

2019 Economic Outlook

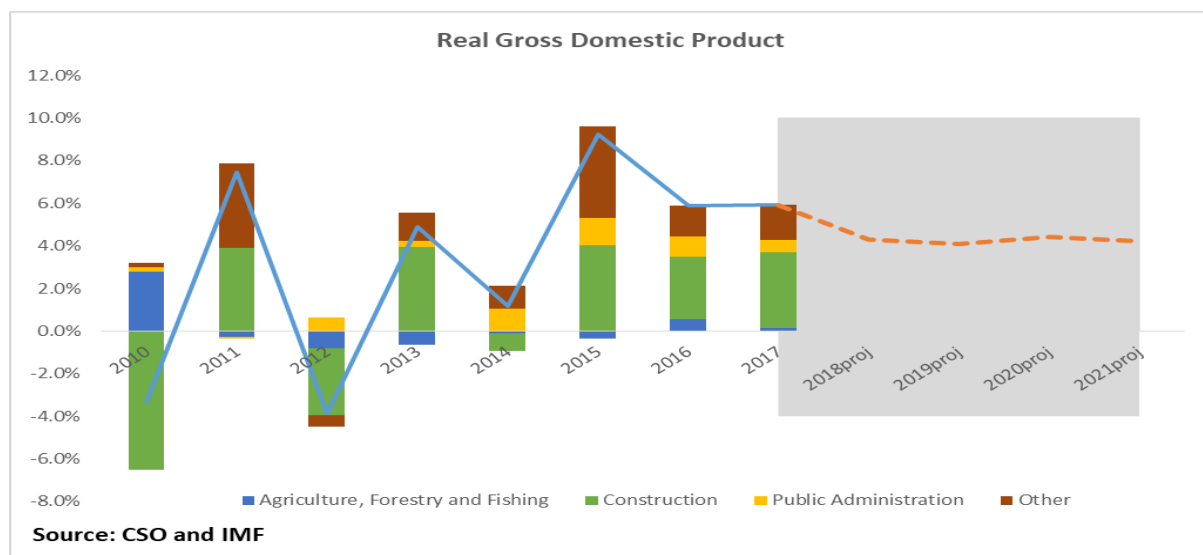
The economic parameters used in preparing the 2019 Budget have been based on data collected by the Central Statistics Division of the Ministry of Finance and Economic Development and information sourced from the 2018 IMF Article IV.

Gross Domestic Product (GDP)

Tuvalu is now poised for a six consecutive years of economic growth which is unprecedented to ever record historically. The underlying success had been strongly supported by the construction sector as a result of a large number of infrastructure projects funded by the government, on the back of increasing revenues from fishing licenses, and back-to-back infrastructure projects that were generously co-funding and administer by development partners.

GDP Compilation: Production Approach
Informal sector estimates: 2004 HIES
Constant Price base year: 2005
CPI base year: 2010
RGDP per capita 2017: \$4,159

This is also reflected by the increasing number of employment opportunities created in this particular sector, building related materials imported, and contribution of members made to the Tuvalu National Provident Fund (TNPF).



The forward growth trend of real GDP has obtained from latest IMF projections from 2019-2021 which are forecasted to consecutively hover at 4.0% in 2019 and then slightly grow to 4.4% and 4.2% in 2020 and 2021 respectively. As a result of this growth, GDP level is expected to increase from \$44.9 million in 2019 to \$46.9 million by 2020. GDP per capita is now at \$4,159 in 2017.

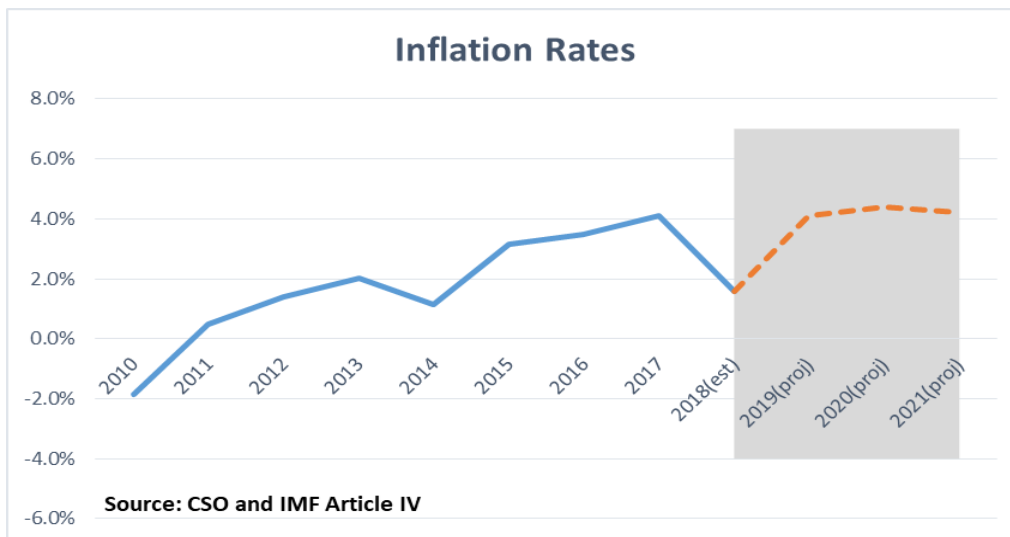
While the general economic expansion brought higher standard of living, productivity and many benefits economically, it masked sluggish progress in a number of areas including the agricultural sector. For this reason, the government must carefully prioritize its public reforms so as the growth in critical sectors are being targeted, inclusive and sufficiently invested in it.

Major contribution to economic growth, as depicted on the graph above, were sourcing from the construction sector, public administration and other sectors that have direct links to the government such as Health and Education. In 2017, 3.6% and 0.6% growth had contributed from the construction and public administration sectors respectively while 0.1% growth contributed by the Agricultural sector.

Going forward, it is anticipated in the medium term that the government would continue to invest more in infrastructure projects as part of its commitment to host the Pacific Island Forum (PIFS) Meetings in late 2019. As well a number of separate infrastructure projects are being earmarked to roll out in early 2019 which are co-funded by ADB, UNDP, DFAT and World Bank.

Inflation

The CPI is projected to inflate to 4.1% in 2019 after an estimation of 1.8% in 2018. It reflects the impact in the price of the basket of selected goods and services within the Tuvaluan economy which normally explain by such factors as increased employment opportunities in the community on account of several development projects currently being undertaken.



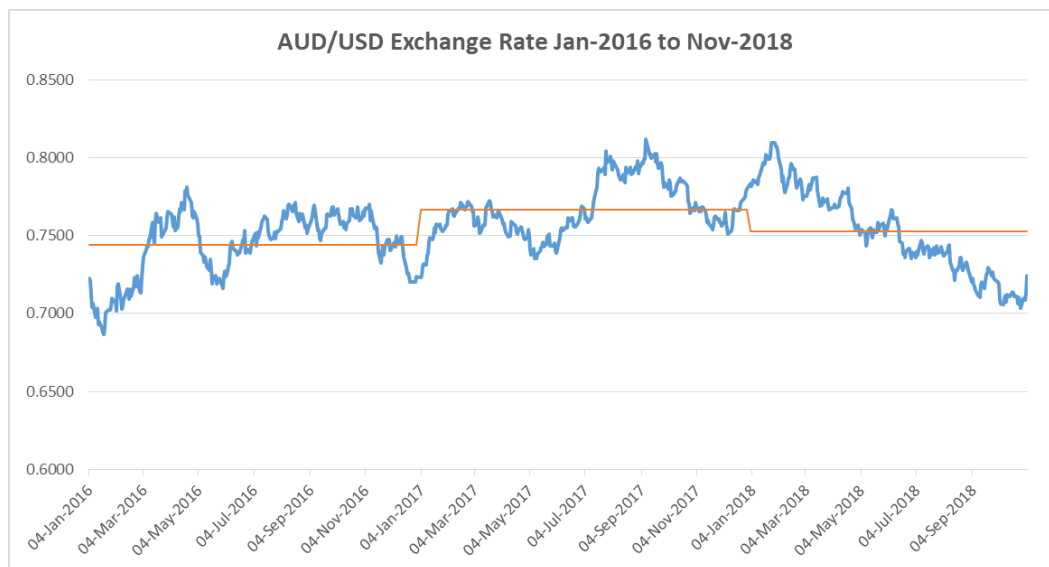
While CPI inflation has dropped back to a practical level, it captured the marginal increase in fuel price and alcohol and tobacco. The increase in the former is directly associated with the increased fuel price in the world market, and the latter is explained from the recent introduction of the new sin good tax on every type of alcohol and tobacco.

It is anticipated that the proposed increase for the total budget expenditure in 2019 would add inflationary pressure on the economy couple with large infrastructure projects that have been decided to carry out by development partners. This inflationary pressure is expected to ease after 2020 as more infrastructure projects expected to complete and employment decreases.

Exchange Rate

The Australian dollar has become weaker against the US dollar throughout 2018 with an average exchange rate of 1 AUD = 0.75 USD. Previous years the average exchange rates were recorded at 0.74 USD and 0.77 USD in 2015 and 2016 respectively. This has had marginal impacts on number of our revenue sources such as fisheries revenues, dot.TV agreement, and development partner assistance from the Republic of China (Taiwan) and

budget support by World Bank in 2018. To manage the fiscal risk of fluctuations in the exchange rate on revenues in future years, a conservative approach has been adopted for revenue projection purposes in the MTF for 2019 and the two forward years 2019 and 2020.



Demographics

Based on census-years population, the resident population experienced a population growth of 13.7% in a decade to 2012. However, between census periods the Central Statistics Division has continuously track population movement since the last census by taking into account visitors (arrival and departure) numbers, birth and death changes per year. The population is projected to increase to 10,050 by 2019 and the population density will become 386 people per square kilometre.

| Age Group | Censal Years | | Projections | | | | | |
|--------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|---------------|
| | 2002 | 2012 | 2013 | 2014 | 2015 | 2016 | 2018 | 2019 |
| 0-14 | 3405 | 3496 | 3,300 | 3,241 | 3,175 | 3,144 | 3,167 | 3,210 |
| 15-59 | 5144 | 5601 | 6,425 | 6,207 | 5,966 | 5,818 | 5,780 | 5,780 |
| 60+ | 810 | 1543 | 945 | 953 | 956 | 975 | 1,012 | 1,060 |
| Total | 9359 | 10640 | 10,670 | 10,401 | 10,097 | 9,937 | 9,960 | 10,050 |
| | Proportions | | | | | | | |
| 0-14 | 36.38% | 32.86% | 30.93% | 31.16% | 31.44% | 31.64% | 31.80% | 31.94% |
| 15-59 | 54.96% | 52.64% | 60.22% | 59.68% | 59.09% | 58.55% | 58.04% | 57.51% |
| 60+ | 8.65% | 14.50% | 8.86% | 9.16% | 9.47% | 9.82% | 10.17% | 10.55% |

Since 2013 the proportion of the working age population (age15-59 years) has gradually decreasing and there is also another indication of an aging population increasing. Strong preference for labour mobility is another major factor that underestimated a large number of seasonal workers who often work abroad for several months. The average annual growth rate of the working age population is estimated at 0.7% which is much higher than the average annual growth rate estimated for the independent population of -4.5%.