengthening public investment management with multi-year planning and project prioritization, enhancing fiscal reporting and transparency for extra-budgetary funds and state-owned enterprises, reinforcing procurement management, and integrating climate resilience through Climate Budget Tagging.

A multi-pronged fiscal strategy has been devised to address Tuvalu's fiscal challenges. On the expenditure side, this involves gradually unwinding pandemic-related increases in current spending while reallocating savings toward priority areas such as human capital development, infrastructure maintenance, and climate resilience. On the revenue side, efforts focus on improving compliance and efficiency of the Tuvalu Consumption Tax and large taxpayer obligations, establishing procedures for timely filing and accurate assessment, and exploring information sharing with other government agencies and financial institutions. These measures are essential to stabilizing fiscal accounts, preserving buffers against shocks, and ensuring resources are efficiently directed toward Tuvalu's development objectives.

Financial Policy

The government sees the need to strengthen Tuvalu's financial regulatory and supervisory framework to ensure sector stability. While the financial sector is broadly sound, limited supervisory capacity and institutional constraints continue to pose challenges. The Development Bank of Tuvalu (DBT) operates under a development mandate supporting remote areas, the National Bank of Tuvalu (NBT) remains the main commercial bank, and the Tuvalu National Provident Fund (TNPF) extends low-risk loans to members. The government is reviewing prudential standards, enhancing financial reporting, and strengthening credit risk management across all three institutions.

The authorities reaffirm their commitment to improving anti-money laundering and countering the financing of terrorism (AML/CFT) frameworks alongside enhancing financial inclusion. They are working with the Asia/Pacific Group on Money Laundering (APG) to strengthen AML/CFT requirements and the role of the Financial Intelligence Unit (FIU), with a formal assessment planned for 2027. Progress includes modernizing banking services, expanding ATMs and POS to outer islands, upgrading the NBT's core banking systems, and exploring the introduction of a centralized credit registry and national ID system as resources allow.

To address supervisory limitations, the government highlights the importance of enhancing the institutional setup of the Banking Commission (BCT), including separation from the Public Enterprise Reform and Monitoring Unit, expanding oversight to the TNPF, and providing adequate resources and training. Timely submission of prudential returns, finalization of consolidated prudential standards, and ongoing risk analysis are key measures to maintain sector stability, improve credit risk management, and promote financial inclusion while safeguarding financial integrity.

Structural Policies

The government believes proposed structural reforms should be carefully sequenced to address development priorities, remove bottlenecks, and enhance growth potential. Given significant capacity and financing constraints, reforms need to build on existing progress, accelerate implementation, and align with Tuvalu's macroeconomic and structural conditions. Efforts include developing reclaimed land in partnership with local communities and leveraging improved internet connectivity to expand access to public services, including Telehealth and e-learning for outer islands. Parallel efforts focus on diversifying the economy into value-added agriculture, ecotourism, and fisheries, while maintaining critical infrastructure, particularly transport, utilities, and renewable energy systems, to prevent deterioration and strengthen resilience to climate risks.

On human capital and labor, the government agrees that investments in quality education and the promotion of women's labor force participation are crucial. Local vocational training programs are being scaled up, a Labor Migrants Reintegration Strategy is being implemented to attract returning migrants and facilitate skills transfer, and training in high-demand occupations, including healthcare, teaching, and technical skills, is being enhanced.

Enhancing resilience to climate change and natural disasters remains a priority. The government is securing additional funding for new phases of the Tuvalu Coastal Adaptation Project (TCAP), emphasizing enforcement of updated building codes, the use of risk maps in planning, and strengthening community disaster preparedness. They reaffirmed their commitment to achieving 100 percent renewable energy by 2030, noting that ongoing and planned solar projects will advance this target while reducing electricity costs and improving energy reliability.

Capacity Development and Data Issues

The government remains committed to enhancing capacity development (CD) coordination with the Fund and other development partners. Substantial benefits have been derived from recent IMF CD technical assistance in tax administration, macroeconomic statistics, public financial management (PFM), and financial sector oversight. Recognizing the importance of robust macroeconomic statistics, Tuvalu is focused on strengthening the Central Statistics Division through strategic staff augmentation and targeted training initiatives.

IMF technical assistance will continue to enhance the quality, coverage, and reliability of data necessary for effective surveillance, including revision of historical national accounts data and updating estimates through 2024, drawing on improved source information from public corporations, government non-market production, and consumption taxes. Looking ahead, the government is committed to further building institutional capacity by expanding the statistical workforce, reinforcing knowledge management practices to mitigate high staff turnover, and implementing recommendations provided through IMF TA.

The Tuvalu authorities welcome the Country Engagement Strategy and appreciate the support the Fund has provided through surveillance and CD projects. The effort to identify drivers of fragility and focus on Tuvalu's development challenges is helpful and would further support the government's policy and reform agenda. The authorities highly value and look forward to continued engagement with the Fund, including through meaningful policy dialogues and capacity development.