Government of Tuvalu

Public Debt Bulletin

Ministry of Finance
September, 2021

1.0 Central Government Debt & Public Guaranteed Debt

1.1 Central Government Debt

1.1.1 Creditor, interest rate and maturity composition

External borrowing and grants from multilateral institutions has been the main sources of financing for the Tuvalu Government in the last decade. At the end of December 2020, total external disbursed outstanding debt stood at AUD 6.86 million compared with AUD 8.22 million in the previous year (Table 1). The Government does not yet hold any domestic debt.

The Asian Development Bank (ADB) is the largest creditor accounting for AUD 3.99 million or 58 percent of total public external debt at end-December 2020. The other creditor is the International Cooperation Development Fund (ICDF) of Taiwan with debt amounting to AUD 2.87 million.

Most of the stock of debt at end-2020 had been contracted at fixed interest rates (i.e., 58 percent), and reflects only medium- and long-term debt. There is no short-term debt. Nearly 58 percent of the debt is contracted on concessional terms (i.e., corresponding to the ADB loans).

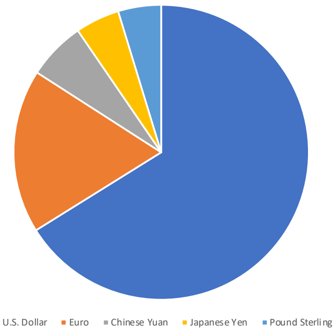
Table 1. Gross Nominal Public Debt, 2016-2022

Lender	Contract Date	Loan Details	Outstanding Balance					Forecast	
			2016	2017	2018	2019	2020	2021	2022
(In millions of USD; unless otherwise indicated)									
ADB	1990	LN1693: Establishment of the Falekaupule Trust Fund Amount (SDR 2.973m)	1.53	1.39	1.13	0.90	0.70	0.46	0.23
ADB	2003	LN1921: Tuvalu Maritime Training Institute Upgrade Loan (SDR 1.394m)	1.27	1.27	1.17	1.09	1.06	0.96	0.89
ADB	2005	LN2088 Tuvalu Maritime Training Institute Upgrade Additional Loan (SDR 1.353m)	1.46	1.47	1.35	1.27	1.24	1.14	1.06
Total ADB			4.25	4.12	3.65	3.26	3.00	2.55	2.17
ROC Taiwan (ICDF)	2019	Tuvalu Convention Centre (USD 2.4m)	-	-	-	2.40	2.16	1.92	1.68
Total			**4.25**	**4.12**	**3.65**	**5.66**	**5.16**	**4.47**	**3.85**
(In millions of AUD; unless otherwise indicated)									
ADB	1990	LN1693: Establishment of the Falekaupule Trust Fund Amount (SDR 2.973m)	2.08	1.81	1.57	1.30	0.93	0.63	0.32
ADB	2003	LN1921: Tuvalu Maritime Training Institute Upgrade Loan (SDR 1.394m)	1.73	1.66	1.62	1.58	1.41	1.33	1.23
ADB	2005	LN2088 Tuvalu Maritime Training Institute Upgrade Additional Loan (SDR 1.353m)	1.99	1.92	1.88	1.85	1.65	1.57	1.46
Total ADB			5.79	5.39	5.08	4.73	3.99	3.53	3.01
ROC Taiwan (ICDF)	2019	Tuvalu Convention Centre (USD 2.4m)	-	-	-	3.49	2.87	2.66	2.32
Total			**5.79**	**5.39**	**5.08**	**8.22**	**6.86**	**6.19**	**5.33**

1.1.2 Currency Composition

In terms of the external debt portfolio's currency composition, the US Dollar is the dominant currency at 66 percent followed by the EURO at 18 percent (Figure 1).

Figure 1. Currency Composition of Public Debt Stock, at end-December 2020
(In percent)



1.1.3 Maturity Structure

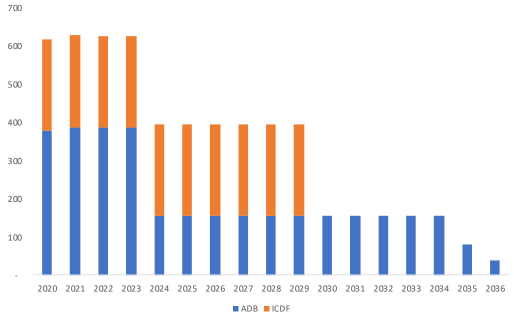
Figure 2 below shows the total external debt maturity profile of the Government of Tuvalu, including the ICDF loan from ROC Taiwan that was contracted in 2019.

Principal payments amounting to about AUD 616,000 were made in 2020 slightly below AUD 627,000 and AUD 625,000 expected for 2021 and 2022, respectively.

The share of debt maturing in the next twelve months in 2021 and 2022 is 12 percent and 14 percent, respectively.

With exception of the ICDF loan that carries a 10-year repayment, the ADB portfolio is currently anticipated to mature by 2037.

Figure 2. Maturity Structure, 2020-2036[1/]
(In thousands of USD)



[1/] The projected maturity profile is based on end-August 2021 debt stock.

1.1.4 Debt Service Schedule

The external debt service decreased from about AUD 750,000 in 2020 to an expected AUD 720,000 and AUD 705,000 expected for 2021 and 2022, respectively (Table 2 and Figure 3). Interest payments account forabout 14 percent of debt service during 2020-22. Between 2020 and 2022, the average external debt service for the ICDF loan is approximately 41 percent while the rest (59 percent) is for ADB. The average implicit interest rate for external debt in 2020 and 2021 was 2.1 percent reflecting the overall concessionality of the debt portfolio. Interest and principal repayments comprise a small portion of the total budget expenditure (i.e., less than 1 percent in 2021).

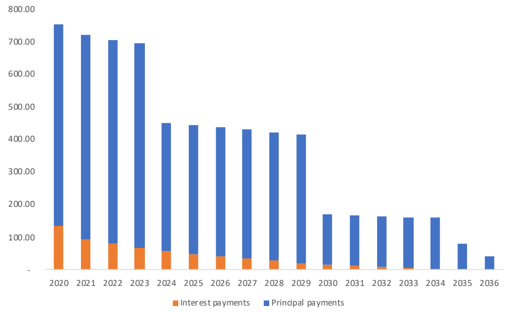
Table 2. Total Public Debt Service, 2019-2022 [1/] (In thousands of USD; unless otherwise indicated)												
	2019			2020			2021			2022		
	I	P	T	I	P	T	I	P	T	I	P	T
ADB	50.7	374.9	425.6	42.4	376.6	419.0	51.2	386.9	438.1	44.0	385.1	429.1
ICDF	-	-	-	92.0	240.0	332.0	42.5	240.0	282.5	35.8	240.0	275.8
Total	50.7	374.9	425.6	55.5	858.5	751.1	49.1	845.6	720.6	42.8	836.1	704.9
Memo items:												
Implicit interest rate (percent)	1.4	...	...	2.4	...	...	1.8	...	...	1.8	...	...

[1/] The projected debt service for 2022 is based on the stock of debt at end-August 2021. I, P and T stand for interest, principal and total debt service, respectively.

For the next 10 years, Government will be paying approximately AUD 433,272 on average per year for servicing the debt.

The exact amount of external debt servicing, however, is subject to exchange rate risk due to currency fluctuations. Tuvalu fully pegs its currency to the Australian dollar, while the external debt is denominated in other currencies.

Figure 3. Historical and Projected Debt Service Payments, 2020-2036[1/] (In thousands of USD)



[1/] The projected debt service is based on end-August 2021 debt stock.

2.1.5. Disbursements

No disbursement has taken place in 2021, as all the loan balances were previously fully disbursed.

Thus, net flows (disbursements less principal repayments) amounted to a negative AUD 616,000 in 2020 and are projected at a negative AUD 627,000 for 2021.

2.1.6. Newly signed loans

There has been no new loan signed in 2020 and 2021. The latest loan signed was with Taiwan and encloses a maturity of 10 years, no grace period with interest at the rate equal to LIBOR USD-6 month plus eight tenths of one percent (0.8%) per annum.

1.2 Contingent liabilities and on-lending activities

There are two types of contingent liabilities; explicit (such as, guaranteed debt) and implicit liabilities. On-lending is not a contingent liability but rather a contingent asset. However, fiscal risks surrounding on-lent loans are similar to those of loan guarantees.

1.2.1 Explicit guarantees – are contractual guarantees that the Government has authorised and committed to cover in the event the guaranteed entity defaults. At the end of 2018, all guaranteed debts have beenpaid off with the final payment being made on a European Investment Bank (EIB) Loan that was contracted by the state-owned Development Bank of Tuvalu (DBT) in 2003 (Table 4). No additional loan guarantee has been granted since then.

Table 3. Guaranteed Debt, 2017-2018 (AUD)				
Lender	Project	Beneficiary	2017	2018
EIB	Global Loan (Euro 0.7m)	DBT	107,198.0	-
Total			107,198.0	-

1.2.2 On-lending – On-lending are loans contracted by the central government which lend them to a third party in charge of a project implementation. This is mainly done for State-Owned Enterprises (SOEs). At end-August 2021, there is no stock of on-lent funds.

1.2.3 Implicit Guarantee – these are loans undertaken directly by public entities without a government guarantee. The central Government has no contractual obligation to assume the impact of possible defaults. If the impact would affect public interest, the central Government may consider providing support to the entity as these are 100 percent owned by the Government.

Direct domestic debt contracted by SOEs amounted to AUD 2.3 million as at end of 2020, which is a 35.9 percent increase from AUD 1.687 million at end-2019 (Table 4). The increase is attributable to the TEC loan, and was for paying for fuel and operational costs due to the central Government. All SOEs' debt was incurred from the state-owned National Bank of Tuvalu (NBT). Thus, the debts correspond also to financial assets of NBT. There is no external non-guaranteed debt.

The central government will be in a position to better manage these debts with the recent creation of the Fiscal Risks Framework,which helps assess potential exposures and related- risks.

Table 4. Unguaranteed Debt Contracted by State-Owned Enterprises (AUD)						
Public Entity	Lender	Type of Facility	2017	2018	2019	2020
Tuvalu Electric Corporation (TEC)	NBT	Loan	447,214	814,441	300,792	938,167
Tuvalu Telecom Corporation (TTC)	NBT	Loan	819,200	1,340,293	1,307,542	1,340,674
Tuvalu Broadcasting Tuvalu	NBT	Overdraft	8,177	13,355	13,508	7,543
Post Limited	NBT	Overdraft	65,380	65,383	65,397	7,387
TOTAL			1,339,971	2,233,472	1,687,239	2,293,771

Source: PERMU/NBT

1.2.4. Total for contingent liabilities and on-lending – they amounted to AUD 2.3 million at end-December 2020, and reflected only unguaranteed debt contracted by SOEs to NBT at the present moment (Table 5).

2.0 Total Public Debt

At the end of 2020, overall public debt totalled AUD 6.86 million or 9.4 percent of GDP down from 10.4 percent in 2019. The decline in public debt reflects both negative debt flows and an increase in GDP. For public-sector debt consolidation, the public statutory debt is excluded, as it is a financial asset of the public bank NBT.

Total debt reflects the debt of the general government. There is no debt contracted by local government or by other public agencies.

Table 5. Total Public and Publicly Guaranteed Debt, 2018-2021
(In millions of AUD; unless otherwise indicated)

	2018	2019	2020	2021 (Est.)
Central Government Debt	5.1	8.2	6.9	6.2
O/w: on-lending	-	-	-	-
O/w: guaranteed debt	-	-	-	-
Total Public Debt	5.1	8.2	6.9	6.2
In percent of GDP	7.6	10.4	9.4	7.4
Memo items:				
SOEs' debt (non-guaranteed debt)	2.2	1.7	2.3	n.a.
Nominal GDP [1/]	67.0	78.8	73.1	83.1

n.a.: Not yet available.
[1/] IMF estimates.

3.0 Prudent Fiscal Management with no Non-Concessional Borrowing in the Medium Term

Maintaining growth at sustainable levels is the ultimate target of the Tuvalu Government. To fuel growth, Government will stringently monitor recurrent expenditure and ensure that funding is channelled to sectors that will stimulate business activity and incentivise individuals and SMEs to participate in economic building. Key principles that will guide fiscal and debt management over the medium term include:

i. Ensuring prudent management of fiscal budget to minimise borrowing in the mediumterm;
ii. Recognizing domestic revenue and Development Partners support as major sources offunding for Government budget deficits to avoid creation of unsustainable debt;
iii. Ensuring external financing is confined to capital projects for optimum returns;
iv. Minimising risks associated with on-lending and contingent liabilities; and
v. Developing the domestic bond market to focus more on liquidity,

transparency, secondarymarket trading, settlement mechanism and investor diversification.

To mitigate risks associated with rise in debt level, the following stance will be adopted by Government:

- No non-concessional or commercial borrowing in the medium term;
- Creation of Fiscal Risks Framework for effective management of State-owned Entities and budget sector agencies. Cost-effective risk mitigation begins with sound macroeconomic policies and public financial management practices. It also consists of practices that require justification for taking on fiscal risks, and that make it necessary for SOEs to pay guarantee fees or to share in the risk. This can support formulation of suitable procedures required in the budget and contingent liability approval process: contingent obligation proposals may need to be considered alongside competing instruments, and ceilings on total issuance of guarantees may need to be subjected to parliamentary approval during the budget process;
- Improved cash management and forecasting of domestic revenue and development partner support to ensure expenditure and commitment controls are kept within budget limits; and
- Strengthened treasury and budget operations, especially tightening up process of issuing warrants and timely submission of acquittals report.