

GOVERNMENT OF TUVALU



FISCAL RISK REPORT 2026

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ACCRONYMS

ADB - Asian Development Bank

AUD - Australian Dollar

DBT - Development Bank of Tuvalu

EBITDA - Earning Before Income Tax, Depreciation and Amortization

EIB - European Investment Bank

FRR - Fiscal Risk Report

GDP - Gross Domestic Product

ICDF - International Cooperation Development Fund

IMF - International Monetary Fund

NAFICOT - National Fishing Cooperation of Tuvalu

NBT - National Bank of Tuvalu

NGDP - Nominal Gross Domestic Product

PE - Public Enterprise

PERMU - Public Enterprise Monitoring Unit

SDR - Special Drawing Rights

SOE - State Owned Enterprise

SPC - The Pacific Community

INTRODUCTION

The Fiscal Risk Report (FRR) 2026 provides an assessment of the key risks that may impact the fiscal position of the Government of Tuvalu over the medium term. It aims to enhance transparency and support informed decision-making by identifying potential sources of fiscal uncertainty and evaluating their implications for revenue, expenditure, and overall fiscal sustainability. Tuvalu's fiscal position remains highly vulnerable to a range of internal and external risks, reflecting its small and open economy, narrow domestic revenue base, and high dependence on external financing. Key sources of fiscal risk include macroeconomic shocks, volatility in fishing revenues, fluctuations in exchange rates, climate change and natural disasters, and contingent liabilities arising from State-Owned Enterprises (SOE) and government guarantees.

Recent fiscal outcomes highlight both the opportunities and challenges facing the government. While strong inflows of external support and fishing revenues can significantly improve fiscal balances, these revenue sources are inherently volatile and subject to external factors beyond the government's control. At the same time, pressures on expenditure particularly in relation to public service delivery, infrastructure development, and climate resilience continue to place demands on limited fiscal resources. Strengthening the management of fiscal risks remains a priority for the Government of Tuvalu. Continued efforts to improve public financial management, enhance domestic revenue mobilization, and build fiscal buffers will be essential to support macroeconomic stability and long-term fiscal sustainability.

1 .Macroeconomic Risks

Macroeconomic Performance

The global economy is projected to maintain steady growth over 2026-2027, with output expected to expand by around 3.3 percent in 2026 and 3.2 in 2027, broadly consistent with 2025 estimates. According to the International Monetary Fund in its World Economic Outlook 2026, this resilience reflects a balance of opposing forces. While trade policy uncertainty and geopolitical tensions continue to pose headwinds, strong investment in technology and particularly artificial intelligence (AI), along with supportive fiscal and monetary conditions is helping to sustain global activity. Growth in advanced economies is projected to remain below 2 percent, while emerging markets and developing economies are expected to grow slightly above 4 percent.

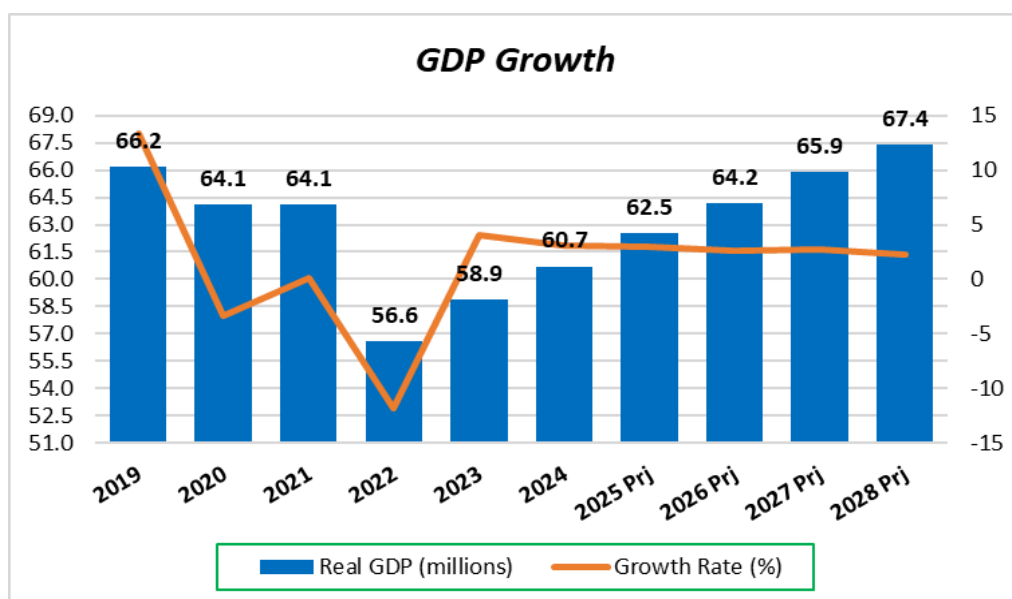
Global inflation continues to moderate from previous peaks, with headline inflation projected to decline to approximately 3.8 percent in 2026 and 3.4 percent in 2027. However, inflation trends remain uneven across regions, with some economies returning to target levels sooner than others. Monetary policy is therefore expected to remain cautious and data-dependent, with gradual rate easing in economies nearing their inflation targets and tighter stances maintained where inflationary pressure persists.

Despite the broadly stable outlook, risks remain tilted to the downside. These include renewed trade tensions, geopolitical instability, potential financial market corrections and weaker than expected productivity gains from emerging technologies. Elevated global public debt and widening fiscal deficits could also place upward pressure on long term interest rates. These risks underscore the need for prudent macroeconomic management and continued structural reforms to safeguard stability and support sustainable global growth.

Real Gross Domestic Product Growth

Tuvalu's real GDP growth reflects a sharp pandemic-induced contraction followed by a gradual recovery supported primarily by externally financed public investment.

After strong growth of A\$66.2 million in 2019, the economy contracted significantly between 2020 and 2022, recording a cumulative decline of approximately A\$56.6 million due to border closures, supply chain disruptions, and the slowdown in construction and trade activities



associated with the COVID-19 pandemic. The deepest contraction occurred in 2022 (-11.8 percent), reflecting delayed infrastructure implementation and prolonged economic disruption.

Economic activity rebounded in 2023, with real GDP growth reaching 4.0 percent, followed by an estimated 3.1 percent in 2024. The recovery has been driven largely by:

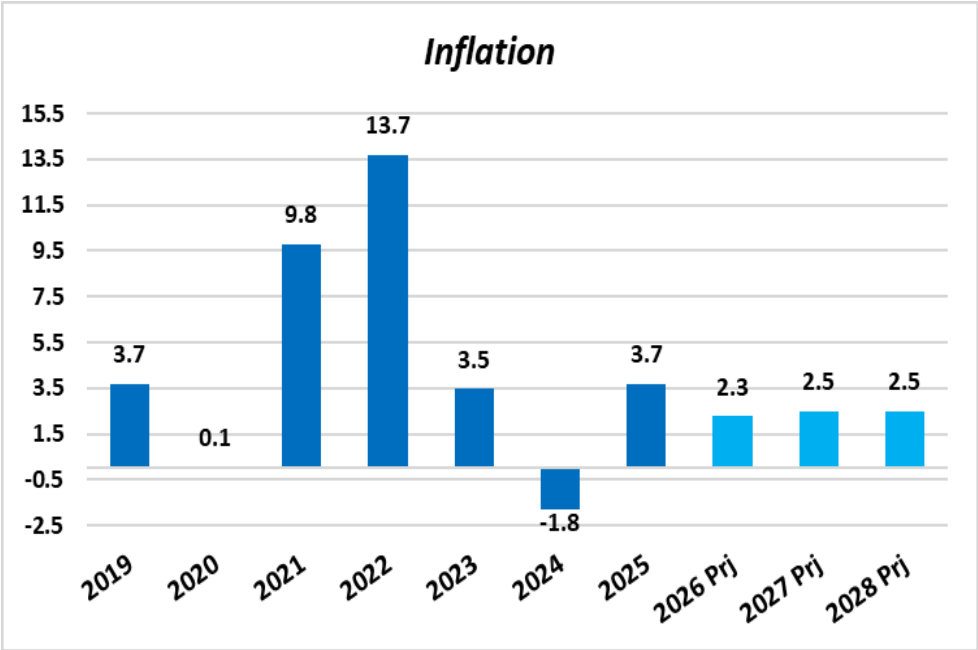
- Resumption of construction activities
- Revival of wholesale and retail trade
- Increased public expenditure
- Implementation of major donor-financed infrastructure projects, including Phase II of the Tuvalu Coastal Adaptation Project (TCAP), maritime transport upgrades and renewable energy investments

Growth is projected to moderate to 3.0 percent in 2025 and 2.6 percent in 2026, before gradually easing further over the medium term. The moderation reflects the expected tapering of large infrastructure projects, structural constraints including limited private sector expansion, outward migration and persistent climate-related vulnerabilities.

Inflation

According to the Tuvalu Central Statistics Division, Tuvalu’s inflation has experienced significant fluctuations in recent years, largely driven by external factors, particularly global commodity prices and shipping costs. Inflation eased substantially after the pandemic surge, averaging 13.7 percent in 2022 and declining further to 3.5 percent in 2023. This sharp moderation was primarily attributed to a decline in global food prices since the third quarter of 2024, the easing of shipping bottlenecks, and lower international commodity prices. These developments significantly reduced imported inflation pressures.

Tuvalu’s inflation is highly influenced by external factors, especially import prices and international shipping costs, given its heavy reliance on imported goods and the use of the Australian dollar as legal tender. Inflation trends in key trading partners, particularly Australia and Fiji, strongly influence domestic price developments.



However, recent data from the Tuvalu Statistics Department indicate that in the third quarter of 2025, annual inflation increased to 3.7 percent, while quarterly inflation rose by 0.9 percent. The Food group was the main driver of this increase, recording both quarterly and annual price rises, while small declines in categories such as Alcohol and Tobacco and Miscellaneous partially offset the overall increase. In conclusion, although Tuvalu experienced a sharp inflation spike in 2022 followed by significant easing in 2023 and 2024, price pressures began to pick up again in 2025, largely driven by food prices. Overall, inflation appears to be stabilizing at moderate levels but remains sensitive to movements in key consumption groups and external economic conditions.

Fiscal Balance Budget

Years	NGDP	BUDGET	ACTUALS	Deviations (Actuals-Budget)	Budget to NGDP	Actual to NGDP	Deviation as % of NGDP
2021	81.8	-	21.12	21.12	0%	26%	26%
2022	78.1	- 8.63	11.99	- 3.36	-11%	-15%	-4%
2023	76.1	- 8.09	1.75	9.84	-11%	2%	13%
2024 HY	85.5	4.77	3.25	- 1.52	6%	4%	-2%
2024/25	90.0	- 3.95	15.18	19.13	-4%	17%	21%
2025-2026 (Feb)	94.6	0.00	34.20	34.20	0%	36%	36%

Table 1: Fiscal Budget Performance Source: *Fiscal Values* extracted from the Tuvalu National Budget; *NGDP 2021-2024* extracted from Tuvalu Statistic, *NGDP 2025-2026* from IMF Article IV 2025

For the fiscal year 2025/26, as of February, the government expected no budget deficit or surplus, as revenues and expenditures were projected to be equal. Nevertheless, the actual budget outcome revealed a deviation of \$34.2 million (36% of NDGP), indicating that the fiscal position is currently stronger than anticipated. However, this positive balance should be interpreted with caution, as it partly reflects the timing of expenditures with significant government spending still expected in the remaining months of the fiscal year. In particular, high operational costs, especially fuel expenditures for shipping services, will continue to place pressure on public finances. Although global fuel prices are expected to ease in the next financial year, current fuel costs remain elevated, largely due to external factors such as global market volatility and geopolitical tensions, thereby contributing to higher spending levels.

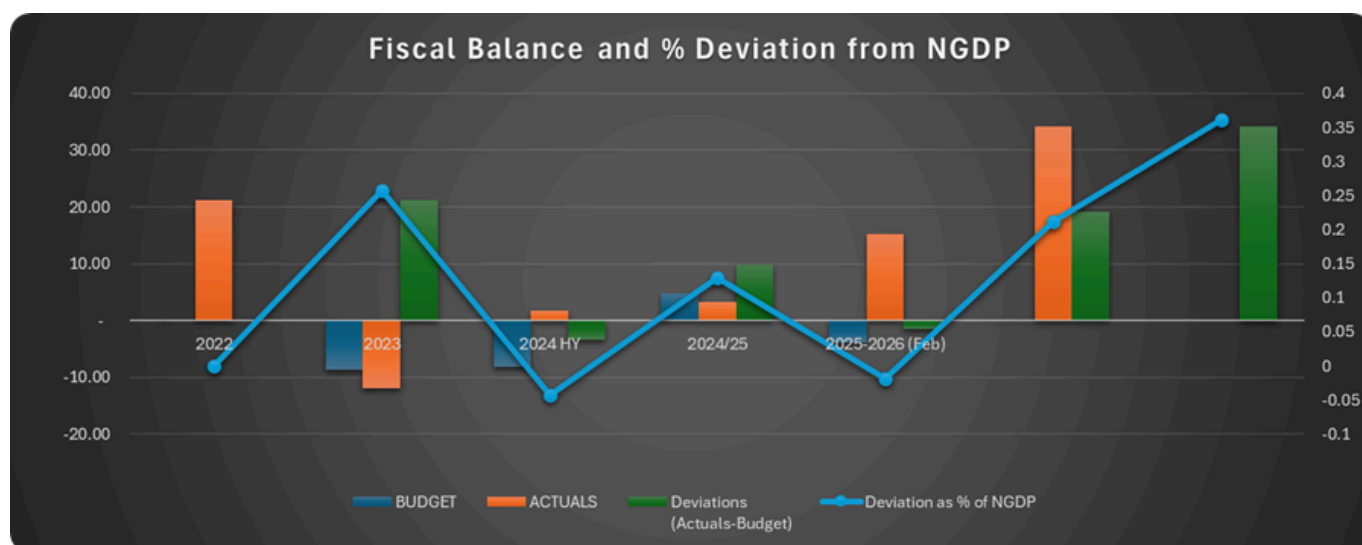


Figure 3: Fiscal Budget Balance and Deviations (Data Source – MFED 2022-2025/26 National Budget)

The deviation trend (Actuals minus Budget) shown in the chart fluctuates significantly across the years, highlighting inconsistencies between planned and actual fiscal outcomes. These fluctuations are mainly driven by uncertainties in revenue inflows, such as fishing license fees and donor support, as well as delays or accelerations in expenditure implementations, particularly for capital projects. For 202/26 (February), the large positive deviation of \$34.2 million (36% of NDGP) is primarily attributed to

stranger than expected revenue performance combined with slower execution of planned expenditures, reinforcing the pattern of volatility observed in the fiscal balance.

SENSITIVITY ANALYSIS

Fiscal outcomes for the 2025/2026 financial year remain sensitive to key macroeconomic variables, particularly inflation and exchange rate movements. These factors influence both government revenue and expenditure, and ultimately determine the overall fiscal balance. Given Tuvalu's high reliance on external inflows and imports, fluctuations in these variables can significantly affect fiscal sustainability.

Inflation continues to exert pressure on both revenue and expenditure. As presented in Table 2, a 2% increase in inflation is estimated to generate a modest increase in revenue of approximately AUD 0.20 million. This reflects higher tax collections associated with increased prices of goods and services. However, the impact on expenditure is more pronounced, rising by approximately AUD 0.86 million. This is driven by increased costs of goods, services, and government operations, including infrastructure projects and subsidies. As a result, the overall budget balance deteriorates by approximately AUD 0.66 million, indicating that inflation poses a net fiscal risk.

Exchange rate movements also play a critical role in shaping fiscal outcomes. A 15 percent depreciation of the Australian Dollar against the US Dollar is projected to increase government revenue by approximately AUD 6.73 million. This is largely due to the revaluation of externally sourced revenues, including fishing license fees, grants, and other foreign-denominated inflows. However, expenditure is also expected to rise significantly by approximately AUD 7.60 million, reflecting higher costs of overseas commitments such as the Tuvalu Medical Treatment Scheme, scholarships, and international obligations. Overall, the net effect is a deterioration of the fiscal balance by approximately AUD 0.87 million.

Similarly, a 10 percent appreciation of the Australian Dollar results in a decline in both revenue and expenditure. Revenue is projected to decrease to approximately AUD 4.48 million, while expenditure falls to approximately AUD 5.07 million. Despite the reduction in expenditure, the overall fiscal position still records a deficit impact of approximately AUD 0.58 million. This reflects the country's structural dependence on foreign inflows, where exchange rate gains do not fully offset the reduction in revenue.

Overall, the sensitivity analysis highlights that both inflation and exchange rate fluctuations pose downside risks to the fiscal position in 2025/2026. While exchange rate depreciation increases nominal revenues, the associated rise in expenditure outweighs these gains. This underscores the importance of prudent fiscal management, strengthening expenditure controls, and enhancing resilience to external shocks to safeguard fiscal sustainability.

2025/2026 Estimates (In AUD million)			
Sensitivity Scenario	Revenue	Expenditure	Budget Balance
Increase Inflation by 2%	\$0.1979	\$0.856	-\$0.6576
Effect of 15% Exchange Rate Depreciation	\$6.7264	\$7.5990	-\$0.8727
Effect of 10% Exchange Rate Appreciation	\$4.4842	\$5.0660	-\$0.5818

Table 2: Sensitivity Analysis to Macroeconomic Shocks based on MTFF 2025/2026

The government continues to face fiscal challenges arising from fluctuations in domestic revenue and the execution of planned expenditures, as reflected in Table 3 below. For the 2025/2026 financial year, total revenue was initially projected at AUD 114.1 million, with total expenditure set at the same level, reflecting a balanced budget position.

However, actual revenue collections amounted to AUD 82.3 million, significantly below the budgeted level. This shortfall was largely driven by weaker domestic revenue performance, which reached only AUD 54.6 million compared to the planned AUD 76.75 million. While general budget support contributed AUD 27.69 million, external inflows were not sufficient to fully offset the decline in domestic revenue sources.

On the expenditure side, total spending was substantially lower than anticipated, amounting to AUD 48.1 million compared to the budgeted AUD 114.12 million. This was mainly due to under-execution in recurrent and capital expenditures, with delays in project implementation and lower-than-expected spending on government operations contributing to the outcome.

As a result, the fiscal position recorded a significant surplus of AUD 34.2 million, in contrast to the initially balanced budget. While this outcome reflects improved fiscal space in the short term, it largely stems from underspending rather than strong revenue performance.

These trends suggest that Tuvalu remains vulnerable to fiscal risks, particularly due to its reliance on volatile domestic revenue sources and challenges in budget execution. Continued underperformance in revenue collection, combined with delays in expenditure implementation, may affect the government's ability to deliver essential services and achieve its development objectives, thereby posing risks to long-term fiscal sustainability.

Figures in AUD Million	2024 HY		2024-2025		2025-2026	
	Budget	Actual	Budget	Actual	Budget	Actual
Total Domestic Revenue (A)	55	40.6	68.6	68.6	76.8	54.6
General Budget Support (B)	10.1	15	24.5	24.5	37.3	27.6
Grand Total Revenue (C=A+B)	65	55.6	93	93	114.1	82.3
Total Recurrent and One-Off Expenditure (D)	49.5	52.3	86.1	45.9	99.7	42.8
Capital Expenditure (E)	9	4.9	7.8	0.9	11.2	4.1
Statutory Expenditure (F)	1.7	1.6	3.1	1.6	3.2	1.2
Grand Total Expenditure (G=D+E+F)	60.3	58.9	97	48.5	114.1	48.1
Domestic Budget Balance (H=A-G)	5.3	-18.3	-28.4	20.1	-37.3	6.5
Fiscal budget balance (I=C-G)	4.8	-3.2	-4	44.5	0	34.2

Table 3: Fiscal Budget Balance (in AUD Million) from 2025/2026

2. Public Debt Portfolio

The government's debt portfolio remains small and sustainable, with total public debt declining significantly from 3.5 in 2024 to 1.0 in 2025. This sharp reduction reflects ongoing debt servicing and the absence of new borrowing during the period. The government holds a limited amount of external public debt from two sources, primarily from the Asian Development Bank (ADB) and previously from ICDF (ROC Taiwan). The ADB remains the largest creditor, although its exposure has declined from 2.4 in 2024 to 1.0 in 2025, indicating continued repayment of existing obligations. Meanwhile, debt owed to ICDF (ROC Taiwan) has been fully repaid, declining from 1.1 in 2024 to 0 in 2025, reflecting the closure of this loan portfolio during the period.

The government has no outstanding debt from State-Owned Enterprises (SOEs). This indicates that all public debt obligations are held at the central government level, reducing contingent liability risks from SOEs. As a result, total public debt mirrors central government debt, declining from 3.5 to 1.0 over the period.

Lender	2024	2025
ADB	2.4	1
ICDF (ROC TAIWAN)	1.1	0
Total debt	3.5	1
SOE Borrower		
TEC	NA	NA
DBT	NA	NA
Total SOE Debt	0	0
Total Public Debt	3.5	1
Nominal GDP	100.9	90
Debt as % of NGDP	3.50%	1.11%

Table 4: Public Debt and SOE Debts (AUD millions)

Debt servicing involves the government's repayment of loans to lenders in the original currencies, such as SDR and USD. Tuvalu, however, ties its currency to the Australian dollar, which subjects it to foreign exchange risks and fluctuations in interest and principal payments in its domestic currency. Should the Australian dollar lose value against foreign-denominated currencies, the debt, along with interest and principal payments, is expected to rise.

Debt servicing obligations from 2027 to 2037, as shown in Figure 4, are higher in the initial years, particularly between 2027 and 2029, where total principal repayments peak at approximately AUD 650,000 annually. From 2030 onwards, total principal repayments decline significantly and stabilize at a lower level of around AUD 180,000 to AUD 200,000 per year through to 2037. This reflects a transition to a more manageable and predictable debt servicing profile over the medium to long term.

Interest payments remain relatively low and stable throughout the period, contributing only a small portion to total debt servicing. This reflects the concessional nature of the government's debt portfolio and the relatively favorable terms of existing loans. The combination of declining principal repayments and stable interest costs indicates that overall debt servicing pressures are expected to ease over time.

Overall, the debt repayment profile suggests that while there are higher repayment obligations in the short term, the government's debt servicing burden remains manageable, with no significant spikes beyond the initial years. This supports fiscal sustainability, provided that no substantial new borrowing is undertaken.

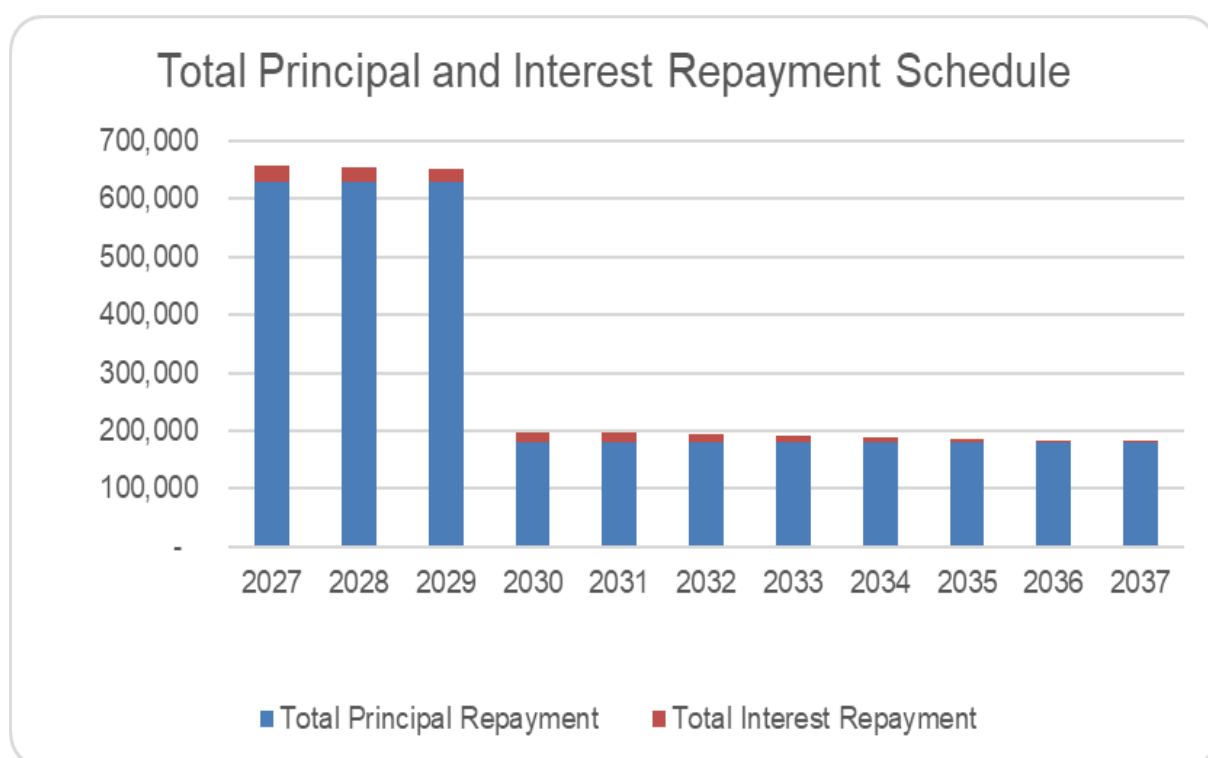


Figure 4: Debt servicing of Public Debt (Government Debts only)

3. Risk Arising from State -Own and Public Enterprises

Public Enterprises are vital for essential services such as banking, and postal operations. Governed by the Public Enterprise Performance and Accountability Act (2009), the National Bank of Tuvalu (NBT) and Development Bank of Tuvalu (DBT) fall under financial institutions, while Tuvalu Post Limited (TPL), Tuvalu Broadcasting Corporation (TVBC), Tuvalu Maritime Training Institute (TMTI), National Fishing Corporation of Tuvalu (Naficot), Tuvalu Electric Corporation (TEC), and Tuvalu Telecom Corporation (TTC) operate as non-financial corporations.

However, due to recent structural and governance reforms, Tuvalu Telecom Corporation (TTC) and Tuvalu Electric Corporation (TEC) are no longer classified as public enterprises under the PE Act. Instead, they have transitioned into state-owned enterprises (SOEs), meaning they now operate under a different legal and regulatory framework that aligns with government policies for state-owned entities. This transition allows for greater government oversight and strategic control while ensuring that these entities continue to provide essential services to the public.

State-Owned Enterprises (SOEs) receive yearly capital injections from the government to guarantee the effective provision of vital public services. Although they are managed independently by their board members and executive management, the government retains the authority to intervene when necessary to ensure financial sustainability, service delivery, and alignment with national priorities. This support mechanism helps maintain stability in key sectors such as telecommunications and electricity, ensuring that TTC and TEC can continue operating efficiently while serving the public interest. The assessment in this report primarily focuses on DBT and TEC, with plans to eventually incorporate other public and state- own enterprises in the next financial year.

Ratio	TEC			DBT		
	2022	2023	2024	2022	2023	2024
EBITDA Margin	-0.15273	0.130003	0.186685	-0.02497	0.021684	-0.01783
ROA	-0.47283	0.18945	0.006168	-0.06035	-0.032898	-0.02253
Current Ratio	0.6622	0.872844	1.155419	1.19432	1.1230153	1.09135
Quick Ratio	0.641876	0.764426	1.060717	1.19432	1.1230153	1.09135
Debt to Equity	-4.25805	-16.2934	69.05927	3.16428	5.1232044	6.56478

Table 5: SOE &PE Profitability, Liquidity and Solvency Ratio (Data extracted from SOEs unaudited data)

Profitability indicators show mixed performance between TEC and DBT over the period 2022–2024. TEC experienced a significant recovery, with EBITDA margin improving from -0.15 in 2022 to 0.19 in 2024, indicating a turnaround in operational efficiency after earlier losses. Similarly, TEC’s Return on

Assets (ROA) improved from -0.47 in 2022 to near breakeven at 0.01 in 2024, reflecting gradual improvement in asset utilization. In contrast, DBT recorded weak and volatile profitability. Its EBITDA margin remained close to zero, fluctuating between -0.02 and 0.02, indicating limited operating surplus. ROA remained negative throughout the period, declining slightly from -0.06 in 2022 to -0.02 in 2024, suggesting continued challenges in generating returns from its asset base.

Liquidity conditions improved for TEC over the review period. The current ratio increased from 0.66 in 2022 to 1.16 in 2024, while the quick ratio rose from 0.64 to 1.06, indicating a strengthening capacity to meet short-term obligations. By 2024, TEC achieved a ratio above 1, suggesting a more stable liquidity position. DBT, on the other hand, maintained relatively stable liquidity throughout the period, with both current and quick ratios remaining above 1, ranging between 1.09 and 1.19. This indicates that DBT has consistently been able to meet its short-term liabilities without significant liquidity stress.

Solvency indicators highlight significant financial risks, particularly for TEC. The debt-to-equity ratio for TEC remained negative in 2022 (-4.26) and 2023 (-16.29) due to negative equity, indicating that liabilities exceeded assets. In 2024, the ratio increased sharply to 69.06, reflecting a return to positive equity but also revealing extremely high leverage when total liabilities are considered. This suggests that TEC remains highly exposed to financial risk and heavily reliant on external financing. In comparison, DBT maintained a positive and gradually increasing debt-to-equity ratio, rising from 3.16 in 2022 to 6.56 in 2024. While this indicates growing leverage, the ratios remain significantly lower and more stable than TEC's, suggesting relatively better solvency conditions, although still indicating moderate financial risk.

4. Climate Change & Natural Disaster

Climate change and natural disasters pose significant risks to Tuvalu, given its low-lying geography, limited land area, and high dependence on external support. The country is highly exposed to long-term climate impacts such as sea-level rise, coastal erosion, saltwater intrusion, rising temperatures, and changing rainfall patterns, all of which place increasing pressure on public finances. These challenges lead to higher government expenditure on climate adaptation measures, including coastal protection, land reclamation, water security, and disaster preparedness, as well as unplanned spending for emergency response, rehabilitation, and reconstruction following climate-related events. At the same time, climate change contributes to revenue volatility by disrupting key sectors such as fisheries, which is a major source of government income, and by reducing overall economic activity after disasters. Natural disasters, including storm surges, flooding, droughts, and occasional cyclones, can cause substantial damage to public infrastructure such as roads, schools, health facilities, and utilities, resulting in significant reconstruction costs and the need for budget reallocations or external assistance. With these risks, climate change and natural disasters will disrupt the national budget by increasing unplanned expenditures for

disaster response, infrastructure repairs, and climate adaptation measures. This will strain government resources, potentially leading to higher fiscal deficits, reduced funding for essential public services, and greater reliance on external aid. Additionally, disruptions to key revenue sources, such as fisheries and tourism, will further limit the government's ability to sustain economic stability and long-term development.

5. Mitigating Fiscal Risks

Managing Fiscal Risks

Mitigation measures for macroeconomic shocks and debt portfolio

To mitigate these risks, the government focus on adopting proactive strategies to minimize the impact of macroeconomic shocks deliberate above. These includes:

1. Increase government saving through sovereign wealth funds (eg, Tuvalu Trust Fund) to cushion economic shocks.
2. Strengthen taxpayers' compliance through continuous annual audits.
3. Developing and implementing policies to promote private sector growth.
4. Diversification of revenue sources through the development of a new revenue generating initiative framework.
5. Develop and implement an action plan to guide the operation of TOMRS.
6. Avoiding new external borrowing to eliminate the risk of refinancing and reduce exchange rate risks.
7. Development of a debt management strategy.
8. Publication of debt bulletin reports on public debts and SOE's debts.
9. Development of a fiscal risk management plan by the TWG to address issues outlined in the report
10. Investing in resilient infrastructure and sustainable economic sectors to reduce the long-term impact of external and climate-related shocks on fiscal performance.
11. Securing predictable and timely external support to help manage fiscal pressures during periods of economic stress.

Mitigating measures for SOEs

1. To curb fiscal risks imposed by SOEs, the following measures should be taken into consideration includes:
2. Promoting and strengthening SOEs accountability through regulating the development of Corporate Plans

3. The submission of timely financial reports and regular audits for financial improvements.
4. Enforce monitoring by PERMU.
5. Reviewing of electricity tariffs to cover production.
- 6.

Mitigation strategies for climate change-related fiscal risks

The government has consistently pledged to protect Tuvalu's future by enhancing governance frameworks crucial for addressing fiscal risks linked to climate change. To fulfill this objective, various initiatives have been launched, including:

1. Investment in Disaster Risk Reduction (DRR) through the allocation of funds to disaster risk reduction projects can significantly alleviate fiscal risks. This encompasses the development of infrastructure resilient to climate impacts, such as: -
 - Support from the Green Climate Fund for the Tuvalu Coastal Adaptation Project receiving USD36 million to enhance coastal management and reduce vulnerability of infrastructure. -
 - Rainwater Catchment Enhancement Project enhancing water storage and capture systems, it addresses the basic needs of the population, demonstrating a successful investment in infrastructure that mitigates the risks associated with water scarcity due to climate change. -
 - World Bank Grant for Infrastructure Resilience, where, following the devastation caused by Tropical Cyclone Pam, the World Bank approved a \$3 million grant to support a \$17 million recovery plan. -
 - Collaborative efforts with SPREP, SPC and Australian Bureau of Meteorology on the development of Early Warning System.
2. Building Capacity through education and training awareness programs can empower communities to better prepare for and respond to climate-related disasters. This includes training in sustainable agricultural practices and disaster preparedness, which can help reduce vulnerability and associated costs.
3. Involving local communities in disaster risk management and climate adaptation strategies ensure that the measures taken are relevant and effective. Community education programs can raise awareness about climate risks and promote sustainable practices that mitigate fiscal impacts

