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# PACIFIC FINANCE SECTOR BRIEFS

ADB PACIFIC LIAISON AND COORDINATION OFFICE

## TUVALU AT A GLANCE

# TUVALU

**One of the smallest Pacific countries, Tuvalu is a series of small, low-lying coral atoll and reef islands, with a population of just over 11,000 people.** The country is isolated, vulnerable to adverse climatic events and economic shocks, and lacking in many of the resources needed for sustainable economic growth and poverty reduction. Government activity dominates the economy, with public expenditures projected to equal about 155% of gross domestic product in 2018 and 119% in 2019 (International Monetary Fund [IMF] 2018). The country relies heavily on its public sector as the main driver of economic growth, although the sector is generally inefficient and faces capacity constraints.

**Tuvalu has limited sources of economic growth.** In fact, almost all goods—and even many services—are imported. With few exports, the Government of Tuvalu is almost entirely dependent on external aid (the country has become the world’s highest recipient of overseas development assistance per capita [World Bank 2017]). Remittances and trust fund inflows for foreign exchange income are also vital to the country’s budget. However, revenue from remittances, surpluses from the country’s overseas trust fund, fishing license fees, and rent of Tuvalu’s “dot tv” internet domain are highly volatile and prone to external shocks. Consequently, fiscal management is extremely difficult, particularly in light of growing societal demands for better services and public infrastructure.

### FINANCE SECTOR OVERVIEW

**Tuvalu’s financial system is concentrated on one or two institutions.** The country’s finance sector consists of two banks, the National Bank of Tuvalu and the Development Bank of Tuvalu; the Tuvalu National Provident Fund; a Western Union agent; and a handful of small, informal moneylenders. The National Bank of Tuvalu, which has 90% of total banking sector assets, focuses on lending to the household sector and providing home loans, while the Development Bank of Tuvalu supports public and private enterprises. The Tuvalu National Provident Fund invests social security contributions and extends credit to its members.

<b>Population</b>	11,400 (2017) <sup>a</sup>
<b>GDP (current \$)</b>	\$45 million (2018) <sup>b</sup>
<b>GDP per capita</b>	\$4,400 (2018) <sup>b</sup>
<b>GNI per capita</b>	\$4,970 (2017) <sup>a</sup>

GDP = gross domestic product, GNI = gross national income.  
<sup>a</sup> Source: Asian Development Bank. 2018. *Key Indicators for Asia and the Pacific*. Manila.  
<sup>b</sup> Source: Asian Development Bank.



**The banking sector in Tuvalu is effectively unregulated.** The IMF observed in 2018 that Tuvalu lacks effective prudential supervision. The 2011 Banking Commission Act has not yet been implemented, and little progress has been made to put in place necessary supervisory and prudential requirements. The 2015 amendment of the Banking Commission Act of 2011 allowed Tuvalu's minister of finance to be the country's de facto banking commissioner.

## AREAS FOR REFORM

**Tuvalu must institute effective banking oversight.** The IMF (2018) noted that although the levels of nonperforming loans have declined slightly in recent years, they remain high, constituting 41% of total loans. Authorities have agreed to develop a 3-year strategy for supervision with the Pacific Technical Assistance Center, as well as hire an external financial supervisor.

**The government must work to expand access to financial services.** The people of Tuvalu have limited options in dealing with financial institutions, with only two government-owned banks operating in the country. Unlike other Pacific island economies, Tuvalu lacks the presence of a foreign-owned bank, although the IMF (2018) stated that with adequate financial supervision in place, the government could encourage the presence of foreign-owned banks. This would increase competition in the banking sector and improve financial intermediation and risk management.

Aside from having limited banking options, residents of Tuvalu have difficulty accessing credit due to a lack of effective collateral (largely because of issues in land ownership) and low levels of financial literacy. The IMF (2018) noted that, with the banking sector's constrained lending, the country's provident fund had expanded member's access to credit. The provident fund is in a good position to do so, with low nonperforming loans and a strong capital position. Continued progress in strengthening the banking sector and credit culture is critical to stimulate and sustain private sector growth, particularly small- and medium-enterprises.

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