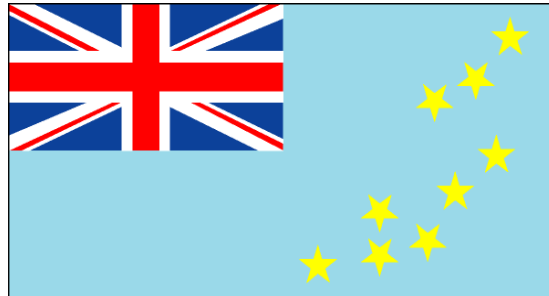


COUNTRY REVIEW

Tuvalu



26 October 2009

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EULER HERMES COUNTRY RISK GRADE: C

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Funafuti
GDP:	USD31mn (2008e)
Population:	9,860 (2008e)
GDP per capita:	USD3,150 (2008e)
Currency:	Australian dollar (AUD)
Form of state:	Constitutional monarchy
Head of State:	PM Apisai Ielemia
Next elections:	2010

Formerly part of the Gilbert and Ellice Islands, ethnic differences caused the Ellice Islands to separate from the Gilbert Islands in 1975. They were renamed Tuvalu at independence in 1978. The UK monarch is titular head of state but executive power is vested in a unicameral parliament of 15 seats and the Prime Minister. Elections were last held in July 2006 and the next are due by July 2010. There are no formal political parties, though there are informal groupings within parliament. MPs elect the PM and Deputy PM. Current PM Apisai Ielemia, was elected by parliament after the 2006 parliamentary elections and underlying stability and policy trends appear to be fairly stable.

The economy is tiny (estimated GNP of USD31mn) as is the population (less than 10,000) and is spread over nine atolls. Data are very poor. There are no natural resources, little industry (manufacturing contributes about 4% of GDP) and few tourists. Almost all food and fuel is imported. The economy is dominated by the government, supported by official aid, as the mainstay of the private sector is subsistence agriculture and fishing. Growth was estimated by the ADB at 1.5% in 2008, but is likely to be close to zero in 2009 as the global recession hits remittances and external earnings.

Tuvalu relies heavily on sales of fishing licence access fees, rent from its international telecommunications dial-up code, the lease of the '.tv' Internet domain, workers remittances and income from the Tuvalu Trust Fund (set up in 1987 by Australia, New Zealand and UK). These services provide the main source of revenue for the government. The central government deficit is financed out of the Consolidated Investment Fund, which is financed in part by excess earnings of the Trust Fund. As there were no transfers from the Trust Fund in 2008 and probably none in 2009 in view of the global downturn government spending is under pressure, though Australia and New Zealand have committed additional funding.

The Australian dollar is legal tender, which limits transfer risk. It also means that inflation tracks that of Australia, though is more influenced by sharp rises and falls in food and energy prices.

Merchandise exports are very small (stamps are the most important commodity) but inflows from services and the Trust Fund along with official transfers are thought to offset the sizeable trade deficit. No balance of payments data are published but foreign assets (as represented by the Trust Fund) are substantial.

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