



# GOVERNMENT OF TUVALU

Ministry of Finance &  
Economic Planning



## Tuvalu Balance of Payments 1996 to 1998

### Report

September 1999

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## Balance of Payments

### ***About this Report***

This report contains the results of a project carried out in August and September 1999 to estimate the Balance of Payments for Tuvalu for the years 1996, 1997 and 1998. It covers the current account and resultant balance on current account and a measure of official overseas reserves.

The results are given in Table 1. There is a technical report<sup>1</sup> containing more detailed analysis and showing how the estimates were derived.

The first section of this report provides a short introduction to balance of payments concepts and outlines the estimation process. It also provides an indication of the level of accuracy and indicates areas where changes to information sources would allow improvement in the Balance of Payments.

My thanks to the many people in Tuvalu who have provided information used in preparing these estimates. My particular thanks to John Howe who worked painstakingly through the earlier drafts of the report and worksheets, bringing to bear his knowledge of the Tuvalu economy and data sources.

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<sup>1</sup> Tuvalu Balance of Payments 1996-1998, Technical Report, Central Statistics Division, Ministry of Finance and Economic Planning, Tuvalu. September 1999

### ***The Balance of Payments and its Uses***

The Balance of Payments is a formal means of showing a country's economic and financial relationship with the rest of the world.

Tuvalu relies heavily on its overseas asset to support current spending. The Balance of Payments provides a quantitative statement of the way in which these reserves are being maintained and the way the income is used. Over a period of years it provides important information on the extent to which the spending power of those reserves is being, or not being, maintained.

When fully developed the Balance of Payments and International Investment Position cover all financial relationships. These include the dollar values of exports and imports of goods and services, incomes earned and paid by the government and private sectors in their dealing with non residents, foreign aid given and received. It includes also the borrowing and lending transactions and the asset and liability balances between the residents of a country and the rest of the world.

The internationally accepted form of the Balance of Payments concepts and presentation are set down by the International Monetary Fund<sup>2</sup>. The presentation is in an accounting format that provides residuals and balances much as financial accounts provide measures of profit.

The main residual derived from the Balance of Payments is the "balance on current account". This measure shows a country's performance in terms of current dealings with the rest of the world. A negative balance of current account indicates that a country may be living beyond its means and running down its overseas assets. A positive balance is generally regarded a favourable – indicating that a country is building up its financial assets.

Table 1 shows how this current account balance is determined.

Tuvalu uses Australian currency and hence is not in a position to manage the exchange rate or use the Balance of Payments as a tool in managing inflation.

There is however an overriding concern to maintain the purchasing power of overseas reserves as these have a definite impact on the living standards of the Tuvalu population. The Balance of Payment is an important tool in the management of the reserves. Several years of negative current account balances would indicate that the nation was heading into difficulties and running down reserves. On the other hand several year of positive balances may suggest that government could be a little more relaxed in its overseas spending.

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<sup>2</sup> Balance of Payments Manual Fifth Edition 1993, International Monetary Fund, Washington 1993. ISBN 1-55775-339-3

The presentation of the Balance of Payments quantifies the detail of the transactions that contribute to the balance on current account. This detail is probably more important to fiscal management in Tuvalu than the balance itself.

The detail in the table show which flows are important and their relative importance in determining the current account balance. In Tuvalu's case that the biggest drain is the payment for imports of merchandise and payments for services. This is offset by aid, investment income and seamen's earning. In recent years the income from fishing licensing and communication facilities has provided substantial income.

The important items are known anecdotally. The advantage of the Balance of Payments is that it gives values to these flows. This allows a better understanding of how the relationships are changing. It permits government and its advisors to examine the potential changes that might shift a healthy annual surplus into a loss. It provides information in time to plan corrective action should this be necessary.

Lastly the Balance of Payments is one indicator that donors and lenders look at in examining a country's suitability for assistance. A positive balance of current account, such as Tuvalu has, suggests a prudent nation - one that a donor can have some confidence in.

### ***Estimating the Balance of Payments***

The results are generally based the IMF recommendations on Balance of Payment principles. It has been necessary to adjust the practice where the concepts were not applicable or could not be supported by available information.

The methods used are outlined immediately below. The deviations from the IMF concepts are discussed in the section on special treatments.

#### **Merchandise Goods**

There are two sources of information on the value of imports and exports. One comes from the record of Customs entries and the other from the amounts paid through the banking system. For exports the banking measure has been used. For imports the value recorded by Customs has been taken as the starting point with some adjustment for imports not otherwise covered.

#### **Services**

These include receipts and payments for transport, travel, communication and some business and government services. Much of the information on air and sea port related services is drawn from the Government Accounts. Communication costs and payments are taken from the account of the Telecom Corporation and the Government Accounts.

Travel and fares have been estimated using information from migration statistics combined with estimates of per head expenditures.

The values for business services have been taken from the accounts of government and the major enterprise operating in Tuvalu.

#### **Incomes**

This item includes incomes in the form of wages and as interest, dividends and the increase in the value of managed unit trusts.

Wages of seamen have been estimated from the value of remittances recorded by the seamen employment agencies. For the period 1996 to mid 1998 these business records appear to be more reliable than those provided by the National Bank of Tuvalu.

Interest, dividends and related income from investments has been extracted from the accounts of the major enterprises in Tuvalu including the National Bank of Tuvalu, the Tuvalu National Provident Fund and the Development Bank as well as the earnings of the Trust Account B Account.

Income from the Trust Account A Account is regarded as being a non resident to non-resident transaction outside the Balance of Payments. Included in the balance of payments as a transfer is the amount that is paid from the A Account into the B

Account. (The section on “Special Treatments” below discusses the reason for the differing treatment between the A and B Accounts)

### Transfers

These are an important source of foreign funds for Tuvalu and the estimates have been divided up to show the main sources.

Aid and grants made to the Government of Tuvalu consist of cash, goods and labour services provided by donors. Information is drawn from the Accounts of the Government. The service element is shown in the value of aid with a contra entry “Technical services” included in service payments.

The annual income received by the Government from the A Account of the Tuvalu Trust Fund is shown as a transfer. This treatment follows from the fact that the A Account is regarded as a non-resident outside the direct control of the Tuvalu Government.

Also included in transfers is the value of fishing licenses paid by non-residents and the APT licence fee for the use of communication facilities.

On the payments side are the outgoing contributions to international organisations by the Government.

There are also substantial private transfers going into and out of Tuvalu. These take the form of remittances from those Tuvalu people who are living overseas and payments to support students studying overseas. Information on these comes from the banking records. The Post Office accounts provide information on transfers from Nauru.

### Capital and Finance Transactions

Measures of Capital and Finance Flows have been attempted. However these are not considered complete enough to be meaningful and have not been included in this report. Capital flows include transfers from the government to the A Account of the Trust Fund. These are by way of savings of the government.

### Reserves

This is a measure of the funds held with non-residents that are potentially available to the Government should this be necessary. These funds consist of the overseas investments of the Trust Account Accounts and the net overseas assets of the National Bank of Tuvalu.

Under the IMF recommendations the holdings of the bank and those in the Trust Account B Account would be regarded as Official Overseas Reserves whilst the investment in the Trust Account A Account would not be included. For Tuvalu this does not seem to be a useful distinction and hence the three holdings are shown separately in the table.

## ***Special Treatments***

### **Treatment of Tuvalu Seamen**

In these Balance of Payments estimates I have regarded the seamen as being residents of Tuvalu. This is not the official view of the IMF but is a more relevant treatment for Tuvalu.

As residents the income they earn is wages earned from non-residents. Their purchase whilst overseas are regarded as imports. Some seamen pay tax to the country of the foreign employer, the extent of this is not known and has been disregarded except to record wages net of such tax.

### **Treatment of the Tuvalu Trust Funds**

There are two Trust Funds that provide income to the Tuvalu Government. The difference in the degree of control that the Tuvalu Government has over these funds results in different treatments in the Balance of Payments. The treatment used agrees with the IMF principles.

Account A is controlled by a Trust Board whose aim is to maintain the real value of the fund whilst providing some regular income to the Government. The influence that the Government has over the fund is limited and hence the Fund A is regarded as a non-resident for Balance of Payments purposes.

On the other hand Government has a sufficient control of Account B for that Fund to be regarded as a resident for Balance of Payments purposes.

As a consequence transfers of income from the A Account are regarded as transfers from non-residents whilst interest, dividends etc earned by the B Account are recorded in the period that they are earned. Transfers to the A Account from the General Account of Government are regarded a capital transfers.

### **Accounting for Foreign Aid**

The information available on the value of foreign aid is recorded in the worksheets supporting the Government Budget. These estimates rely heavily on the donor valuation of goods and services provided whilst cash receipts are well recorded. The amount of information is somewhat limited but it is adequate to give the order of size of official aid.

Since significant portion of aid is in the form of labour from consultants, advisors and technical experts (Technical assistance) it is necessary to show this on both sides of the Balance of Payments account. Hence the entry under service payments. Health services provide under aid projects are also recorded under service payments. A project by project allocation of aid between technical assistance and other sources was made to arrive at the estimates for each year.

An adjustment has been made to the value of imports where goods imported at direct cost to donors where not recorded in the Custom's record.

**Table 1 Balance of Payments**

	\$Australian (000)		
	1996	1997	1998
<b>Current Account Balance</b>	-2,600	7,035	4,276
<b>Goods - balance</b>	-11,063	-8,933	-12,711
Exports fob	754	638	620
Exports through bank records	309	103	110
Philatelic sales	190	276	247
Bunkering	254	258	263
Imports fob	11,816	9,571	13,331
<b>Services - balance</b>	-9,142	-9,102	-11,384
Receipts	1,529	1,757	1,610
Transportation	218	124	225
Travel	574	642	658
Communication	241	464	172
Business services	496	527	555
Payments	10,671	10,859	12,993
Transportation	2,569	2,971	4,330
Travel	3,925	4,271	5,632
Communication	214	213	335
Technical Assistance (1)	3,461	2,832	2,067
Government services	283	309	338
Other services	219	263	292
<b>Income - balance</b>	3,347	4,060	4,910
Receipts	3,561	4,266	5,242
Compensation of employees	2,282	2,720	3,703
Investment income	1,280	1,546	1,540
Payments	214	206	332
Investment Income	214	206	332
<b>Transfers</b>	14,257	21,010	23,461
Receipts	17,307	23,588	25,856
Official foreign aid	15,092	11,707	4,726
Transfers from the Tuvalu Trust Fund A Account	180	3,893	11,100
Government licence fees and transfers	930	6,329	8,913
Private transfers	1,105	1,659	1,117
Payments	3,050	2,578	2,396
Government	215	206	350
Private transfers	2,835	2,373	2,046
<b>Transfer from Tuvalu Government to the Trust Fund A Accounts</b> (Not included the measures shown above)	1,438	3,000	6,000
<b>Reserves</b> (Balance at end of year)			
Market value of Tuvalu Trust Fund A Account	51,451	59,916	59,464
Market value of Tuvalu Trust Fund B Account	7,616	7,110	10,840
Overseas holdings of the National Bank of Tuvalu	9,275	13,075	15,756

(1) Represents foreign aid in the form of advisors and other technical assistance services paid for directly by donors.